

THE ESSENCE OF ECONOMIC MEMORANDA AND THEIR BEST KEPT SECRETS

Soteris Kattos

Columnist, political analyst and former Ass. Professor of political sociology

It is becoming not only a new *modus vivendi* but also a new *modus operandi*. Wherever and whenever memoranda of understanding on specific economic policies conditionality are implemented, the outcome is exactly the opposite of what it has been theoretically intended to produce, i.e. economic sustainability and a viable developmental path.

And indeed it begs the question: "what is the real essence of these memoranda?" Why for instance, in countries where this approach has been adopted, has crippled economic activity and social cohesion was severely disrupted? How on earth, in countries like Greece, when the "Greek Economic Protection Bill" (first memorandum) was voted in March 2010 by the Greek Parliament, unemployment climbed from 8% to 27%, and the economy contracted by more than 25% in three years. This translates into a GDP loss of 48 billion euros. The public debt from 120% as a percentage of GDP is today close to 180%. In a similar manner Portugal, Ireland, Spain (although Spain is not formally on a MOU program) and very recently Cyprus.

The so called programs of structural adjustment to the needs and demands of the international economy serve a set of specific objectives:

- i. To address the pressure arising from within the new global division of labor, where the BRICS play a vital role in compromising severely labor's fundamental rights, particularly in the euro area.
- ii. Within the eurozone framework, specific political agendas focus primarily on the curtailment of the socio cultural and economic domain of the middle class.

- iii. These memoranda of understanding function as social mechanisms that lead to new and more efficient structures of wealth accumulation for the dominant classes.
- iv. They reinforce the institutional role of the state as the guarantor for the implementation of these new accumulation regimes. And at the same time, these programs demonize and eventually weaken the welfare state.
- v. These memoranda aggravate systems of social inequality moving the Gini index steadily closer to 1 i.e. towards greater inequality.
- vi. These memoranda marginalize extensively distributive networks and hence they negate the adequacy of social safety nets at the expense of the middle and lower social strata.
- vii. They transform the state into a political instrument in line with the economic and other interests of the ruling elites.
- viii. They are inherently counter developmental.

What it boils down to, with the so called adjustment programs, is none other than a social engineering project that aims to discipline labor in general and to impose on it the mental acceptance of the inevitability of the overall worsening of its standard of living. There is no doubt, that their presence reflects the new shift of political and economic power in favor of the new emerging economies as a result of the new global division of labor.

As far as the eurozone area is concerned, these adjustment programs, given the state's lack of national economic sovereignty, are implemented through internal devaluation. i.e. a general haircut on salaries, wages and other social benefits but with the level of prices unaffected. This leads on the one hand, towards the enhancement of profits and the pauperization of society on the other. Through this process the middle and the working classes are experiencing a severe political, economic and social containment of their lives. Cyprus is a case in point. Following the

Eurogroup's decision, its economy has been dismantled and crippled within 24 hours.

Decision makers and their advocates fail to comprehend a fundamental feature of the Cypriot economy, ie. it does not have any structural depth and therefore cannot withstand big and sudden economic shocks. Not only the Eurogroup decision with the consent of the Cypriot government has led to the dismemberment of the economy but at the same time, two of the most important economic pillars that condition the rate of economic dynamics, ie. the propensity to spend and the propensity to save have been phased out by this decision. ie. there is no economy!

Furthermore, you cannot implement a paradigm shift with a strong currency in place and no discretionary fiscal policy at your disposal. This defies economic logic. That's why an orderly Euro exit by Cyprus is a *sine qua non* condition for its future prosperity. Most probably the recent presidential letter to IMF, ECB and the EC should be taken as an acknowledgement of these difficulties.

The government propagates that the only way out of the crisis is through the strict adherence to and the implementation of the program. At the same time, it argues that there are practical difficulties to implement it. Indeed the government oscillates on a politically schizophrenic pendulum. The new government has failed to understand that the withering out of the Cypriot banks from Greece, is a sound proof of our de facto exit from the Eurozone. This decision has left the Cypriot government with no systemic leverage whatsoever.

Other things being equal, these newly designed social engineering projects, like the memoranda in their philosophy and content are reminiscent of the long gone soviet type command economy. The

European Commission reminds us of the politbureau and these programs are a far cry from contemporary reasonable free market practices.

These commissars lack political accountability, are insulated from social responsibility and democratic checks and balances. Their motive through the application of sudden shocks on society and the economy manifests itself as a new behavioral attitude on the laboring classes. What I call social nihilism, a self defeating attitude which is gradually internalized by the collective mindset of the subjugated classes (the middle and lower social strata). This new social pathology facilitates the implementation of these programs without significant political resistance from below. Unfortunately, and this is fast approaching, we are in the era of the *Chinaization* of society. Total deregulation and abolition of labor rights and authoritarian political practices supported by the ideological premise of one-sidedness and lack of alternatives, and enlisting the academic sphere (with some exceptions) as their spiritual accomplice, constitute fundamental prerequisites for the implementation of these programs.

Social nihilism is the essential facilitator in fulfilling these strategic objectives.