

# **The Impact of Post-2009 Austerity Measures on the Human Development Indicators in Greece**

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## **ABSTRACT**

In 2009 most Eurozone countries faced an unprecedented sovereign debt crisis. Greece was one of the Eurozone member states hit by the sovereign debt crisis. Its economy was confronted with a huge budget deficit and accumulated debts as well as increasing unemployment and poverty rates. As a result of the crisis, austerity measures were adopted in Greece with the aim to curb budget deficit and stimulate economic growth. Austerity measures in Greece were informed by neoliberal development principles stipulated at the Washington consensus of 1989. This thesis aims to analyze the impact of austerity measures implemented in Greece in the aftermath of the 2009 crisis on the human development indicators set out by the Human Development Approach in the United Nations Human Development Index and Millennium Development Goals.

In contrast to the narrow definition provided by neoliberalism that associates development with market led economic growth, human development approach is about expanding the richness of human life, rather than simply the richness of the economy in which human beings live. It is an approach that is focused on enlarging people's opportunities and choices. Such opportunities or human development indicators set out in the Human Development Index include being able to have good health, to be able to benefit from education and to have adequate income. While those set out in the Millennium Development Goals emphasized the combination of eight human development indicators that aims to eradicate extreme poverty and hunger, to achieve universal primary education, to promote gender equality, reduce child mortality by  $\frac{2}{3}$ , reduce maternal mortality by  $\frac{3}{4}$ , to combat HIV/AIDS,

malaria, and other diseases, to ensure environmental sustainability and expand a global partnership for development. The main finding of this thesis is that all efforts directed at the Eurozone and the Greek crisis focus on a model which restricts the realization of the human development indicators set out in the HDI and MDG.

**Keywords:** Austerity Measures, Neoliberalism, Human Development Approach

## ÖZ

2009 yılında, Avro Bölgesi ülkeleri benzeri görülmemiş bir borç krizi ile karşı karşıya kaldı. Yunanistan borç krizinden etkilenen Avro bölgesi ülkelerinden biriydi. Bu dönemde dev bütçe açığı ve birikmiş borçlarının yanı sıra artan işsizlik ve yoksulluk gibi problemlerle de karşı karşıya kalmıştır. Krizin bir sonucu olarak, bütçe açığını frenlemek ve ekonomik büyümeyi ve kalkınmayı sağlamak amacıyla kemer sıkma politikaları uygulanmıştır. Yunanistan'da uygulanan kemer sıkma politikalarının temelinde 1989 Washington Oydaşması'na öngörülen neoliberal kalkınma ilkeleri yatmaktadır. Bu tez, 2009 krizi sonrasında Yunanistan'da uygulanan kemer sıkma politikalarının Birleşmiş Milletler Kalkınma Programlarına kılavuzluk eden Milenyum Kalkınma Hedefleri ve İnsani Gelişmişlik İndeksi tarafından belirlenen insani kalkınma kriterleri üzerindeki etkisini analiz etmeyi amaçlamaktadır.

Kalkınmayı; piyasa ekonomisine bağlı olarak gelişen ekonomik büyümeyle eşdeğer gören neoliberalizmin aksine, Kapasite Yaklaşımı, kalkınmayı insanların potansiyellerini geliştirebildiği ve yaratıcı ve tatmin oldukları bir hayat yaşayabildiği insan refahının göstergesi olarak tanımlamaktadır. Sözü edilen kapasiteler ya da insani kalkınma kriterleri sağlıklı olabilmeyi, eğitim haklarına sahip olabilmeyi ve yeterli bir gelire sahip olmayı içermektedir. Genel olarak Milenyum Kalkınma Hedefleri aşırı yoksulluğu ve açlığı azaltmayı, temel eğitim hakkına sahip olmayı, cinsiyet eşitliğini korumayı, çocuk ölüm oranlarını azaltmayı, HIV/AIDS, sıtma ve diğer hastalık oranlarını azaltmayı, gebelikte anne ölümlerini azaltmayı, çevresel sürdürülebilirliği sağlamayı ve gelişmek için evrensel ortaklığı amaçlamaktadır. Bu

tezin temel bulgusu Avro bölgesi ve Yunanistan krizine yönelik tüm çabaların Kapasite Yaklaşımı tarafından ortaya koyulmuş kapasitelerin gerçekleştirilmesini kısıtlayan bir model üzerine odaklandığıdır.

**Anahtar Kelimeler:** Kemer Sıkma Politikaları, Neoliberalizm, Kapasite Yaklaşımı

# DEDICATION

To My Family

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## LIST OF ABBREVIATIONS

CA	Capability Approach
EAP	Economic Adjustment Programs
EC	European Commission
ECB	European Central Bank
ECHP	European Community Household Panel
EEC	European Economic Community
EFSD	European Financial Stability Facility
EMCDDA	European Monitoring Center for Drug and Drug Addiction
EMU	Economic and Monetary Union
ESSPROS	European System of Integrated Social Protection
EU	European Union
EUROMOD	European Union Tax-benefit Microsimulation Model
FDI	Foreign Direct Investment
FIDH	International Foundation of Human Rights
GDP	Gross Domestic Product
GNP	Gross National Product
HAD	Human Development Approach
HDI	Human Development Index
HRADF	Hellenic Republic Asset Development Fund
IBID	In the Same Place
ICT	Information Communication Technology
IDB	Inter-American Development Bank

IMF	International Monetary Fund
ISTAT	Italian Institute of Statistics
ITC	Income Tax Code
MDG	Millennium Development Goals
MPS	Mont Pèlerin Society
OECD	Organization for Economic Cooperation and Development
OPEC	Oil Petroleum Exporting Countries
OXFAM	Committee for Famine Relief
PASOCK	Pan-Hellenic Socialist Movement
SAP	Structural Adjustment Policies
SCA	Sen Capability Approach
SGP	Stability and Growth Pact
SUPRA	As Mention Above
TPC	Tax Procedure Code
UK	United Kingdom
UN	United Nation
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Program
US	United States
VAT	Value Added Tax
WTO	World Trade Organization

# Chapter 1

## INTRODUCTION

The Eurozone crisis also known as the European sovereign debt crisis is an accumulated debt crisis that hit several Eurozone member states since the end of the 2008. By 2009 most economies in the Eurozone were caught in the web of the sovereign debt crisis. Eurozone member states witnessed one of the greatest slumps since its existence with the burst of a multi-year debt crisis. The Greek economy was one of the first Eurozone member state affected by the sovereign debt crisis. Its economy was confronted with huge budget deficits and accumulated debts as well as increasing unemployment and poverty rates. As a result of the crisis, Greece became one of the first Eurozone member countries to adopt austerity measures in order to solve problems of budget deficit and accumulated debts.<sup>1</sup>

Austerity measures relate to economic policies implemented by international institutions together with government officials during periods of adverse economic conditions to solve problems of accumulated debt, budget deficit and to stimulate economic growth.<sup>2</sup> In the Eurozone austerity measures are recommended by Troika, a body consisting of representatives from the European Commission, the European Central Bank and the International Monetary Fund. Troika introduced a series of economic policies and coordinated plan of actions to reduce budget deficit and

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<sup>1</sup> De Grauwe, P., & Ji, Y. (2013). Self-fulfilling crises in the Eurozone: An empirical test. *Journal of International Money and Finance*, 34, 15-36.

<sup>2</sup> Peck, J. (2012). Austerity urbanism: American cities under extreme economy. *City*, 16(6), 626-655.



restore economic growth in Greece. Austerity policies are implemented alongside bailout packages or loans provided by international financial institutions such as the European Commission, the European Central Bank and the IMF to countries facing sovereign debt crisis. Troika emphasized that the implementation of austerity policies by Greek officials is a precondition for the disbursement of loans. Austerity measures generally directed by neoliberal development policies were stipulated at the Washington consensus of 1989. These neoliberal development principles includes macro-economic stabilization reforms, public expenditure reforms, tax reforms, exchange rates reforms, fiscal consolidation, deregulation of labour, trade liberalization, privatization, liberalization of foreign direct investment and property rights reforms.

This thesis establishes how neoliberal indicators for poverty alleviation and development have been conceptualized and institutionalized in crisis stricken economies. It determines how these neoliberal development indicators have been combined in the form of a policy package, and legally implemented in the Eurozone and Greece in the form of economic adjustment policies or austerity measures. The theoretical and conceptual framework that institutionalized neoliberal policies as major guidelines for poverty alleviation and development was stipulated in the Washington consensus. The consensus was initially conceptualized as a recovery strategy of the Latin American Debt Crisis of the 1980s. It provided a concrete set of developmental guidelines and policies that aim to curb budget deficit and promote

economic growth. The Latin American debt crisis aided the institutionalization of a policy package for poverty and development.<sup>3</sup>

Neoliberal development principles implemented in Greece in the aftermath of the 2009 Eurozone crisis were combined in the form of a policy package called economic adjustment policies or austerity measures. Development has been defined or understood from the perspective of neoliberalism and austerity measures as synonymous to economic growth. Economic growth from a neoliberal ideology is related to the enlargement of an economy with budget surplus and limited debts. Economic adjustment programs or austerity measures in the Eurozone heightened the implementation of neoliberal policies in Greece after 2009 as a solution to the sovereign debt crisis. Economic adjustment programs compelled Greece to implement neoliberal austerity policies to ensure that budget deficit should not exceed 3% of GDP and government debt should not exceed 60% of GDP as well.<sup>4</sup>

In this thesis, I noted that the major element with the neoliberal model of development is to equate development with market participation. This neoliberal development model support the belief that all individuals participating in a free competitive market will earn the best return that will increase total output and there is no need for state institutions to ensure the protection of social welfare and income distribution. The neoliberal framework suggests that; a free market economy leads to superior economic efficiency, while unemployment and income protection are not required in a free and self-regulated market. Neoliberalism and its related policies on

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<sup>3</sup> Nafstad, H. E., Blakar, R. M., Carlquist, E., Phelps, J. M., & Rand-Hendriksen, K. (2007). Ideology and power: the influence of current neo-liberalism in society. *Journal of Community & Applied Social Psychology*, 17(4), 313-327.

<sup>4</sup> Karanikolos, M., Mladovsky, P., Cylus, J., Thomson, S., Basu, S., Stuckler, D., & McKee, M. (2013). Financial Crisis, Austerity, and Health in Europe. *The Lancet*, 381(9874), 1323-1331.

austerity is supported by the concept of the trickle-down effect which underpinned the notion that an increase in the overall output will lead to an overall increase in the standard of living since the poor will be able to benefit from improved economic opportunities.<sup>5</sup>

However, this thesis indicates that major shortcomings with the neoliberal approach to development rests on the fact that it widens the gap between the rich and the poor because it helps to increase the wealth and incomes of the rich at the detriment of the poor. Austerity measures reduced long-term commitment of the state to social provision and created more market-driven forms of social support. Social protection shifted from public to private sector, and the private sectors were encouraged to invest in health and educational sectors. This widened inequality in human development with the upper and wealthier middle classes being able to afford the high costs of private schools and health provision. The poorer majority were left to fend for themselves within an under-funded and poor-quality public service. Neoliberal market oriented growth model and its related notion of trickle down effects is based on a dominant discourse of survival for the fittest which ignores individual capabilities and basic needs in the society. It marginalizes disabled individuals, old age, sick, unemployed, poor and vulnerable persons. Again, neoliberal austerity policies on fiscal consolidation which introduced cuts in incomes, wages, education and pensions with the aim to reduced accumulated debts and stimulate economic growth destroyed social bonds that constitute an essential part of human development in Greece.

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<sup>5</sup> Salvadori, N. (Ed.). (2003). *The Theory of Economic Growth: A classical Perspective*. Edward Elgar Publishing.p 31

This research notes that all attempts by Troika to maintain debts and budget deficits below the limits stipulated in economic adjustment programs even at the cost of human wellbeing indicate that the basic purpose of development in Greece is to advance the richness of the economy in which people live rather than the richness of human life. The thesis further indicates that the disappointing outcomes experienced from the implementation of austerity measures on human development indicators in Greece is similar to the disappointing outcomes incurred from the implementation of structural adjustment policies in Latin America in the 1990s.<sup>6</sup> The codifiers of neoliberal ideology act as expert designers of an attractive ideological philosophy for friendly markets in the Eurozone. Too much emphasis on development through economic growth most especially at the cost of human welfare makes sense to think of neoliberalism as an economistic ideology which focuses more on the development of the economy at the detriment of human well-being.

Due to the challenges of neoliberal development policies in the Eurozone and Greece, this thesis aims to provide an answer to the research question “What has been the impact of austerity measures implemented in Greece in the aftermath of the 2009 crisis on human development indicators?” This question seeks to determine the role played by austerity policies on human development indicators set out in the Human Development Index and Millennium Development Goals. The purpose here is to determine the chances of a causal relationship between neoliberal-austerity policies and human development indicators and whether such a relationship is progressive or regressive on human development in Greece. The research analyses neoliberal-austerity policies recommended by Troika- a body consisting of

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<sup>6</sup> Buti, M. (2007). Will the new Stability and Growth Pact succeed? An economic and political perspective. *The Stability and Growth Pact Experiences and Future Aspects*, 155-181.

representatives from European Commission, European Central Bank and the IMF that formulates a series of economic policies and coordinated plans of action to restore economic growth and development in Greece.

This research challenges the theory that underlined austerity measures as a response to crisis management and pathway for development in the Eurozone. It answers the research question by providing a criticism of neoliberalism from the perspective of the Human Development Approach set out by Amartya Sen and Mahbub ul Haq. It establishes how restrictive neoliberal austerity policies recommended by Troika in economic adjustment programs limits access to fundamental human development indicators in Greece. *Human Development Approach defines development as the enlargement of people's choices and opportunities to engage actively in shaping development equitably and sustainably; and to accomplish goals they have reason to value. Such opportunities or human development indicators include, being able to live long and healthy lives; to have adequate incomes and to be able to benefit from education.*<sup>7</sup> In this thesis, it is underlined that all efforts directed at the Eurozone and Greek crisis focus on saving economic and financial systems at the expense of human development indicators. This is a model which restricts the realization of opportunities set out in the Human Development Index.

Human Development Approach emphasized that people and their opportunities and choices should be the ultimate criteria for assessing the development of a country, not economic growth alone. The Human Development Index (HDI) provides a summary measure of the average achievement in key dimensions of human

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<sup>7</sup> Anand, S., & Sen, A. (2000). Human Development and Economic Sustainability. *World Development Journal*, Vol 28, Num 12, pp29-49.

development. HDI emphasizes on the need to have a long and healthy life, to be educated and to have a decent standard of living. However the Millennium Development Goals further expanded the scope of human development indicators used in assessing development.

Human Development Approach acts as a practical alternative theory to neoliberalism and its narrow metrics of development through economic growth in GDP and budget surplus. The approach defined poverty in relation to restrictive economic policies that deprive human ability to live a good life.<sup>8</sup> Poverty is understood as deprivation to live a good life People are said to be poor if they lack adequate health, incomes and education necessary for the attainment of a good life.<sup>9</sup> This thesis departs from neoliberal-austerity and its rigid indicators on development which emphasizes the importance of economic growth. It declines from the defensive claims offered by neoliberal scholars that, there are no alternatives to neoliberalism and its related policies on austerity measures as solutions to crisis management and a pathway towards sustainable economic growth and development. It underpins the need for a human development paradigm based on the Human Development Approach.<sup>10</sup>

Neoliberal development indicators favour complete market liberalization with the rigid notion that improved economic opportunities will trickle down to the poor. The Human Development Approach adopted in this research rejects the rigid neoliberal development paradigm on economic growth and its related notion that economic growth will trickle-down to the poor. The conceptual exploration of the Human

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<sup>8</sup> Sen, A. (1999). *Development as freedom*. Oxford University Press pp13

<sup>9</sup> Amartya Sen. 2003. Sen's Capability Approach and Gender Inequalities; *Journal of International Development* vol 12 pp 28

<sup>10</sup> Kleine, D. (2010). Using the choice framework to operationalize the capability approach to development. *Journal of International Development*, 22(5), 674-692.

Development Approach and its emphasis on development adopted by the United Nations Development Program, the Human Development Index and the Millennium Development Goals insist on the need for state governments to subordinate the shortcomings of the market driven economy to the objectives of social equality.<sup>11</sup> Human Development Approach notes that it is the responsibility of state governments to develop policies that protect human development indicators, but this does not imply per definition that policy formulation and implementation is restricted to government intervention. It could be directed to be taken up by non-governmental organizations, private organizations, interest groups or families.<sup>12</sup>

This thesis engages itself with the development conceptualization of the Human Development Approach. Human Development Approach introduced by Mahbub ul Haq in the United Nations Development Program is informed by Amartya Sen Capabilities Approach. Human development is conceptually founded on the capability approach. Mahbub ul Haq adopted Amartya Sen's phrase that the objective of development is to expand capabilities and simplified it to expand people's choices and opportunities.<sup>13</sup> Human Development Approach focuses on choices and opportunities individuals have considered as valuable for their own livelihood. Human development is a broad participatory and dynamic process which applies to both less and highly developed countries and incorporates frameworks such as, Human Development Index, Millennium Development Goals and Human Rights. The broad and holistic nature of human development is not limited to the

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<sup>11</sup> Robeyns, I. (2005). The capability approach: A theoretical survey. *Journal of human development*, 6(1), 93-117

<sup>12</sup> Alkire, S. (2002). Valuing freedoms: Sen's capability approach and poverty reduction. *OUP Catalogue*.

<sup>13</sup> Sen, A. (1990). Development as capability expansion. *Human development and the international development strategy for the 1990s*, 1.

narrow standard of measuring development through economic growth, fiscal consolidation and budget surplus.<sup>14</sup>

The human development approach adopted in this thesis produced a holistic development model that embraces all aspects of development such as human and economic indicators of development, through investments, people's empowerment, increase in incomes, wages, provision of basic needs, cultural and political freedom and other aspects that are democratically reasonable to increase human well-being. Economic growth should not be considered as an end product of development but rather as a means towards an end. Economic growth should be regarded as a means that can be used to attain human flourishing and what matters is whether such means actually improves human well-being. The approach rejects neoliberal policies like austerity measures that narrowly define development solely in terms of economic growth. The concept of human development approach according to Amartya Sen and Mahbub ul Haq states should be seen as a holistic development paradigm that advances the richness of human life and the richness of the economy. It provides a concrete systematic theory that relates to all features of society that promotes human wellbeing. It serves as a better yardstick for assessing the development of nations in the Eurozone and Greece in particular.

### **1.1 Theory-guided hypothesis**

Neoliberal austerity reforms tend to have regressive impact on human development indicators in Greece.

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<sup>14</sup> Crocker, D. A. (2008). *Ethics of global development: Agency, capability, and deliberative democracy*. Cambridge University Press.



## 1.2 Research Methods and Methodology

Research methodology is often confused with research methods. They are mostly considered to mean the same thing. This study indicates a substantial difference between the two concepts in its usage; while research methods deals with the technique for administering and executing research, research methodology is the science of philosophy that supports all research, that is, the systematic theoretical analysis of the techniques used in executing research.<sup>15</sup> Hence, research methodology has a wider scope and supports the research methods to ensure that the techniques used in the study provide adequate answers to the research questions.<sup>16</sup>

I will undertake a case study research method to critically assess the post-crisis austerity measures. Case study research techniques provides an in-depth and detailed examination of the phenomenon on austerity measures in Greece and its related contextual conditions in the Eurozone. It helps to reveal the shortcomings of neoliberal conceptualization of development that assumes that market led economic growth leads to a trickle-down effect. The data and literature is largely drawn from both qualitative and quantitative data with the use of secondary sources such as books, articles, journals, newspapers and magazines. The research specifically examines a range of reports and policy documents on austerity measures in Greece. Its analysis is drawn from Troika's policies on austerity measures as stipulated in the Memorandum of Understanding on Specific Economic Policy and Conditionality, as well as the Intergovernmental Treaty on Stability Coordination and Governance for Eurozone countries.

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<sup>15</sup> Adam A, Statham D, and David S, (2007) *Research methods for graduate business and social student*, Sage Publication Inc. California pp 30

<sup>16</sup> Finn J.A, (2005) *Getting a PhD: An action plan to help manage your research, your supervisor and your project*, Routledge, New York pp 28

This study adopts descriptive, explanatory and prescriptive techniques in analyzing the phenomenon of austerity.<sup>17</sup> Descriptive explanations indicate how neoliberalism introduces austerity measures as a policy package for poverty and development. Explanatory arguments identify the problems that manifest from the implementation of austerity measures and reasons for the manifestation of such problems whereas prescriptive analysis tells us how the Human Development Approach can serve as a viable alternative theoretical framework to the shortcomings of neoliberal-austerity policies which impair human development.

The methodology used in this thesis is grounded in theory and its theoretical analysis on neoliberalism and the Human Development Approach adopts deductive reasoning. The Deductive research method focuses on developing a hypothesis from an existing theory and further designing a research strategy to test the hypothesis.<sup>18</sup> Hence, the deductive research approach explores a given theory and tests if the theory is valid in a specific circumstance. In the same way, this thesis conceded a theory guided hypothesis which states that: “Neoliberal austerity reforms tend to be regressive on human development indicators in Greece.” In order to test the hypothesis of this research, I analyzed the theory of neoliberalism from the perspective of Human Development Approach to determine if it has a negative impact on human development indicators set out in the HDI and MDG. To further ensure that my analysis produced inferences with high internal validity, this work briefly examined the implementation of austerity measures in crisis wracked economies like Spain, Italy, Cyprus and Portugal that has experienced similar effects

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<sup>17</sup> Morrill et al. (2000) Qualitative data analysis available on [http://www.sagepub.com/upm-data/43454\\_10.pdf](http://www.sagepub.com/upm-data/43454_10.pdf) accessed on 10/03/2015

<sup>18</sup> Bryman, A. (2012). *Social research methods*. Oxford university press

to that witnessed in Greece. Parallel results observed in other crisis stricken economies in the Eurozone and Greece is indicative of the fact that the effect of austerity measures in Greece is typical in the Eurozone and not unique. As such, the case of Greece is not an independent case in the Eurozone.

### **1.3 Limitation and Scope**

This thesis runs from 1981 to 2014 and it focuses on the period when neoliberalism became prominent in the international stage. The historical background of the work looks at the political and economic reforms adopted by successive governments in Greece between the periods of 1981-2009. The analysis of the study centers on the type of economic policies introduced in Greece from 2009 to 2014 and more specifically, the impact of economic adjustment policies on human development.

### **1.4 Thesis Outline**

This thesis consists of six chapters; the first chapter covers the introductory part of this research. The second chapter elaborates the theoretical perspective employed in this thesis. The chapter starts with an assessment of neoliberalism which is the hegemonic perspective today on development. Neoliberal framework equates development with embracing market economy. Therefore, the first section of the chapter analyses the key elements of this theoretical framework. The following section expounds on the shortcomings of the neoliberal framework. In specific terms, it underlines how neoliberalism's efforts in institutionalizing development as "participation in the world market" and its perception of poverty in terms of material deprivation is marked by problems because it defines development only in terms of economic growth and fiscal consolidation. The last section of this chapter proposes an alternative approach to neoliberalism with a focus on the Human Development Approach that is informed by Amartya Sen Capability Approach.

The third chapter focuses on the historical background of the research .It elaborates the economic policies implemented in Greece by successive governments from 1980 to 1990. The chapter also engages itself with the impacts of neoliberal economic policies on distribution relations in the Eurozone. The historical background traces how neoliberal policy package for poverty and development was introduced through a more pragmatic course in Greece. Neoliberal policies were institutionalized through the Maastricht Treaty, Stability and Growth Pact, and economic adjustment policies. The chapter continues to emphasize how neoliberal policies were deepened in the 2000s in Greece.

Chapter four stipulates the type of economic policies implemented in the aftermath of the crisis in Greece. It outlines economic adjustment policies or austerity measures designed by Troika to restore fiscal balance, reduce debt and promote economic growth. Austerity reforms presented in this chapter are divided into two; first and second economic adjustment policies. The chapter is concluded with a presentation of similar austerity policies introduced in other Eurozone crisis wrecked economies. The purpose here is to show that the implementation of austerity measures is not unique to Greece, but needs to be understood as a common characteristic in the Eurozone.

Chapter five analyses post crisis policies implemented in Greece from the perspective of the Human Development Approach. This section examines the role played by austerity policies on human development indicators. In an effort to determine if neoliberal-austerity produces progressive or regressive outcomes on human development, the chapter looks at the main elements of neoliberal

development in Greece. It points out the main problems which emerged from the implementation of neoliberal-austerity policies on poverty and development. The chapter pays particular attention to how the human development indicators can act as a viable alternative to neoliberal austerity and its narrow metrics of growth in GDP, fiscal consolidation and debt reductions.

Chapter six includes the conclusion and recommendations of this thesis. It provides answers to the research questions and the theory-guided hypothesis drawn in the research.

## Chapter 2

### **THEORETICAL FRAMEWORK: NEOLIBERALISM AND THE HUMAN DEVELOPMENT APPROACH**

#### **2.1 Introduction**

Chapter Two aims to provide a theoretical framework for this thesis. It starts with an analysis of the theory and practice of neoliberalism and proceeds with an assessment of the Human Development Approach as a criticism of neoliberalism. This chapter starts by tracing the theoretical sources of neoliberalism. The Washington consensus used in this chapter mirrors a term coined by the English economist John Williamson in 1989. The consensus sums up a set of development reforms with a reasonable degree of agreement by the international financial institutions and the U.S government. It acted as a manifesto of neoliberal policies on economic growth and development and provided a platform that formally declared a set of neoliberal principles with the aim of achieving economic growth, low inflation, limited budget deficit and equitable distribution of income. The ten set of policies that defined the Washington consensus included: fiscal discipline, tax reforms, and public expenditure reforms, market determined interest rates, unified and competitive exchange rates, foreign direct investment, trade liberalization, deregulation of labour, privatization of state owned enterprises and the protection of property rights.<sup>19</sup> These policies were summarized and enforced by international financial institutions and governments in the form of structural adjustment programs.

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<sup>19</sup> Williamson, J. (2004). The Washington Consensus as policy prescription for development. *Development Challenges in the 1990s: Leading Policymakers Speak from Experience*, 31-33.

This chapter further elaborates on how these neoliberal development policies were incorporated and institutionalized in the Eurozone. The chapter equally attempts to examine the full implications of neoliberal policies and their emphasis on economic growth posed on human development indicators like education, health, and incomes Latin America and Africa. The chapter underpinned the notion that, the suboptimal or minimal solution proffered by neoliberalism towards human development makes neoliberalism to be regarded as an economistic ideology which focuses on the production of goods and services at the detriment of human development. The research underlines how the implementation of structural adjustment policies, economic adjustment programs or austerity measures introduced by international financial institutions has resulted in an appalling lot of damage to human flourishing.

The second part of this chapter provides an alternative paradigm to the neoliberal concept on poverty and development. The alternative model is centered on Human Development Approach developed by economists and philosophers like Amartya Sen, and Mahbub ul Haq. They provided a critique of the rigid neoliberal standard of measuring development through economic growth in GDP, GNP, and budget deficit. The Human Development Approach presents a holistic development model which focuses on the improvement of human wellbeing and growth of the economy as a means towards human flourishing and not an end. The task in this section is to present a mechanism used in determining indicators that are suitable for human wellbeing.

## **2.2 Neoliberal Policy Package for Poverty and Development;**

### **Washington consensus**

The theoretical and conceptual framework that institutionalized neoliberal policies as major guidelines for poverty and development was stipulated in the Washington consensus. The consensus was a recovery strategy towards the Latin American Debt Crisis in the 1980s and 1990s. It provided a concrete set of developmental guidelines and policies that aimed to curb budget deficit and promote economic growth. The Latin American debt crisis aided the institutionalization of a policy package for poverty and development. It was the first empirical observation of neoliberal reforms on economic growth and development.<sup>20</sup>

In the past 3 decades, neoliberal economic development policies have been dominated by economic principles stipulated in the Washington consensus. The Washington consensus was formulated in 1989 by the British economist John Williamson. This refers to a set of 10 specific policy prescriptions which aims to promote economic growth and development in developing countries facing economic crisis. It was a standard policy package targeted by countries mainly in Latin America that faced serious crises in the 1980s.<sup>21</sup> It was a product of the convergence of three institutions based in Washington DC which includes; World Bank, IMF, and the US treasury. However, the consensus has been subsequently expanded to include other institutions such as Inter-American Development Bank, (IDB) World Trade Organization (WTO) and European Central Bank (ECB). The Washington consensus served as a precondition for the issuance of loans to crisis wrecked economies in

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<sup>20</sup> Kipnis, A. B. (2008). Audit cultures: neoliberal governmentality, socialist legacy, or technologies of governing?. *American Ethnologist*, 35(2), 275-289.

<sup>21</sup> Couze V. (2009) *Neoliberal Political Economy; Biopolitics and Colonialism, A Transcolonial Genealogy of Inequality*; SAGE publications, pp 206



Latin America, Africa and the Eurozone. The following section presents development policies associated with neoliberalism and the Washington consensus. The 10 set of neoliberal policy prescription outlined in the Washington consensus includes:

Firstly, macro-economic stability policies outlined at Washington consensus were considered as indispensable preconditions for the control of budget deficit and economic growth in GDP. Stabilization policies focused on fiscal consolidation which is associated with tax increase and expenditure cuts in order to raise government revenue and resolve problems of budget deficit. Neoliberal scholars supported the need for macro-economic stabilization policies because excessive budget deficit provides a negative consequence for inflation coupled with excessive debt accumulation that eventually leads to unsustainable debt crisis.<sup>22</sup> The second neoliberal development principle outlined in the Washington consensus deals with public expenditure reforms. These reforms focused on areas of high economic returns such as finance, trade and production coupled with cuts in public and social expenditures in sectors like education, health and public administration. International financial institutions further established chain of command policies in areas of high economic returns to ensure high economic growth. These policies instituted cuts in public expenditures and subsidies to secure repayment of loans in crisis stricken economies in Latin America.

Thirdly, the Washington consensus introduced a broad base taxing system added with the elimination of marginal tax rates. The dominant form of broad base taxing

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<sup>22</sup> Williamson J. (2004). *The Washington Consensus as A Policy Prescription for Development; Institute For International Economics* pp 16

system in the neoliberal period has been the introduction of value added tax (VAT) to raise public revenue and budget surplus. VAT necessitated increase in the prices of goods and services. The fourth development policy prescribed at Washington focused on financial liberalization. Neoliberal proponents at Washington emphasized that interest rates and credits should be ideally determined by the markets. Governments should not impose barriers in financial sectors and governments are not allowed to regulate activities of banks. In addition, Exchange rate reforms outlined in the Washington consensus developed during the neoliberal period held firm to the notion that exchange rates should be determined by market forces which should be able to induce sale of export goods. According to neoliberal policy makers, increase in export production will help increase the gross national product of a country and serve as a major indicator for economic growth and development.<sup>23</sup>

Development policies associated with the trade liberalization experience during the neoliberal period, focused on eliminating quantitative trade restrictions and replacing them with high tariffs. Political economist in Washington agreed on the amount of tariffs imposed on imported goods to fall between 10%–20% for both developed and developing countries. The objective of this policy is to increase government revenue from tariffs.<sup>24</sup> Foreign direct investment outlined in Washington was aimed at increasing capital, technology, and exports production in domestic markets. Neoliberal developmental reforms strongly underpinned the need for FDI as a means to eliminate economic nationalism and increase in Gross National Product.

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<sup>23</sup> Naim M. 1999 Fads and Fashion in Economic Reforms; Washington Consensus or Washington confusion; *Journal of Political Economy University of Chicago* pp 43

<sup>24</sup> Begersten F. 2005. A New Foreign Economic Policy For the United States; *Peterson Institute for International Economics*

Privatization of state owned enterprises is a neoliberal development principle that gained prominence in late 1980s. It was introduced as a policy prescription to raise funds to pay accumulated debts, reduced budget deficits and stimulate economic growth. It was later enforced in UK by Margaret Thatcher as a principal economic policy in 1989. Deregulation of labour was included in the Washington consensus to prevent trade restriction and enhance competition in a free market economy. Finally Neoliberal scholars at Washington argued that increased protection of property rights usually has a strong effect on increasing economic growth in GNP, trade and production. According to neoliberals, the protection of property rights fosters production in rural and urban areas that leads to increased productivity of farm earnings.<sup>25</sup>

Hence, the theoretical and conceptual framework that defines neoliberal policies on poverty and development introduced at Washington has been manifested in recent years through structural adjustment policies (SAP) enforced by the IMF and World Bank. Structural adjustment policies are implemented by IMF and World Bank to resolve problems of budget deficit, accumulated debt and ensure economic growth in GDP. These international financial institutions provided conditional loans to countries experiencing severe economic crisis. The implementation of SAP by international financial institutions is a precondition for the disbursement of loans. The basis of its implementation is consideration, a promise in exchange of another promise. Structural adjustment policy is a neoliberal philosophy which shares a common objective to move countries away from self-directed models of national development that focus on domestic markets towards models of development that

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<sup>25</sup> Saad F. A., & Johnston, D. (2004). *Neoliberalism: A critical reader*. Pluto Press.

emphasize on complete integration with global economic structures of trade, finance, and production. SAP generally enforces development policies prescribed at Washington such as macro-economic stabilization and public expenditure reforms currency devaluation, reduce tariffs, deregulation of labour, sale of government owned enterprises and liberalization of foreign direct investment. Neoliberal structural adjustment policies that aimed to reduce poverty and enhance economic growth wreaked havoc and devastated human costs in developing economies in Latin America, Africa, Asia and Europe.<sup>26</sup>

### **2.2.1 Neoliberal Conceptualization of Poverty and Development in the Eurozone**

In the late 1980s and early 1990s, conservative parties in many European countries gained support of the middle class and won election on the strength of a liberal political slogan: “let market forces act freely”. According to neoliberals, if market forces fight all sorts of monopolistic and bureaucratic distortions in an economy, higher growth rates in gross national product and developments will be achieved. They hold that this can only be possible if neoliberal development policies introduced in Washington were implemented.<sup>27</sup> However in the mid-1990s, neoliberal ideologies were confronted with diminishing public acceptance as the promise for economic prosperity failed to materialize. Most conservative parties in Britain, Italy, France and Greece lost elections to center left parties, but despite the change in political regimes, economic and social policies did not change in Europe. The center left government persisted with their neoliberal policies.

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<sup>26</sup> Burdick et al (2009) “*Beyond Neoliberalism in Latin America? Societies and Politics at Cross Roads*”; Palgrave Macmillan 1st ed. Pp 277

<sup>27</sup> Milios, J. (2005). 24 European Integration as a Vehicle of Neoliberal Hegemony.

Meanwhile, the codifiers of neoliberalism made the implementation of neoliberal reforms associated with austerity measures or structural adjustment policies a precondition for joining the European Union and the Economic and Monetary Union of the EU. Two major agreements in EU legalized the implementation of neoliberal - structural adjustment or austerity policies as a solution to crisis management and a sustainable path towards economic growth and development within the Eurozone. These agreements include the 1992 Maastricht Treaty of the European Union, and the 1996 Stability and Growth Pact.<sup>28</sup>

In February 1992 the Treaty of European integration signed in Maastricht (Netherlands) formulated specific economic and developmental guidelines for the European Union. These guidelines served as conditions for proceeding to the final stage of European integration that is a precondition for joining the Economic and Monetary Union of the EU. The Maastricht Treaty legislated for strict economic policies to its members to maintain fiscal balance and budget surplus. Member states within the Eurozone are compelled to adopt neoliberal adjustment policies to ensure that budget deficit should not exceed 3% of GDP and government debt should not exceed 60% of GDP as well.<sup>29</sup> EU policy makers' believed that the basis of development rests on restrictive economic policies that curb budget deficit, reduce public debt and promote economic growth through higher gross domestic product. Unfortunately EU policy makers failed to realize the dangers restrictive economic policies had on human development indicators like income distribution, health care, literacy rates, nutrition etc.

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<sup>28</sup> Milios J. (2005). Ibid

<sup>29</sup> Karanikolos, M., Mladovsky, P., Cylus, J., Thomson, S., Basu, S., Stuckler, D., & McKee, M. (2013). Financial Crisis, Austerity, and Health in Europe. *The Lancet*, 381(9874), 1323-1331.

Stability and Growth Pact (SGP) signed in December 1996 further re-affirmed the reduction of budget spending as a key economic policy to avoid budget deficit and ignite economic growth. Protocol 12 of SGP specified that countries that failed to limit their budget deficit and debts to the limit of 3% and 60% of their GDP will face punitive sanctions of 1.5% of its GDP. SGP enforces preventive and corrective measures to ensure that debts and deficit should not exceed the stipulated limit. However, in the wake of the 2009 sovereign debt crisis, Troika officials introduced Economic adjustment programs to disburse conditional loans to peripheral economies in the Eurozone like Greece, Ireland, and Portugal. The conditions for the disbursement of loans are similar to structural adjustment policies that issued loans on conditionality under the supervision of the IMF and the World Bank in the 1980s and 1990s.<sup>30</sup> The ultimate goal of structural adjustment programs and economic adjustment policies is to promote economic growth through neoliberal development principles. Like SAP, economic adjustment programs adopted similar conditions under the supervision of IMF, European Central Bank (ECB) and European commission. These programs compelled governments in the Eurozone to cut expenditures and introduce a broad base taxing system that will raise revenue to service debts.

### **2.2.2 Shortcomings of Neoliberal Model of Development**

The major problems of neoliberal development paradigm rests on the rigid neoliberal belief that all individuals participating in a free competitive market will earn the best return that will increase total outputs and there is no need for state institutions to ensure the protection of social welfare and income distribution. The neoliberal framework suggests that, a free market economy leads to superior economic

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<sup>30</sup> Engerman, S. L., & Sokoloff, K. L. (2002). *Factor endowments, inequality, and paths of development among new world economics* (No. w9259). National Bureau of Economic Research.

efficiency, while unemployment and income protection are not required in a free and self-regulated market. The concept of the trickle-down effect underpinned the notion that an increase in the overall output will lead to an overall increase in the standard of living because the poor will be able to benefit from improved economic opportunities as well.<sup>31</sup> However, our assessment shows that, this neoliberal ideology widens the gap between the rich and the poor because it helps to increase the wealth and incomes of the rich at the detriment of the poor. In general neoliberal development policies reduced long-term commitment of the state to social provision and created more market-driven forms of social support. Social protection shifted from public to private sectors, the private sectors were encouraged to invest in health and educational sectors. However, this widened inequality in human development with the upper and wealthier middle classes being able to afford the high costs of private schools and health provision. The poorer majority were left to fend for themselves within an under-funded and poor-quality public service. Structural adjustment principles and austerity measures that draw on the neoliberal ideology pervade public opinion and political choices in many parts of the world.

The main shortcoming associated with the broad base taxing policies depends on the fact that, it turns to be regressive on income distribution and wages. High income earners experienced a lesser burden of the taxes as compared to low income earners. In both developed and emerging economies today, low income earners spent more on taxes, leading to a widened gap between the rich and the poor, thus creating more

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<sup>31</sup> Salvadori, N. (Ed.). (2003). *The Theory of Economic Growth: A'Classical'Perspective*. Edward Elgar Publishing.

income inequality.<sup>32</sup> Also, exchange rate reforms proposed at Washington emphasized that exchange rate should be determined by the markets and it should be sufficiently competitive to promote growth of export products in most developed and emerging economies. However, these economists failed to stipulate the range of “sufficiently competitive” exchange rates suitable for growth in export products.<sup>33</sup> The practice today in most countries in Latin America, Africa and Europe has been marred by unstable exchange rates, most often high competitive exchange rates that produce inflationary pressures and also limit the resources available for human development.

Arguably, economic scholars like Stanley Fisher; chief economist at the World Bank and first deputy director of IMF between 1994-2001 emphasized that one of the greatest hurdle of the Latin American and Asian Crisis was the flood of foreign capital, high exchange rates, high prices and a fall in purchasing power that led to decline in consumption coupled with loss of jobs.<sup>34</sup> This research however acknowledges the fact that liberalization of foreign direct investment is a policy reform that promotes increase in Gross domestic product and Gross National product. But its vulnerability on income equality and welfare programs in a free market economy requires strict supervision by national and international institutions.

More so, reports from Inter-American Development Bank (IDB) revealed the shortcoming of privatization on welfare programs. It indicated that privatization

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<sup>32</sup> Dollar, D., & Svensson, J. (2000). What explains the success or failure of structural adjustment programmes? *The Economic Journal*, 110(466), 894-917.

<sup>33</sup> Naim M. (1999) Fads and Fashion in Economic Reforms; Washington Consensus or Washington confusion; *Journal of Political Economy University of Chicago* pp 43

<sup>34</sup> Fischer S. (2003). Globalization and its Challenges; *Peterson Institute for International Economics Vol 2 pp 33*



negatively affected the quality of wages and income in Latin America during the periods of 1990s.<sup>35</sup> In 2002 IDB report in Latin America stipulated that 63% of the population in the region asserted that privatization of welfare programs like education and health has not been of any benefit to their countries. Inter-American Development Bank research in seven countries (Argentina, Brazil, Bolivia, Chile, Colombia, Mexico and Peru) showed a positive relationship between privatization and profitability mean while income equality and unemployment were negative. The belief in Latin America today is that few elites and owners of multinational companies create insecurity in the labour market with massive loss of jobs.

In times of crisis, neoliberal policies of deregulation of labour and trade liberalization limit government ability to design policies that will help improve the needs of the poor. IMF usually rejects government policies of increase in government expenditure to assist the poor in times of crisis. Hence, during periods of crisis the poor are the first to loss and the last to gain. Another shortcoming of neoliberal development principle associated with trade liberalization can be justified from findings carried out by the institute for international economics in United States. Findings carried out in a steel company in U.S reveal that trade liberalization policies associated with high tariffs as alternative for quantitative trade restriction induce higher prices for intermediate goods.<sup>36</sup> These high prices reduce purchasing power and decrease jobs in the end-use industry which directly affects the loss of job opportunities at the intermediate industries as well.

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<sup>35</sup> Dollar, D., & Svensson, J. (1998). What explains the success or failure of structural adjustment programs? *World Bank Policy Research Working Paper*, (1938).

<sup>36</sup> Begersten F. (2005). A New Foreign Economic Policy For the United States; *Peterson Institute for International Economics* VOL 3 PP 28 - Intermediate goods are final products of a process that also act as input for the production of other goods

During the periods of the 1980s, 1990s and 2000s there was a rise in income inequalities between the rich and the poor. Reports from the OECD reveal that the key factors responsible for this have been changes in tax policies coupled with the demise of trade unions and the deregulation of the labour market.<sup>37</sup> In a deregulated economy the government does not directly concern itself with policies that deal with allocation of resources such as land reforms, education and health.

The implementation of neoliberal structural adjustment policies posed devastating human costs in Latin America and Africa, in the 1980s and 1990s. For example in an effort to reduce budget deficit and inflation, and stimulate economic growth, president Pinochet introduced neoliberal development policies in Chile. These policies focused on deregulation and privatization of public sectors together with deep cuts in social spending, removal of subsidies and elimination of price controls. These policies helped stabilize Chile's economy in terms of reduced inflation and increase in productivity (GDP). But the middle and lower classes were deprived of their economic rights. Consequently, economic inequality dramatically increased. During Pinochet's reign, 10% of the Chilean population constituted rich individuals who experienced double increase in incomes while the majorities were marginalized due to the implementation of neoliberal policies.<sup>38</sup> Reports from the Inter-American Development Bank in the 1990 reveal that Chile is the 15th most unequal nation in the world.

In Africa, Ghana also faced similar outcomes in late 1980s and early 1990s. The central economic vision of President Jeremiah Rawlings of Ghana in the 1980s and

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<sup>37</sup> Saad F., A., & Johnston, D. (2004). *Neoliberalism: A critical reader*. Pluto Press

<sup>38</sup> Fourcade M. (2002). Neoliberalism in four countries; *American Journal of Sociology*; Vol 108 No 3

1990s was built on the neoliberal idea of promoting economic growth through structural adjustment policies.<sup>39</sup> The Ghanaian government implemented public expenditure reforms with cuts in welfare programs, cuts in subsidies and deregulation of the banking system. The aim was to raise state revenues and solve problems of budget deficit. The result of these policies was a minimal decrease in budget deficit, high levels of unemployment, and increase in the number of people living in abject poverty.<sup>40</sup>

This study underpinned the notion that loans disbursed under structural adjustment policies to countries experiencing economic decline and accompanied economic trajectory eliminate incentives towards increased incomes per head, and increased standard of living. The above analyses reveal that there is an inverse relationship between neoliberalism and human development; hence a need for an alternative approach. Other findings adopt similar views. Schwartz, in his work that analyzed the relationship between fiscal policy and human development, argued that countries adopting SAP to ensure an increase in the GNP and budget surplus experienced declining human development.<sup>41</sup> The chief executive economist and the vice president of the World Bank Joseph E Stiglitz asserted that “*structural adjustment policies have failed but their defenders are willing to claim victory on the weakest possible evidence that economies are no longer collapsing so SAP must be working.*”<sup>42</sup> During the 1990s neoliberalism realized increased economic growth

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<sup>39</sup> Loxley, J. (1990). Structural adjustment in Africa: reflections on Ghana and Zambia. *Review of African Political Economy*, 17(47), 8-27

<sup>40</sup> Geo-Jaja, M. A., & Mangum, G. (2001). Structural adjustment as an inadvertent enemy of human development in Africa. *Journal of African Studies*, 30-49

<sup>41</sup> Jaepoon W. (2013). Growth Income Distribution and Fiscal Policy Volatility; *Journal of Development Economics* Vol 96 pp 36

<sup>42</sup> Stiglitz J. (Oct 13 2011) American Free Markets and the Sinking of the World Economy; *The New York Times*

accompanied by rising income inequality, more social exclusion and less social protection. This study asserts that austerity policies may help curb problems of budget deficit, but it does so at the expense of human development.

Hence there is no good reason for one to suggest that structural adjustment policies, economic adjustment programs and austerity measures in Europe will produce reliable growth that increases the standard of living and human development. Recent studies associated with economic inequalities reveal that SAP lowered incomes, wages, and the purchasing power of individuals. Trade liberalization, privatization, and the removal of subsidies in key sectors such as health and education had negative effects on the literacy rates and health care situation of individuals. Structural adjustment programs and its narrow standard of measuring economic growth and development through GDP and fiscal balance accelerated conflicts, public demonstration, political violence and loss of lives in many countries at the verge of economic collapse.<sup>43</sup> The implementation of structural adjustment policies to resolve problems of budget deficit, inflation, and increase economic growth in GDP is an appalling lot of damage caused by IMF and the World Bank. SAP played a great part in the 2007 global imbalance and the ongoing political fragility in an open and interdependent world economy. It depicts the costly mistake that governments in the Eurozone have been repeating in their treatment of the Eurozone crisis.<sup>44</sup>

There is need for an alternative framework which prioritizes human wellbeing as the unit of analyzes and indicator of development rather than neoliberalism and its

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<sup>43</sup> Dollar, D., & Svensson, J. (1998). What explains the success or failure of structural adjustment programs? *World Bank Policy Research Working Paper*, (1938).

<sup>44</sup> Stubbs, R., & Underhill, G. R. (Eds.). (1994). *Political economy and the changing global order* London: Macmillan. PP366-77

narrow metrics on fiscal balance and economic growth in GDP. The codifiers of neoliberal ideology on structural adjustment policies and austerity measures act as expert designers of an attractive ideological philosophy for a friendly market world. The suboptimal or minimal solution proffered by the neoliberal ideology towards crisis management and human development makes sense to think of neoliberalism as an economistic ideology which focuses more on the production of goods and services at the detriment of human development. It is important to seek an alternative approach to overcome the shortcomings of neoliberalism and its related policies on human development.

## **2.3 Human Development Approach**

### **2.3.1 Background**

This thesis engages itself with the development conceptualization of the Human Development Approach. Human Development Approach was first introduced by Mahbub ul Haq in the United Nations Development Program. The approach is informed by Amartya Sen Capabilities Approach. Human development is conceptually founded on the capability approach. Mahbub ul Haq adopted Amartya Sen's phrase that the objective of development is to expand capabilities and simplified it to expand people's choices and opportunities.

Human Development Approach defines development as the enlargement of people's choices and opportunities to engage actively in shaping development equitably and sustainably; and to accomplish goals they have reason to value. Such opportunities or human development indicators include, being able to live long and healthy lives; to have adequate incomes and to be able to benefit from education.

The main philosophical framework behind the Human Development Approach is the Capabilities Approach. In this section, I will first explicate the Capabilities Approach and then I will proceed with an analysis of the Human Development Approach. The

Capability Approach was first articulated by the Indian economist and philosopher Amartya Sen in the 1980s. Over the last decade, Amartya Sen's Capability Approach (CA) has emerged as the leading alternative to the standard economic frameworks on poverty, inequality and human development. His theory on economic welfare and the concept of human development provides a conventional critique towards the failed Keynesian economic model and the failing neoliberal development paradigm. Sen's Capability approach (SCA) is widely accepted and adopted as a policy prescription that has significant impact on human development.<sup>45</sup> Mahbub ul Haq the Pakistani economist was the pioneer advocate of the human development approach. He transformed capabilities approach's people centered understanding of poverty into concrete policy that were outlined in the annual Human Development Reports produced by the United Nations Development Program. Today capabilities approach has been employed extensively in the context of human development, for example, by the United Nations Development Program and Millennium Development Goals as a broader and deeper alternative towards the narrow economic metrics of economic growth in GDP per capita.<sup>46</sup>

In an effort to develop a comprehensive theory on human development, Sen proffered key arguments which served as the background and an alternative account to the narrow minded standard of measuring development through indicators like GDP, GNP, and fiscal balance. To reiterate, since the 1980s neoliberal programs have been enforced through SAP, or austerity measures. The sole objective of this model is to increase the total value of goods and services produced in a country

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<sup>45</sup> Sen, A. (1990). Development as capability expansion. *Human development and the international development strategy for the 1990s*, Vol 1 PP 24.

<sup>46</sup> Sen A. (2003). Sen's Capability Approach and Gender Inequalities; *Journal of International Development* vol 12

(GNP) as well as instituting measures that ensures the increase in budget surplus (fiscal balance).<sup>47</sup> In recent decades IMF policies of SAP and austerity define development in terms of the increase in the GNP and the budget surplus. But in their criticism of neoliberal development paradigm, prominent economists like Amartya Sen, and Mahbub ul Haq contended that increase in GNP and budget surplus should not be considered as an end product of development but a means towards an end. An increase in gross national product does not guarantee equitable distribution of income.

Increase in GNP should be regarded as a means that can be used to attain the flourishing of human well-being; and what matters is whether such means actually improves human welfare with principles of procedural fairness.<sup>48</sup> Sen argued that in many countries, rise in the GNP and budget surplus is not reflective on improved living standards due to continued stagnant result on health, education, and life expectancy. In a similar vein Mahbub ul Haq; the chief executive economist of the United Nations Development program in his annual Human Development Report in 1998 endorsed the need for an alternative approach to the narrow economics metrics of growth in GDP. He stated

The purpose of development is to offer people more options. One of the options is access to income – not as an end itself but as a means to acquiring human well-being (end). But there are other options as well, including long life, knowledge, political freedom, personal security, community participation and guaranteed human rights.<sup>49</sup>

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<sup>47</sup> Fiscal balance is the sum of money government receives from tax revenue and proceeds from assets sold, minus any government spending. When the balance is negative the government incur fiscal deficit. When the balance is positive the government incur fiscal surplus

<sup>48</sup> Sen A. 2004. Capabilities, Lists, and Public Reason: *Journal of International Development* vol 9 pp 240-245

<sup>49</sup> UNDP. 1998. *Human Development Report*; Oxford University Press

The enlargement of a development paradigm on the capability approach is determined through two main concepts namely; “functioning” and “capabilities”. Sen’s thoughts on functioning’s and capabilities provided an extensive standard for measuring poverty and human development. It served as a superior alternative to the narrow economic metrics of economic growth in GDP. He defined functioning as a state of human well-being such as being well nourished, being well educated and having human shelter as well as flourishing living conditions. “Capabilities” refer to a person’s access to valuable functioning. It is understood as the freedom an individual has to choose from a combination of different functioning that he or she has reason to be valuable.<sup>50</sup> Thus, it is the potential attainment of different functioning or standard of living such the potential to attain a certain level of income, state of health, education etc.

### **2.3.2 Meaning of Poverty and Development in the Capability Approach**

Sen underpinned that, an assessment of alternative combinations of valuable things individuals are able to do rather than focus on increase in resources, commodities and budget surplus (GDP) enable policy makers to shift their unit of analyses from growth in the economy to one based on human beings. This approach regards human beings and not economic growth as an end product of development. Sen observed that focus on resources, gross domestic product and gross national product excludes consideration of the differences in individuals’ actual abilities to convert resources into valuable outcomes.<sup>51</sup> For example two people with the same vision of the good life and the same bundle of resources may not be equally able to achieve that life. Individuals differ in their ability to convert resources such as income into welfare. A

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<sup>50</sup>Sen A. 1989. Development as Capability Expansion; *Journal of Development Planning* pp 41- 58

<sup>51</sup> Subramanian D. Verdi M et al (2013). *Bringing Sen Capability Approach to Work and Human resource practices*; Springer U.S pp 292



disabled person may need expensive medical and transport equipment to achieve the same level of welfare a person who is not disabled has achieved. A focus on the GDP and GNP enables resources to be distributed away from the sick and disabled to the benefit of people that are more efficient. Capability analysis rejects the neoliberal presumption that achievements in some domains compensate for shortfalls in others. It argues that if people are falling short on a particular functioning that has been collectively agreed as a valuable good life, then justice would require addressing the shortfall through the expansion of individual capabilities rather than offering compensation through a trickledown effect.<sup>52</sup>

Sen, in his theory on human development emphasized that restrictive economic policies associated with the neoliberal development paradigm prevent the fullest attainment of human functioning and capabilities. He defined poverty in relation to restrictive economic policies that deprived human ability to live a good life. Poverty is understood as deprivation to live a good life. People are said to be deprived if they lack the adequate diet, clothing, housing, environmental, educational, working and social conditions necessary for the attainment of the good life.<sup>53</sup> There are two distinct concepts of deprivation that relate to poverty namely; material deprivation which focuses on resources that increase GDP (means) and multiple deprivations which focus on a wide range freedom an individual has to achieve, for instance valuable beings (end). Thus, the capability approach provides a framework for analyzing poverty which prioritizes capabilities (ends) over resources (means). The approach focuses on constraints that restrict human lives in evaluating poverty,

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<sup>52</sup> Sen A. 1989. Development as Capability Expansion; *Journal of Development Planning* pp 41- 58

<sup>53</sup> Sen A. 2003. Sen's Capability Approach and Gender Inequalities; *Journal of International Development* vol 12 pp 28

whereas development is understood as the freedom an individual has to enlarge a set of human functioning (capability expansion).<sup>54</sup> A paradigm of development should put people's needs and aspiration at the center of its analysis rather than growth in the GDP. The primary goal of the capability approach includes freedom in realizing rights.<sup>55</sup> People should be free to exercise their choices and participate in decision making processes that shape their lives. This helps to secure well-being, human dignity, self-respect and respect for others. Freedom in this context does not only mean freedom to choose but it also includes freedom to remove certain constraints (SAP, EAP, austerity) that affects human well-being.

The capability approach looks at income and wages as a vital indicator for human development. It evaluates income as a means to other ends in human development. As such, income is just a means amongst others. A more inclusive lists of means required for human developments have been drawn from John Rawls' theory of justice. His list of indicators which function as a means towards human development includes rights, liberties, and opportunities. Incomes constitute a crucial means towards human development and its importance lies in the fact that it enables individuals to do things they desire will contribute to the flourishing of human life.

### **2.3.3 Methods of Determining Valuable Functioning and Capabilities**

The main challenge of the Capability Approach is to determine which functioning matters for proper human well-being or a good life. The Capability approach has specific requirements which vary with social circumstances, for example the capability to be well nourished vary amongst people in different social

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<sup>54</sup> Gasper, D. (2002). Is Sen's capability approach an adequate basis for considering human development? *Review of political economy*, 14(4), 435-461.

<sup>55</sup> Edewor P. (2014). A Conceptual Exploration of the Human Development Paradigm; *Mediterranean Journal of Social Sciences*. Vol 5 No 6

circumstances, it may require a specific amount or kind of food depending on the age of the person or state of health. Most importantly, the process of determining capabilities that matter for the functioning of good life is through Sen's proposition of social choice exercise which requires public reasoning and democratic procedures in the decision making process.<sup>56</sup>

Even though it is possible for an exercise of social choice to produce collective decision that is completely bad for human well-being, Amartya Sen argued that, a substantial action that guides agreement on the flourishing of human life is easily determined and remains indisputable when it comes to crucial and basic capabilities associated with the basic needs that demands urgent human and political concerns.<sup>57</sup>

Sen's indisputable list of basic capabilities used as an indicator for measuring poverty and human development includes education, health, nutrition and shelter. The prevention of individuals from enjoying these benefits is regarded as a scandalous deprivation, hence poverty. Those affected by restrictive economic policies or practices should be actively involved in deciding what counts as valuable capabilities. Individuals are regarded as active participants in the development process rather than passive spectators. Each individual is seen as a dignified and responsible human being who shapes his or her own life in the light of goals that matter rather than being shaped and instructed on how to think. Amartya Sen extensive list of capabilities have been democratically incorporated into national constitutional agreement, international human rights legislations and international

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<sup>56</sup> Sen A. 2003. Sen's Capability Approach and Gender Inequalities; *Journal of International Development* vol 12

<sup>57</sup> Kleine, D. (2010). Using the choice framework to operationalize the capability approach to development. *Journal of International Development*, 22(5), 674-692

development policies. It serves as an alternative to the narrow economic metric of growth in GNP and fiscal balance.<sup>58</sup>

## **2.4 Human Development Approach**

In 1990 Mahbub ul Haq adopted Amartya Sen's Phrase that the objective of development is to expand capabilities and simplified it to expand people's choices and opportunities. The language changed but the objective did not change. He converted capabilities approach's people centred understanding of poverty into concrete policies as stipulated in the Human Development Report. Mahbub ul Haq enlisted a list of choices and opportunities that were included in the UN Development Programme's annual Human Development Reports.<sup>59</sup> The report instituted a Human Development Index with a list of human development indicators which emphasized that people's opportunities and choices should be the ultimate criteria for assessing the development of a country, not economic growth alone. The Human Development Index stresses on the capability to live long and healthy life, to be knowledgeable and to have a decent standard of living. Mahbub ul Haq supported his list of opportunities or human development indicators with four main principles which includes efficiency, equity, participation and sustainability.<sup>60</sup>

The principle of equity stressed that individuals with unequal opportunities due to specific disadvantages should be entitled to preferential treatment or favourable action. Such individuals include the poor, disabled, old age, ethnic minorities' etc. From a human development perspective, efficiency is defined as the least cost

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<sup>58</sup> Mason S. (2011). Nussbaum, Martha C.: Creating capabilities: the human development approach; *journal from American Society of Law and Ethics* Vol 41 Issue 4 pp 317

<sup>59</sup> Anand, S., & Sen, A. (1994). *Human Development Index: methodology and measurement* (Human Development Report Office (HDRO), United Nations Development Programme (UNDP). No 2

<sup>60</sup> UIHaq, M. (1994). *Reflections on human development* (No.HDOCPA-1994-11). Human Development Report Office (HDRO), United Nations Development Programme (UNDP).

method of reaching specific goals; such goals can be attained through various interventions that maximize opportunities for individuals and communities. The interventions involve in the attainment of specific goals should include the optimal use of human, material and resources. It is necessary to demonstrate that the chosen intervention is one that offers the best results in enlarging choices and enabling optimum use of opportunities by people.<sup>61</sup> Participation from the perspective of human development approach is about empowering people to participate in decision making processes that affect their lives. It is about the freedom to make decisions in matters that affect their lives. Whether at the level of policy-making or implementation, this principle underpinned that people need to be involved at every stage not merely as beneficiaries but as agents who are able to pursue and realize goals that they value. Sustainability from a human development approach relates to social, political financial and environmental sustainability. Environmental sustainability as noted by Mahbub ul Haq involves achieving developmental outcomes without jeopardizing the natural resource base and biodiversity of the region and without affecting the resource base for future generations. Financial sustainability refers to the way in which development is financed. Specifically, development should not lead countries into debt traps. Social sustainability refers to the way in which social groups and other institutions are involve and participate to avoid disruptive policies.<sup>62</sup>

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<sup>61</sup> UIHaq, M. (2003).The birth of the human development index. *Readings in human development*, 127-137

<sup>62</sup> UIHaq, M. (1994). *Reflections on human development* (No.HDOCPA-1994-11). Human Development Report Office (HDRO), United Nations Development Programme (UNDP).

This approach further supported the view that education or being knowledgeable is the foundation of all other capabilities that aid the flourishing of human life.<sup>63</sup> Education helps to promote the manifestation of potential virtues inherent in individuals. It enables people to discover and maximize their potentials and builds people's capabilities to acquire skills for the achievement of development goals. It helps furnish better access to resources and boosts better standard of living, better quality of life, and healthy life, reduces mortality, and increases higher life expectancy. Through education, the acquisition of individual skills and choices are easily enlarged to produce decisions that promote human wellbeing.

Mahbub ul Haq his human development approach noted that incomes cannot be excluded from the metrics of human development, and societies which respect individual's well-being and freedom need to take into account individual preferences, interest and welfare in order to reach a collective decision.<sup>64</sup> Incomes need to be envisaged as a means that lead to good life since the conversion of incomes to proper living standards include different types of contingencies that lead to systematic disparities.<sup>65</sup> People have diverse needs with unequal physical characteristics connected to disability, age and gender. Hence, a sick person will need more income to fight her illness as compared to a healthy person without such an illness. Also, environmental diversities such as climatic conditions like temperature, rainfall and flooding equally influence a person's specific level of income. Most importantly, the allocation of personal incomes and resources need to be influenced by social conditions such as health, education and the prevalence of violence in a particular

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<sup>63</sup> Walker, M., & Unterhalter, E. (Eds.).(2007). *Amartya Sen's Capability Approach and Social Justice in Education* : Palgrave Macmillan. pp 1-18

<sup>64</sup> Sen, A. (1992). *Inequality Reexamined*, Massachusetts: Harvard University Press

<sup>65</sup> UIHaq, M. (2003).The human development paradigm. *S. Fukuda-Parr and AK*

location.<sup>66</sup> It is important to note here that income distribution is considered as a means towards human flourishing and not an end, thus focusing on the quality of life, rather than income enhancing the process of human development. The importance of incomes as an indicator for human development is circumstantially dependent and not categorically intrinsic as assumed by neoliberal scholars.<sup>67</sup> As earlier mentioned, income distribution is not the only means that facilitates people's quest for proper well-being; they are a range of others which includes rights, liberties, opportunities, wages etc.

#### **2.4.1 The Broad and Holistic Nature of Human Development Approach**

The objective of this section is to establish how the conceptual exploration of the capability approach presents the Human Development Approach as a broad development Paradigm.<sup>68</sup> The broad and holistic nature of human development is not limited to the narrow standard of measuring economic growth and development using fiscal consolidation and GDP.<sup>69</sup> In 1998 the chief executive economist of UNDP and founder of Human Development Report (HDR) Mahbub ul Haq stated

The basic purpose of development is to enlarge people's choices. In principle, these choices can be infinite and can change over time. People often value achievements that do not show up at all like growth figures: the purpose of development is to offer people greater access to knowledge, better nutrition and health services, secure livelihood, security against crime and physical violence, satisfying leisure hours, political and cultural freedoms and sense of participation in community activities.<sup>70</sup>

Even though Human Development Approach encourages the expansion and use of human capabilities to produce and distribute commodities (economic growth) that

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<sup>66</sup> Sen, A. K. (1997). From income inequality to economic inequality. *Southern Economic Journal*, 384-401.

<sup>67</sup> Sen A, (1997) *ibid* 393

<sup>68</sup> Alkire, S. (2002). Dimensions of human development. *World development*, 30(2), 181-205

<sup>69</sup> Crocker, D. A. (2008). *Ethics of global development: Agency, capability, and deliberative democracy*. Cambridge University Press

<sup>70</sup> UNDP. 1998. *Human Development Report*; Oxford University Press.

improves standard of living. It however focuses on choices and opportunities individuals consider to be valuable for their own livelihood. Human development is a broad participatory and dynamic process which applies to both less and highly developed countries and incorporates other frameworks such as, Millennium Development Goals, human rights, and human security.

The Millennium Development Goals (MDGs) commit the international community to an expanded vision of poverty reduction and human development. It vigorously places human development at the centre of social and economic progress in all countries. In September 2000 the United Nation Millennium Declaration established an ambitious program for reducing poverty and improving lives. Each goal has specific target to be attain by 2015.<sup>71</sup> Mahbub ul Haq established a conceptual framework between human development and Millennium Development Goals (MDG). Millennium development goals functions as a component of human development as it aimed at promoting the wellbeing of people.<sup>72</sup> Millennium development goals depend on the combination of eight valuable choices and opportunities with the objective to eradicate extreme poverty and hunger, to achieve universal primary education, to promote gender equality, reduce child mortality by 2/3, reduce maternal mortality by 3/4, to combat HIV/AIDS, malaria, and other diseases, to ensure environmental sustainability and expand a global partnership for development.<sup>73</sup> If these choices and opportunities are considered as valuable for a

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<sup>71</sup> Alston, P. (2005). Ships passing in the night: the current state of the human rights and development debate seen through the lens of the Millennium Development Goals. *Human rights quarterly*, 27(3), 755-829

<sup>72</sup> Unterhalter, E. (2005). Global inequality, capabilities, social justice: The millennium development goal for gender equality in education. *International Journal of Educational Development*, 25(2), 111-122.

<sup>73</sup> Unterhalter, E. (2005). Ibid



better livelihood and fulfilled without the use of force by the active participation of those affected, it means MDG expands human development indicators.

The human rights-based approach to poverty reduction and human development is guided by the principle that development can be attained through the fulfilment of all human rights. The United Nations Development Program plays a key role in the enforcement of human rights based approach to development. The UNDP introduces a paradigm shift in development patterns as it places individuals at the centre of development and introduces human rights as the principal objective of development. UNDP in its 2003 Human Development Report noted that the guiding principle of human rights based approach to development and poverty reduction includes equality and non-discrimination, 'participation and inclusion' as well as 'accountability and the rule of law'.<sup>74</sup>

In all, human development is a broad economic paradigm, but neoliberal development model based on economic growth fails to reflect human indicators. It is practically fundamental to understand how the partial concept of MDG, and human rights, fits into the holistic concept of human development. In 1995 Mahbub ul Haq the Pakistani political economist stated, "It is fair to assert that human development paradigm is the most holistic development model that exists today; It embraces every aspect of development such as economic growth, social investment, people's empowerment, provision of basic needs, social safety, political and social freedoms coupled with all aspects of people's life. It is neither narrowly technocratic nor excessively philosophical; it is a practical reflection of life itself"

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<sup>74</sup> Uvin, P. (2004). *Human rights and development*. Kumarian Press

Neoliberal development indicators favour complete market liberalization with the rigid notion that improved economic opportunities will trickle down to the poor. The Human Development Approach rejects the rigid neoliberal development paradigm on economic growth and its related notion that economic growth will flow down to the poor. The conceptual exploration of the Human Development Approach and its emphasis on human development adopted by the United Nations Development Program, Human Development Index and Millennium development goals insists on the need for state governments to subordinate the shortcomings of the market driven economy to the objectives of social equality.<sup>75</sup> Human Development Approach notes that it is the responsibility of state governments to develop policies that protect human development indicators, but this does not imply per definition that policy formulation and implementation is restricted to government intervention. It could be directed to or taken up by non-governmental organizations, private organizations, interest groups or families.<sup>76</sup>

## **2.5 Conclusion**

In a nutshell, the theoretical and conceptual framework that institutionalized neoliberal ideology was stipulated in the Washington consensus. The consensus was formulated as a recovery strategy to overcome the Latin American Debt Crisis in the 1980s and 1990s. The Latin American debt crisis aided the institutionalization of a policy package for poverty and development. Policy prescriptions associated with neoliberalism and Washington consensus is enforced through structural adjustment or austerity measures like deregulation of labour, liberalization of capital and privatization of state owned enterprises etc. The implementation of structural

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<sup>75</sup> Robeyns, I. (2005). The capability approach: a theoretical survey. *Journal of human development*, 6(1), 93-117.

<sup>76</sup> Alkire, S. (2002). Valuing freedoms: Sen's capability approach and poverty reduction. *OUP Catalogue*.

adjustment policies by the IMF and the World Bank to resolve problems of budget deficit, inflation, and to increase growth in GDP has caused inadvertent consequences. SAP played a great part in the 2007 global imbalance and the ongoing political fragility in an open and interdependent world economy. It depicts a costly mistake that governments in the Eurozone have been repeating in their treatment of the Eurozone crisis.

The Human Development Approach provides a conventional critique of the failing neoliberal paradigm. It serves as an alternative towards the neoliberal narrow framework of economic growth in GDP. For over two decades now, the Human Development Approach has been adopted by the UNDP and incorporated into the annual Human Development Reports. It is different from the Washington consensus and the neoliberal development model practice in the Eurozone today.

The Human Development approach produced a holistic development model that embraces all aspects of development such as human and economic indicators of development, through investments, people's empowerment and provision of basic needs, cultural and political freedom and other aspects that are democratically reasonable to increase human wellbeing. Indicators related to economic growth are assessed as a means towards human flourishing and not an end itself, and what matters is whether the process by which policies are implemented can be justifiable through social choice exercise which requires public reasoning and democratic procedures in the decision making process. The Human Development Approach rejects neoliberal policies like austerity measures that narrowly define development solely in terms of growth in GNP and fiscal balance. The concept of human

development should be seen as a holistic one that advances the richness of human life and the richness of the economy. Thus, the Human Development Approach is an extensive systematic theory that relates to all features of societies that promote human functioning.

## **Chapter 3**

# **HISTORICAL BACKGROUND; NATURE OF ECONOMIC POLICIES IMPLEMENTED FROM 1981-2009**

### **3.1 Introduction**

Greece was the first country within the periphery of the Eurozone to face the 2009 sovereign debt crisis. In this chapter, I will analyze the economic policies implemented in Greece since 1981 to shed light on the dynamics behind the crisis. It is difficult to pinpoint the root cause of the conflict, but safer to talk about the factors that contributed to the conflict. To this end, I will elaborate economic policies implemented in Greece from 1980 to 2009 by situating these policies in the broader context of the global economy. I will further evaluate the impact that these economic policies had on distribution relations in the country. Thus, the historical background of this study focuses on two major issues, the economic policies implemented in Greece by successive governments and the impact of these economic policies on distribution relations.

Giving importance to periodization, the analysis will be structured into three important periods; from 1981 to 1985 PASOK implemented Keynesian economic policies. From 1985 until 1990 PASOK implemented macroeconomic stabilization programs. In 1990-2009 government changed hands, the Maastricht treaty (treaty for European integration) was signed and it paved the way for the creation of the European Union with an economic, social and political integration. EU introduced

neoliberal reforms with a more pragmatic course. Common monetary policies such as the Stability and Growth Pact (SGP), Economic Adjustment programs and adjustment for economic competitiveness and EU employment guide lines were introduced. These policies further tell us how neoliberalism was deepened in the 2000s by the EU.<sup>77</sup>

### **3.2 Economic and social legislative policies in 1981-1985**

On the 1st January 1981, Greece became a member of the European Community and ten months later (18th October 1981) the socialist party of Andreas Papandreou (Pan-Hellenic Socialist Movement PASOK) came to power with a statist ideology. The Greek state was the major actor responsible for the protection and promotion of economic and social development. In the periods of 1980 to 1985, the socialist government adopted Keynesian economic models of development introduced by the British economist John Maynard Keynes during the 1930s great depression. Keynes advocated for an increase in government expenditures and lowering taxes to stimulate investments and boost global demand and economic growth. Between 1980-1985, PASOK initiated novel economic reforms based on nationalization and state intervention. These economic reforms were parallel to the Keynesian economic model as it emphasized that, government policy of aggregate national income and aggregate public expenditures will help achieve price stability, reduce inflation and create employments.<sup>78</sup>

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<sup>77</sup> Hatzis N A (2013). Greece as a Precautionary Tale of the Welfare State. *Atlas Economic Research foundation* Washington Dc pp21-30.- Social welfare programs are governmental reforms or programs designed to protect citizens from economic risk and insecurities of life. It provides benefits to unemployed, dependents, sick, disability, families etc

<sup>78</sup> Pressman S. (2011). Post Keynesian Economics and Public Policy; *American Journal of Economics and Sociology* Vole 70 Issue 2 pp 551

The Pan-Hellenic socialist movement embarked on a series of economic legislative programs that aimed at increasing government expenditure. Government expenditure in Greece increased at a very fast rate higher than the average rate within the European Economic Community. Increase in government expenditure was not accompanied with an increase in social expenses in welfare systems. By 1985, economic and social legislative policies introduced by PASOK became less popular and Greece received external pressure both from North American, United Kingdom and other Eurozone countries.<sup>79</sup>

### **3.2.1 Impact of the Economic policies on Distribution relations**

The Keynesian Economic model supported by economic legislative reforms came at a time when general growth rate in the economy was declining while demand for welfare state was rising. Between 1981 to 1985, increase in government expenditure was not accompanied by a proportional increase in social spending. No specific measures were introduced to alleviate income inequalities and development through social indicators like education and health. The only exception was small family allowances that had minimal impact on social welfare and human development.

Fiscal deadlock in Greece started about 30years ago, (1981s) the newly elected socialist government in 1981 introduced Keynesian economic model with increase in public expenditure. Increase in public expenditure was to secure monetary stability, reduced inflation and service debts incurred from the 1973 international economic crisis. After 1981, government savings in Greece entered a declining trend due to increasing debts. Domestic savings were not enough to finance the high government expenditures and its narrow concept of trickle down effects benefited rich

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<sup>79</sup> Hemerijck, A. (2013). Fault lines and (still too few) silver linings in Europe's social market economy. *Social developments in the European Union*.

individuals.<sup>80</sup> The Greek government always relied heavily on foreign borrowings or loans. High government expenditure raised budget deficit from 32% in 1981 to 44% in 1985. In the early periods of 1980s, efforts through loans were put in place to reduce public debts and accelerate growth in GDP and GNP, but these techniques in debts and deficit management proved inadequate as statistics showed that public debt increased from 30% in 1981 to 50% in 1985. This gradual increase in public debt depicts the weakness inherent in the Greek approach. Cost of borrowing was greater than the returns from investment and this made borrowing to become burdensome. The Greek economy in the periods of 1980-1985 showed its fragility. PASOK was trying to implement Keynesian policies at a time when they were not credited any more. Decline in growth rate, rising debts and the rising need for welfare policies aided the introduction of neoliberal macro-economic principles that will limit government intervention, and promote economic growth that will trickle-down to other social welfare programs.<sup>81</sup>

### **3.3 Socio Economic Policies Implemented In 1985-1990**

In order to meet up with stiff competitions within the European common market as well as to reduce inflation and increase public borrowing requirements, and economic growth in Greece, the socialist government of Andreas Papandreu introduced macroeconomic stabilization programs in 1985. The program constituted a complete shift from the initial Keynesian economic model towards a new program under structural adjustment reforms.<sup>82</sup> The macro-economic stabilization program devalued the Greek currency (drachma) in 1986 by 15% of total budgetary

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<sup>80</sup> Temel B. (2013) *“The Great Catalyst; European Union Project and Lessons for Greece”*. Lexington Books, Maryland U.S.A PP 37-41

<sup>81</sup> Charalambis D, Maratou L and Hadjiyanni A (2004). *“Recent Social Trends In Greece From 1960-2000.”* Mc-Gill Queens University Press Quebec pp332

<sup>82</sup> Williamson J. (2004) *The Washington Consensus as A Policy Prescription for Development; Institute For International Economics* PP18-



expenditure, freeze wage increase and introduced cuts in public expenditures. The council of Economic and Finance ministers of the European Economic Community supported the new stabilization program with a loan of 280 billion drachma. Macro-economic stabilization initiated in 1986 failed to achieve desired results, inflation marginally decreased and cuts in personal incomes was diverted towards the repayments of loans. Government borrowing requirements accelerated from 280 billion drachmas in 1986 (15% of total budgetary expenditure) to 650 billion drachmas in 1987, that is 24.3% of total budgetary expenditure.

### **3.3.1 Impact of economic and social legislative reforms on distribution relations between 1985 and 1990**

In 1990, economic and social legislative reforms introduced by PASOK and the European Economic Community (EEC) had huge impacts on distribution relations. These reforms failed to improve incomes and other human development indicators like unemployment. Massive cuts in welfare state budget was devoted to mainly sectors like education and health with the exception of pensioners. Macro-economic stabilization programs undesirably affected income distribution and other human development indicators in Greece.<sup>83</sup> It led to massive reduction in real wages, salaries, and cuts in welfare programs. These macro-economic stabilization programs decelerated the development of the Greek economy and amounted to a decline in purchasing power, poor health conditions, low educational facilities and an increase in unemployment and inequalities.

In 1970s, total consumption of goods and services steadily increased for all income groups in Greece. The trend reversed in 1988 since cuts in government expenditure

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<sup>83</sup> Charalambis D, Maratou L and Hadjiyanni A (2004) Ibid 346

affected consumption expenditures. Inequalities in consumption expenditure among various groups remained stable and resulted in a decrease in purchasing power and decrease in consumption of durable and semi durable goods. In the 1970s, increase in per capita consumption stood at 5.2% while in the 1980s per capita consumption was characterized by a small annual increase of 1%. Macro-economic stabilization policies introduced cuts in incomes, wages and government expenditures and devoted high social expenditures mainly on pensions and by 1987 pension constituted about 12% of the GDP while transfers from the central government to other human development indicators such as unemployment benefits, health care and education steadily decreased.<sup>84</sup> Thus, information from the European system of integrated social protection (ESSPROS) revealed that in 1986 transfers to social programs like health and education amounted only to 19% of total government budgetary expenditures. In late 1990s, the developments of welfare systems in Greece remained highly fragmented and under developed.

**Table 1: Distribution relations of government expenditures in percentage of national budgetary expenditures**

	1986	1990
Health	10.5	11.5
Education	8.5	11.5
Defense	20.5	22.7
Administration	20.8	17.8

<sup>84</sup> Y Fantopoulos J et al (1989). Poverty Indicators In Greece; A framework of main Results: *National Center for Social Research Athens*, pp41

The table above shows the data of government budgetary expenditures. The government of Greece allocated limited spending on social and human development indicators like education and health while other components of government budgetary expenditures like defense and public administration constituted a greater percentage of government expenses.<sup>85</sup>

### **3.4 Economic and Social Policies Implemented Between 1990 until 2009**

In 1990 PASOK lost power to the New Democracy Party of Konstantinos Mitsotakis. The new conservative government fully introduced neoliberal economic development reforms. The Maastricht treaty (treaty for European integration) signed on the 7th of February 1992 and entered into force on 1st Nov 1993, paved the way for the creation of the European Union with an economic, social and political integration. EU introduced neoliberal reforms with a more pragmatic course on structural adjustment policies. Banking sectors were privatized while external markets were liberalized. Fiscal adjustments and monetary policies were introduced to help control public deficit and inflation.<sup>86</sup> Neoliberal theory emphasized that control of economic factors should be shifted from public to private sectors. The theory further underpinned the need for structural adjustment programs that will reduce inflation, curb budget deficit and promote economic growth. Neoliberal economic development model offered common structural adjustment policies to IMF, World Bank, U.S treasury, European Central Bank and other international financial institutions. Neoliberal-structural adjustment programs in Greece supported economic liberalization, privatization, free trade, open markets, reduction in

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<sup>85</sup> ESSPROS (2001) *European Social Statistics; Social Protection Expenditure and Receipts 1980-1999* Luxemburg pp 56

<sup>86</sup> Milos J. 2005. European Integration as a Vehicle of Neoliberal Hegemony ;*European Journal of Political Economy* pp 211

government spending and deregulation.<sup>87</sup> In an effort to curb inflation, rising debts and budget deficit experienced by Greece in 1990s, the Greek government enforced structural adjustment programs.

Structural adjustment programs initiated in the 1990s were aimed at enabling Greece fulfill the convergence criteria stipulated in the Maastricht treaty. When the Maastricht treaty was signed in 1992, Greece was very far from meeting the convergence criteria. For instance, the inflation rate of Greece was 19.8% while the average rate for EU countries stood at 4.07%. Government deficit was 11.5% of the GDP while the EU average stood at 3% of GDP. Structural adjustment reforms enabled Greece to dramatically improve its finances during the 1990s with inflation and budget deficit falling below the stipulated amount (3%) by 1999.<sup>88</sup> In the quest to meet up the requirements of the Maastricht treaty and to join the economic and monetary union (EMU) of the EU, Greece embraced adjustments for economic competitiveness and EU employment guidelines. These adjustments were geared towards deregulation of labour with the creation of a flexible labour market. In 1996 PASOK reinforced tax policies that ensured compliance of the under taxed strata of the society and avoided increasing taxes on indirect goods. Fiscal adjustments and monetary reforms initiated by the European Union and embraced by PASOK helped curb public deficit and reduced inflation. In the mid-1990s, neoliberal policies introduced as a result of the Maastricht treaty and implemented by the socialist party of Andrea Papandreou led to a successful stabilization process in Greece as inflation declined and budget deficit reduced. By 1999, stringent EU policies outlined in the

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<sup>87</sup> Hermann C. (2007) Neoliberalism in the European Union; *Journal form Forschungs- und BeratungsstelleArbeitswelt (FORBA)* pp8

<sup>88</sup> Greer Scott L. 2013. Structural Adjustment comes to Europe; Lesson for the Euro zone for the Conditionality Debates, *University of Michigan* pp 8-10

Maastricht treaty led to improved fiscal measures coupled with reduction in inflation and budget deficit.<sup>89</sup>

In 2000–2004 power changed hands in Greece, the socialist government was headed by Costas Simitis. The new socialist government encouraged Greece to join the Economic and Monetary Union (EMU) of the EU. In January 2001, PASOK adopted the euro as a legal tender and Greece became a member of the Eurozone. During the periods between 2000-2004 public expenditure in the public sector gradually accelerated under the new PASOK government headed by Costas Simitis. Increase in public expenditure was mainly in preparation for the 2004 Olympic Games in Athens. Limited budgets were allocated to welfare systems. The preparations for such enormous and costly event greatly contributed to distortions and unequal spatial dispersion of national wealth that benefited selective sectors against the needs of others.

The new conservative government that took over power between 2004- 2009 continued with a dramatic rise in public expenditure. Increase in public expenditure of about 90% in GDP between 2004 up to 2009 greatly contributed to large fiscal deficit and accumulated debts. State expansion and privatization of the economy added additional burden on budgets and insurance systems run by the state since privatized sectors of the economy continued to depend on public finance and state regulations. The interdependence of private sectors on the state created a new forum for political corruption. Between 2001 to 2007, government expenditure increased by 87% while revenues increased by only 31%. This led to huge budget deficit above

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<sup>89</sup> Papaspyrou T. (2004). EMU Strategies; Lessons from Greece in View of EU enlargement . *European Institute*, pp 4

the limit fixed by the EU (3% of GDP) (Eurostat 2009).<sup>90</sup> Varied reasons that accounted for high government spending and a drop in government revenues included inefficient public administration, tax evasion and lack of fiscal discipline.

#### **3.4.1 Impact of Structural Adjustment Policies on Distribution Relations**

However, improvements brought about by structural adjustment programs failed to have a positive effect on income coupled with other human development indicators since labour markets were adversely affected. Wages of industrial workers remained stagnant at the same level with that of 1982 in real terms. Unemployment rates increased from 9.6% in 1994 to 11.7% in 1999. By the end of 1990s Greece was among the EU countries that had no institutional arrangements for dealing with unemployment and poverty. The socialist government had no national guarantee for income schemes. There were no prospects for introducing such schemes. Hence, EU policy makers and Greek public officials emphasized that the basis for economic growth and development rests on restrictive economic policies that curb budget deficit, reduce public debts and increase gross national product. But these policy makers failed to realize the dangers restrictive economic policies had on income distribution, health care, literacy rates, nutrition and human well-being

Structural adjustment policies failed to establish a base for sustainable economic and human development. It bankrupted local industries, increased dependency on importation of food, gutted social services and fostered a wide gap between the rich and the poor. Underlining structural reasons for poverty, unemployment, and malnourishment were left unaddressed. Standard structural adjustment packages advocated by international financial institutions such as IMF, World Bank, and

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<sup>90</sup> Eurostat (2009) *“European Social Statistics; Social Protection Expenditure and Receipts 1980-1999”* (Eurostat) Luxemburg; European Communities pp 56

European central Bank failed to address the individual needs of citizens and rather generated economic, social and political problems in most cases. The GDP of countries undergoing structural adjustment policies remained stagnant. Growth rates were limited to few sectors such as extraction of raw materials or goods produced with cheap labour. Even when SAP directed economy is growing it generally fails to create employment, improve literacy, health care and social security. Macroeconomic stabilization programs and structural adjustment policies were reinforced in the 1980s and 1990s to curb problems of budget deficit at high human cost, these neoliberal principles aimed to cure the illness by killing the patient.

### **3.5 Conclusion**

In the periods of 1981-2009, successive governments in Greece introduced a set of economic reforms. The rise to power of the Greek socialist party initially saw the introduction of Keynesian economic policies associated with high government expenditures and a narrow concept of trickle-down effect to curb inflation. Increase in government expenditure was not accompanied by an increase in social disbursements on welfare programs. The Greek economy in the early periods of 1980s showed its fragility as PASOK implemented Keynesian policies in a time they were not credited any more. Decline in growth rate and the rising need for welfare policies aided the introduction of neoliberal macro-economic principles. During the periods of 1985-1990, neoliberal macro-economic stabilization programs secured economic growth in GDP through fiscal balance. Cuts in budgetary expenditures were high and the amount allocated for social spending was comparatively low. Information from the European system of integrated social protection (ESSPROS) reveals that in 1986 welfare systems in Greece remained highly fragmented and under developed. Massive cuts in welfare budget were devoted to mainly sectors like

education and health with the exception of pensioners. High social expenditures were concentrated mainly on pensions. By 1987, pension constituted about 12% of the total budget while other transfers from central government to other human development indicators steadily decreased. Neoliberal macro-economic stabilization programs undesirably affected human development indicators like income health and employment in the late periods of the 1980s.

In 1990-2009, Government changed hands. The Maastricht treaty for European integration that was signed on the 7th of February 1992 and entered into force on 1st Nov 1993 paved the way for the creation of the European Union with an economic, social and political integration. EU introduced neoliberal reforms with a more pragmatic course. Common monetary policy such as the Stability and Growth Pact (SGP) and regulation for economic competitiveness and EU employment guide lines were introduced. Neoliberal structural adjustment programs adopted by the EU shared a common objective; to move countries away from self-directed models of national development that focus on domestic markets towards external development models that emphasize the importance of complete integration with regional and global economic structures of trade, finance and production.

Neoliberal structural adjustment policies largely succeeded in reducing government budget deficit, eliminating hyper-inflation and maintaining debt payment schedules before Greece's ascension into the economic and monetary union. But it however failed to establish a strong base for sustainable economic and human development. It bankrupted local industries, increased dependency on importation of food, gutted social services and fostered a wide gap between the rich and the poor. Underlining



structural reasons for poverty, unemployment, and malnourishment were left unaddressed. SAP and Economic adjustment programs introduced by EU and adopted by successive governments in Greece systematically revealed economic growth through structural adjustment policies and human development are inconsistent goals. These adjustment policies have proven to be painful and socially destabilizing; they attempt to cure the illness by killing the patient.

## **Chapter 4**

### **THE NATURE OF ECONOMIC POLICIES IMPLEMENTED IN GREECE AFTER 2009**

#### **4.1 Introduction**

This chapter elucidates on the nature of economic policies implemented in Greece after 2009. This section of the thesis presents austerity measures designed by Troika in the form of economic adjustment policies to restore fiscal balance, reduce debt and promote economic growth. Economic adjustment reforms are divided into two; first and second economic adjustment policies. The conclusion of this chapter underlines the fact that, the creation of Troika and the implementation of austerity measures are not unique to Greece. Economic adjustment programs constitute the main reforms used by the EC, IMF, and ECB to secure budget surplus and promote economic growth in the Eurozone. The concluding remarks in this section briefly present austerity policies implemented in Spain, Cyprus, Portugal, and Italy to justify that the case of Greece is not unique.

#### **4.2 Nature of Economic Policies Implemented In Greece after 2009**

Since 2009 the Greek economy has been facing the worst economic crisis since the great depression. It was discovered in 2009 that Greece was living five times beyond the limits stipulated in the Maastricht Treaty with a huge budget deficit, public debts and declining growth rates. A full scale crisis had ignited and the Greek government lost its credibility and plans to restore fiscal consolidation. The PASOK government failed to convince EU officials on measures to improve market conditions. In

February 2010, EU leaders vowed to take “determined and coordinated action” on Greece and other Eurozone countries caught in the web of crisis. Greek Former Prime Minister George Papandreou requested assistance from the IMF. On the 23rd of April 2010, the finance ministry in Greece forwarded a letter to the European Commission and European Central Bank demanding for assistance. In response, Troika a body consisting of representatives from the European Commission, European Central Bank and the IMF produced a series of economic policies and coordinated plan of action to restore economic growth in Greece. Troika introduced a range of austerity reforms and implemented them in the form of economic adjustment programs as preconditions for disbursement of loans. Loans issued under economic adjustment policies are similar to credit disbursed under structural adjustment policies. In this section of this thesis, I present economic adjustment policies or austerity measures designed by Troika to restore fiscal balance, reduced debt and promote economic growth hence development. Economic adjustment reforms are divided into two; that is first and second economic adjustment policies.

#### **4.2.1 First Economic Adjustment Policies**

Troika was born on the 25th of March 2010 out of the ingenuity of Eurozone heads of states. It was a product of three bodies; the European Commission, European Central Bank and the IMF. It has a dual commitment to supervise disbursement of loans alongside the implementation of economic adjustment or austerity policies. Adjustment policies proposed by Troika were outlined in the “Memorandum of Understanding on Specific Economic Policy and Conditionality.”<sup>91</sup> On the 2nd of May 2010, Greece entered into an agreement with Troika for assistance. Greece was

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<sup>91</sup> Syndicate of European Trade Union (2010). The Functioning of Troika. *European Trade Union Confederation Brussels* pp 2 - (It’s important to note here that troika is neither a lending nor a financial institution. It is a supervisory body whose function is to guide the disbursement of bilateral loans decided by the unanimity among euro member states)

the first country in the Eurozone to receive a bailout package under Troika's financial assistance program. In May 2010, Troika agreed with other Eurozone countries to disburse 80 billion Euros as bilateral loan to Greece.<sup>92</sup> The loans were issued under the supervision of the European Commission. IMF further committed an additional 30 billion Euro under a standby agreement.<sup>93</sup> The first bailout package covered a period of three years and was issued in installments. A quarterly review process by Troika ensured the full implementation of economic adjustment policies. Eurozone countries that provided loans to crisis wrecked economies contributed according to the ratio of their contribution to ECB. Core economies Like Germany were main contributors to the Greek bailout package.<sup>94</sup>

Troika established strong policies to regulate countries that received bailout packages from the ECB, IMF, and other Euro member states. The decisions to approve a loan to governments facing economic crisis had three main features; first of all, Troika had to approve the loan before disbursement were made; secondly receiving governments had to accept direct responsibility for the repayment of loans; thirdly loans disbursed under Troika's financial assistance program automatically became part of public debts. These decisions were outlined in a "Memorandum of Understanding on Specific Economic Policy and Conditionality."<sup>95</sup> Troika further provided key economic adjustment reforms as preconditions for the disbursement of installment on loans. The main objective of the first economic adjustment policy was

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<sup>92</sup> European Commission (May,2010). Economic Adjustment Program for Greece. *Directorate-General for Economic and Financial Affairs; Occasional Papers No. 61 PP 21*

<sup>93</sup> IMF Country Report (May 2010). Report on A Standby-Agreement. *International Monetary Fund Washington D.C No 10 pp 7*

<sup>94</sup> Alogoskoufis G (2012). Greek Sovereign Debt Crisis Retrospect and Prospect Hellenic Observatory. *European Institute No 54 pp 33*

<sup>95</sup> OXFAM Report (Sept 2013). The cause of Austerity and Inequality; Case study Greece; *OXFAM Publication on Policy and Practice*, pp 34

to restore fiscal consolidation, improve competitiveness and promote economic growth.

Conditions associated with fiscal consolidation aims at reducing government expenditure whilst increasing government revenue. In August 2010, a bill to cut public wages was instituted in order to reduce public expenditure. EAP instituted cumulative cuts in nominal wages in the public sector alongside with salaries of employees in state own enterprises by 30%. The Greek parliament in collaboration with Troika introduced a number of reforms to modernize public administration. Greek authorities merged administrative district units and municipalities in order to reduce operating cost. As a result, investment reduced by 500 million euro in 2010.<sup>96</sup> In the following year the Greek government intensified the implementation of fiscal consolidation reforms, additional deduction in average monthly salaries were imposed on Greek civil servants, the government adopted new policies to replace only 20% of retired employees in the public sector. In 2011, Troika together with Greek public officials continued with the reduction of funds allocated for domestic investment. The Greek government gave priority to investment projects financed by EU structural funds. In 2011-2013, special levies imposed on high profitable firms generated at least 600 million euros while revenue collected from the violation of land-use amounted to 1500 million.<sup>97</sup>

EAP instituted cuts in health sector; pharmaceutical policies reduced government expenditure in drugs from 3.9 billion to 2.5 billion in 2010. Law number 3580/2010

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<sup>96</sup> European Commission ( August, 2010). First Economic Adjustment Review for Greece; *European Commission Directorate-General for Economic and Financial Affairs*; Occasional Papers No. 68PP 19

<sup>97</sup> European Commission (August 2010). Ibid

introduced an institutional framework that required the need to minimize cost in hospitals. In 2011 the Greek government further strengthened its policies when government introduced limits in the number of private hospitals in each municipality. The Greek parliament in close consultation with EC, ECB and IMF designed pension plans that limited increased public spending on pension. Economic adjustment reforms increased retirement ages in Greece to 65 years for both men and women and reduced pension benefits by 6% every year. The minimum period for workers to contribute for pension increased from 37years to 40 years.<sup>98</sup> Tax reforms; EAP in Greece improved the collection of taxes; Value added tax (VAT) increased from 19% to 23%. In 2011, a broad based value added tax yielded about 1000 million Euros to the state. The introduction of the “Green tax” on carbon dioxide emission generated at least 300 million Euros in 2011. Bank bonuses and financial services experienced increase in taxes. In 2011 additional property taxes included in electricity bills raised revenues that covered about 1% of the country’s GDP.<sup>99</sup> Excise taxes on fuel, alcohol and cigarettes were also raised to 33%. An expansion in real estate taxes generated an additional 500 million Euros in 2011, while the compulsory collection of special taxes in illegal or unauthorized establishments yielded at least 800 million Euros each year between 2011 -2013. Under the first economic adjustments reforms, Greek officials ensured that reduced expenditure in government ministries, local government and social security funds should be formulated with the objective to shrink general budget deficits.

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<sup>98</sup> IMF Country Report (May 2013)First and second review of the second Economic Adjustment Programme. *International Monetary Fund Washington D.C* No pp133-116

<sup>99</sup> IMF Country Report (May 2013). Ibid pp 117-130

Troika chastised the Greek government to introduce growth and market competitive policies that are in line with EU competitive rules. Competitive policies aimed at promoting foreign direct investment and modernizing strategic sectors like information communication technology (ICT). In 2010, the Greek parliament revised investment laws in Greece to promote economic growth through foreign direct investment and export promotion. In a bid to step up market competition and the sale of Greek products in the Euro markets, Troika insisted on the need to reduce labour cost on wages through deregulation of labour markets with wide decentralization of wage bargaining alongside a decrease in other non-wage labour cost. The Greek parliament set up flexible reforms for wage bargaining and management in the private sector.<sup>100</sup> The purpose of this reform was meant to expand product markets and improve business environments. Thus, the first EAP in Greece was designed to curb extreme macro-economic imbalances, huge fiscal deficits, large gap in competitiveness and productivity coupled with rigid markets.<sup>101</sup>

#### **4.2.2 Second Economic Adjustment Program**

In the beginning of 2010, the European Commission, the European Central Bank and the International Monetary Fund working as the Troika, provided assistance to Greece in a bid to bring its economy towards sustainability. During the first economic adjustment program, Greece made major fiscal adjustments under extremely difficult conditions. In 2012, the Greek crisis became a more severe economic recession than expected with increasing unemployment and inflation. The Greek economy faced political uncertainty with the possibility of Greece leaving the

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<sup>100</sup> European Commission (Oct, 2010). Firth Economic Adjustment Review for Greece; *European Commission Directorate-General for Economic and Financial Affairs*; Occasional Papers No. 86PP 121

<sup>101</sup> [http://ec.europa.eu/economy\\_finance/publications/](http://ec.europa.eu/economy_finance/publications/). NOTE- The first EAP in Greece was eventually reduced by 2.7 billion euro because Slovakia did not contribute to the Greek loan agreement whilst Portugal and Ireland decline because they were also in need of financial assistance

Eurozone. Exacerbated problems in the banking sectors with increased capital flight and desiccated liquidity in Greek markets made it difficult for insolvent companies to get loans and attract investment. Thus, despite the first economic adjustment programs, Greece still faced challenges with significant differences in competitiveness and huge public debt.<sup>102</sup>

On the 17th of March 2012, IMF and the European commission settled the terms for the second bail out packages for the debt-riddled Greece. In the 2nd EAP, Greece agreed with European financial stability Facility (EFSF) and IMF to issue the undisbursed loan under the first EAP plus an additional 130 billion Euros for the period of 2012 to 2014. The European Financial Stability Facility (EFSF) was authorized to disburse loans to private sectors. A total amount of 144.7 billion Euros was placed under the supervision of EFSF while the IMF contributed a standby rescue package of 28 billion Euros for the period of 4 years. (2012-2016). On the 27th of November 2012, the European commission formally approved the second adjustment reforms with the belief that its full implantation will restore the Eurozone and Greece's public debt into a growth path with 124% GDP by 2020. It was on the bases of the November 2012 approval that the European commission authorized EFSF to release the first installment of 49.1 billion Euros. *Issued loans were spelled out in a Memorandum of Understanding on Specific Economic Policy and Conditionality.*<sup>103</sup> Economic reforms that bind the second economic adjustment

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<sup>102</sup> OXFAM Report (Sept 2013) The cause of Austerity and Inequality; Case study Greece; *OXFAM Publication on Policy and Practice*, pp 36

<sup>103</sup> European Commission Report ( March 2012) second Greek Economic Adjustment Programme For Greece; *European Commission Directorate-General for Economic and Financial Affairs; Occasional Papers No 94* pp6



program were supervised by the Euro group officials together with Troika.<sup>104</sup> They agreed in February and November 2012 to fully implement measures that aimed to meet a target of 105% extra income in GDP by 2014. A wide range of conditions attached to the disbursement of loans to stimulate economic growth and development included; Fiscal consolidation policies; in order to ensure fiscal sustainability and increase in growth rates, Eurozone financial ministers in consultation with EC, ECB, and the IMF emphasized on the need for severe fiscal consolidation measures prior to disbursement of loans. Troika compelled Eurozone countries to sign and ratify intergovernmental the treaty on stability coordination and governance. The treaty introduced national budgetary rules and enforcement mechanisms at the European level. The process of budget preparation and implementation mandated the Eurozone government to implement fixed expenditure limits. In response, the Greek government submitted to the parliament a fiscal strategic plan for the period 2012-2018, which targets cuts in public expenditure of at least 320 million euro. The fiscal strategy plan targets cuts in public expenditure in mainly areas such as local governments, health sectors and state owned enterprises.<sup>105</sup>

In consultation with EC, ECB and IMF, stakeholders in Greece reviewed the tax policy proposed by Troika prior to disbursement of second austerity packages. The main objective of tax policies underlined in the second adjustment program was to restore fiscal balance. VAT raised state revenues to the sum of 230 million in 2014 with an additional 115 million Euros that has been voted in the omnibus law as target

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<sup>104</sup> Euro group, it's a group of 18 finance ministers in the Eurozone, it exercise political and economic control over the Economic and Monetary Union added with the Stability and Growth Pact. It is currently chaired by the Dutch finance minister JeroenDijsselbloem.

<sup>105</sup> European Commission Report ( March 2012) second Greek Economic Adjustment Programme For Greece; *European Commission Directorate-General for Economic and Financial Affairs; Occasional Papers No 94 pp 8*

for 2015.<sup>106</sup> The second adjustment program brought in innovations in property taxes under law number 4223/2013. Increase in property taxes was uniformly applicable on all real estates in Greece. In April 2014, the Greek government launched a massive campaign to educate the population on the importance of revenues derived from property tax. The government strengthened the implementation of tax policies with the use of compulsory identification tax numbers for all official transactions under Greek's public administration. The enforcement of tax policies under the second structural reform has been the duty of the secretariat for public revenue, financial crime unit, and financial and economic police in Greece.<sup>107</sup>

The EC, ECB and IMF introduced a series of privatization policies in Greece; they authorized the Hellenic Republic Asset Development Fund (HRADF) to supervise privatization policies. Representatives of the Troika took appropriate steps to safeguard the independence and the functioning of HRADF. The major function of HRADF is to administer the sale of public asset to meet projected amounts set for debt repayment. In case of shortages in privatization proceeds to meet the financial needs and burdens of debt ratios, Troika mandated additional cuts in government expenditures.<sup>108</sup> As concerns cash management and debt servicing policies, troika obliged Greece to establish a debt servicing and cash management account. In effect, Greece under law number 4063/2012 implemented a debt servicing account to monitor cash flows, avoid diversion of public funds and secure timely repayment of debts. The law stressed the fact that revenues paid to the account cannot be used for

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<sup>106</sup> IMF Country Report (May 2014) Third review of the second Economic Adjustment Programme. *International Monetary Fund Washington D.C* No14 pp133-142

<sup>107</sup> European Commission; Report on Greece's Compliance as the Milestones for the disbursement June 2014; available on [http://ec.europa.eu/economy\\_finance/publications/](http://ec.europa.eu/economy_finance/publications/) Accessed on 16/12/2014

<sup>108</sup> IMF Country Report (May 2013) First and second review of the second Economic Adjustment Programme *International Monetary Fund Washington D.C* No pp133-116

any other purpose than the repayment of loans. The proceeds of the account come from loans issued under European Financial stability Facility (EFSF), sale of public asset by Hellenic Republic Asset Development Fund, and at least 30% of foreign aids.<sup>109</sup>

The second economic adjustment policies revised government employment and remuneration policies to be consistent with plans of fiscal sustainability and economic growth. A comprehensive review included the elimination of non-wage benefits such as, leave allowance and travel allowance. In 2013 EAP introduced a limit on the number of employees who were assigned to top positions. The probation period for new staff was extended to 2 years. In an effort to reduce government spending on public administration and foster effective functioning of the public sector, Greek public officials introduced a cumulative exit scheme. In 2013, the scheme targeted the departure of 4000 public personnel from the Greek public sector through accelerated efforts in disciplinary cases or voluntary withdrawal from public administration as a result of reduction in wages. Since 2010, efforts were on track to reduce employment in the public sector by 150,000 workers in 2015. A system put in place to meet this objective is guided by strict disciplinary actions, violations of public rules, elimination of redundant positions and dismissal in situations of in-competencies.<sup>110</sup>

Greece continues to implement stringent measures in the health sector with the aim to minimize cost and maximize efficiency. In March 2012, law number 4053

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<sup>109</sup> IMF Country Report (May 2013) Ibid pp 113

<sup>110</sup> European Commission (2014) Fourth Review of second Economic Adjustment Programme For Greece; *European Commission Directorate-General for Economic and Financial Affairs; Occasional Papers* No 192 pp pp205

reorganized the structure and management of National Health Systems in Greece with the objective to reduce the operating cost. The law optimized the distribution of health facilities such as scanners, and radiotherapy equipment on the basis of needs. In 2013, Greece reduced public spending on pharmaceuticals in line with minimum rate for Eurozone states. The minimum rate for EU countries is fixed at 1% of a country's GDP, but in 2013 public expenditure on pharmaceuticals stood at 1.5% of GDP and in 2014 it stood at 1.3% of the country's GDP.<sup>111</sup> Education action plan under the second economic adjustment policies impose external evaluation and auditing of school directors in primary, secondary and higher education. Evaluation and auditing of public schools are done in September and February each year to ensure proper accountability.<sup>112</sup>

It is important to note that the formation of Troika and the implementation of austerity measures are not unique to Greece. Neoliberal- austerity policies constitute the main reforms used by EC, IMF, and ECB to restore fiscal sustainability and promote economic growth in crisis affected economies in the Eurozone. On the 27th of July 2012 EC, ECB, IMF and European Bank Authority (EBA) responded to a request to the Spanish government for external financial assistance. EAP in Spain recapitalized financial and state institutions under the supervision of Troika.<sup>113</sup> On the 4th of July 2012, Troika representatives agreed with European Financial Stability Fund to disburse 100 billion Euros as loans. The Memorandum of Understanding marked out conditions for the disbursement of loans. It stipulated conditions for the

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<sup>111</sup> IMF Country Report (2014) Firth and second review of the second Economic Adjustment Programme. *International Monetary Fund Washington D.C* No pp152

<sup>112</sup> New York Times (6th Oct 2014) Greece's Draft Budget Aims to Ease Austerity

<sup>113</sup> Recapitalization is a process through which the amount of debt in a particular country or entity is readjusted to meet specific financial objectives. The process of readjusting debts normally target financial institutions, business corporations, and state institutions. In the case of Spain the objective of recapitalization was to ensure financial sustainability.

restructuring of financial markets. Similarly, in response to a request from the Cyprus government on 25 June 2012, the European commission, the European Central Bank and International Monetary Fund agreed on EAP with Cypriot public officials. In April 2013, economic adjustment reforms were officially approved and implemented in Cyprus with the aim to address fiscal and structural challenges in a decisive way that will enable the country to return to a path of sustainable economic growth. In Cyprus it runs from 2013-2016. Adjustment reforms or austerity measures have been a phenomenal economic policy for Eurozone economies caught in the web of sovereign debt. In Portugal, GDP dropped from 10.2% in 2009 to 9.9% in 2010.

In 2012, the Portuguese public debt stood at 124% of its GDP while its budget deficit stood at 6.4%. The country faced severe financial and economic crisis as it witnessed most of its giant companies running out of business. In response to the crisis, Troika's financial assistance program provided bail and relief packages under strict conditions for the periods of 2011-2014. A total of 78 billion Euros as loans was agreed between Euro group representatives, IMF and Portuguese officials. In effect, in 2012 Portugal adopted adjustment reforms such as increase in VAT from 19% to 23%, and reduction in minimum wage rate to 485 Euros per month. Hence, since the beginning of the Eurozone slump, crisis affected economies in the Eurozone have been obliged to take drastic steps to consolidate their finances and reduce budget deficits. Despite strong public opposition and largely damaging effects on human development, these countries are still bound to internationally recommended reforms on spending cuts and structural readjustments. However the unanswered question remains, what role does economic adjustment or austerity play on human

development indicators? The answer to this question is the subject of discussion in the next chapter.

### **4.3 Conclusion**

To sum it up, the Eurozone crisis in modern Greece today reveals the shortcoming of neoliberal development policies adopted by successive governments in Greece. The global financial crisis in 2007 and 2008 acted as a trigger that set the snow ball of debt rolling across Eurozone with a sharp decline in living standards. Fiscal deadlock in Greece started about 30 years ago when the newly elected socialist government in the 80s rejected the Keynesian economic model and instituted neoliberal policies with the aim of securing financial sustainability and economic growth. But this proved to be inadequate because cuts in government spending and wages in order to raise government revenues, budget surplus and stimulate economic growth had regressive effects on human development. The Greek government has always relied heavily on foreign borrowings or loans. Statistics reveal that gradual increase in public debt depicts the weakness inherent in the Greek approach from the 1980s up to 2009. The reasons behind the crisis are inherent in the political and institutional model of development introduced in the global economy from 1980 -2009.

Economic adjustment policies or austerity measures are the major reforms implemented in Greece after 2009. Economic adjustment programs issued conditional loans to Greece and other crisis wreaked economies in the Eurozone. The conditions for disbursement of loans are similar to those implemented by structural adjustment policies in the 1980s and 1990s. The ultimate goal of SAP and EAP is to maintain budget surplus and promote economic growth and development through neoliberal policies of macro-economic stabilization, fiscal consolidation, and

deregulation of labour, privatization, and taxation reforms. Budget deficits are not expected to exceed 3% of the GDP and debts should not go beyond 60% of the country's GDP as per EU rules. It is important to note that the creation of Troika and the implementation of austerity measures are not unique to Greece. Neoliberal-austerity policies constitute the main reforms used by EC, IMF, and ECB to restore fiscal sustainability and promote economic growth in crisis affected economies. In the Eurozone, austerity measures have been adopted in Spain, Portugal, Italy, and Cyprus.

## **Chapter 5**

# **AN ANALYSIS OF THE POST-CRISIS POLICIES FROM THE PERSPECTIVE OF HUMAN DEVELOPMENT APPROACH**

### **5.1 Introduction**

The analysis in this chapter seeks to answer the research question “what is the impact of austerity measures implemented in Greece in the aftermath of the 2009 crisis on human development indicators?” Since 2010, Greece has been implementing austerity measures as proposed by Troika. The implementation of austerity measures is aimed at reducing debts and budget deficits whilst increasing economic growth as stipulated in the Economic adjustment programs and in the Memorandum of Understanding on Specific Economic Policy and Conditionality. The chapter examines the role played by austerity policies on human development indicators as defined by the capability and human development approach added with Millennium Development goals. Emphasis will be laid on human development indicators set out in the human development index such as life expectancy or health, education and incomes. The purpose is to assess the impact of neoliberal-austerity policies on human development indicators. Hence, the investigation in this chapter will specifically establish if austerity reforms produce progressive or regressive outcomes on human development indicators in Greece.

The chapter begins by identifying the main elements of neoliberal model of development and its related problems in Greece. It summarizes the main idea of



neoliberal approach and its take on development. The chapter notes that the dominant characteristics of the neoliberal model of development in Greece centers on market oriented economic growth with a related notion of achieving such growth through fiscal consolidation and expanding it through a system of trickle-down effects. My analysis identified the problems associated with this neoliberal model of development. This section determines the effects neoliberal-austerity has on the fulfillment of capabilities set out in the HDI and MDG. Hence what has been the impact of austerity measures on human development indicators such as having adequate income, accessing education and having high life expectancy, being employed, eradicating extreme poverty and hunger, promoting gender equality, reducing child mortality by  $\frac{2}{3}$ , reducing maternal mortality by  $\frac{3}{4}$ , to combat HIV/AIDS, malaria, and other diseases, ensuring environmental sustainability and expanding a global partnership for development. In order to ensure that the analysis in this research produces inferences with high internal validity, the second part of this chapter highlights the implementation of austerity measures in crisis afflicted economies like Spain, Italy, and Portugal that have experienced similar outcomes to those witnessed in Greece. Similar failures will show that the effect of austerity measures in Greece is typical in the Eurozone and not unique.

## **5.2 Elements of Neoliberal Model of Development in Greece and its Related Problems**

Economic adjustment programs heightened the implementation of neoliberal-austerity policies in Greece after 2009. Economic adjustment programs in Greece enforce economic growth through compulsory policies on fiscal consolidation which oblige Greece to adopt restrictive economic reforms to ensure that budget deficit should not exceed 3% of GDP and government debt should not exceed 60% of GDP

as well. All attempts to maintain debts and deficit levels below the stipulated limits even at the cost of human wellbeing obviously revealed that the basic purpose of development in Greece is to advance the richness of the economy rather than the richness of human life. The main element of the neoliberal model of development in Greece lies on the market oriented economic growth model which shares a common objective to move countries away from self-directed models of national development that focus on domestic markets towards models of development that emphasize complete integration with global economic structures of trade, finance, and production within the Eurozone. Euro group and Greek officials believe that development paradigms which place emphases on free market economic systems in the Eurozone will enable distribution and allocation of resources in the society towards efficient and equitable outcomes. Their views are supported by the neoliberal presupposition that free markets characterized by structural and economic adjustment policies like deregulation of labour, liberalization of capital, fiscal consolidation, public expenditure reforms, and privatization of state owned enterprises leads to increase in productivity, budget surplus and economic growth that will trickle down to the poor. But the supporters of neoliberal policies on market oriented economic growth models failed to assess the impact neoliberal policies posed on human development indicators in Greece.

The codifiers of neoliberal ideologies on market oriented growth models believe that liberal economies enable wealth to be shared around for the collective good of everyone in the society. They underpinned that when economic growth is attained high income earners gain an increase in salary and everyone in the economy benefits from increased income and wealth. This depicts the concept of 'trickle-down' effect.

In the Eurozone and Greece, global economic structures of trade, finance, and production in free market economies aim at promoting economic growth. The codifiers of neoliberal ideology suggests that growth will be achieved through the disbursement of loans with the intention to increase profits and stimulate economic prosperity which will trickle down to workers in the form of salary increase and to consumers in the form of low prices.<sup>114</sup> Paradoxically, the concept of trickle-down effect increases the gap between the rich and the poor. Neoliberal austerity policies on fiscal consolidation which aims at saving the Greek economy from accumulated debts and budget deficit destroys social bonds that constitute an essential part of human development. Neoliberal market oriented growth model and its related notion on trickle down effects is based on a dominant discourse of survival for the fittest, which ignores individual capabilities and basic needs in the society. It marginalizes disabled individuals, old age, sick, unemployed, and vulnerable persons.

The Human Development Approach expressed in the theoretical framework of this study stresses that focus should be on alternative combinations of valuable things individuals possess the ability to do, rather than on increase in resources (GDP) and budget surplus. This will enable policy makers to shift their unit of analyses from growth in economy to one based on the wellbeing of human beings. This approach regards human beings and not economic growth as end product of development. The Human Development Approach indicates that focus on resources, gross domestic product and fiscal consolidation excludes consideration of the differences in individuals' actual abilities to convert resources into valuable outcomes.<sup>115</sup> For

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<sup>114</sup> Thearlen J (2009). Beyond the North South Divide; The two Tales of World Poverty. *Third World Quarterly Journal*, Vol 20, No 4, pp 723-742

<sup>115</sup> Subramanian D. Verdi M et al (2013) Bringing Sen Capability Approach to Work and Human resource practices; *Springer U.S Vol 34 Issue 4* pp 292

example two people with the same vision of the good life and the same bundle of resources may not be equally able to achieve that life. Individuals differ in their ability to convert resources such as income into welfare. Thus, a disabled person may need extra medical and transport facilities to achieve the same level of welfare a person who is not disabled can achieve. Expanding economic growth and development through a system of trickle-down effect enabled resources to be distributed away from the sick and disabled to the benefit of people who are more efficient. The Human Development Approach rejects the neoliberal practice in Greece that achievements in some domains compensate for shortfalls in others. The approach argues here that if people are falling short on a particular functioning, that has been collectively agreed as a valuable indicator for good life, and justice would require addressing the shortfall through expansion of individual capabilities rather than offering compensation.<sup>116</sup>

However, neoliberal approach to development implemented through its related policies on austerity measures in Greece have produced inadvertent outcomes on human development indicators specified in the Human Development Approach. In an effort to explicitly establish the impact of austerity measures on human development in Greece after 2009, I will examine the impact of austerity measures on HDI and MDGs in Greece.

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<sup>116</sup> Sen A. 1989. Development as Capability Expansion; *Journal of Development Planning* pp 41- 58

## **5.3 Impact of Austerity Measures on Human Development**

### **Indicators in Greece After 2009**

The implementation of austerity policies in 2008 greatly affected HDI as set out by Mahbub ul Haq in his human development approach. The first Part of this analysis will focus on three major indicators identified by Mahbub ul Haq in the human development reports. These indicators included incomes, education and health.

The determination to reduce labour cost in Greece through cuts in incomes and wages after 2009 proved to hurt workers. It placed incomes and wage labourers in a relatively weaker position in the Eurozone while capital owners benefited. It created a wide inequality gap that was further expanded by the increase in the broad base VAT from 19% to 23%. The implementation of VAT presented a regressive form of taxation that inexplicably affected those with lower incomes who tend to spend a greater proportion of their incomes on taxes. Though the enforcement of the value added tax to some extent was easy to raise revenue, it however ignored the damaging and corrupt levels of tax avoidance and tax evasion associated with its usage among multinational corporations. In this way, austerity measures set a motion for a formidable uneven distribution of incomes. It weakened the mechanisms used in preventing inequality in Greece. Tripled property taxes for foreigners, and elimination of additional incentives placed on income taxes meant a substantial percentage of household incomes were to be spent on taxes. The introduction of special property taxes in electricity bills coupled with an increase in real estate taxes and the compulsory use of tax identification for all official transactions affected household incomes and purchasing power in Greece. In this way neoliberal austerity reforms regressively affected the income which constitutes a core indicator in the

human development Index set out Mahbub ul Haq in his human development approach.

After 2009, austerity measures revised health reforms to meet the objectives of fiscal consolidation. In this section, I analyze the effects of austerity measures on health care conditions in Greece. The question one seeks to answer below is, did austerity measures meet the rhetoric of maintaining universal access to health care and improve health conditions as?

Neoliberal austerity measures adversely affected the capability to live a healthy life. Austerity measures instituted in the health sector reduced public spending in health by 12.5% in 2012 as compared to 7% in 2009. Spending in the health sector was less than the average rates for other Eurozone economies like Germany, Netherlands, and Belgium. Troika designed EAP that instituted cuts on pharmaceutical spending and health management. Public hospitals were merged and some closed in cities like Athens and Thessaloniki. The number of health workers like Doctors, nurses and cleaners drastically reduced. Public health centers reduced the purchase of hospital beds alongside other health equipment. Greek hospitals had minimum number of hospital beds below the average rate for EU countries.

Reduction of public spending in the health sector affected the quality of health care offered to the Greek population, it took place at a time when demand for Greek health care systems immensely increased due to cuts in incomes and increasing economic hardship.<sup>117</sup> Reports from a fact finding mission presented by Greek

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<sup>117</sup> Kentikelenis et al (2014). Greece Health Crisis; From Austerity to Denialism; *Esclver Science*, Vol 383 issue 9918 pp 6

doctors indicated that the rationale for increasing refusals and postponement of important surgical operations were due to inadequate hospital beds added to other important medical facilities like Scanners and radiography.<sup>118</sup> Thus, this made it difficult for important operations such as heart surgery or cancer to be effectively carried out. Reducing nurses in a bit to curb public expenses in the health sector worsened the health standard of Greek population. Before the burst in 2009, Greece was already facing shortage in nurses. By the end of 2010, the country had the least ratio of nurses per inhabitant in Europe. The average rate stood at 3.3 nurses per 1000 patients. While the estimated EU average was 7.8 nurses per 1000 patients, limited supply of nurses adversely affected the availability of proper health care in Greece.<sup>119</sup>

Austerity measures introduced cuts in essential health programs such as prevention and treatment programs that were associated with illegal drug usage which witnessed huge budget reduction in the period of increasing economic hardship. Consequently, from 2010 Greece witnessed increasing rates in the use of heroin in strategic touristic centers in Athens. Reports from the International Foundation of Human Rights (FIDH) and psychologist working with drug users indicated that cuts in illicit drug and treatment programs injuriously affected the vulnerable Population like youths and other unemployed persons in Greece. The international Foundation on Human Rights noted a sharp increase in HIV infection among drug addicts. Austerity measures reduced access to basic health programs and led to the re-emergence of

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<sup>118</sup> European Commission; Report on Greece's Compliance as the Milestones for the disbursement June 2014; available on [http://ec.europa.eu/economy\\_finance/publications/](http://ec.europa.eu/economy_finance/publications/) Accessed on 16/12/2014

<sup>119</sup> Kentikelenis, A. et al. (2011). Health effects of financial crisis: omens of a Greek tragedy. *The Lancet*, 378(9801), 1457-1458.

diseases that had not been experienced in the country for a long time.<sup>120</sup> In 2013, medical reports revealed the prevalence of infected diseases such as tuberculosis that had been formally considered as extinct. Further findings showed the outbreak of the malaria parasite for the first time in 40 years due to cuts in preventive health programs such as spraying and distribution of mosquito nets.<sup>121</sup>

Austerity measures further revealed the existence of a deteriorating effect on mental health care in Greece; economic adjustments policies scaled back mental health services, shutdown mental health clinics, reduced staff and deleted plans for development in psychiatric and mental rehabilitation centers for children. State funding for mental clinics reduced by 20% and 55% in 2011 and 2012 respectively. Austerity measures greatly constrained the capacity of mental health clinics to effectively meet up with increasing health demand of 12% in the past 3 years. Cuts in mental health programs were instituted at a time of increasing need for mental services. The spread of economic hardship increased the prevalence of depression and the re-emergence of diseases that had not been experienced in the country for a long time.<sup>122</sup> Greek psychiatrists lamented on the deteriorating effects austerity measures imposed on mental health status. In 2011, economic distress greatly contributed as a leading cause to increasing number of suicides and deaths. In 2011, the Greek minister of health announced 36% rise in suicide rates between 2009 - 2011.

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<sup>120</sup> EMCDDA (2013). Report on the recent outbreak of HIV infections among drug injectors in Greece; available on <http://www.ektepn.gr/en/> accessed (15 Jan 2015)

<sup>121</sup> EKTEPN (2010). Annual report on the state of the drugs and alcohol problem. available on <http://www.ektepn.gr/en/> accessed on (15 Jan 2015)

<sup>122</sup> EMCDDA (2013). Ibid



The 2009 economic recession posed risks to health sectors but fiscal austerity and economic shocks coupled with weak social protection further escalated health and social problems in Greece. Austerity policies greatly worsened health standards in Greece; ministerial decision 944/11/ 8-08-2011 mandated uninsured women who are mostly unemployed to pay 600euros for cost of normal delivery, and 1200 euros for caesarean operation.<sup>123</sup> Non EU nationals who were uninsured were charged almost double the amount paid by EU nationals. Charges were instituted to all ante-natal tests and as a result women were bound to give birth without any prior test or doctor's appointment. Women who were unable to pay were forced to pay through tax bills, while those who violated payment rules were not issued birth certificates for their babies and their belongings were confiscated until the bills were subsequently paid.

Neoliberal-austerity impeded life expectancy in Greece. Cuts in incomes associated with economic adjustment policies indirectly affected children and pregnant women. Shrinking family household incomes raised the proportion of children at risk of poverty. Children were inadequately nourished, and in 2012 the United Nations committee on the Rights of a Child indicated limited access to proper health care for Greek children. A Recent result in the human development report indicated 19% increase in the number of underweight babies at birth between 2012-2014.<sup>124</sup> An upsurge in still births in recent years has been mainly due to limited access to

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<sup>123</sup> European commission (May2012). Second Review of the Second Greek Economic Adjustment Programme. *European Commission Directorate-General for Economic and Financial Affairs; Occasional Papers* No 98 pp 196

<sup>124</sup> Ifanti A, Argyriou A et al (2013) Financial crisis and austerity measures in Greece: Their impact on health promotion policies and public health care. *European Journal of Political Research*. Vol 113 pp 8

prenatal health services for pregnant women.<sup>125</sup> Rising rates of postnatal death is mainly due deteriorating socio economic condition in Greece. Increasing unemployment in a country where health insurance was linked to work status made it difficult for substantial percentages of uninsured persons to access health services. In March 2014, the European Parliament underlined the fact that job and budget cuts regressively affected Greek public sectors such as public health and education. The Human Development Approach expressed in the theoretical framework of this research underlines the need to grant the Greek government more flexibility in its decision on budget allocation and savings. Thus the deteriorating effect of austerity measures on healthcare questions its moral significance on the wellbeing of the Greek population.

Austerity measures also affected the educational sector in Greece. Conditions attached to first economic adjustment polices imposed the reduction of educational spending in Greece by 33% while an additional 14% cuts was included in the second bailout agreement.<sup>126</sup> In order to meet up with Troika's plan of reduced spending in public education, Greece's Ministry of National Education reduced the number of full time instructors and covered up vacancies through increase in workload for those who were retained under the full time payment scheme. An increase in the ratio of student per instructor undesirably affected the performance of students and lowered the standard of education in Greece. Several cuts in educational budgets made it difficult for institutions to procure heating systems in winter. Cuts in research grants

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<sup>125</sup> Still birth is understood as the birth of a child who died in the womb after having lived through the first 28 weeks of pregnancy for example a miscarriage; this is synonymous to neonatal death. While postnatal death falls within the period immediately after the birth of a child and spreads for about six weeks

<sup>126</sup> IMF Country Report (May 2013). First and second review of the Second Economic Adjustment Programme. *International Monetary Fund Washington D.C* No pp133-116

and conference participation funding led to closure of some research institutes. Limited research funding diminished the capabilities of researchers to invent or innovate new research findings. Austerity reforms also had a considerable effect on students in higher education because cuts in family incomes made it difficult for parents to independently fund the cost of education for their children and increased number of school dropouts, slowed down the educational development of Greek children and served as an avenue for social inequality.<sup>127</sup>

### **5.3.1 Graphical illustration of Human Development Index in Greece**

The impact of austerity measures on income, health and education as explained above can be best illustrated using the Human Development Index for Greece. The table below shows the data of HDI in Greece before and after the implementation of austerity policies. Between the periods of 1980 to 2010 Greece's HDI increase rapidly from 0.714 to 0.856. However, after the implementation of austerity policies in 2010 the Greek HDI witnessed a declining trend. Between the periods of 2010 to 2013 HDI value in Greece dropped from 0.856 to 0.853. The United Nations Human Development Report reveals that Greece is experiencing stagnant or declining trend in HDI for the first time in the past 34 years. The reasons for this decline can be better understood through austerity policies of fiscal consolidation as explained above.

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<sup>127</sup> Kentikelenis et al (2014) Greece Health Crisis; From Austerity to Denialism. *Esclver Science*. Vol 383 issue 9918 pp 6

Table 2: Greece's HDI trends based on consistent time series data

	Life expectancy at birth	Expected years of schooling	Mean years of schooling	GNI per capita (2011 PPP\$)	HDI value
1980	73.7	11.7	6.6	21,022	0.713
1985	75.1	12.7	7.3	19,793	0.739
1990	76.6	12.0	7.9	21,095	0.749
1995	77.8	13.1	8.2	21,545	0.771
2000	78.5	14.2	8.6	24,334	0.798
2005	79.4	16.8	9.8	28,627	0.853
2010	80.2	16.5	10.2	27,831	0.856
2011	80.4	16.5	10.2	26,261	0.854
2012	80.6	16.5	10.2	25,507	0.854
2013	80.8	16.5	10.2	24,658	0.853

Source; United Nations Human Development Report

Figure 1 shows a graphical illustration of each HDI in Greece. Before the crisis education percentage of Greeks going to school increased and after the implementation of austerity reforms the number of Greek nationals going to school remained stagnant. The stagnant result witnessed in the number of Greek nationals going to school for the first time in 34 years shows the effects cuts in educational spending and high cost of privatized institutions had on the Greek population. In a related trend income levels increase rapidly before 2010, but after 2010 the curve plummeted due to the drop in incomes and wages.

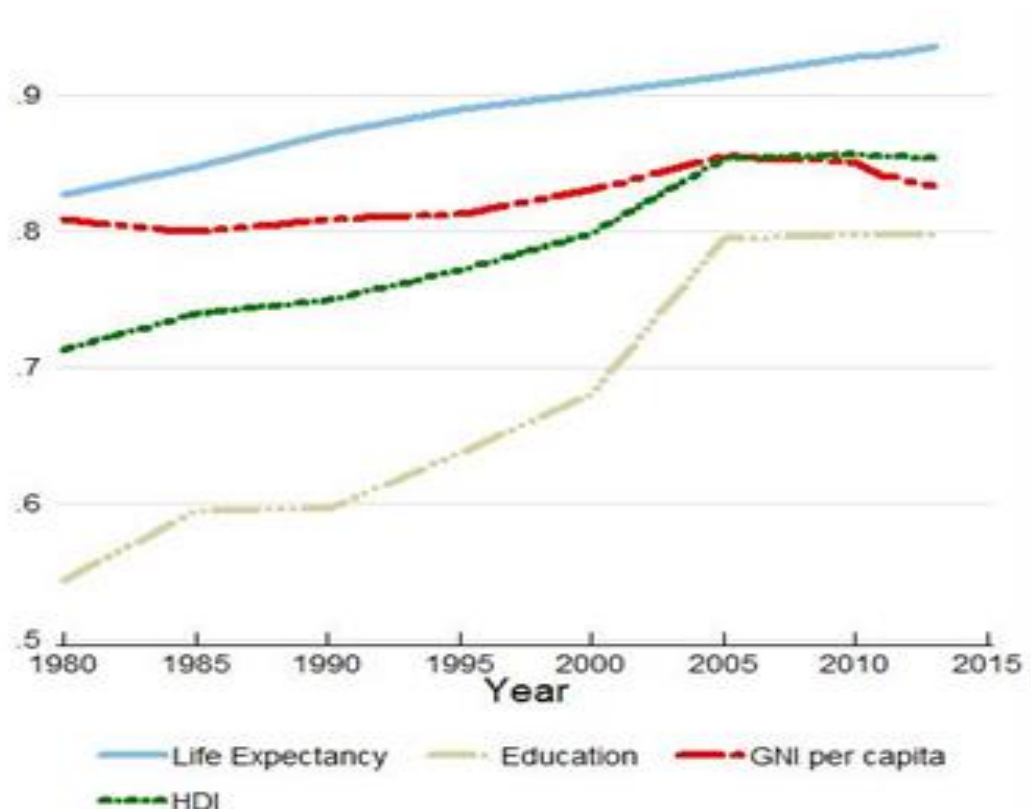


Figure 1: Graphical illustration of HDI in Greece  
 Source: United Nations Human Development Report

Mahbub ul Haq established a conceptual framework between human development and Millennium Development Goals (MDG). Millennium development goals functions as a component of human development as it aimed at promoting the wellbeing of people. In the following paragraphs I explain how austerity reforms affects human development indicators set out in the Millennium Development goals.

The implementation of austerity policies in Greece after 2009 also affected the desire to reduce unemployment, extreme hunger and poverty as set out in the MDG. The Eurozone crisis in modern Greece produced high unemployment rates, but the implementation of austerity reforms exacerbated unemployment rates for both men and women. In 2008, unemployment rates for women stood at 5.1% and that for men stood at 11.4% while the average rate for 27 EU member states was 6.6% for men

and 7.6% for women. The introduction of austerity measures in 2010 established conditions that triggered exacerbating unemployment rates. One year after the implementation of austerity reforms, unemployment figures in Greece increased to 21.4% for men and 28% for women, and by January 2013, the average unemployment rates for both men and women had increased to 27.2%, that is about 1,348,742 persons.<sup>128</sup>



Figure 2: Unemployment rates In Greece

Source: AMECO – The Annual Macroeconomic Database (European Commission, Economic and Financial Affairs).

The reasons for the rising unemployment illustrated in figure 2 above can be best answered using public administrative reforms designed by Troika. After the burst in 2008, Troika and Greek officials instituted series of economic adjustment reforms

<sup>128</sup> European Commission Report ( March 2012). Second Greek Economic Adjustment Program For Greece; *European Commission Directorate-General for Economic and Financial Affairs; Occasional Papers No 94 pp6*

that aimed to curb government spending in public administration through cumulative exit schemes. Such schemes targeted the forceful departure of public personnel either through strict disciplinary sanctions or through voluntary withdrawal from public service due to severe cuts in wages coupled with elimination of redundant positions. Since 2010, economic adjustment programs introduced policies to reduce employment in public service by 150,000 workers in 2015.<sup>129</sup> In 2011, 42,000 employees left the public sector through retirement and only 12,600 were newly recruited to replace them. In early 2013, Troika authorized the immediate dismissal of 12,500 workers as a precondition for further disbursement of bailout packages scheduled for July that year.<sup>130</sup> By the end of 2013, cumulative exit programs forcefully reduced substantial amount of workers from Greece's' public service. Economic adjustment policies revised government employment and remuneration guidelines to be consistent with plans for fiscal consolidation. These policies increased unemployment, inequality and poverty in Greece. A comprehensive review included cuts in wages, elimination of non-wage benefits such as leave allowance, and travel allowance.

In the heart of economic depression, Greece experienced social decomposition. The social sector was the target of cuts in wages and employment. Severe reduction and inconsistent payment of social safety nets increased social exclusion and deteriorated conditions of unemployed persons. In January 2013, out of 1,348,742 unemployed

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<sup>129</sup> European Commission (2014). Fourth Review of second Economic Adjustment Programme For Greece. *European Commission Directorate-General for Economic and Financial Affairs; Occasional Papers No 192* pp pp205

<sup>130</sup> Matsaganis Manos (2013) The Greek Crisis; Social Impact and Policy Responses. *Journal of Friedrich Ebert Stiftung-Germany* pp 7

persons, only 230,560 were granted unemployment benefits.<sup>131</sup> Benefits were paid only to insured workers while a majority of new young employees together with long term unemployed personnel were excluded. Austerity measures failed to guarantee a minimum income scheme for Greek workers. In previous decades, pensions had been an important area of social expenditure and constituted a core component of social protection. It covered 24.1% of disposable household incomes.<sup>132</sup> Increasing aging population in the Eurozone meant that pension expenditures as a proportion of national income were expected to increase. Ironically in 2010, Troika's planned limited public spending on pensions; the Greek government instituted annual cuts in pension budgets by 6% while the minimum period for workers to contribute for pension increased from 37-40years. Further cuts in pension benefits coupled non-payment of accumulated pension worsened the living standard of the aging population whose disposable incomes depended on pension funds.<sup>133</sup>

Gender equality, violence against women and development are strongly interconnected. The Human Development Approach and its related indicators on Millennium Development Goals include gender equality and violence against women as one of its main indicators for development. It is important to note that the implementation of austerity reforms such as intense cut in incomes, massive layoffs and restricted access to social benefits unfavorably affected the position of women and the progress of gender equality in Greece. Austerity heightened gender based violence against women; such violence included domestic violence, sexual

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<sup>131</sup> Rüdiger, W and Karyotis, G. (2014). Who Protests in Greece? Mass Opposition to Austerity. *British Journal of Political Science*. Vol 44, Issue 3 PP 8-12

<sup>132</sup> Hellenic Statistical Authority (2013). Living Conditions in Greece. Available on [http://www.statistics.gr/portal/page/portal/ESYE/bucket/General/LivingConditionsInGreece\\_0413.pdf](http://www.statistics.gr/portal/page/portal/ESYE/bucket/General/LivingConditionsInGreece_0413.pdf) accessed on 17th Jan 2015

<sup>133</sup> Matsaganis M.(2013). The Greek Crisis; Social Impact and Policy Responses. *Journal of Friedrich Ebert Stiftung-Germany* pp 12



harassment, rape, and violence against women in community, family and police custody. Gender inequality manifested itself as a result of disproportionate job losses in the public sector and cuts in public services involving a greater percentage of women. Loss in socio economic autonomy among women compelled them to be more vulnerable and dependent on their abusive male partners. In 2013, findings from the Hellenic society on human sexuality and Andrology institute in Athens studied 1000 telephone interviews on domestic violence. The results revealed an increase in domestic violence against women by 47% and among those who perpetrated such violence, 44% were unemployed males while other major offenders constituted cases with increased financial obligations, job stress and low sexual activity. Other major forms of domestic violence inflicted against women included verbal abuse that increased by 72%, beatings 23% and rape 18%.<sup>134</sup>

The position of women in the labour market was further weakened in 2011 when Troika's liberalization of labour reforms converted a substantial amount of full time labour contracts in the public and private sectors into part time contracts. The introduction of a single payment grading scheme for all workers in the public sector made it easy to enforce cuts in public sector salaries by 25%. A list to lay off workers from some occupations in the private and public sector was released. Plans to curb employments in the public sector were in process; about 180,000 thousand workers were laid off from occupations in which they works like sectaries, cleaners, stylist and supermarket cashiers. These laid off workers were predominantly women. An increase in retirement ages for women from 50 to 65 years coupled with cuts in pension benefits with no counter measures to support motherhood led to increasing

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<sup>134</sup> Devaki K.(2013). Policy on Gender Equality in Greece. *European Parliament Policy Development, Citizens Rights and constitutional Affairs*, Vol 33 pp20

rise in poverty and social exclusion.<sup>135</sup> Hence, austerity policies widened the gap of gender differentials, heightened poverty and increased social exclusion for women. In 2011, 30% of women aged 65 years and above faced poverty and social exclusion as compared to 23% for men. Austerity measures truncated services designed to end violence against women in Greece.<sup>136</sup>

Neoliberal austerity reforms in Greece affected the global partnership for development as emphasized by MDG in the human development approach. The Eurozone crises fundamentally changed migration patterns in Greece. Before the crisis, many citizens from Central and Eastern European countries moved to Greece, and other peripheral countries within the Eurozone. After 2010, the pattern of migration changed with increasing numbers of migrants moving from the periphery to the core. The economic crisis in Greece heightened as the introduction of austerity measures buried the country in a quagmire of debt. It left millions of citizens jobless and triggered a new wave of migration from peripheral to core economies in the Eurozone like Germany and France as well as the United States. Greeks were increasingly moving to northern Europe. Studies carried out by the Organization for Economic Cooperation and Development reveals that Unemployment rates and austerity reforms erode living standards in southern Europe. According to reports from OECD, the number of Greeks moving to Germany between 2010 and 2013 increased by 70% while Spanish and Portuguese migration increased by 50%.<sup>137</sup> On the 1st of June 2013, the Secretary General of OECD Angel Guerra noted “the number of migrating skilled workers from crisis-hit economies has risen and it’s

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<sup>135</sup> Devaki K. (2013). Ibid. pp30

<sup>136</sup> Matsaganis M. (2013) Supra pp 27

<sup>137</sup> Joint Report From United Nations Department of Economic and Social Affairs (UNDESA) and Organization For Economic Cooperation and Development; World Migration in Figures available on <http://www.oecd.org/> accessed (on 20th Jan 2015)

weighing on economic recovery. This is a brain drain which has long term consequences.” Before the crisis, Greek citizens preferred to stay in their home country in search of better jobs, migration rates dropped.<sup>138</sup> After 2010, these trends change with increasing numbers of migrants moving from peripheral economies like Greece and Spain to core economies like Germany and France. This massive movement of educated and skilled elites is a massive loss to the Greek economy with severe long run effects.<sup>139</sup>

It is important to note that austerity measures did not only affect the economy but it has also affected democracy and human rights. It affected the rights of individuals to participate in decision making processes that shape their lives. Participation in policy decisions is a core principle in Mahbub ul Haq Human Development Approach. It emphasizes on empowering people to participate in decision making processes that affect them. It is about the freedom to make decisions in matters that touches their lives. Whether at the level of policy-making or implementation, this principle underpinned that people need to be involved at every stage not merely as beneficiaries but as agents who are able to pursue and realize goals that they value.

In Greece we witnessed a new state of affairs in which the rights of ordinary individuals in matters related to human rights, democracy, and the rule of law have been compromised by Troika a body with no democratic bases. There has been a shift in the way decisions are taken over matters that falls under national sovereignty. Here, a new politico-economic model under a de facto power exercised by supra-

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<sup>138</sup> Reuters New Paper Article( June 2013). Spanish and Greeks move north due to austerity . Available on <http://uk.reuters.com/> accessed on 12th Jan 2015

<sup>139</sup> Bräuninger D. (2014). The dynamics of migration in the euro area. *Deutsche Bank Research Institute Frankfurt Germany*

national forces appears to have progressively substituted the role of nation states. This shift extends far beyond the limits within which Greece legitimately and voluntarily surrendered its sovereignty to supra national forces, primarily the European Union and its Troika representatives.

Greece has experienced four changes in government since as the implantation of austerity policies in 2009. Social unrest led to pre-crisis main parties who supported and negotiated austerity policies with Troika to suffer heavy loss from Greek voters. Despite the condemnation of pro austerity government by Greek nationals, the policies were still imposed on them. Due to disappointed with successive governments, voters sought an alternative means to respond their social frustration. They joined more extremist parties and engaged in protest and demonstrations. Following demonstrations, on 31 October 2011, George Papandreou announced a referendum to enable Greek citizens to approve the debt restructuring deal that the Greek government had formerly reached in a previous EU summit. However, after receiving an ultimatum from other EU leaders to the effect that they would withhold a desperately needed loan to the country unless the people of Greece approved the deal, Papandreou called off the referendum and resigned as Prime Minister. Former European Central Bank Vice-President and technocrat, Lucas Papa demos, was then appointed head of an interim coalition government formed with the aim of implementing the measures agreed with the EU and the IMF. After Papa demos' appointment, the close ties between the EU-IMF Troika, was strikingly evident as Greek political party leaders agreed to sign 'binding letters' in which they committed to the austerity strategy agreed between Greece and the Troika in case of election. However in 2012 43 members of the Greek parliament were expelled from the two

leading parties, PASOK and New Democratia for voting against austerity package approved in February 2012. Thus, electoral failures, constant protest and successive change in pro austerity government since 2009 show the discontent of the Greek people in policies that affects their lives. Troika's compelled austerity policies associated with threats to expel Greece from the European Union violates the sovereignty and socio-economic rights of Greek nationals, and in-turn slows economic recovery in Greece.

#### **5.4 Austerity Typical of the Eurozone**

Austerity measures in Greece exhibits characteristics and parallel effects found in other Eurozone crisis wrecked economies that adopt austerity; analogous results experience in Spain, Portugal and Italy reveals that the case of Greece is typical and not unique. The implementation of austerity measures in Spain produced parallel outcomes to that experienced in Greece. On the 23 July 2012, a Memorandum of Understanding signed between Spain and European Commission marked out conditions for the disbursement of loans. In an effort to attain the desired level of economic growth, the Spanish government instituted cuts in government expenditures and increase in government revenues with the objective to curb budget deficit by 6.3% of GDP in 2012 and 4.5% in 2013. Increase in VAT from 19% to 23% coupled with additional increase in property taxes plunged the Spanish economy to an unprecedented surge in retail prices. Increase in retail prices without a corresponding increase in income affected purchasing power and made conditions miserable for retailers in Spain. Cuts in incomes, wages and employment in the public sector discouraged consumption and investment in Spain. In 2012,

unemployment was 20% and by 2013 it stood at 26%.<sup>140</sup> Reduction in welfare programs such as education and health left homeless children malnourished and increased poverty in children to 30% in 2012.

In a related trend, in October 2011 a few months after an electoral victory, the Portuguese Prime Minister Pedro Passes Coelho after a bail request from Troika accentuated that Portugal will only get out of its current predicaments in the Eurozone by becoming poorer. As part of the bailout program, the Portuguese government agreed with Troika to cut expenditure in health care, education and social security. Steps were taken to ensure the implementation of macro-economic stabilization programs. By 2012, the economy failed to meet up Troika's objective of fiscal consolidation and debts increase to 124% of GDP. Unemployment rates were 15.6% and government efforts to further reduce jobs in the public sector by 30,000 increased unemployment rates to 16.4% in 2013. Economic adjustment programs in Portugal reduced minimum wage rates to 485Euros per month while unemployment benefits were fixed to least 18 months.<sup>141</sup> Many workers in the public sector experienced a decline in incomes due to four percent increase in the standard rates of income taxes. Unemployment led to increasing numbers of Portuguese migrating to oil booming Angola and other countries.<sup>142</sup> The number of people who received aid

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<sup>140</sup> Center for Economic and Social Rights (Jan 2015). Spain: Austerity Driving Poverty, Growing Inequality and Human Rights Deterioration available on <http://www.cesr.org/> accessed on 20th Jan 2015.

<sup>141</sup> L. Ball et al (2013). The Distributional Effects of Fiscal Consolidation. Available on <http://www.imf.org/external/pubs/cat/longres.aspx?sk=40699> accessed on 19th Jan 2015

<sup>142</sup> Emigration refers to movement from one's country to live in a different country while Immigration is to come into a different country to live permanently. The choice between emigrate, immigrate, and migrate depends on the sentence's point of view

from Portuguese Food Bank gradually increased from 209,445 in 2011 to 329,176 in 2013.<sup>143</sup>

The Italian economy was also caught in the web of the sovereign debt crisis. The economy stagnated with increasing debts above the limit stipulated in the Maastricht treaty for Eurozone countries. By 2010, the Italian government had incurred debt over 110% of its GDP. In the preceding year, the Italian economy witnessed high rates of bankruptcies and liquidations.<sup>144</sup> Being the third largest economy in the Eurozone, Italian technocrats considered the economy too big to be bailed. The possibility of requesting a rescue loan from Troika to redress the sovereign debt crisis was not welcomed by Italian technocrats. However, the Italian PM Mario Monti subsequently announced austerity policies that aimed to contract the economy and sustain economic growth.<sup>145</sup> Fiscal consolidation reforms were adopted with a 21% increase in VAT coupled with the introduction of extra property taxes. Deep cuts in social spending at local and national levels regressively affected household disposable incomes and the capability to live a good life, to be well nourished, to have adequate shelter and health services in Italy.<sup>146</sup>

The analysis of this research aligns with a contemporary discourse on development. Mahbub ul Haq one of the most influential philosophers on the Capability Approach and UNDP emphasized that focus on human beings provides a revolutionary way to

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<sup>143</sup> L. Ball et al (2013) *ibid*

<sup>144</sup> Italian Institute of Statistics (ISTAT) (2012). Reports. Available on <http://www3.istat.it/> accessed on 18<sup>th</sup> Jan 2015

<sup>145</sup> See D. J. Elliot (2011). Italy: Definitely too big to bail. [http://money.cnn.com/2011/11/09/news/international/italy\\_crisis\\_bail/index.htm](http://money.cnn.com/2011/11/09/news/international/italy_crisis_bail/index.htm) accessed on (16th Jan 2015)

<sup>146</sup> National Institute for Social Security in Italy (INPS), (2014). Available on <http://www.inps.it/portale/default.aspx> accessed on 18th Jan 2015

establish a conventional paradigm on development. Poverty and development should not just be limited to economic indicators, rather it should comprise of ethical and sociological dimensions. A poor person is not just one who is hungry but also one who is oppressed, humiliated and manipulated.<sup>147</sup> Troika's neoliberal-austerity policies manipulate, oppress and humiliate Greek people. According to the UN, the fight against poverty cannot be achieved if it is limited to economic growth, rather the struggle against poverty should be based on the improvement of social cohesion which demands higher equality for all before the law and higher participation of individuals in the decision that shapes their lives.<sup>148</sup>

This thesis argues that increased economic growth in GNP and increase in budget surplus should not be considered as an end product of development but rather as a means towards an end. Increase in GNP should be regarded as a means that can be used to attain the flourishing human well-being and what matters is whether such means actually improves human welfare.<sup>149</sup> The capability approach looks at income and wages as a vital indicator for human development; it evaluates income as a means to other ends in human development. Incomes needs to be envisaged as a means that leads to good life since the conversion of incomes to proper living standards includes different types of contingencies that leads to systematic disparities. People have diverse needs with unequal physical characteristics connected with disability, age and gender. Hence, a sick person will need more income to fight her illness as compared to a healthy person without such an illness. Also, environmental diversities such as climatic conditions like temperature, rainfall

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<sup>147</sup> UN,(1995). *Ethical and Spiritual Dimensions of Social Progress*. New York: United Nations, p 38

<sup>148</sup> UNDP,(1997) Human Development Report pp 3

<sup>149</sup> Sen A. (2004). Capabilities, Lists, and Public Reason: *Journal of International Development* vol 9 pp 240-245



and flooding equally influence a person's specific level of income. Most importantly, the allocation of personal incomes and resources needs to be influenced by social conditions such as health, education and the prevalence of violence in a particular location.<sup>150</sup> It is important to note here that income distribution is considered as a means towards human flourishing and not an end, thus focusing on the quality of life, rather than just income enhances the process of human development. The importance of incomes as an indicator for human development is circumstantially dependent and not categorically intrinsic as assumed by neoliberal scholars.<sup>151</sup>

## **5.5 Conclusion**

The inferences drawn from the above analysis adequately answers the research question and hypothesis presented in this research. It reveals that neoliberal austerity measures have a negative effect on the human development indicators in Greece. Austerity measures undermined the HDI and MDG set out in the human development approach. The implementation of austerity measures to resolve problems of budget deficit and accumulated debts in GDP has led to an appalling damage in Greece. It plays a great part in the ongoing economic instability in the Eurozone; it reveals a costly mistake on human development in Greece. This study accentuates the need for an alternative framework to the neoliberal approach of development which establishes human wellbeing as an indicator of development rather than market led economic growth.

The capability and human development approach produced a holistic development model that embraces all aspects of development such as human and economic

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<sup>150</sup> Sen K A. (1997). From income inequality to economic Inequality; *Southern Economic Journal* pp 384-390

<sup>151</sup> Sen K A. (1997) *ibid* 393

indicators of development, through investments, people's empowerment, and provision of basic needs, cultural and political freedom and other aspects that are democratically reasonable to increase human well-being. Indicators related to economic growth should be assessed as a means towards human flourishing and not an end itself, and what matters is whether the process by which policies are implemented can be justifiable on moral grounds. The human development approach rejects neoliberal development policies in Greece that narrowly define development solely in terms of economic growth in GNP, and budget deficits. The concept of human development as prescribed by the capability approach and UNDP should be seen as a holistic one that advances the richness of human life and the richness of the economy. The human development approach is an extensive systematic theory that relates to all features of societies that promote human functioning. It serves as a better yard stick for assessing the progress of nations in the Eurozone and Greece in particular.

Restrictive economic policies such as austerity measures, that limit self-respect and access to fundamental indicators for human flourishing is considered as scandalous deprivation, hence poverty. Those affected by restrictive economic policies are required to be actively involved in deciding what counts as valuable capabilities. Individuals are regarded as active participants in the development process rather than passive spectators. Each individual is seen as a dignified and responsible human being who shapes his or her own life in the light of goals that matter rather than being shaped and instructed on how to think. There is the need to grant the Greek government more flexibility in its decision on budget allocation and savings. Countries that prioritize social protection in the midst of economic hardship will

ignite economic stimulus and secure better outcomes for their population. Troika and Greek officials need to find a sustainable solution to restructure Greek debt. Policy makers should adopt a stimulus program to promote investments and capital spending, and generate growth mediated and growth supported developments paths.

Studies from the universities of Stanford and Oxford reveal that, countries like Austria and Finland that freely adopted economic stimulus in response to the sovereign debt crisis without constraints from Troika, witnessed the fastest economic recovery and development on the contrary cuts in government expenditure on investment and human development indicators prolonged recession.<sup>152</sup> Hence this thesis challenges the theory that underlines austerity measures as a response to crisis management and development in Greece and the Eurozone.

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<sup>152</sup> Stuckler, D., & Basu, S. (2013). *The body economic: why austerity kills*. Basic Books.- Studies from the Universities of Oxford and Stanford reveal that increase in government expenditure in Sweden, Japan, Germany and Finland, led to speedy economic recovery; on the contrary, cutting expenditure prolongs recession. These Experts maintained that reduction public debt does not spur up economic growth.

## **Chapter 6**

### **CONCLUSION**

In this concluding chapter, I will try to pull the strings together. In this thesis, I analyzed the role played by austerity measures on human development indicators as defined by the Human Development Approach. The analysis focused on post crisis Greece. In this chapter, I will first summarize the Eurozone and Greek crisis and austerity measures implemented in post crisis Greece. I will then proceed with a summary of the shortcomings of austerity measures in Greece.

The second section of this chapter provides answers to the research question “What has been the impact of austerity measures implemented in Greece in the aftermath of the 2009 crisis on human development indicators?” It includes a brief summary of the ravages of economic adjustment or austerity policies. I will further establish if the impacts of austerity measures supports the hypothesis formulated in the introduction of this thesis which stipulated that “Neoliberal austerity reforms tend to be regressive on human development indicators in Greece.” I will continue to indicate that the effects of austerity measures experienced in Greece is typical of the Eurozone and not unique. I will then provide a conclusion on the methodological choices. That is how the methodology supports the findings in this thesis. In the final section of this chapter I will present the thesis’ main contribution to knowledge.

In 2009, Eurozone economies faced an unprecedented sovereign debt crisis. Eurozone member states witnessed one of the greatest slumps since its existence with the burst of a multi-year debt crisis. The Greek economy was one of the Eurozone member states hit by the crisis. Its economy was confronted with huge budget deficits and accumulated debts as well as increasing unemployment and poverty rates. In an effort to alleviate poverty and foster development in the wake of the Eurozone crisis, Greece became one of the first Eurozone member countries to introduce austerity measures. Austerity measures are directed by Troika and implemented in the form of economic adjustment programs in the Eurozone and Greece.

Austerity measures or economic adjustment programs in Greece are inspired by neoliberal development principles stipulated at the Washington consensus of 1989. Neoliberal development principles implemented through austerity measures or economic adjustment programs in Greece include macro-economic stabilization reforms, public expenditure reforms, tax reforms, exchange rate reforms, fiscal consolidation, deregulation of labour, trade liberalization, privatization, liberalization of foreign direct investment and property right reforms. These policies focused on promoting development in Greece through reduction of accumulated debts and budget deficit. Troika and Greek officials emphasized that limited budget deficit or budget surplus will stimulate economic growth hence development.

The main element of the neoliberal model of development in Greece lies on market oriented economic growth model which shares a common objective to move countries away from self-directed models of national development that focus on

domestic markets towards models of development that emphasize (on) complete integration with global economic structures of trade, finance, and production within the Eurozone. Troika and Greek officials believe that development paradigms characterized by economic adjustment or austerity policies like deregulation of labour, liberalization of capital, fiscal consolidation, public expenditure reforms, and privatization of state owned enterprises will lead to increase in productivity, budget surplus and economic growth that will trickle down to the poor with efficient and equitable outcomes.

This thesis identified the major shortcomings associated with the neoliberal framework of development that equates development with market participation. The major shortcomings of the neoliberal development paradigm in the Eurozone and Greece rest on the rigid neoliberal belief that all individuals participating in a free competitive market will earn the best return that will increase total outputs and there is no need for state institutions to ensure the protection of social welfare and income distribution. The neoliberal framework argued that, a free market economy leads to superior economic efficiency, while unemployment and income protection are not required in a free and self-regulated market. Neoliberalism and its related policies on austerity is supported by the concept of the trickle-down effect which underpinned the notion that an increase in the overall output will lead to an overall increase in the standard of living since the poor will be able to benefit from improved economic opportunities.<sup>153</sup>

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<sup>153</sup> Salvadori, N. (Ed.). (2003). *The Theory of Economic Growth: A Classical Perspective*. Edward Elgar Publishing.

However, this research shows that, this neoliberal ideology widens the gap between the rich and the poor because it helps to increase the wealth and incomes of the rich at the detriment of the poor. Austerity measures reduced long-term commitment of the state to social provision and created more market-driven forms of social support. Social protection shifted from public to private sectors, and the private sectors were encouraged to invest in health and educational sectors. This widened inequality in human development with the upper and wealthier middle classes being able to afford the high costs of private schools and health provision. The poorer majority has been left to fend for themselves within an under-funded and poor-quality public service. Neoliberal market oriented growth model and its related notion on trickle down effects is based on a dominant discourse of survival for the fittest, which ignores individual opportunities, and basic needs in the society. It marginalizes disabled individuals, old age, sick, unemployed, poor and vulnerable persons.

Also, neoliberal austerity policies on fiscal consolidation which introduced cuts in incomes, wages, education and pensions with the aim to reduce accumulated debts and stimulate economic growth, destroyed social bonds that constitute an essential part of human development in Greece. In times of crisis, neoliberal policies of deregulation of labour and trade liberalization limit government ability to design policies that will help improve the needs of the poor. All attempts by Troika to maintain debts and deficit levels below the limits stipulated in economic adjustment programs even at the cost of human wellbeing indicated that the basic purpose of development in Greece was to advance the richness of the economy in which people live rather than the richness of human life. The codifiers of the neoliberal ideology act as expert designers of an attractive ideological philosophy for friendly markets in

the Eurozone. Over emphasis on development through economic growth most especially at the cost of human welfare make sense to think of neoliberalism as an economic ideology which focuses more on the development of the economy at the detriment of human development indicators outlined in the HDI and MDG.

The analysis presented in this research conclusively answers the research question “What has been the impact of austerity measures implemented in Greece in the aftermath of the 2009 crisis on human development indicators?” The ravages of economic adjustment policies on human development indicators set out in the Human Development Index and Millennium Development Goals evidently revealed that austerity measures limited access to fundamental human development indicators. Reduction in health spending and increasing fees in health services accounted for the limited access to health services and the lowest increase in life expectancy after the implementation of austerity reforms. Equally the stagnant result witnessed in the number of Greek nationals going to school for the first time in 34 years shows the effects cuts in educational spending and high cost of privatized institutions had on Greek nationals. Increase in value added tax coupled with the institution of special property taxes greatly contributed to the massive drop in incomes as illustrated in the HDI. Thus, drop in household disposable incomes significantly contributed to the declining standard of living experienced in Greece after the implementation of austerity reforms.

Mahbub ul Haq established a conceptual framework between human development and Millennium Development Goals (MDG). Millennium development goals functions as a component of human development as it aimed at promoting the



wellbeing of people. The implementation of austerity policies in Greece after 2009 also affected human development indicators set out in the Millennium Development Goals. Austerity weakened conditions set out to reduce unemployment, extreme hunger and poverty, to promote gender equality, reduce child mortality by  $\frac{2}{3}$ , and reduce maternal mortality by  $\frac{3}{4}$ , to combat HIV/AIDS, malaria, and other diseases, to ensure environmental sustainability and to expand a global partnership for development. Austerity heightened gender based violence against women; such violence included domestic violence, sexual harassment, rape, and violence against women in community, family and police custody. Gender inequality manifested itself as a result of disproportionate job losses in the public sector and cuts in public services involving a greater percentage of women. Loss in socio economic autonomy among women compelled them to be more vulnerable and dependent on their abusive male partners. This research argues that there exists a credible causal relationship between austerity policies and human development indicators set out in the MDGs. The deteriorating outcome experienced in development indicators set out in the human development approach supports the hypothesis adopted in the introduction of this thesis that “Neoliberal-austerity tend to be regressive on human development indicators in Greece.” Neoliberal austerity policies which aimed at saving the Greek economy from accumulated debts and budget deficit destroyed the social bonds that constitute an essential part of human development.

EU leaders embraced severe austerity policies to contain the sovereign debt crisis, but austerity tend to worsen the problems in Greece. Fiscal consolidation is not expansionary; it slows “economic growth” depresses tax receipts and enlarges government deficit. Former president of the European Central Bank Jean-Claude

Trichet strongly argued that “fiscal consolidation prompts an expansionary growth.” In practical terms, fiscal consolidation failed in Greece. The big danger in fiscal consolidation is that it creates a regressive growth where falling investment, demand and unemployment triggers deteriorating tax revenues and budget deficit.

Accelerated budget deficits and accumulated debts experienced after 2009 reveal that austerity measures failed in its own terms to promote economic growth and in another dimension to foster human development in Greece.<sup>154</sup> It is important to point out here that, economic growth may be necessary for development if Troika representatives view it as a means to an end and not an end itself. Economic growth will improve poverty and inequality when Eurozone policy makers circumvent austerity and fiscal consolidation and implement “growth mediated” and “growth supported” development models.<sup>155</sup> Growth mediated development is a broad based measure of economic growth which enables the expansion of basic indicators such as increasing investments, employment, incomes, and wages while growth supported-led development emboldens better social and welfare programs that support health, education and social security

The impact of neoliberal austerity reforms on human development indicators in Greece evidently indicates that, all efforts directed at the Eurozone crisis is focused on saving the economic and financial system while neglecting the effects suffered by individuals as a result of austerity policies. Troika, a group of financial institutions with no democratic basis are dictating neoliberal austerity policies with disruptive social effects on unemployment, education, health etc. Greek politicians tend to be

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<sup>154</sup> Schwartz B. (2012). Europe's so-called "Expansionary Contraction" Has Not Worked in Practice available <http://www.brookings.edu/research/opinions> accessed on 23/03/2015

<sup>155</sup> Dreze, J. and Sen, A.K. (1989). *Hunger and Public Action*. Oxford: Clarendon Press. Pp 15

more concerned with how they are viewed and evaluated by bailout institutions than by the citizens they represent. It is of course true that economic and financial stability is required for the maintenance of welfare state, but when national officials tend to ignore the discontent of a substantial percentage of the population, they face the danger of losing their democratic legitimacy and individuals are subsequently compelled to express their discontent in one way or the other. This therefore accounts for the rise of protest movements during the enforcement of austerity measures in Greece (Golden Dawn Party far-right sentiments) Spain (Movimiento) and Italy (the Five Star Movement of Beppe Grillo).<sup>156</sup>

Findings from this thesis reveal that the implementation of austerity policies in Greece is typical and not unique in the Eurozone. Greece exhibits similar characteristics found in other Eurozone economies that adopt austerity; analogous results experienced in Spain, Portugal, Italy and Cyprus revealed that the case of Greece is typical and not unique. However, the gravity of the effects varies within Eurozone economies and it depends on the level of implementation of Troika's policies and the extent to which Eurozone economies are exposed to shocks of austerity. An economy with highly implemented economic adjustment policies accompanied by severe cuts in wages, incomes and unemployment is more exposed to the shocks of austerity. This accounts for the reasons why the outcome experienced in Greece is more severe as compared to other Eurozone economies. Hence, the regressive effects of austerity policies in Greece are typical of the Eurozone and not unique.

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<sup>156</sup> Braber D. C. (2013). Introduction of Capability Approach In Social Work Across Neoliberal Europe. *Journal of Social Intervention; Theory and Practice* - 2013- Volume 22, Issue 4, pp.61–67

## **6.1 Methodological conclusion**

The methodology used in this thesis is grounded in theory and its theoretical analysis on neoliberalism and the Human Development Approach adopts deductive reasoning. The Deductive research method focuses on developing a hypothesis from an existing theory and further designing a research strategy to test the hypothesis.<sup>157</sup> Hence, the deductive research approach explores a given theory and tests if the theory is valid in a specific circumstance. In the same way, this thesis conceded a theory guided hypothesis which states that: “Neoliberal austerity reforms tend to be regressive on human development indicators in Greece.” In order to test the hypothesis of this research, I analyzed the theory of neoliberalism from the perspective of human development approach to determine if it has negative impacts on human development indicators set out in the HDI and MDG. Deteriorating outcome experience on indicators set out in the HDI and MDG supports the hypothesis in this study. Hence, this thesis notes that austerity measures and its related policies on development have failed in Greece and the Eurozone, but the practice is still alive and kicking. Most solutions to the Eurozone crisis lies in the spirit of austerity policies, yet austerity does not provide a solution to poverty and development in Greece; it is part of the problem to the crisis that leads to more problems.

## **6.2 Contributions to Knowledge**

This thesis has made significant contributions to knowledge. The idea of invoking theories which assume that economic growth will trickle-down to the poor and

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<sup>157</sup> Bryman, A. (2012). *Social research Methods*. Oxford university press

overcame poverty has proven to have negative impacts on human development.<sup>158</sup> In order to overcome this problem, this thesis recommends Troika and Greek officials to adopt the Human Development Approach which takes a more nuanced understanding of poverty and development. The approach permits a multifaceted evaluation on poverty and development that considers individual choices and opportunities in the process of poverty alleviation. It considers individual diverse abilities with respect to age, gender, disability and health status in the course of development. In this way, the approach enables individuals to be active participants and not passive actors in the process of development. The human development approach also notes that it is the responsibility of state governments to develop policies that protect human development indicators, but this does not imply per definition that policy formulation and implementation is restricted to government intervention. It could be directed to or taken up by non-governmental organizations, private organizations, interest groups or families.<sup>159</sup>

To sum it up, this thesis raised an important argument that contributes to knowledge, the research challenge austerity reforms and its rigid principles of development. It moves away from the conventional wisdom that budget surpluses are sufficient for economic growth and development. It recognized the need for Troika to grant Greek government more flexibility in its decision on budget allocation and savings. Countries that prioritize human capabilities and indicators for development in the midst of economic hardship tend to ignite economic stimulus and secure better outcomes for their population. In order for Troika and Greek officials to find a

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<sup>158</sup> UNDP. (2011). Human Development Reports available: <http://hdr.undp.org/en/humandev/origins/> Accessed 25/03/2015

<sup>159</sup> Alkire, S. (2002). Valuing freedoms: Sen's capability approach and poverty reduction. *OUP Catalogue*.

sustainable solution to the crisis, policy makers should adopt a stimulus program to promote investments and capital spending and generate growth mediated and growth supported- led developments.

Economic growth should be considered as a means to human development. This can be done when economic stimulus is adopted through the process of a social choice exercise as opposed to austerity measures associated with fiscal consolidation, deregulation of labour etc. Redirecting public expenditures on human indicators such as incomes, health, education, will help in the process of development.<sup>160</sup> This thesis further underpinned the need for Troika and Greek officials to reorganize its taxing system and eliminate fiscal disincentives in hiring labour. As such, this study moves away from the conventional wisdom that trade surpluses are necessarily the best policy prescriptions to stimulate economic growth and development.<sup>161</sup> Studies from university of Stanford and Oxford reveal that, countries like Japan and Finland that freely adopted economic stimulus in response to the sovereign debt crisis without constraints from restrictive neoliberal austerity reforms witnessed rapid economic recovery and development.<sup>162</sup> Conversely, cuts in government expenditure on investment and human development indicators prolong recession.<sup>163</sup> To sum it up, this study underpinned the need for Greek officials to adopt capability and Human

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<sup>160</sup> Ranis, G., Stewart, F., & Ramirez, A. (2000). Economic growth and human development. *World development*, 28(2), 197-219.

<sup>161</sup> Alhenc-Gelas, V., Bernard, J. B., Campagne, B., & Fortin, A. (2014). Credit conditions do not seem to amplify the economic cycle in France. *Note de conjoncture*.

<sup>162</sup> Reeves, A., Basu, S., McKee, M., Marmot, M., & Stuckler, D. (2013). Austere or not? UK coalition government budgets and health inequalities. *Journal of the Royal Society of Medicine*, 106(11), 432-436.

<sup>163</sup> Stuckler, D., & Basu, S. (2013). *The body economic: why austerity kills*. Basic Books.- Studies from the Universities of Oxford and Stanford reveal that increase in government expenditure in Sweden, Japan, Germany and Finland, led to speedy economic recovery; on the contrary, cutting expenditure prolongs recession. These Experts maintained that reduction public debt does not spur up economic growth.

development approach coupled with economic stimulus reforms as response to crisis management and a path towards development.

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16/12/2014

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