

The Euro In The Context Of A Democratic Deficit-The Case Of Greece

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Abstract

The article conducts a comparative analysis of the performances of the Western European economies and the Eastern European economies on three different levels 1. Comparison between the performance of the former communist countries and free market economies in a period 1950-1990, 2. Comparison between the performance of the former communist countries in a period 1950-1990, when they were command economies, with the performance in a period after 1990, when they became free market economies, and 3. Comparison between the former communist countries and the Western countries in a period after 1990. The Western European countries were more developed than the Eastern European countries. The least developed Western European country Italy was at the same level of development as the most developed Eastern European country Czechoslovakia. The Western European countries grew faster than the Eastern European countries in a period 1950-1990 with the exception of Yugoslavia. This means that they increased their advantage over the Eastern European countries. Therefore, divergence occurred. In a period 1990-2024, after the transition, the Eastern European countries grew faster than the Western European countries and managed to catch up. Therefore, convergence between the two groups of the countries occurred. The Eastern European countries grew faster in a period 1990-2024 than in a period 1950-1990. This would lead to a conclusion that free market economies have been superior to command economies. However, if qualitative, non-monetary indicators are used, the command economies fared much better in comparison with free market economies than when GDP per capita is used. All of them have had a high Human Development Index. This was the result of excellent health and education system. This is corroborated by the fact that after the transition health and education systems rapidly deteriorated in the former communist countries. Also, differences in distribution of income and wealth dramatically increased, particularly in Russia and Romania. A survey conducted in 2006 asked a simple question: "Life is better now than before". The results of the survey show that a conclusion as regards the satisfaction with life after the transition is inconclusive.

Keywords: Free Market Economy, Command Economy, Convergence, Divergence, Gdp Per Capita (ppp), Human Development Index (hdi).

Introduction

After the WWII, in the age of Keynesianism, democracy flourished in developed countries. This was due to universal franchise and internal democratization of political parties. Things have started changing in the 1980's, after Keynesianism proved powerless in tackling stagflation. The onslaught of neoliberal doctrine was accompanied by excess of economic, especially financial freedom, at the expense of political, personal and professional freedom, sometimes euphemistically called a "democratic deficit" (1). Democratic deficit has had a strong impact on the introduction and the functioning of the euro. It stemmed from

the fact that the power was handed over to unelected and unaccountable technocrats, alienated from citizens and voters(2). In the first decade of its functioning, in an environment of an overall economic prosperity, the euro performed relatively well. Erosion of democracy was concealed. After the credit crunch and the Great Recession illiberal and undemocratic nature of the European Union institutions was fully revealed, culminating in a complete break down in democracy in Greece, the country which was hardest hit by the unfortunate events. This article is concerned with the euro in the context of a democratic deficit. A first chapter deals with a brief history of the introduction of the

euro. A second chapter analyses a neoliberal attack on democracy. A third chapter deals with devastating effects of the policies of the troika's policies (The European Commission, The European Central Bank and the International Monetary Fund) on the Greek economy and society.

A Brief History of the Launch of the Euro

The Treaty of Rome, the constitution of the European Economic Community, envisaged four freedoms; a free flow of goods, a free flow of services, a free movement of capital, and a free movement of labor. A monetary union was not on the agenda. However, an unprecedented economic prosperity triggered discussion about the introduction of a single currency in the mid-1960s. Three main approaches to monetary unification emerged; economists, monetarists and institutionalists.

Economists

Argued that policy harmonization should precede fixing of exchange rates. According to this theoretical approach, the major steps toward monetary integration should not be taken until wage and price changes had converged and structural adaptations to free trade had been completed.

Monetarists

Took the view that the first step towards monetary union should be a permanent fixing of exchange rates between the member countries. This would compel the member nations to coordinate their policies. This would also intensify cooperation between them.

Institutionalists

Argued that the first step towards monetary union should be the development of appropriate institutional infrastructure(3). Practical attempts to create a monetary union were embodied in the Werner Committee Report. This Report was presided by Pierre Werner, the Prime Minister of Luxembourg, which was formed in 1970, and which aimed to speed up economic and monetary unification of the EEC members. The report proposed a plan which envisaged three stages. In the first stage, short-term budget, fiscal and monetary policies were supposed to concentrate. At the same time, credit and monetary restrictions and restrictions in financial markets were supposed to be removed. Also, a common external policy towards non-member countries was envisaged. This stage was supposed to last from 1971 to 1974.

In the second stage, medium-term policies were supposed to harmonise with the establishment of The European Monetary Cooperation Fund, better known under the French acronym FECOM. The fund would collect a portion of foreign reserves and intervene in order to support weaker currencies.

In the third stage, exchange rates should be fixed, and FECOM should evolve into a European Central Bank. This would lead to a common European currency, as well as a full monetary and economic union. This stage was planned to be completed by 1980. According to some economists, the failure of the Werner plan was due to an unsuccessful harmonization of fiscal policies. This process deprives governments of a powerful tool in achieving major macroeconomic objectives, namely full employment, low inflation and external balances. It can work only if it is superseded by a transfer of fiscal powers onto a supranational level.

el. Although the plan envisaged an increase in the Community budget, it fell far short of the levels which would enable a successful implementation of its traditional functions, allocative, redistribution and stabilization. Practical plans for a monetary unification had been interrupted by a host of unfavorable occurrences in the world economy and international finance in the 1970s. They include the suspension of the convertibility of the dollar into gold in 1971, introduction of a flexible exchange rate system in 1973 and quadrupling of the oil prices in 1974 after the Yom Kipur war, which contributed to a stagflation, the unholy marriage between stagnation and inflation. In spite of these difficulties practical steps towards monetary unification had been resumed in 1979, when the European Monetary System was established. The major participants in negotiations regarding the monetary unification at the time were the French President Valery Giscard D'Estaine and the German Prime Minister Helmut Schmidt. They were replaced by Francois Mitterand and Helmut Kohl during the 1980s.

In the first half of the 1980s the French franc was under a tremendous pressure from the deutschmark. France managed to maintain the parity of the French franc to the deutschmark for a period of three years, but at a heavy price in terms of growth and unemployment. Mitterand offered Kohl a deal. France will support the unification of Germany if Germany agrees to renounce the deutschmark (its atomic bomb) and accepts the creation of a single currency. An architect of a technical aspect of a new plan for monetary unification was the French Socialist minister of Finance, Jack Delor. He produced a document in April 1989, which was the crown of deliberations on the issue of a common currency. The Delor Report proposed complete liberalization of capital movements, full integration of financial markets, and irreversible convertibility of currencies and irrevocable fixing of exchange rates. Replacement of national currencies with a single currency was considered just as one of the options. Similar to the Werner Committee Report in 1970, it envisaged a three-stage move to the EMU, starting with closer economic and monetary cooperation. The document was clearest in laying down the need for a new monetary institution to run EMU. It proposed the establishment of a European System of Central Banks (ESCB) on a federal principle, which would consist of a central institution with its own balance sheet and the national central banks. The new institution would be committed to the objective of price stability and would be independent of government influence.

“Exchange rates were supposed to be irrevocably fixed by 1st January 1999, according to the EMU stage 3. They were already fixed in May 1998. Until the end of 1998, the Euro was literally indefinable, and for the rest of the year foreign exchange transactions had to be one of the eleven national currencies. Nevertheless, this was the beginning of the monetary union, although citizens had to wait for another three and a half years before the Euro was launched. At the beginning of 2002, Euro notes and coins were brought into circulation, replacing national currencies in twelve European countries; Ireland, Finland, the Netherlands, Belgium, Luxembourg, Germany, France, Austria, Portugal, Spain, Italy and Greece.”

Although the Werner Report and the Delor Report were not dissimilar in their content they appeared in different economic environments. While the former was produced in the last years of,

what could be called, the age of Keynesianism, the latter was created in what could be called, the age of neo-liberalism.

The main characteristics of “the age of Keynesianism” could be summarized as follows

Unprecedented Economic Prosperity: After WWII, the world economy went through unprecedented prosperity. Three golden, or three glorious decades of the world economy, also known as an upswing of the fourth Kondratieff, witnessed a growth of GDP at an average annual rate of 5.6% and a growth of world trade at an even higher rate of 7.3%. As a result of this, GDP per capita and the living standard quadrupled in the Western European countries. In the words of John Kenneth Galbraith developed countries entered a stage of “an affluent society”. This spectacular economic performance owes its debt to a great extent to a Keynesian revolution in economic theory and policy [4].

The Great Moderation: High growth rates enabled those with no property to earn high incomes and to turn their savings into real and financial assets. This contributed to a decrease in differences in distribution of wealth [5]. A long-term prosperity, progressive taxation, the welfare state and strong trade unions significantly improved the standard of living of the working class and those at the bottom of a society. Tides lifted all boats, but smaller boats were lifted higher. As a result, inequality in a distribution of income significantly decreased. Marx’s prophecy about falling relative wage became obsolete since the share of labour in national income increased. All these factors contributed to “the great moderation”, to use a term coined by Paul Krugman, a Nobel prize winner for Economics in 2008.

Flourishing of Democracy: Two factors contributed to huge advances in democracy after the WWII; universal franchise and democratisation of political parties. A right to vote was restricted for centuries. Up until XX century only wealthy male property owners were allowed to participate in politics. At the time of the Revolution, France had a population of 23 million, out of which only 80,000 had a right to vote. In Italy, in voting for the unification of the country in 1861, only 2% of adults participated in the process. Wealth census was gradually removed as a criterion for voting. Between the two wars some countries allowed women to vote. But it was only after WWII that female participation in politics was endorsed in most of countries, with Switzerland being the last country to open this possibility to women in the Western Europe in 1971. Universal franchise allowed all adults to cast their vote in election and to choose political representatives who will best represent their interests.

In the interwar period, political parties were centralized and bureaucratized with strong hierarchy. There was no practical difference between officially democratic parties and communist parties. After the WWII political parties were formally democratised. In many Western European countries, inner democratisation of political parties was regulated in constitutions and laws which dealt with political parties’ registration. During the 1970s a long-term prosperity came to an end. Keynesianism proved powerless in tackling stagflation.

Expansionary fiscal and monetary policy did not work because of the breakdown of the Philips curve. This created a vacuum, exploited by big corporations and conservative circles in the

USA and the Great Britain, who through Reaganism and Thatcherism conducted a neo-liberal counter-revolution by the end of the 1970's and the beginning of the 1980's. The main pillars of a neo-liberal counter-revolution were liberalisation, privatisation and deregulation. The essence of changes launched by political conservatives revolved around attempts to secure “sound finance” by sacrificing democracy. Policies had been devised to “recreate the “golden age” of 1870-1914 promoted and marketed as “globalisation”. The “neo-liberal” project is the creation of an all-embracing “free” global market for goods, services and capital-but not labour [6].

A Neo-Liberal Attack on Democracy

Neo-liberalist doctrine reversed many gains achieved in the previous three decades. Growth slowed down, inequality has soared, and democracy has been threatened. It is the last development that have had a direct impact on the Euro. The most relevant characteristics of neo-liberalism, relevant to the Euro, which undermined democracy, are liberalisation of financial markets, a central bank independence and lack of transparency.

Liberalisation of Financial Markets

A period from 1945 until 1980 witnessed a shallow globalisation. Trade in goods, particularly trade in manufacturing goods, was liberalised as tariff rates were reduced from 40 per cent to 4 per cent on average. However, capital controls were retained. Capital controls were first removed in the UK, when Margaret Thatcher became the Prime Minister in 1979. Other developed countries followed suit during the 1980s, with Spain and Portugal being the last countries to liberalise financial markets in 1991 and 1992 respectively. According to many theories a free flow of capital is one of the conditions of the optimum currency area. Therefore, financial liberalisation was one of the criteria to be met for the introduction of the euro. Financial liberalisation brought two changes in international capital flows:

1. After the WWII the main source of private long-term capital acquired the form of foreign direct investment. This type of investment had brought many benefits in terms of capital, technology, employment and market access in the first three post-war decades. In the 1980s and especially in the 1990s, FDI increasingly acquired the form of mergers and acquisitions of private and public assets. Multi-national companies have become increasingly powerful and influential in the formulation of public policy. They financed the think tanks and universities which furnished the political directorates of the OECD with the neo-liberal policy agenda of globalisation.
2. Financial liberalisation enabled short-term capital (hot money) to gain significance compared to long-term capital. Movements of hot money are induced by changes and expectations of changes in interest rates and exchange rates. Hot money became highly mobile and completely detached from productive use. Destabilising character of short-term capital prompted some countries such as Sweden to introduce a sort of a Tobin tax, amounting to 0.5 per cent of the value of international capital transactions. This measure backfired, causing a massive flight of capital from Sweden. In the absence of coordinated and unified international tax rate on capital transactions financial markets slipped out of public policies and domestic democratic political control.

Independent Central Banks

Central bank independence refers to the degree to which the central bank has a freedom in setting monetary policy without interference by the government. In that respect, central bank independence is a function of three things: 1. the degree to which the central bank is free in making decisions as regards economic objectives to follow, 2. The degree to which the central bank is free in choosing measures to pursue these objectives, and 3. The degree to which central-bank decisions can be reversed by other branches of government. A fully independent central bank has a full freedom to decide what economic objectives it aims to pursue, which tools to use in order to achieve major macroeconomic objectives, and complete insulation from attempts by other branches of government to reverse its decisions. At the other end of the spectrum lies a fully subordinate central bank. Politically subordinate central banks implement monetary policy on behalf of, and in response to, the government, which determines the goals of monetary policy, instructs the central bank how to set monetary policy to achieve these goals, and can abolish the bank's decisions if they contradict the ones desired by the government. Granting the central bank independence takes monetary policy out of politics. This excludes the possibility of using monetary policy tools to achieve short-term goals. These goals are usually temporary increase in employment, growth rate and salaries and pensions. Instead, independent experts should focus on price stability. Independent central bank is therefore in better position to control inflation than the government [7].

Independent central bank has a theoretical background in the concept of "the long-run vertical Phillips curve", which is sometimes called "the Phelps straight line". According to this theoretical approach there is no long-run trade off between inflation and unemployment. Expansionary monetary policy will shift the demand curve write-ward, increasing output, decreasing unemployment and increasing inflation in the short-run. Being aware that prices have risen and that their real wages have fallen workers will bid for higher wages. This will increase costs of production and shift the supply curve leftwards, returning output and unemployment to a previous level, with further increase in inflation. A net result will be higher prices and the same level of output and unemployment. There is not a long-run trade-off between inflation and unemployment. "Hence, it seems that if monetary policy is left to the politicians, we shall always end up with higher inflation but with no reduction in unemployment, even in the short-run. By passing control over monetary policy to the central bank, the economy ends up with unemployment no different from when the government was in control of monetary policy, but with a lower level of inflation [8].

In addition, proponents of the independent central bank argue that designing, controlling and monitoring of monetary policy should be left to experts. Computer programmes and highly sophisticated mathematical models require huge knowledge and skills. Economics laws are like natural laws, and economists are like physicists. There is not a place for politicians in the field which is a preserve of academics and intellectual elite. Empirical research shows that countries with independent central banks have been more successful in tackling inflation. Germany, Austria and the USA, countries with most independent central banks recorded inflation rates of 4-6%, while Italy, Finland and Sweden, the countries with least independent central banks, re-

corded inflation rates between 8-12% in a period 1969-1995. However, the success in tackling inflation had its costs. Countries with most independent central banks experienced lower growth rates, and via the Okun law, higher unemployment rates. The greatest cost of independent central banks is a loss of democracy. Alan Binder, former member of the Federal Reserve Board, pointed out deeply undemocratic nature of leaving independent central banks out of political control. Assigning to much power to unelected and unaccountable technocrats contradicts some fundamental tenets of democratic theory. A single most important government policy instrument is handed over to technocrats, sacrificing social goals to the interests of a tiny minority.

Lack of transparency

One of the Maastricht criteria, which all countries applying for a membership in the EMU had to meet, was that a fiscal deficit should not exceed 3 per cent of GDP. Luxembourg was the only country which genuinely qualified for the entrance into the monetary union. Other countries, including the big ones, used techniques of creative accounting to massage the figures. One-off receipts were portrayed as permanent income. France, for example, received a payment of E5.7 billion made by the France Telecom pension fund and recorded it as a permanent source revenue to decrease a budget deficit to 3.02 per cent of GDP, which was rounded off to the required 3 per cent. Italy levied a special tax for Europe equal to 10 per cent of personal income in December 1997, which reduced the deficit, although the government promised to refund it at a later date. Even Germany planned to revalue its gold reserves in line with current market price in order to record one-off profit as a permanent income. The Bundesbank prevented it, but hospital debt was successfully "reclassified" to bring a budget deficit to the required level.

The most illustrious example of creative accounting and fraud was Greece. Initially, Greece did not qualify for the entrance into the monetary union. Then, the Greek government struck a deal called Aeolos, named after the Geek god of the winds, with Goldman Sachs, the American bank, which helped Greece to borrow billions recording them as a financial derivative "swap" through financial creative engineering. Goldman Sachs received for that service a fee of \$300 million. Greece promised a fiscal deficit of 3.7 per cent of GDP in 2009. It transpired that it was actually four times higher.

Financial Engineering and Creative Accounting Acquired the Following Forms:

- Keeping expenses out of the books
- Selling government assets and booking them as recurrent receipts
- Blatant exaggeration of expected income from the fight against fiscal and social fraud
- Announcing savings in expenditures that would never materialise, and tax increase that would never become implemented
- Inflating data on nominal GDP so as to make deficit and debt to GDP ratio looks lower than it was [9].

On of the aims of financial engineering and creative accounting was to feed the public with misleading information, portraying the pubic finance sound. In-spite of this confidence in the euro was not impressive. In 2000 53 per cent of Danes and 56 per

cent of Swedes voted against the euro. In the UK 70 per cent of Brits were against the euro. French and Dutch refused the European constitution, while Irish never held the referendum on the euro. Further, 64 per cent of French said they would have voted against the Maastricht treaty if they had been given the opportunity, while 65 per cent of Germans think that they would be better without the euro [10].

Erosion of democracy was, therefore, widespread even before the euro was introduced and in the first decade of its existence when the euro performed relatively well. Further undermining of democratic procedures intensified after the credit crunch. Bailing out the banking sector brought a temporary relief, but was conducted with a blatant violation of the Maastricht criteria in three ways:

- The ECB, which was supposed to be independent, came under increased political pressure
- The ECB started to get involved in financing fiscal deficits
- The ECB started to get involved in bailout programmes

A violation of the EMU “constitution” is a blatant example of trampling on the lawful state, which is one of the major characteristics of undemocratic establishments.

The Greek Drama

Greece’s problems have started in 1981, when the country joined the then European Economic Community. A Greece’s entry into the EEC was forced by a conservative right-wing “New Democracy” and was strongly opposed by the communists and socialists. Immediately after joining the EEC Greek GDP fell by 4 per cent in a period 1981-1983. Greece’s major problem was that it was situated at the periphery of the EEC and that has been entangled in the inter-industry trade rather than intra-industry trade. This meant that Greece exported goods of a lower technological and developmental level and imported goods of a higher technological and developmental level. As a result, Greece’s GDP, which stood at 77 per cent of the EEC average, fell to 62 per cent of the EEC average in 1990 [11].

A second act of the Greek drama, much more ominous than the first one, has started in 1999, when the country failed to meet the Maastricht criteria. Financial engineering and creative accounting helped Greece to “pass the test” and “qualified” in 2001 to adopt the currency, that admittedly should have never entered [12].

In the first decade of the euro’s existence the Greek economy rose at a respectable average annual rate of 4 per cent. The main pillar of this growth was a vigorous rise in consumption. The Greek drachma was converted at a high rate into the euro. Overvaluation of the exchange rate was a deliberate policy, applied in all the peripheral countries, as an anchor against inflation. In addition, inflation rate ranged between 2-4 per cent in the first half of the 2000, and 2-3 per cent in the second half of the 2000, but it was always at a higher limit in the peripheral countries, including Greece.

Overvaluation of the exchange rate at which the drachma was converted into the euro and a higher rate of inflation produced two outcomes; 1. Appreciation of the real exchange rate of the “Greek euro” against the “euros in the core countries”, and 2.

Lower real interest rate in Greece compared to real interest rates in the core countries. As a result of this cheaper imports and credit-fuelled demand for domestic goods and services gave a boost to a vigorous growth of consumption and consumption-led growth. In addition, nominal labour costs grew faster in all the peripheral countries than in the core countries. Labour productivity grew faster in the peripheral countries than in Germany. However, this was more than offset by a much higher rise in labour remuneration in the peripheral countries. A spending spree pushed up the wages in the private sector in the peripheral countries, particularly in Greece. This spilled over into the public sector where workers were highly unionised. This included industries which were exposed to international competition. As a result, a competitiveness gap between Germany and the peripheral countries grew by 40-60 per cent from 1995 until 2008, leading to huge deficits in the current account of the balance of payments; 9 per cent of GDP in Spain, 12 per cent of GDP in Portugal and 15 per cent of GDP in Greece. Total, internal and external debt in Greece amounted to 296 per cent of GDP.

“Before the 2008 crisis Greece had, relative to the height of its income mountain, the deepest debt hole in the European Union. But at least the income mountain was rising faster than the hole was getting deeper, creating a semblance of sustainability. All that changed menacingly in the early 2009 once the bottom fell out of the French and German banks as a result of having stuffed their boots with toxic American derivatives rendered worthless by Wall Street’s cave-in. Greece’s double misfortune was that income growth in the country had hitherto been fuelled by further debt provided to corporations (often via the Greek state) by the same French and German banks that were lending to the state. The moment these banks panicked and stopped lending to Greece’s public and private sector simultaneously, the game would be up. Greece’s income mountain would collapse at the same time as the state’s debt hole became an abyss. This was what I told anyone who would listen”. Greece’s income mountain rose at the rate of 5.8 per cent in 2008, while a debt mountain increased by 4.4 per cent in the same year. In the following year the rise in income mountain dried up, while the hole was bigger. In the autumn 2009 a new PASOK government swore in office, promising that it will recover Greece’s income mountain by stimulating spending, not realising that the state was already bankrupt “The ECB and the IMF arranged a bailout amounting to 110 billion euros, with the former providing 80 billion euros and the latter 30 billion euros. Later another loan of the same amount was arranged on condition of a restructuring the Greek economy and immediate application of austerity measures. They included privatisation of state-owned assets, which was supposed to bring 30 billion euros and shrinking public sector, which was predicted to reduce spending by 28 billion euros [13]. Predictably, the situation aggravated, with GDP contracting by 4.5 per cent in 2010 and 5 per cent in 2011. Budget deficit was somewhat reduced to 10.5 per cent of GDP and public debt reached 143 per cent of GDP”.

As a result of this, in April 2010 Standard & Poor slashed Greece’s sovereign debt rating from BBB to BB+, putting Greek bonds at junk status. The interest rate spread between the Greek ten-year bond and the benchmark German ten-year bond widened to 682 basis points after the downgrade. Without a bailout, Greece would default. A plight and suffering of the vast majority

of Greeks could be corroborated by the following facts. Unemployment exceeded 20 per cent and youth unemployment was more than 50 per cent. A number of suicides increased by 35 per cent from 2010 to 2012.

Massive protests and demonstrations brought down the PASOK government of Andreas Papandreou, whose support plunged from 40 per cent to 5 per cent. It was replaced in 2012 by the conservative New Democracy, and its Prime Minister Antonis Samaras. Although both parties played according to the notes of the troika, namely the European Commission, the ECB and the IMF, the fact that there was a change in the government retained some semblance of democracy. But a complete break down of democracy came in 2015, when the left-wing Syriza came to power. Unlike the previous governments Syriza refused a continuation of bail out programme [14]. In the spotlight of all activities was Syriza's finance minister, charismatic university professor Yanis Varoufakis. He criticized, what he pejoratively called, Bailoutistan, because of its devastating effects on the Greek economy and society. Pointing out that proposed primary fiscal surplus of 3.5 per cent of GDP could not have been achieved even in Norway and Singapore, he came up with the plan of a debt restructuring. His plan could be summarised in a nutshell as follows:

"Debt restructuring comes first. Second, a primary surplus of no more than 1.5 per cent of national income and no new austerity measures. Third, wide ranging reductions in sales and business tax rates. Fourth, strategic privatisation under conditions that preserve labour rights and boost investment. Fifth, the creation of a development bank that would use remaining public assets as collateral to generate a domestic investment drive, and whose dividends would be channelled into public pension funds. Sixth, a policy of transferring bank shares and management to the European Union while creating a public "bad bank" to deal with the banks' non-performing loans, so as to prevent evictions and the mass expropriation of small business by vulture funds". Varoufakis discovered a basic flaw in models presented by the troika and the Council of Economic Advisers [15]. Their models suggested an increase in VAT and business rates, assuming that this will increase tax revenue. Varoufakis pointed out that in a poverty-stricken economy, marred with tax evasion, a proper strategy would be a decrease in tax rates. The models presented simply overlooked that price elasticity of demand is greater than one in an impoverished economy, and that therefore decrease in tax rates would boost tax revenue. Ironically, he was supported by conservative neo-liberalists, who find the rationale in decrease in tax rates in "the Laffer curve". Varoufakis' predictions came through. "Physicists" got it wrong. A new bailout programme proved to be a colossal miscalculation by the IMF. At the time of the first bailout the IMF predicted that in 2011 it would depress investment by 11.8 per cent. The actual drop in investment level in 2011 was 19.4 per cent. For the following year the IMF forecast a boost of 0.8 per cent, but in fact it fell again by 19.4 per cent. And for 2013 the IMF had predicted an investment growth of 4.8 per cent, but it fell once more, this time by 13.2 per cent. As far as inflation is concerned, the IMF was predicting -0.5 per cent for 2011, 1 per cent for 2012, 0.7 per cent for 2013, 1 per cent for 2014 and 1.1 per cent for 2015. Actual inflation rate was 1 per cent in 2011, -0.3 per cent in 2012, -2.1 per cent in 2013 and -2.6 per cent in 2014 [16].

Both sides in negotiations were deeply entrenched. The troika was adamant to go ahead with a third bailout. The Syriza government, led by Varoufakis, was determined to reject the third bailout. Varoufakis claimed that the Grexit, although painful, would be more desirable than debt prison which the third bailout meant. He pushed for a referendum, preparing a plan B in a form of euro-denominated parallel payment system in a case the ECB shuts down Greek banks. In spite of strong antireferendum campaign, backed by the strictly controlled and biased media, the referendum went ahead on 25th July 2015. The referendum issue was a stay in the Eurozone and no to the third bailout. With a 62.5 per cent turnout 61.3 per cent voted for the Varoufakis' proposal. When the victory was announced Varoufakis found out that the government surrendered to the troika's blackmail and decided to put the vote in the parliament [17]. The parliament voted in favour of the third bailout with 114 votes yes, 32 against and 11 abstained. Democratically elected government overruled democratic will of its people, which was this time corroborated with the highest possible level of expertise and competence.

As Varoufakis predicted, repercussions were devastating. All taxes hit the roof. VAT rose on everything; food, hotels, books, and pharmaceutical products. Micro, small, medium-sized and big enterprises saw their taxes and social contributions increased. In addition, they had to pay in advance a full amount of estimated taxes for the following year [18]. The small sum paid to pensioners receiving less than 300 euros per month was cut, while the majority of pensions were curtailed. "All the state's remaining assets were put up for sale as part of a new fund to be controlled directly by the troika. The catalogue of horrors was endless. They were the kind of measures you impose on a weak economy if you want to crush it". Many compared the events in Greece with the Prague Spring. Emanuel Macron drew parallels between the third bailout and the terms of the Treaty of Versailles. Illiberal and undemocratic nature of the EU institutions triggered a wave of Euroscepticism, culminating in xenophobic and racist outbursts in Germany, France, the Netherlands, Italy, Hungary and Poland, leading Europe into uncertain future.

Conclusion

In the age of Keynesianism, from 1945 until 1980, democracy thrived in developed countries. This was due to two factors; universal franchise and internal democratisation of political parties. After the neo-liberal onslaught in the 1980s many democratic rights have been annulled. Three factors, which contributed to the democratic deficit, relevant to the euro are: 1. Liberalisation of financial markets, 2. Independence of the central bank, and 3. Lack of transparency. The introduction of the euro, at least in this form and structure, have been widely criticized by many economic and financial experts, and opposed by the electorate in several countries, in which they were not given the right to decide on the currency of their country. Economic prosperity in the first decade of this century and relatively good performance of the euro concealed democratic deficiency of the euro [19].

With the credit crunch and the Great Recession all weaknesses in the structure of the euro cropped up. Panic attempts to rescue banks have been followed by utterly undemocratic procedures. The most illustrious example is Greece, the country hardest hit by the Recession. Two governments, namely PASOK and

New Democracy, accepted the first and the second bailout programme, which produced devastating results for the Greek economy. The left-wing Syriza government, which came to power in 2015, resolutely rejected the third bailout programme. Instead, it came up with the plan of debt restructuring and the referendum [20]. The argument that there is not place for democracy where professional expertise was required did not hold water. This time “professional expertise” of the troika was confronted with the higher level of expertise, coming from Yanis Varoufakis, the finance minister and university professor. In the referendum, held on 25th July 2015, 61.3 per cent of those who turned out, voted for “no” to the third bailout programme, “yes” for debt restructuring and “yes” for staying in the eurozone. In spite of this the government budged to the pressure of the troika and accepted the third bailout programme. Voting in the parliament was organised in which 114 deputies voted in favour of the third bailout programme, 32 against and 11 abstained. The government overruled the decision of those who elected it in office.

Many commentators observed that the events in Greece were the Prague Spring revisited. Illiberal and undemocratic structure of the EU institutions strengthen Eurosceptics all over Europe. Xenophobia and racism mushroomed in Germany, France, Austria, Italy, Hungary and Poland, leading Greece to a new cycle of plight and suffering, and Europe to uncertain future.

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