CRISIS, DEBT AND THE DEVELOPMENT PRESPECTIVE

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Introduction

The current edition is based on presentations made during the conference "The Debt Crisis and the Challenge of Development", organized by the Nicos Poulantzas Institute (NPI) on 28, 29 November, 2013. The conference is part of NPI's ongoing work-since 2008- on the financial crisis, its management by the European political and economic elite and the impact of austerity policies implemented in the EU countries.

The papers included in this edition

a) Examine the current economic situation in the Eurozone, with special emphasis on the countries subject to structural adjustment programmes,

b) Propose alternative economic policies aiming at putting an end to the vicious cycle "austerity – recession – debt" for countries under Troika rule,

c) Propose a framework of development policies for Europe to counter the prolonged stagnation resulting from the ongoing implementation of neoliberal policies.

The economic and political elites have long referred to the economic crisis in the peripheral countries of the Eurozone as a "debt crisis" resulting from excessive public and private spending by national governments and citizens, as well as by low national productivity and competitiveness. This prevailing narrative obscures both the structural imbalances mainly due to the architecture of the Eurozone that have contributed to the vulnerability of the European periphery, but also to the degradation of public finances after the bailout of the national banking sectors with dramatic consequences for the serviceability of the accumulated debt.

The structural adjustment programmes in Greece, Portugal, Spain and Ireland that were introduced by the Troika - the European

Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF) - were based on the aforementioned narrative. "Bail-outs" of these countries were subject to specific conditionalities characterized by austerity measures aimed at reducing public deficits, decreasing minimum wage and deregulating the labour market in order to increase the competitiveness of the national economies. These measures came with the promise that the countries in the Eurozone periphery would return to the financial markets – and recover – within a reasonable timeframe.

However, this has not been the case for Greece. The initial forecasts called for the recession to be over by late 2012. Although recent estimates show marginal growth for 2014, it is unlikely that this will be a sustainable trend. Between 2008 and 2013, Greece lost almost 25% of its GDP, while the debt reached an unprecedented 174.9% of GDP in 2013, according to Eurostat. In addition, unemployment rose from 7,2% in 2008 to 26,1% in the first semester of 2014. Social indicators have also worsened dramatically, with more than 3 million people at risk of poverty and social exclusion. Although the figures are different in other countries of the European periphery subject to adjustment programmes, the pattern is the same.

The aforementioned figures explicitly demonstrate that the European ruling classes failed to restore prosperity to the European peoples. Moreover, this should not be considered solely a technical failure of the adjustment programme that could be addressed through better implementation of an otherwise correct structural adjustment policy or by introducing certain targeted modifications to increase the programme's effectiveness.

On the contrary, the failure of the implemented policies necessitates an alternative interpretation of the nature of the crisis and consequently, an alternative economic paradigm. The characterization of the crisis as a "debt crisis" obscures the fact that debt accumulation has been a long-standing trend since the financial crisis of the 1970s, and has been furthered by the hegemony of neoliberal doctrines. Understanding the European crisis in the context of the global post-Lehman Brothers financial crisis requires keeping several key factors in mind, including: the financialization of global capitalism; the decrease of wage shares compared to profits; the consequent trend of households resorting to borrowing to sustain their consumption; governments resorting to the financial markets to sustain growth and social provision; and the gradual dismantling of the welfare state.

The countries of the Eurozone have been particularly affected by the aforementioned neoliberal transformations, as well as by problems resulting from the architecture of the Economic and Monetary Union (EMU). The EMU set arbitrary limits on the ratios of debt and public deficits to GDP, which proved restrictive for creating a stimulus to address the crisis. Moreover, due the role and function of the ECB according to the EU Treaties, member states were excluded from the possibility of borrowing from it, leaving them exposed to aggressive speculation from the financial markets. As mentioned above, EU member states have provided extensive monetary support to the financial sector, thus contributing to "unsustainable levels" of public debt for the most vulnerable economies.

Understanding the crisis in this context, we can begin to formulate policies that provide alternatives to austerity. A different solution is required to secure the sustainability of the public debt, a large amount of which should be written off. Any alternative solution must take into consideration the factors that contributed to the crisis which are associated with the neoliberal transformation of the world economy since the 1980s and the adjustment of the EU to this economic paradigm.

In addition, alternative economic policies are needed to reverse European stagnation and to strengthen the Eurozone against future crises. Such policies should target the architecture of the Eurozone, removing the arbitrary thresholds of the Stability Pact, strengthening the EU budget-which is now extremely insufficient, and exercising political control over the ECB. Moreover, a revision of the EU's development policies and tools is needed to achieve sustainable growth. This should take into consideration the particular needs, advantages and weaknesses of the states and encourage solidarity among the European peoples.

The above issues are discussed in this edition. We begin with a review of the political economy of the public debt based on the narrative of the European crisis, and end with a presentation of possible alternative European policies to end recession and stagnation. Unfortunately, it was not feasible to collect all the papers presented at the conference. However, those included in this edition are highly representative of the debate, as well as of the major questions and conclusions drawn.

Nicos Theocharakis presents a critical analysis of the ways public debt has been treated by economic theory from the 18th century through the middle of the 20th century: from Jean-François Melon and the classical political economy to the era of neoliberal political and ideological hegemony. The author explores how economic thought addressed questions regarding the comparison of state and personal lending, whether new lending creates economic problems and whether foreign lending impacts the national economy.

In her text, Marica Frangakis focuses on Greece's public debt after 2009 - the year that marks the beginning of the "debt crisis", until late 2013. Her contribution examines the institutional and economic aspects of the debt crisis, and sheds light on recent developments in order to assess future prospects. According to Frangakis, debt crisis is related to the institutional framework of the Eurozone and the functioning of the global financial markets. The economic and political decisions made in 2009 created a rescue based on borrowing funds conditional to austerity policies rather focusing on debt reduction; this wholly failed to address the sustainability of the Greek public debt. The author notes that any viable solution should question the main pillars of the architecture of the Eurozone.

John Milios, in his contribution, considers the current European crisis as a crisis of "over-accumulation" and not as a "debt crisis" – the term favored by the European ruling classes. According to the Marxian problematic, the financial markets are structured to control the efficiency of the capitalist system and the accumulation of public debt is critical for the markets' development. According to Milios, the European ruling classes see the "European debt crisis" as a new opportunity to further the liberalization of the markets, and consequently the domination of capital.

Spyros Lapatsioras questions the dominant public discourse on indebtedness, and considers the various dimensions of a debt overhang. He suggests that the political Left should clearly state its position, rejecting a narrow technocratic approach to the public debt and focusing instead on the factors that have resulted to debt accumulating ultimately on people and states alike, following the neoliberal imperatives. The crux of the matter is not the debt, but the need to overcome neoliberalism and the liberalization of the financial markets accompanied by conditionality, both in Greece and in Europe.

Michalis Nikolakakis and George Stathakis explore how the Eurozone could recover from the crisis, the continuation of which they attribute to the implementation of wrong policies. Summarizing the three major phases of the debt crisis management and the reasons of its failure, they conclude that a recovery requires: a) the reorientation of economic policy from targeting to keep inflation at very low rates to increasing unemployment, b) fiscal adjustment in the context of the development agenda with a looser monetary policy and the increase of the EU budget, and finally, c) the regulation of private debt to stabilize the banking system.

In her paper, Theodora Stathoulia stresses the need for the Left to understand the "strategy of the opponent", referring to the balance of political forces currently in power in the EU. She argues that the financial instruments designed by the EU to fund its policies are strategically used to manage the crisis.

Nadia Valavani calls attention to the complete failure of the Troika's measures to address the high levels of debt. Despite draconian austerity measures, which have produced a miserable economic and social landscape, the debt remains unsustainable. According to the author, this 'vicious cycle' will only end with an active write-off of a large part of the debt, combined with a set of relief measures for repaying its remaining part.

Finally, Gary Dymski, in his paper, endorsing the term TAVA (There Are Various Alternatives) introduced by Haris Golemis, legal representative of transform!, in his welcome speech, examines the existing possibilities for a new economic strategy for Greece. For the author, overcoming austerity in the Eurozone requires a rupture with the problematic components of the economic and monetary union. Uncoupling growth from debt will lead to new pathways for the democratization of the government and financial institutions in the Eurozone, accompanied by a transformation of the available resources to build a sustainable economy. Although such a project seems challenging considering the existing constraints and the uncertainty of the outcome, Dymski notes that, "the situation will not be made more bearable by pretending that more manageable questions with simpler solutions are on the table."

Sotiris Koskoletos – Nicos Poulantzas institute

The Political Economy of Public Debt

by Nikos Theocharakis

This paper will attempt to investigate the history of the analytical treatment of public debt in the bourgeois political economy from the 18th century until the middle of the 20th century. No reference will be made to the Marxist political economy, which has its own theoretical treatment.

However, I would like to introduce from Marx's reference to public debt from the chapter on 'so-called primitive accumulation'.

> The system of public credit, *i.e.,* of national debts, whose origin we discover in Genoa and Venice as early as the Middle Ages, took possession of Europe generally during the manufacturing period. The colonial system with its maritime trade and commercial wars served as a forcing-house for it. Thus it first took root in Holland. National debts, *i.e.*, the alienation of the state – whether despotic, constitutional or republican – marked with its stamp the capitalistic era. The only part of the so-called national wealth that actually enters into the collective possessions of modern peoples is their national debt. Hence, as a necessary consequence, the modern doctrine that a nation becomes richer the more deeply it is in debt. Public credit becomes the *credo* of capital. And with the rise of national debt-making, want of faith in the national debt takes the place of the blasphemy against the Holy Ghost, which may not be forgiven.
>
> The public debt becomes one of the most powerful levers of primitive accumulation. As with the stroke of an enchanter's wand, it endows barren money with the power of

> breeding and thus turns it into capital, without the necessity of its exposing itself to the troubles and risks inseparable from its employment in industry or even in usury. The state creditors actually give nothing away, for the sum lent is transformed into public bonds, easily negotiable, which go on functioning in their hands just as so much hard cash would. [...]
>
> At their birth the great banks, decorated with national titles, were only associations of private speculators, who placed themselves on the side of governments, and, thanks to the privileges they received, were in a position to advance money to the State. Hence the accumulation of the national debt has no more infallible measure than the successive rise in the stock of these banks, whose full development dates from the founding of the Bank of England in 1694. The Bank of England began with lending its money to the Government at 8%; at the same time it was empowered by Parliament to coin money out of the same capital, by lending it again to the public in the form of banknotes. It was allowed to use these notes for discounting bills, making advances on commodities, and for buying the precious metals. It was not long before this credit-money, made by the bank itself, became the coin in which the Bank of England made its loans to the State, and paid, on account of the State, the interest on the public debt. It was not enough that the bank gave with one hand and took back more with the other; it remained, even whilst receiving, the eternal creditor of the nation down to the last shilling advanced.[1] [Marx 1867/1962, pp. 782-3]

Even before political economy was established as a science in the middle of the 18th century, there were various thoughts on the implementation of economic policy over how the sovereign, the king, the state [the national states are created a bit earlier] would be able to fund the expenses for its internal organization and, in particular, for war. This is the period that was called ‘mercantilism’. The primary reason for which public debt was assumed as is the conduct of war. There are two substantial differences concerning the debt in the period preceding capitalism. The first is that the difference between public debt and the sovereign's debt is not clear. The second is that in an authoritarian state without financial institutions, those who lend to the sovereign can lose the money to his unilateral will, if he feels that the goose is worth more than its golden eggs.

From the moment that the institutions allowed states to borrow from capital-owners who had public securities were created, discussions began whether this practice was beneficial or harmful for the states, and whether the use of lending instead of taxation, even for urgent circumstances, was allowed or even imperative. Opinions were divergent from the outset, with debt having both its friends and its enemies.

The questions set from the beginning were to what extent state lending was the same as lending to an individual, since the state always could fulfil its obligations with new lending or the issuing of new money, and whether the generation of new lending created problems to the economy since state securities could be used immediately as capital from their holders. Additionally, an opinion was expressed according to which, to the extent that the debtor and the creditor were both citizens of the same state, the level of debt did not concern the state but the division of debts within it. Also, it had to be examined whether state borrowing was good or bad, and whether the reason why the state borrowed was damaging for the size of national income, i.e. whether it deprived the economy of capital that could be used for productive purposes and increase the national income.

One of the first analyses on public debt, which - with a single phrase - marked the subsequent political economy, is found in the work of Jean-François Melon (1675-1738), *Political Essay Upon Commerce* which was published anonymously for the first time in 1734, with an additional edition the following year and an enlarged new edition in 1736. The work was considered significant enough to be translated into English in 1738.[2] In the chapter on public debt [Du crédit publique], Melon states: "The Debts of a State are the debts of the right hand to the left hand, which do not make the body weaker if it has the necessary quantity of food and knows how to distribute them".[3]

The parable of the two hands was a reference point in debates over public debt, usually used by critics who wanted to reject it. Next, Melon (pp. 304-5) notes that "to this belief, the states owe their wealth and power", unlike other countries such as Naples and Sicily which, although fertile, remain in misery. The observation that the large public debt is in line with economic prosperity will mark subsequent discussions. Even two centuries later, in the 1960s, one of the biggest fiscal conservatives, James Buchanan, will make the same observation: That large debt is a sign that the economy of a state is powerful. But he adds that the opposite is not true: if public debt increases, it does not mean that we will have a strong economy.[4]

In the 18th century, views on the usefulness of debt are divided. The most famous compatriot of Melon, Montesquieu (1689-1755), in his *The Spirit of the Laws* (1748) claims that public debt has only disadvantages and no advantages. If it is in the hands of foreigners, then they earn from the interest of the state, while the tax required to repay it damages the industry and transfers income from the productive people to the lazy ones.[5] Philosopher George Berkeley (1685-1753) in *Querist* (1750) formulates questions in a way that shows that he considers debt a mine of gold.[6] That same year, with Montesquieu on the opposite side of the Channel, an anonymous writer believes that the taxes that will be imposed for the servicing of debt will end up in the hands of debtors who will spend them to buy products, thereby stimulating the economy.[7]

The birth of classical political economy comes with the condemnation of debt. The greatest philosopher of Scottish Enlightenment, David Hume (1711-1776) is sharply critical of public debt in the essay 'Of Public Credit'.[8] Hume recognizes that the creation of debt results in bonds that act as substitutes for money, given that they are traded freely and without the risk of default, having been guaranteed by the State. This increases the liquidity of trade. On the other hand, however, public debt leads to the hydrocephalism of the nation's capital, where government bonds are accumulated, additionally having all the disadvantages that notes have in comparison with metallic money. Primarily, however, the taxes that will be imposed later to repay the debt work against industry and increase labour costs. Finally, if the debt is in the hands of foreign nationals, the state is partly tributary to them while favouring the enrichment of people who do not work and lead a life that is useless and passive. Hume believes that, at some point, the progressive increase in debt, the repayment of which will increasingly mortgage existing taxes, will lead to the need for voluntary bankruptcy. This would destroy thousands of bondholders for the sake of millions of citizens. However, he believes that the class composition of those who would legislate this would lead them to protect bondholders instead of citizens.[9]

Isaac de Pinto (1715-1787), an active member of the financial community in Amsterdam with very good knowledge of the technical details of the financial markets, was one of the defenders of the practice of public borrowing in his book *Treatise on circulation and credit*.[10] Despite having admiration for the Scottish philosopher, de Pinto believes that the debt does not burden the state but rather creates additional money that is invested effectively. His text is perhaps one of the most complex ones of the period, from a man who is actively involved in the game of stocks and bonds.

Adam Smith devotes the concluding chapter of *The Wealth of Nations* to public debt (V.III, 'Of Public Debts').[11] His tone on public debt is extremely hostile. He states that "the rise of huge debts, which now oppress and in the long-term will probably destroy all the great nations of Europe, was almost uniform" (V.III. § 10 p. 911). Following his habit, he combines economic analysis with history and empirical evidence. He recognizes that the possibility of sovereign debt is the result of a commercial society's institutions where funds are available and people trust the government. He believes, like most economists of his time, that the public debt mainly covers military needs, and examines whether wars should be financed by taxes or loans. The problem with taxes is that it is extremely difficult to levy them in the quantities required in times of need, although on the other hand, they will make governments to think twice before getting into the adventure of a war, the only effect of which, in the case of England, is the financial burden for the population. Also, part of the taxation comes from funds that were placed in non-productive uses, so the impact on economic productivity is lower. In the case of loans, lenders are not burdened because they can lend money while holding securities that do not deprive them of liquidity. However, the actual capital of the economy is given and the additional capital that is in the hands of lenders allows them to divert productive capital to unproductive purposes. Smith does not trust the creation of a fund that can be used in wartime from taxes in peacetime because he fears that governments will use it for evil purposes. On the other hand, he believes that the ease with which a government borrows, combined with the ability to carry the burden to future generations along with the difficulty to introduce new taxes, may ultimately lead to financial ruin and an inability to service debt that will end either in bankruptcy or the devaluation of the currency. The taxes that the government will be forced to impose in order to repay or to service debt - in the case of perpetual bonds - will burden either landowners, who will not be able to spend the necessary funds for the maintenance and improvement of production structures in agriculture, or capitalists, who will see the return of their capital be reduced and will shift their activities abroad.

Nevertheless, the disaster that Hume and Smith predict does not come to pass. Smith, of course, is surprised when he sees that "Great Britain seems to support with ease, a burden which, half a century ago, nobody believed her capable of supporting". He believes, however, that his country has reached the limit of its endurance: "Let us not, however, upon this account rashly conclude that she is capable of supporting any burden; nor even be too confident that she could support, without great distress, a burden a little greater than what has already been laid upon her". (1776/1976, V.III, §58, p. 929).

Still, the public debt continues to increase without the countries facing any problem. A century after the baron of Montesquieu, Thomas Babington Macaulay[12] expresses irony:

> Here it is sufficient to say that the prophets of evil were under a double delusion. They erroneously imagined that there was an exact analogy between the case of an individual who is in debt to another individual and the case of a society which is in debt to a part of itself; and this analogy led them into endless mistakes about the effect of the system of funding. They were under an error not less serious touching the resources of the country. They made no allowance for the effect produced by the incessant progress of every experimental science, and by the incessant efforts of every man to get on in life. They saw that the debt grew; and they forgot that other things grew as well as the debt.

The debate on public debt is kept alive, with supporters of the public debt facing the resistance of classical economists. Of course, the debate is not without an economic substance. Lenders of government and the financial system with the secondary markets had much to gain from the process, and the same goes for politicians who could fight wars or make expenditures without having to fund these costs with taxes in the same period. To the extent that the growth of the national product allowed the servicing of the loan, there was no problem. Since there were no data on GDP - a concept that appears in the 20th century - the government debt - GDP ratio that is at the forefront of current discussions on debt did not exist then.[13] However, there was a sense of the magnitude of debt sustainability. The philosopher Jeremy Bentham (1748-1832), in his *Manual of Political Economy* written at the end of the 18th century, considers that the debt, with a 2% compound interest, will double in about 35 years, which by general observation is not the case with the income of citizens, even if we take into account population growth.[14] In addition, as he observes, only the wealthy see their incomes rise, while the poorest half, if nothing else, sees them reduced. Note that at the same time we have the first mathematical analyses of economic public debt.[15]

The initial observation by Smith that the funds the state borrows [or levies through taxes] are funds that are lost to production is still the main argument of the orthodox economists of the period. One of the economists with the greatest impact in Europe for most of the 19th century was Jean-Baptiste Say (1767-1832), whose works were translated into many European languages.[16] His work *Treatise of Political Economy* [*Traité d'économie politique*] was first published in 1803 and made six editions, the last posthumously (1841). In this work, the analysis of public debt - as in Smith - is discussed in the last chapter. [17] Say believes that the difference between a person who borrows and a state that borrows lies in the fact that the person borrows for productive purposes, while the state does not. Therefore, government borrowing removes productive capital from the economy, and only if the state borrows from capital that would remain inactive in order to make productive investments, then does government borrowing make sense. This logic constitutes the orthodox treatment of the issue. Those who believe that government debt is a cause of prosperity are smashed by the orthodox view.[18]

David Ricardo (1772-1823) intervenes in the debate. He discusses the issue in his *Principles of Political Economy and Taxation* [1st edition 1817] and in an article on the 'Funding System' published in the Supplement to the *Encyclopaedia Britannica* in 1820.[19] We also have many references to how to finance the Public Debt in his speeches at the British Parliament[20] as well as in letters.[21] Ricardo follows the line of the classics - quoting approvingly Jean-Baptiste Say. Generally, he considers that government spending should be reduced to minimum. However, as an economist, he observes that - under certain conditions - it is immaterial whether the debt is financed through taxes or borrowing. If the state chooses to tax in order to cover the cost, then the citizen can always borrow the same amount and pay it as an instalment of what the government would require to repay the loan.[22] But it is clear that, although in theory there is no difference, in practice he does not support the practice of borrowing, because "it is a system which tends to make us less thrifty - to blind us for our real situation". [p. 247]. In his article 'Funding System', he describes three different ways to finance a hypothetical expense of 20 million pounds for military purposes: (1) direct tax funding, (2) borrowing in perpetuity where the state pays annually one million in interest [at 5%] and (3) creation of a fund where additional income will be paid, which will remain compounded until it reaches the amount of 20 million pounds to repay the principal. Of the three systems, Ricardo clearly prefers the first one. He says, however, that "from the point of economic theory, there is no real difference between either of these modes [of financing]. For, twenty million pounds in one payment, one million pounds per annum forever, or 1,200,000 pounds for 45 years are precisely of the same value. But the people who pay the taxes never assess them in the same manner, and therefore they do not manage their private affairs accordingly". [1820, p 187]. Ricardo is against borrowing. He thinks that there is what later will be called 'public debt illusion', i.e. we tend to consider less burdensome to pay taxes to service the debt in perpetuity rather than pay the total cost at once. He also does not consider it unlikely that capitalists will move their capital abroad if they are to remain in a country that will charge them with taxes for the debt interest. Also, he deems necessary in times of peace to repay the debt concluded during the wars. However, in his speeches at the parliament, he does not nourish illusions over the creation of sinking funds that accumulate money to pay off the debt, but in practice they end up as a mechanism for accumulating additional debt.

In subsequent literature, the conditional 'theorem' of Ricardo on the equivalence of taxes and borrowing was baptized 'Ricardian equivalence' by James Buchanan.[23] The term is inappropriate since

Ricardo did not support this.[24] The term 'Ricardian equivalence' and the discussion on this started in a completely different theoretical framework in the 1970s when Robert Barro, in an article in the *Journal of Political Economy,* wished to maintain the validity of the theorem even if taxpayers may die before the debt is repaid.[25] Barro assumed that taxpayers are altruistic and that they wish to leave inheritance to their offspring. Essentially he equated them with what is now termed in economics 'infinitely lived agents', also considering the case of overlapping generations. Mainly, however, he used it in order to support the extremely anti-Keynesian view that fiscal expenditure has no effect, since people anticipate the fact that they will need to pay this expenditure with taxes. James Buchanan, criticizing Barro, indicates the contribution of Ricardo and christens it a 'theorem'.

The close friend and rival theorist of Ricardo, Thomas Robert Malthus (1766-1834) is more reluctant on the issue of debt. The theory of effectual consumption and the doctrine of proportions - i.e. the rejection Say's Law - that made him so dear to John Maynard Keynes, make him see the role of non-productive workers in the service of the rich, soldiers, sailors, landowners and creditors of the public in a different way. They are the ones supported by taxes without themselves producing, but then they generate the necessary consumption for the economy to balance to full employment. The existence of the public debt contributes to their maintenance. On the other hand, the innate conservatism of Malthus makes him highlight the disastrous effects that the swelling of the public debt may bring about - results that in any case are less destructive than the Poor Laws - and also recommends that the issue be examined in a way that will strike the right balance, taking care not to increase the debt. Besides, increasing debt needs to be financed by taxes which, if undue, end up hindering production, leading to a depreciation of the currency which would be unfair to debt holders. In the end, this may create the impression that the state will not be able to meet its obligations, which would call into question the credibility of the public sector and will bring insecurity to the holders.[26]

Another foundational text for economics - which was for half a century the main textbook for its teaching - is the *Principles of Political Economy* of John Stuart Mill (1806-1873). First published in 1848, it was published another six times before the author's death. Mill criticizes borrowing, saying that it is even worse than taxes. Taxes on capital end up affecting more the working classes because the available inventory for productive employment of workers is given. It is the notorious theory of Wages Fund. For Mill, lending exacerbates the problem.[27] But he recognizes that there are exceptions. In the relevant chapter (Book V, Chapter vii, Of a 'National Debt'), he specifies that

> there are other circumstances in which loans are not chargeable with these pernicious consequences: namely, first, when what is borrowed is foreign capital, the overflowings of the general accumulation of the world; or, secondly, when it is capital which either would not have been saved at all unless this mode of investment had been open to it, or after being saved, would have been wasted in unproductive enterprises, or sent to seek employment in foreign countries.[28]

The criterion to decide whether the loans are made by foreign funds or funds held in abeyance is whether the government borrowing brings about an increase in the interest rate. If the interest rate remains stable, this means that lending had no adverse effects. Otherwise, the public debt and private capital compete with one another, the interest rate increases and workers pay the bill.[29]

In the late 19th and early 20th century, orthodoxy on debt is consolidated. At least in the Anglo-Saxon and French world, the basic fundamental texts of public finances scoff at the erroneous views of the 18th century and explain why it is better to satisfy even the extraordinary costs with taxes in the period they are made. This is particularly evident in the writings of Charles Francis Bastable

(1855-1945) and Paul Leroy-Beaulieu (1843-1916).[30] A little different is the climate in countries that are possessed by pragmatism on the issue. In Germany, the initial cameralism of the 18th century with Justi gives its position in the first half of the 19th century to theorists who treat debt as a necessary evil, while from the second half onwards we have theories that see the debt as something good.[31] The Italian economists, although liberals, have no negative position on the Public Debt, and Antonio De Viti de Marco (1858-1943) in particular extends the 'Ricardian equivalence theorem'.[32]

The situation changed radically after the Depression of 1929, the New Deal and World War II. Public spending as a means of achieving full employment is now acceptable and deficit financing has several fans. The theoretical difference is mainly due to the work of John Maynard Keynes, who showed the potential for equilibrium outside full employment and the role that public spending can play in the stabilization of the economy. Keynes maintained an element of conservatism as regards the public debt. The youngest generation of Keynesian economists had no such qualms. In the US, Alvin Hansen suggested that the size of the Public Debt does not matter; only its relationship to the national income does. In an article in the *American Economic Review* in 1944, Evsey Domar constructed a mathematical model which showed that, under certain conditions, Public Debt may increase, but then the rate of taxation that is necessary to sustain it can remain stable. So, there is no problem with Deficit Financing as long as there is sustainable economic growth.[33]

Even more radical in his views on public debt was the Keynesian left economist Abba P. Lerner, with his theory of Functional Finance.[34] According to Lerner, the level of public debt in absolute or relative terms, or the level of taxation or money supply are not important. The only important thing is the maintenance of the level of national income at the level of full capacity of the economy, and full employment without inflation. The government must do whatever it takes to achieve this, without worrying about deficits or high levels of debt. Anything else is immaterial and reflects the scholasticism of doctrines of bygone eras. Lerner's views proved extremely radical, even for Keynes, who denounced them publicly. The problem was not that these views were inconsistent with Keynes' theory. Logically, they were valid, and perhaps pushed the theory to its logical conclusions. Keynes' fear was that politically a rise of public debt was not feasible. At some point, the level of debt relative to the GDP would create a crisis of trust for the government.[35] Nevertheless, after the war, a new macroeconomic thinking based on Keynesian theory was established.

Keynesian theories of demand management coexisted with the golden era of the global economy after the war. From the stagflation of the 1970s onwards, economic theory changes. What prevails - initially in the US and then in the UK and all European countries - is the monetarist theory and the condemnation of deficit financing and demand management. As early as 1958, James Buchanan condemns the so-called 'new orthodoxy' on debt.[36] From the 1970s onwards, however, macroeconomic theory is transformed into a new microeconomic theory that creates the necessary 'micro-foundations' in order to draw the appropriate policy conclusions. In this brave new world, the individual maximizes her infinite utility and, rational as she may be, is not fooled by the effects of government spending. The balance of the economy is at full employment, unless governments do something wrong. The balanced budget and low public debt occur as theorems of the new macroeconomic theory, which - away from the sphere of politcs and the will of the electorate – have to be incorporated in to the countries' constitutions. Despite the fact that the capacity of explanation or prediction of these theories has proven painfully inadequate, the theoretical analysis of public debt in the new political economy - now the handmaid of the most reactionary practices - has become a tool of neoliberal political and ideological hegemony.[37]

Notes

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3. [Jean-François Melon], *Essai politique sur le commerce,* [no publication details], 1736 p. 296. Melon served as a secretary to the famous John Law, who had tried to solve the issue of the French Public Debt only to end in the greatest stock exchange bubble of the 18th century. See Antoin E. Murphy, 'John Law et la gestion de la dette publique', in Jean Andreau, Gérard Béaur & Jean-Yves Grenier, (dir.), *La dette publique dans l'histoire*: 'Les Journées du Centre de Recherches Historiques' des 26, 27 et 28 novembre 2001. Nouvelle édition [en ligne]. Paris, Institut de la gestion publique et du développement économique, 2006 pp. 269-296.

4. James M. Buchanan, 'Debt, Public', *International Encyclopedia of the Social Sciences*, vol. 4, London, Macmillan, 1968, pp. 28-34. Reprinted in James M. Buchanan, *Collected Works*, vol. 14, *Debt and Taxes*, Indianapolis, Liberty Fund, 2000, pp. 343-356.

5. Montesquieu, *De l'esprit des lois*, Paris, Pierre Didot, l'aîné et Firmin Didot, édition stéréotype, An XII (1803), livre XXII, ch. XVII.

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12. Thomas Babington Macaulay, *The History of England from the Accession of James II*, Vol. IV, Philadelphia, Porter & Coates, [1848/1887?], p. 400.

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22. *On the Principles of Political Economy and Taxation,* Chapter XVII, pp. 244-6.

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Debts'. Paul Leroy-Beaulieu, *Traité de la science des finances*, Paris, Guillaumin 1877, 1st edition. From the 5th edition in 1892 in two volumes, while the 8th edition by the publishing house Félix Alcan appeared in 1912. He dedicates more than 450 pages of the second volume to Public Debt. The chapter over the effects of debt is the 3rd chapter of the 2nd book of the 2nd volume. [7th edition of 1906].

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33. Evsey D. Domar, 'The "Burden of the Debt" and the National Income', *American Economic Review*, 34 (4) (Dec. 1944), pp. 798-827, where the references to Hansen are found.

34. Abba P. Lerner, 'Functional Finance and the Federal Debt', *Social Research*, 10 (1), (Feb. 1943), pp. 38-51.

35. See the extremely interesting article by Tony Aspromourgos 'Keynes, Lerner, and the Question of Public Debt', *History of Political Economy*, under publication.

36. James M. Buchanan, *Public Principles of Public Debt: A Defense and Restatement*, 1958. Reprinted as vol. 2, *The Collected Works of James M. Buchanan*, Indianapolis, Liberty Fund, 1999, chapter 2.

37. See, for example, in the case of Greece how often the prediction for the public debt - GDP ratio and the growth of GDP were revised to the worse after the implementation of the policies of the memorandum. Both the much desired recovery and the reduction of the Debt - GDP ratio are postponed for the future, in each new report. *OECD Economic Surveys: Greece 2013*, OECD Publishing. [http://dx.doi.org/10.1787/eco_surveys-grc-2013-en], Figure 4. Official projections of Maastricht debt and nominal GDP, on p. 20.

The 'Debt Crisis', the Adventure of the 'Rescue': Public Debt after 2009

by Marica Frangakis

This article focuses on Greece's public debt after 2009, the year that marks the beginning of the 'debt crisis'. My aim is to highlight the institutional and economic aspects of the debt crisis, to provide a better understanding of the developments in recent years, as well as of the prospects for the future.

My analysis is based on the view that the explanation of economic and policy concepts and events—and the relationship between them—are necessary to understand one of the most critical issues of the current period.

1. Public debt and conceptual clarifications

The public debt is the result of political decisions regarding economic and social policies. The debt's magnitude is a function of the objectives of these policies concerning public revenue and public expenditures; by extension, the ensuing difference is the public deficit (or surplus). The decisions taken regarding public revenue and expenditure reflect the dominant interplay of political and social forces. Similarly, the reliance on government borrowing to address the public deficit, as compared with other forms of financing - such as taxation and borrowing from the central bank, i.e. printing money - is a political choice that serves the aims of the dominant political group.

Overall, there is neither a theoretical nor an empirical threshold or benchmark - a debt to GDP ratio - signalling the beginning of a 'debt crisis'.[1] The concept of a 'debt crisis' is based on the construct that likens the State to a household; as a household is concerned about its debts, so must the State. This is a flawed view given the State's ability to bridge economic gaps without resorting to borrowing. For example, the State may ask the central bank to buy government bonds—as the Federal Reserve, Central Bank of Britain and other central banks do—or to pursue tax evasion in various tax havens. Therefore, the comparison of the State to a household is ideologically unsound, misrepresenting reality.

The 'debt crisis' in the Eurozone is the result of institutional arrangements regarding the architecture of the Euro and the functioning of financial markets. Specifically, the statutes of the European Central Bank and the European Treaty strictly prohibit the purchase of bonds from the member-states of the Eurozone, i.e. borrowing through printing money. The recourse of the member-states to purchase government bonds, however, exposes them to speculative pressures exercised by financial capital, particularly in times of economic crisis, as evidenced by the history of capitalism. These pressures are exerted through various means, such as the downgrading of government bonds by the rating agencies, the impact of the derivatives market—and especially bankruptcy risk insurance derivatives (infamous Credit Default Swaps, "CDS"), and the creation of a climate of impending doom. As a result, the interest rates of the State (i.e. the yields of government bonds) increase uncontrollably. These processes lead to the State's inability to borrow from the [government] bond market. The way the dominant powers of the Eurozone dealt with the inability of some member-states to borrow created a 'debt crisis' in Greece and in other countries.

2. The path of the 'debt crisis' in Greece

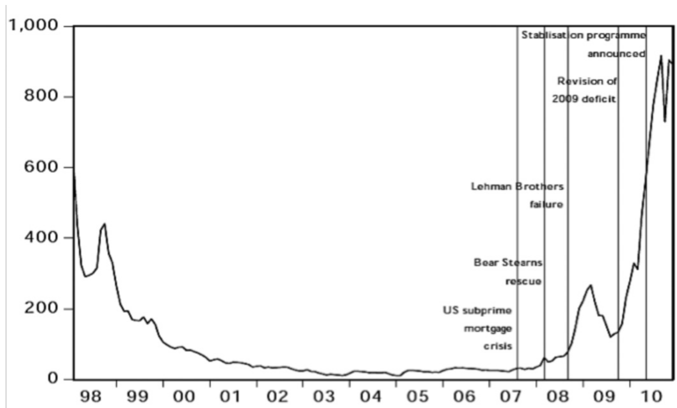
As has repeatedly occurred in the history of capitalism, the financial crisis of 2007 / 2008 soon turned into an economic crisis, i.e. a decline of production and employment, and a deterioration of the fiscal situation in the affected states. As tax revenues fell and social spending increased, the public debt of these countries swelled.

These developments, which should have been anticipated, were ignored by the Eurozone's leaders; instead, their primary objective was the reduction of fiscal indicators in line with the [arbitrarily chosen] terms of the Stability and Growth Pact (SGP) implemented in 2009: 3% of the GDP for the public deficit, and 60% of the GDP for the public debt. Countries like Greece, whose financial indicators exceeded these limits, were faced with the 'excessive deficit procedure', i.e. the risk of being fined if they did not comply with the terms of the SGP. In essence, this exposed the vulnerable position of the member-states vis-à-vis the financial markets and the speculative pressures that are exerted. The beginning of the 'debt crisis' in Greece is considered to be April 2009, when the European Council initiated the 'excessive deficit procedure' against Greece (27/4/2009).

The early elections in October 2009 were followed by a review - undertaken by the newly elected PASOK government - of the data on the government deficit (the previous government had indicated the deficit was 6.7% of GDP, when in fact it was 15.6%) and debt (similarly, the previous numbers were 115% of GDP, when in fact the number was 125%), creating uncertainty regarding the actual financial data. Notably, the review process has been denounced by former executives of the Greek Statistical Service as a result of political manipulation, a case that is now in the courts.

The institutional framework of the Euro and the unrestricted operation of financial capital allowed speculators to target the Greek government leading to a sharp increase in the cost of government borrowing, as shown in Diagram 1, which depicts the difference between the yields of the ten-year government bonds of Greece and Germany over the period 1998-2010.

Diagram 1 - Difference between yields of 10-year government bonds of Greece and Germany (SPREADS - base units)



Source: Gibson H.D., S.G. Hall, G.S. Tavlas, 2011, The Greek financial crisis – Growing imbalances and sovereign spreads, WP 124, Bank of Greece, March YEAR

The Greek government sought assistance from its Eurozone partners and the International Monetary Fund (IMF). The crisis was viewed as one of liquidity rather than sustainability, i.e. the inability of Greece to service its debt through the financial market and the institutional framework of the Eurozone were not questioned. Thus, Greece qualified for a 'rescue' that involved borrowing rather than debt reduction, namely through a 'haircut' in the value of bonds, which constituted the bulk of this debt.[2] As revealed by various sources, the IMF was in favour of a 'haircut'; this was, however, rejected by the European leaders despite the fact that the exposure of European banks to Greek government bonds was small, unlike the bonds of other countries, such as Spain, Italy and Ireland.[3] The fear that new problems could result for European banks dictated how Greek crisis was handled. It should be noted that the ruling PASOK government also preferred borrowing to a haircut, thus putting the interests of finance capital over those of society.

3. ‘Rescue’ through borrowing - Terms and conditions

The first loan was concluded in 2010 in the form of bilateral agreements between Greece and the other Eurozone countries, as well as with the IMF. The second loan was concluded in 2012 with the European Financial Stability Facility (EFSF), which issues bonds and gives loans to member-states and the IMF from the sale of these bonds.[4] The following table shows the amounts of loans and the corresponding disbursements through December 2013.

Table 1 - Initial sums and loan disbursements until December 2013 (billions of Euros)

	Eurozone member-states	IMF	Total
2010			
Initial sum of loan	77	30	107
Disbursed sum	53	20	73
2012			
Initial sum of loan	145	19	164
Disbursed sum	134	8	142
Total disbursed loan	187	28	215

Note: The 2012 loan includes the sum of 34 billion Euros from the 2010 loan, which had not been disbursed until the negotiation of the second loan.

Source: http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/index_en.htm

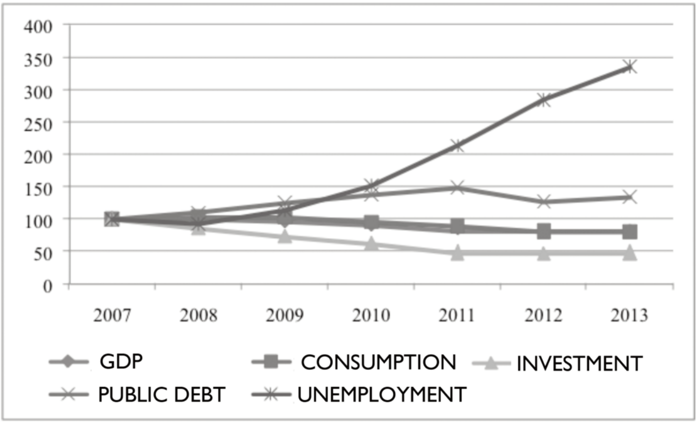
The terms of the loans are commercial and are accompanied by strict conditions. These include adhering to a policy of austerity, the privatization of public assets and the deregulation of various sectors of the economy, with emphasis on the labour market.

In particular, the 2010 loan had a three-year duration and an interest rate of 5%, which was particularly beneficial for lenders. For example, Germany received 320 million Euros in revenue during 2010-2012 from the interest on its loan to Greece! The interest on the 2012 loan, also for three years, was at the rate at which the EFSF borrows plus expenses, which is estimated at 2%. These conditions were relaxed in November 2012, by extending the duration of the 2010 loan by 15 years, reducing the interest rate, deferring the payment of interest on the 2012 loan by 10 years, and reducing the burden of costs for the EFSF.

A crucial precondition in the loan terms is that Greece rapidly reduces its fiscal indicators, so that the deficit becomes a surplus equal to 4.5% of GDP in 2016, and that the debt is reduced to 124% of GDP in 2020. To achieve these objectives, extreme neoliberal policies were implemented, as called for by the Memoranda of 2010 and 2012 putting the cost of the crisis on the shoulders of the working class, pensioners, youth, the unemployed and the uninsured in other words, the majority of the Greek society.

Under the weight of these measures, the Greek economy and society essentially collapsed. As shown in Diagram 2, between 2007 and 2013, investment fell by half, GDP and consumption decreased by more than one-fifth, while unemployment more than doubled, (from 8% of the workforce in 2007 to 28% in 2013) and public debt increased by 48% in 2011 and by 35% in 2013, compared to 2007 (from 107% of GDP in 2007 to 176 % in 2013).

Diagram 2 - Evolution of basic indicators of the Greek economy, 2007-2013 (% change)



Source: AMECOStatistics

4. Restructuring and composition of public debt

The 2012 loan was intended to finance the restructuring of public debt with terms that were favourable to creditors, and especially to banks. In particular, the restructuring took the form of (a) the exchange of old bonds with new ones, equal to half of their initial value and (b) the repurchase of bonds by the government.

The bond swap covered 57% of the debt (27% domestic investors + 30% foreign investors). During that time (April 2012), bonds totalling 199.2 billion Euros (96.9% of the total bonds) were exchanged for new ones worth 62.4 billion Euros, in addition to EFSF bonds worth 29.7 billion Euros. A small number of investors did not participate (6.4 billion Euros) in the exchange.

However, the cost of the exchange amounted to 93.5 billion Euros due to ‘incentives’ offered to bondholders. Therefore, the net benefit was much smaller. Also, the new bonds issued are subject to British law, which limits the possibility of movement of the public debt in the future.

Finally, it is worth noting that although the ECB held 16.3% of Greek government bonds (February 2012), it did not participate in the exchange. On the contrary, it profited by collecting the nominal value of the bond at maturity (which was higher than the market value by at least 50%). Only in November 2012 was it agreed that the respective difference from 2013 be returned to Greece.

Concerning the second debt restructuring, a sum of 11.3 billion Euros [from the second loan] was used to buy back bonds worth 31.9 billion Euros. The repurchase price was not set in advance, resulting in an increase of at least 20% after the announcement of the intention to repurchase; this confirms the observation that the repurchase of debt benefits the creditors. The participation of Greek banks reached 17 billion Euros (53%) and was offset by commensurate funding from the second loan.

Overall, debt restructuring only temporarily halted this upward trend, since it:

i. Came too late after the start of the crisis (2009/2010)

ii. Did not include the important part of the ECB's bonds

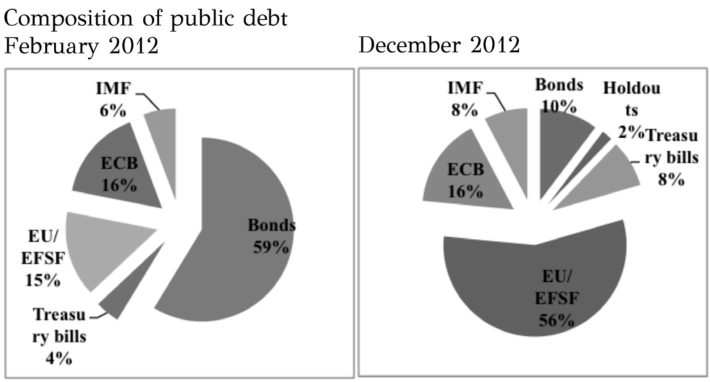
iii. Did not secure the best possible conditions for exchange / repurchase of bonds in the interest of the State

iv. Relied on expensive borrowing

Finally, even the temporary positive effects of the restructuring of the debt were partly cancelled out by Greece's mandatory recourse to expensive borrowing. The disbursement of the loans was done in a manner that allowed the Troika to 'blackmail' Greece by withholding the tranche until the Troika was satisfied that the Memoranda-related obligations were being fulfilled.[5] Thus, the first loan was disbursed in 6 instalments and the second in 7. In between instalments, the government was obliged to issue short-term, high-interest securities, i.e. the Treasury bills of the Greek government, at a rate exceeding 4%. This is especially high if we consider the current negative inflation.

The composition of debt before and after debt restructuring appears in the following diagram.

Diagram 3 - Composition of debt before and after debt restructuring



Source: WP13-8, Peterson Institute for International Economics, Aug 2013

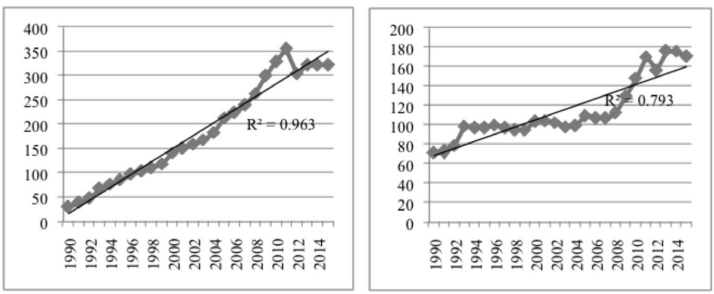
We observe that the bulk of the debt was shifted from bonds to loans by Eurozone member-states, as well as by the EFSF. This means that the guarantors of the Greek debt are largely the taxpayers of other countries of the European Union. Also, the ECB and the IMF hold nearly one-fourth of the debt. In contrast, the participation of bond-holding investors is comparatively small, while the participation of high-interest Treasury bills has increased.

The restructuring of the debt extended the ‘life’ of the debt, lengthening the average remaining time from 7.94 years in December 2009 to16.17 years in September 2013. This extension introduces considerable uncertainty due to (floating) interest rates.

5. The course of public debt, 1990-2013

The ‘rescue’, based on borrowing on market terms and subject to the implementation of neoliberal reforms and austerity policies, led to a faster increase of the debt, both nominally and relative to the GDP, as shown in Chart 4.

Diagram 4 - Gross General Government Debt (billion Euros) Gross General Government Debt (% GDP)



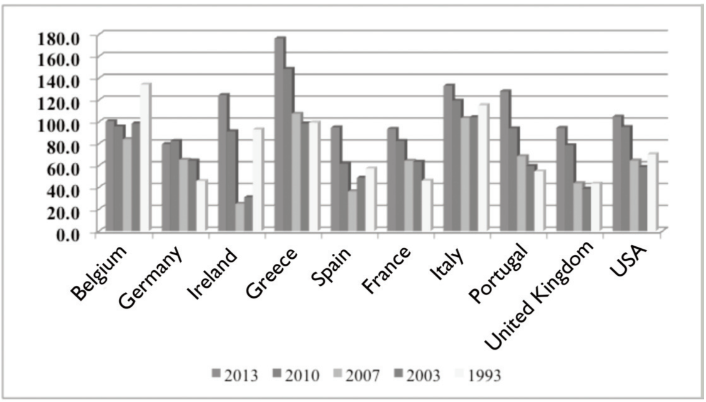
Source: AMECO Statistics

We observe that the debt rises between 1990 and 2007 in nominal terms, with a significant increase in 2007-2008 due to the crisis and the ‘rescue’ in 2009. The restructuring of the debt in 2012 temporarily reinstated the debt into its long-term tendency. The data for 2014 and 2015, which are based on the European Commission’s forecasts have yet to be assessed.

In relation to GDP, public debt rose sharply after 2007 and especially after 2010, as the effects of the ‘rescue’ affected both the debt and the economy. By today’s standards, it is estimated that it will take more than 20 years to bring the debt to 2009 levels, both nominally and relative to GDP!

A comparison of the Greek public debt as a percentage of GDP with that of other countries within and outside the Eurozone and the EU during the years 1993-2013, shows that Greece surpassed other countries in 2010, while the difference between Greece and other countries widened in 2013 (Diagram 5).

Diagram 5 - The public debt as a percentage of GDP, 1990-2013 (%) *translate / change chart



Source: AMECO Statistics

5. The pitfalls of ‘rescue’

Overall, the ‘rescue’ of Greece has failed: public debt has reached unprecedented levels, while the economy has sunk into recession and society into unemployment and poverty. In contrast, the interests of creditors have been safeguarded.

It should be noted that the purpose of the ‘rescue’ agreements was the reduction of the debt to GDP ratio to 124% by 2020 and 110% by 2022, limits that are considered ‘sustainable’, i.e. which will allow Greece to borrow from the financial markets once again.

The 2014 Budget states, ‘...the yields of existing government securities remain high ... maintaining high borrowing costs and delay-ing the return of Greece to the markets'.[6] Moreover, according to the Bureau of the Budget of the Greek Parliament, '... the debt is not going to be put on a decreasing trajectory and become "sustainable" by 2020 or 2022 solely through national efforts of saving (meaning, through privatizations and the generation of primary surpluses), without a restructuring (meaning, new "haircut") or rearrangement (meaning, elongation of debt repayment periods) and other facilities'.[7] In other words, the horizon of 'sustainability' - i.e. Greece returning to the bond markets - seems a long ways off.

According to the European Commission's Third Report on the progress of the second Memorandum, the existence of a 'funding gap', i.e. an inability to fully cover the liabilities of the State, is provided for in 2014.[8] This is estimated at 6.8 billion Euros, while most of it appears in the first half of 2014. It is, therefore, not a coincidence that the German press talks about a new loan of 10-20 billion Euros, for the disbursement of which even Germany is reportedly supporting![9]

Taking into account the above analysis, any new borrowing combined with a continuation of austerity policies will have the same detrimental effects as with the earlier loans, compounding the resultant problems reflected in the current state of the economy and society at large.

As long as the main parameters of the architecture of the Euro remain the same, the handling of the debt going forward is crucial. The lessons learned from the experience to date are as follows:

• Rejection of new debt that contains terms and procedures similar to those applied in the past.

• Freeze interest payments on the loan installments while the economy remains in recession.

• Write-off of the largest possible part of the debt; this amount should be determined by an international commission established for this purpose.

• Separate debt management from austerity policies and ‘structural reforms’, i.e., the deregulation of the economy. Recovery from the crisis can only occur through growth.

Overall, the state of the Greek economy today is worse than in 2009/2010; the recession caused by the global crisis was less severe than that caused by the Memoranda and austerity after May 2010. Today, Greece has the highest unemployment, indebtedness and poverty in households among the EU-28 countries. The fiscal problem is merely a symptom of a society and an economy that are sinking. The reversal of the terms and policies of the ‘rescue’ is a precondition to addressing the problem.

Notes

1. Historically, debt is defined by the relation between the rate of change of production and the interest rate of lending, indicators that are subject to the targets and means of the applied economic policy.

2. The notion of ‘haircut’ refers to the subtraction of a percentage that reflects the real value from the market value of a bond, inflicting a corresponding damage to the investor.

3. Irene Chrysolora, 2014, ‘Revelation: The French-German trick with the Greek bonds’, TA NEA, 3/2/2014.

4. Excluding Slovakia, which refused to participate, as well as Portugal and Ireland, given that they also received loans afterwards.

5. The Troika comprises representatives from the three organisations that are involved in the lending to Greece, namely the European Commission, the European Central Bank and the IMF.

6. 2014 Government Budget, p. 45.

7. ‘Public Debt after the end of the “Memorandum” (2013), Budget Office, Parliament, p. 5.

8. European Economy, Occasional Papers, No. 159, 7/2013, σελ. 49.

9. DER SPIEGEL ONLINE, Strings attached: Berlin weighs new aid package for Greece, 4/2/2014.

Financial Sphere, Neoliberalism, the ‘European Crisis’

by John Milios

1. The ‘heterodox’ narrative: Neoliberalism, speculation, crisis

The recent financial collapse has no precedent in the post-war period. Many modern progressive approaches claim that the crisis originates from the financial sphere, which acts as a rampant speculative ‘casino’ cut off from the ‘real economy’, namely the production and distribution of useful things.

The modern form of capitalism, neoliberal capitalism, is thus interpreted as the dominance of the globalized financial sector, and thus the dominance of global speculation, which leads to a form of capitalism that inherently tends towards crisis and collapse. According to this approach, the financial elites and financial ‘intermediaries’, i.e. the modern rentiers, have a decisive role in shaping the neoliberal form of capitalism. This involves: (i) an increase in the economic importance of the financial sector at the expense of the ‘real’ sector (industrial and agricultural) of the economy, (ii) the transfer of income from the real to the financial, which increases social inequalities and compresses active demand, and (iii) the conversion of financial instability into a central aspect of modern capitalism.

It has thus been supported that neoliberalism emerges as an ‘unfair’ (in terms of income distribution), unstable, and anti-developmental version of capitalism, the immediate consequence of which is the shrinking of labour incomes and the spread of speculation. It is, in other words, the undesirable deviation from a 'healthy' and well-organised capitalism that provides employment and social welfare. The essential feature of this unstable neoliberal capitalism is that it focuses on economic activity in search of profits in the sphere of financial movement.

2. The Marxian problematic: Capital vis-à-vis labour

The heterodox narrative roughly outlined above, has little to do with Karl Marx's theory from which we draw our analysis.

According to Marx, capital is a historically specific social relation which appears in the form of 'money which begets money' (Marx, *Capital*, vol. 1: 168), in accordance with the formula M - C - M' (where M denotes money, M' = M + ΔM, and C is the commodity). The money movement described by this formula is the form of the appearance of capitalist economic and social relations, including (incorporating within it) the production process, which now takes the form of production for exchange and production for profit (production of surplus value).

Passing to a more concrete level of analysis, Marx shows that the position of capital is occupied by more than one subject: by the capitalist of money and by the active capitalist.

This analysis has four major consequences:

First, the position of capital is occupied by agents that are both 'internal' to the company (directors and managers) and 'external' to it (securities holders). According to the general perception by Marx, the basic separation (that Keynes later processed) between the productive classes of the 'internal' part of the company and the parasitic class of 'external' rentiers is repealed. In the words of the man himself: "the money capitalist, represented by the active capitalist, participates in the exploitation of labour" (Marx, *Capital*, vol. 3: 480). The contradictions that develop between the managers and the capitalists of money are always secondary compared to the antithesis between capital and labour.

Second, the pure form of capital ownership (be it money or productive capital) is a financial title. The ownership title is a 'paper duplicate', either of the assigned money capital in the case of a bond, or of the physical capital in the case of a share. However, a security's price originates neither from the quantity ('value') of the offered money, nor from the value of the means of production. The ownership titles are priced on the basis of the (future) income that they are 'expected' to yield to their owner, which of course is part of the generated surplus value (op. cit.: 601-2, 589-91).

Thirdly, the financial 'form of existence' of capitalist property – both as a promise and as a claim to the appropriation of the surplus value that will be produced in the future - creates a more comprehensive field where each income stream can be considered as revenue that corresponds to a 'fictitious capital' (which may be sold to secondary markets: Marx, op. cit.: 589).

Fourth, the structural role of 'fictitious capital' places risk management (financial risk) at the heart of money markets, i.e. the inclusion of the possibility of non-achievement of expected performance (especially in an international market with multiple and divergent forces determining the yields). Because the very nature of the production of surplus value and the total requirements on labour is incalculable, the management of risk is organically associated with the very movement of capital. The production of surplus value as a process of 'struggle' that encounters resistance is never guaranteed. The techniques of risk management, organized to enable the operation of 'liberated' money markets, are a crucial part in managing the resistance of labour.

3. The 'liberated' financial markets as an instrument of capitalist domination

Marxism views the liberalization of markets not as parasitism or as an ineffective 'capitalism of the speculators', but as a key pillar of capitalist domination and exploitation in general.

Financial markets contribute to competition and mobility of firms, of individual capital. At the same time, we should not forget that capital markets are mostly secondary (fluid) markets. This means that, apart from providing loans, they constitute venues for renegotiating debt claims upon the future production of surplus value and therefore venues for an (obviously incomplete) assessment and monitoring of the effectiveness of individual capitals. This assessment extends to all economic activity, even if it is not a capitalist firm, i.e. it concerns whoever borrows or lends money, and is thus extended to households (which resort to mortgages or consumer loans, while maintaining deposit accounts, real estate and other assets in parallel), but also to the State (the issue of public debt). In the case the State, markets essentially 'supervise' the ability to 'secure consensus' for the policies of neoliberalism.

If, instead of the internationalized fluid financial markets that dominate today's economy there were strong 'adjusted' financial markets, this would mean that capital, unable to easily move, would remain 'tied' to particular 'plants and machinery' for reasons unrelated to its effectiveness in the production of surplus value (profitability). However, the inability or difficulty of capital to move within the enterprise creates more favourable conditions for the struggle of labour forces, as less productive investments can survive for longer periods of time.

As mentioned above, capital operates as a producer of surplus value, 'money which begets money', and therefore does remain in one "area" for extended periods of time in the absence of a guarantee of a high profit rate. When liquidity of financial markets is guaranteed, capital converts to a financial form, seeking the most effective areas for its utilization.

Capital is interested in profitable prospects, the goal of which is not active demand, but the intensity of class exploitation. The objective is not in any way the provision of employment. On the contrary, a 'reserve army' of unemployed people is always welcome by capitalists because it not only keeps real wages low, but also forces workers to obey the 'commands' of capital. At the same time, the flexibility of labour is the most suitable instrument for capital, allowing it to adapt to the variations of the capitalist business cycle.

The process of 'financialisation' pushes households into behaving like financial risk managers, purchasing assets on credit, or holding financial titles. A growing percentage of households that do not belong to the ruling classes manage accounts of 'assets' and 'liabilities' (debt obligations), the size of which is disproportionate to the annual family income. To meet their obligations, these households are resorting to financial intermediaries more and more, and to financial risk management techniques. Thus financial intermediation services and financial innovations rapidly overtake the household and ensure ever-higher debt-to-income ratios as the norm. As a result, the reduction or maintenance of the family income without a corresponding reduction in the overall level of household consumption becomes possible. This, of course, occurs until a financial crisis occurs.

In conclusion: Financial markets constitute a structure to monitor the effectiveness of individual capital, but also of the employees themselves, i.e. a form of surveillance of the movement of capital. Neoliberalism is a historically specific form of organization of capitalist power, where 'governability' through markets plays a crucial role.

For those companies that have failed to internally create the appropriate conditions for the exploitation of labour, the 'trust' of the markets, i.e. the 'trust' of capital, will dissipate quickly. These companies will either have to 'comply' or face slow deterioration. In this way, capital markets 'seek' (not always reliably) to turn the 'political' events of the internal organizational sphere of the company and of society into quantitative signals.

The configuration of the contemporary neoliberal regime stems from the fact that capitalism always requires the financial sphere for its organization. This applies from the initial steps, starting from the early period of its 'commercial' phase. Large corporations, from their inception have a 'Janus' nature: on the one hand, there exists the immediate productive infrastructure (the means of production and human personnel: managers, supervisors, skilled workers and employees, unskilled workers), while on the other hand, there exist securities (shares) and debt securities (bonds) that are in the financial sphere, i.e. are held in the form of sui generis commodities (tradable values) by various natural and legal persons.

A critical moment in the evolution of the financial system is the sovereign debt market. In fact, Marx thought that "the public debt becomes one of the most potent levers of primitive accumulation. [...] Along with public debts, an international credit system was created, and often for the one or the other people it constitutes one of the hidden sources of primitive accumulation" (Karl Marx, *Capital*, vol. 1: 779-780). Even the modern, dominant financial theory[1] accepts that a 'reasonable' level of public debt works beneficially to the development of capital markets.

From the perspective of labour, the 'harnessing of the financial markets' can only mean the 'harnessing of capital'; we must question the entire capital relation if we are to entertain the prospect of abolishing it.

4. The 'European debt crisis' and the deepening of neoliberalism

As we know, this crisis is a systemic crisis of over-accumulation of the capitalist system.[1] However, within the European Union (EU) and in particular the Eurozone, the crisis appears as a fiscal debt crisis experienced by some countries and this is mainly due to the 'architecture' of European integration.

The prevalent neoliberal strategy in all EU countries has redistributed wealth and power in favour of capital despite resultant social antagonisms (class struggle). The objective was to expose each business (individual capital) to the fiercest competition possible to pass the cost on to the workers, while allowing the economy to reconfigure itself based on the dislocation or withdrawal of less competitive capital.

The implementation of the neoliberal project has been enabled by European economic integration. Relying on the free movement of capital, goods, and workers, as well as on the single institutional framework, the measures employed intensify the competition of individual funds, and accelerate the processes of capital accumulation of the total-social capital in each member-state of the EU.

The single currency is central to this European strategy. With monetary integration, the possibility of variation of the (national) currency disappears; this variation shields the individual capitals of the country forced into devaluation. This transformation is based on the consolidation and strengthening of the financial sphere, which is primarily a sphere of regulation of the capitalist system. The capital market does not only exist in the financial sphere: every industrial enterprise, such as Renault or 3E, simultaneously constitutes a financial function; company shares are bought and sold on the Stock Exchange at fluctuating prices, affecting the operation of industrial production.

Financial integration in Europe accelerated after the introduction of the single currency. This resulted in an informal protectionism for the countries with lower levels of growth but higher growth rates (and higher profitability of capital), such as the countries of southern Europe and Ireland. The business sector in these countries attracted capital, mostly in the form of portfolio investment (capital for the purchase of shares), based on expectations of higher returns in the stock market and precisely because of higher rates of economic growth. At the same time, public and private borrowing in these countries occurred at a faster pace than in others. As consolidation of the financial sphere continues, it is worth noting that Europe is developing in line with the dominant economic model in the global economy, as exemplified by the relationship between the US and China. The United States has a large surplus of capital inflows, hence the large deficits in trade flows; this is similar to what occurred in Southern Europe. Leading economists from various international organizations were aware of this disparity yet evaluated it positively - until the outbreak of the crisis. It was believed that the economic convergence of the European countries lagging behind, i.e. the faster growth of the less developed countries, would allow these countries to "catch up" to the developed countries of northern Europe.

The systemic crisis of 2008-2009 led to the collapse of this model within the EU, because it caused the financial unreliability of countries with comparatively high public deficits and debt. Financial risk was suddenly re-priced. The dominant model collapsed since the inflows from portfolio investment and loan inflows decreased dramatically.

The crisis deeply affected European capitalism. Indeed, it created widespread terror at first, as evidenced by the 'anti-capitalist' declarations of European leaders, such as Nicolas Sarkozy in 2008, who warned against the 'excesses' of financial capitalism and speculation. At a conference 'on the Crisis' in Paris (in 2009) that was attended by Angela Merkel and other European leaders, Sarkozy proclaimed that we must "moralize rather than destroy" capitalism.

These statements are indicative of the surprise and uncertainty felt by European economic and political elites immediately after the outbreak of the crisis. During the 2009 meeting of the G20 (the twenty largest economies in the world) however, the elites realized that the crisis could be used as an opportunity to strengthen the neoliberal model, which, had gotten 'distorted' by the imbalance described earlier: the large money flows to the rapidly developing countries with a lower level of development on average, had permeated society and protected employment; high profits, and expectations for even greater profitability, allowed for wage increases (although if we take into account non-measurables such as rotating and unregistered labour, the average wage may have increased but not the portion of wages), accelerated corruption.

The advent of the crisis has given the ruling classes a chance to deepen the neoliberal project to an unprecedented degree, essentially crushing the post-war 'social contract' and squeezing social needs. The decrease in the value of labour power is at the heart of the neoliberal attack. And as we know from Marx, this value is not something technical or stable. It is a crystallization of the class struggle.[2]

The European elites proclaimed that the financial crisis had a fiscal character a 'debt crisis' of those countries that did not implement 'virtuous' fiscal policies. These countries, per the elites, accumulated deficits in their state budget through the 'expansion of the public sector', the 'exorbitant salaries and bonuses' of civil servants, and the corruption of officials; therefore, the problem was deemed to be ('excessive') public spending, and the solution was to curb it by reducing wages, pensions and benefits, and by privatizing public services.

Immediately, of course, income austerity and wage cuts were extended to the private sector, thus reducing the state's capacity for tax collection. Any attempt to increase government revenue was limited to the over-taxation of lower incomes, as well as on real estate property of the working and middle classes. It thus became obvious that this was not an effort to do the 'housekeeping' of public finances or reduce the public debt, but rather a strategy for an unprecedented - after the 2nd World War - redistribution of power and wealth for the benefit of the dominant social classes; the burden of the crisis was dumped onto the working class and, more broadly, the wider social majority of the middle classes.

5. Restructuring the Greek debt: Where are we headed?

Post-crisis, the public debt became a mechanism for the enforcement of restructuring as a result of the extreme neoliberal policies that were implemented. In the same vein, the legalization of policies that link the functioning of institutions and the economy to the priorities of the markets and the profitability of capital, also resulted. According to an IMF official responsible for designing the policies affecting the Greek public debt: "The concern was that a reduction in Greece's debt could encourage the country to relax its reforms. The large debt is considered a lever to the government, forcing it to act". (IMF Report, May 2013). However, we can't ignore that the perpetuation of an unmanageable public debt also perpetuates the financial unreliability of the private sector of the economy, and thus negatively affects the entire Eurozone.

The IMF has subtly propagated the erroneous perspective of Greek public debt that today is held by the 'official sector' of the EU (member-states - ECB). The Secretary General of OECD, Angel Guria, raised the issue with greater urgency during his visit to Athens in late November 2009. For the first time, an international organization (and in fact one that includes all the developed countries of the world) clearly and publicly voiced his support of restructuring the Greek public debt as the only solution for its sustainability: "Our proposal is the sooner, the better!", stated Guria.

It is of utmost importance that we pay special attention to this: The major change in the current institutional debate after the intervention of officials of the IMF, OECD, etc., regarding the restructuring of the Greek debt, is the transition from a solution framework that concerns the '*sustainability*' of the debt to a solution framework that addresses the '*serviceability*' of the debt. In simple terms, this is an attempt to legitimize the fact that the debt need not be reduced in absolute size; the state needs only to be able to service it. In this way, the state (every state) will be permanently committed to an agreement with its creditors for austerity policies, which will supposedly satisfy the requirement for debt servicing. If there is a failure to do so, then additional austerity measures will be imposed.

SYRIZA's discourse on these issues lies outside the above parameters—and this is why a rise to power constitutes a first-order problem for lenders and Greek capital. SYRIZA believes that the real conflict is not the technical arrangement that will make the debt serviceable; the real problem is the policies that enable the state to become solvent and economically strong, in order to exercise a social policy and take development initiatives for the benefit of the social majority. While the discussion should include the technical issue, it should do so only as a way to implement the political direction. The technical issue should not be turned into politics, as the systemic, pro-memorandum economists and their fellow supporters have done.

SYRIZA has the advantage that it currently brings together people of diverse social standing from the unemployed to small business owners, and of diverse political backgrounds, from left-leaning social democrats to leftists. This force that it brings together gives the party the right to introduce an alternative discussion in the political sphere other than what is currently being debated: one that not simply asks "where will the money be found?" but instead questions where this money should be directed; one that takes into account the social needs of those affected, and calls into question the benefits reaped during the decade of Greek neoliberalism (1997-2008). SYRIZA seeks to drive the debate in the interest of the majority of society, in addition to providing a technical solution for the debt, one that eliminates the permanent austerity that the Greek and European elites insist on imposing.

SYRIZA's proposal includes a 'haircut', (aside from the specific issues that will arise when this will occur) but has two major differences from that of the OECD (and the IMF):

a) Debt repayment will be linked with a development clause, based on the experience of dealing with the German debt in 1953 and,

b) the immediate abolition of austerity as an integral condition, the redistribution of wealth, and a plan for productive and social reconstruction.

The difference between a policy proposal that focuses solely on the technical aspects of debt restructuring and SYRIZA's proposal, which stipulates that debt reduction will succeed only if the social contract is respected, is the focus on "productive and social reconstruction, with social needs being a priority".

Notes

1. (see J. Milios and D. P. Sotiropoulos, *Imperialism, Financial Markets, Crisis*, Nissos, 2011; D. P. Sotiropoulos, J. Milios and S. Lapatsioras, *A Political Economy of Contemporary Capitalism and its Crisis: Demystifying Finance*, Routledge, London 2013)

2. See for example Philip T. Hoffman, Gilles Postel-Vinay, Jean-Laurent Rosenthal, *Surviving Large Losses: Financial Crises, the Middle Class, and the Development of Capital Markets*, The Belknap Press of Harvard University Press. Cambridge, Massachusetts, London, England, 2007: "Since crisis can do so much harm, obviously states should avoid the massive levels of public debt that make financial debacles likely. One might perhaps wonder whether a state should avoid debt altogether, for then it would have great leeway to borrow to deal with any shocks that strike. But if a state refrains from borrowing altogether, its capital markets may never develop, and the private economy would suffer." (p. 25).

3. In 2008, the sum of 750 Euros represented a very low remuneration in Greece and we, as the Left, protested for the famous 'generation of 750 Euros'. Today, five years after the skyrocketing rates of unemployment, the same sum is considered 'satisfactory' as a monthly remuneration for those holding 'permanent' jobs. This means that the neoliberal policies effectively reduce the value of the labour force.

For a Political Economy of Public Debt[1]

by Spyros Lapatsioras

Before setting out the main points of my intervention, I will make a comment on the two previous papers by Marica Frangakis and John Milios.

A common topic, among others, developed in both papers is the function of money markets and, in particular, the way that they affected the solvency of the Greek public debt prior to entering the support mechanism in the spring of 2010. We remember the headlines stating that the markets were "attacking Greece".

1. The markets

However, the 'attack of the markets' rhetoric and 'war' rhetoric ("we are at war") are misleading and ideologically incorrect. These are part of a narrative meant to establish an ideology for the masses to facilitate neoliberal strategy in Greece. As such, while the narrative is based on facts, it also conveniently omits from the frame the 'underlying causes' that generated the events. After nearly four years, we can see that this ideology was effective. Indeed, the public fully believed[2] this narrative, even learning unfamiliar terminology such as 'spreads', 'CDS', etc.

To understand the terms regarding the servicing of the public debt in the period before the signing of the Memorandum and the Loan Agreement, we must consider two issues, and recall the environment created by the global crisis of 2008: the functioning of the markets and the functioning of the Eurozone.

The 'markets', also known as the modern financial system and the neoliberal organization of the financing of societies, constitute a dual mechanism: a mechanism that disciplines states and businesses to follow neoliberal imperatives regarding organizational production and reproduction, and a global mechanism representing the fluctuation of the profit rate. In other words, a knowledge production mechanism for the conditions of capital accumulation and expanded reproduction, and organization of the flow of funding. Markets' main functions originate from the aforementioned; these are discredited, however, when we analyze the markets as a 'speculative' mechanism.[3]

2. The Eurozone and the markets

The Eurozone functioned as a mechanism that offered member states some shelter from market discipline. Despite the formalities of the treaties governing state deficits and public debt, member states could violate them to a certain degree, while borrowing money with low interest rates up until the 2008 crisis. In other words, they could refinance or extend their debt - regardless of deficits.

This paper does not attempt to explain this phenomenon; the focus will be on the mechanism's flaw: there was no proper control or enforcement of the internal disciplines of the neoliberal model. We refer to the neoliberal model and not just to the founding treaties of the EU and the Eurozone.

This approach is justified given the founding treaties' arbitrary limits on deficits and public debt, the role carved out for the ECB, and the absence of mechanisms for transferring resources when needed. The treaties' aim was to transform European societies by slowly abolishing the European model, in place since post-WW2 notwithstanding the changes made in the 1990s, into societies that closely match the neoliberal ideal.

This decision was a compromise between the conflicting interests of the member states; however, when we only narrowly assess the formation of treaties and institutions solely as a product of compromise between conflicting interests of national leading classes, we ignore the shaping of the European reality.

In other words, individual capitals compete and form balances and agreements while the interests of the collective capitalist are integrated. These are shaped and moulded by the structural competition from societies, as well. The decision of the leading classes required a strategic commitment that the political class would succeed in its struggle to transform societies in a neoliberal direction; the rivalries between the member states were manifested in the strategic commitment, which led to strengthened institutional frameworks. To clearly understand the implementation of this decision, we must take into account that the political struggle occurs in the midst of competing forces and goals that are situationally dependant and that require establishing special interests as general interests.

The aforementioned elements explain governments' (regardless of party affiliation) commitment to implement policies that reduce social and economic rights of employees, as evidenced by the increasingly falling share of wages in the total product and increasingly flexible labour markets. These policies are facilitated by redirecting public finances both from the revenue side and the expenditure side, privatizations, and the change in the decision-making process that grants increasing power to capital and its interests. The consolidation of the neoliberal model is not without setbacks, however, given the social reactions / resistance of societies amidst political struggle.

The markets are tolerant of variations, a benefit to neoliberal frameworks, providing flexibility to member states in the process of instituting neoliberalism. This allowed the leading classes of the member states to establish neoliberal hegemony on their own terms. Beyond cyclical devices such as the quasi-institutionalization of violations, the basic factor of flexibility was the lending conditions from the markets either directly (such as the non-activation of monitoring rules for member states that exceeded the target on deficit) or indirectly (through the appropriate configuration of the statistical data and with the help of creative accounting – which concerns all the member states and not simply Greece). The lending conditions enabled flexible policies of transformation that could deal with setbacks, as well as policies that 'respected' the balance of power while avoiding the creation of risk to neoliberal political hegemony precisely because of the degree of freedom that the markets offered and the 'slow' transformation of societies.

3. The Greek case

The Greek case is an example of the informal synergy of the European mechanisms with the money markets.

First, the conditions of profitability in Greece created a massive influx of capital through the markets once Greece joined the Euro (single currency union). The broader conditions of operation of the financial markets, the global search for performance in the markets, the guarantee of monetary policy by the ECB, the importance of the Euro and the relative stability against sudden changes in the exchange rate created an environment of cheap and easy refinancing of private and public debt, despite the fiscal deficits during the period we review.

Second, the neoliberal contract in Greece was very similar to the global version: cheap interest rates, cheap goods due to trade liberalization, cheap labour due to the flexibilisation of the labour market (the expanded reproduction of the informal labour market), fewer taxes in exchange for the loss of economic and social rights from labour, privatizations, and the transfer of a series of decisions to technocrats outside the democratic framework. In relation to the total funding of the public and the private sector, the Greek economy was not the most indebted. However, the public debt was rather high compared with other member states, because of the persistent deficits.

The principle explanation for the size of the public debt lies in the fiscal policies and the role they played in the formation of a neoliberal consensus in Greek society.

Specifically, what seems impressive is that despite the Greek economy's high rates of growth, the level of public debt was consistently near 100% of GDP, and in absolute numbers was increasing. The correct interpretation of this phenomenon was obscured by the need to legitimise neoliberal economic policies. At the time of the signing of the Memorandum, the view that was introduced to the public to promote a positive stance toward the Memorandum was that the level of public expenditure was to blame for the amount of the public debt. However, despite the promotion of this view in scientific journals and conferences, a simple examination of the fiscal aggregates shows that this obscured the actual causes of the public debt's accumulation and avoided addressing what had occurred and why; instead, the focus was on what was going to happen: this was simply the disclosure of the ruling classes' goals. While the level of public debt resulted from revenue shortfalls, the intention in the early days after the signing of the Memorandum was to reduce public spending and the provision of goods from the State (as well as the size of the public sector to create space for the profitability of individual funds) to the levels of a developing country.[4] In any case, this view was perpetuated by the frame of a 'Soviet state', and by the creation of strategic objectives enabling a configuration of the social formation in line with archetypes associated with extreme neoliberalism.

The revenue shortfall created the conditions for neoliberal consensus in Greek society. The following example illustrates this: if the public insurance system needed to be privatized, then why gather social security contributions? The reform of the social security system through privatization involves political cost (2001), but by borrowing the solution can be postponed. Slowly, we will reach a *fait accompli* due to the 'untouchable' social contract that was concluded, with 'entrepreneurship' having both cheap labour as well as 'cheap' contributions. The same reasoning extends to direct taxes. Generally, fiscal policies applied political strategy based on arriving at consensus through the postponement of conflicts (i.e. when taxes would be increased) and through borrowing, thereby maintaining a political balance. The result was a slowly evolving consolidation of neoliberalism in almost every European country that was flexible enough to accommodate occasional setbacks.

Postponing contradictions enables capitalism. Crises are the moment when the organization and the scope of the postponement require rearranging.

4. The global crisis of 2008, Europe and the Spreads

The global crisis of 2008[5] signifies a failure of historic magnitude for the neoliberal system of organizing the financing of economies. The strategy to manage the crisis is a very important issue; as 'crisis' becomes an ever more frequently used word in Greek society, its important to note that most of the phenomena we are experiencing do not originate from the 2008 crisis but rather from the strategy used to manage it—something that we will only analyse as a secondary issue. In every crisis, who 'will pay the bill' becomes an important issue, as well as how the balance of power will shift. Typically, the shift is in favour of the world of capital, especially in light of the fact that Europe lacks well-defined social movements. Analysing the struggle waged by the ruling classes and the reactions of the subordinate ones can offer keen insights.

We will now briefly assess the strategy behind the European narrative for managing the crisis. Starting in 2009, rhetoric such as the "crisis is an opportunity" which helped accelerate neoliberal reforms is paired with "the road to hell" (as stated by Topolanek, then President of the EU and countersigned by the European ruling classes),[6] to get through the crisis. Also popular were views such as "unemployment could be addressed by increasing government spending and forming mechanisms of European solidarity", as well as "capitalism displays crises". Another example: "we cannot deal with this crisis through public expenditure, i.e. by increasing debt, because the cause of the crisis is the increased debt; what we need to do is to proceed with reforms and establish the mechanisms to address the next crisis". In other words, to create a policy which serves to transfer the burden of the crisis to the world of labour while also supporting the same failed policy applied in 2008.

The international money markets, already volatile from the crisis of 2008, were faced with the potential for losses across the board from the member states: the policy that "each member state will build on its strengths" - there will be no single European troubleshooting mechanism, was particularly worrisome. Also problematic were policies allowing "the balance of long-term benefit from the transformations in the rigid labour market, the welfare state, new areas of profitability relative to the inevitable short-term costs from the recession, the bankruptcies of states, banks and businesses, is in the benefit of the former". It is the first period of growth of the spreads, not only for Greek bonds but for all the bonds of the so-called 'periphery'.

This is undoubtedly about creating conditions of a 'battlefield in an encircled territory' for the ruling classes of each member state. They cannot succumb to the 'moral hazard' and concede to the demands or resistance of subordinate classes, but must instead conduct the battle of reforms until the bitter end, without the help of markets, at all political costs.

It is obvious that this decision was taken to address the following dilemma: the depth of the crisis and the aggregates that must be mobilized to effect change require a common European response mechanism to address the level of unemployment; this would involve a disruption of the social alliances of neoliberalism. If the "rich should pay", then new institutions need to be created for the redistribution of wealth from the upper to the lower classes. Institutions, which will necessarily nullify core European conventions, such as those that prevent the ECB from directly financing states. To put it simply: a pan-European rescue mechanism would either 1) pit the German ruling class against the German working class, which would provoke questions regarding strategy and entail significant political risk, or 2) reverse a decades-long policy that has created very high social inequalities [in Germany], thus breaking the social alliances with the world of capital, since Germany would be have to fund some of the Eurozone bailout costs. Alternatively, avoiding this would require a change in the ECB's role and the creation of mechanisms of common European debt. The second option would require a shift in the balance of power and would lead to social upheavals—unlikely to be palatable to the existing ruling classes. Therefore, the solution that allows for a 'nationalization' of European crisis management policies is "optimal," since it shifts the conflict to the other member states, maintaining neoliberal hegemony. While this policy produces recession and societal ills, it also disciplines the hegemonic political forces despite the political struggle, as well as the workers—since unemployment undermines the ability to resist. Europe continues to export recessionary trends to the rest of the world and, thus, fuel tensions amidst the biggest crisis post-WW2. However, the true goal is strengthening the hegemony of neoliberalism.

During the summer of 2009, the spreads reversed their upward trend, trending downwards throughout the Eurozone, as shown in the diagram presented previously by Marica Frangakis. Why did this happen? It happened for a very simple reason that will be understood if we correlate the performance of various securities with the course of political events.

While the upward trend during the onset the crisis is explicable due to the defence of markets in the management of the crisis, the downward trend observed across the Eurozone is linked to the statements by European officials that - despite the initial refusal - there would eventually be 'European solidarity' and the establishment of appropriate mechanisms for those member states that would face difficulties. It was during this period when the consequences of this crisis management strategy were just becoming visible, adding to the worries of the European political class since the management of the crisis was creating new rescue costs. However, this early concern subsided because it created the conditions for the deconstruction of the neoliberal strategy from its early steps; by the end of 2009, the balance was restored as the statements about solidarity subsided. As a result, the general rise of the spreads started once again, especially in the 'periphery', and that rise was faster for Greek bonds, following the public comparison of Greece to a 'sinking Titanic'.

In conclusion, the volatility of the spreads wasn't due to the 'aggression of the markets', but rather from the markets going on the "defense" as a reaction to the risks caused by the crisis management strategies.

5. Public debt and ideology

This, therefore, is the environment that forms the basis for discussing the issue of Greek public debt. We talk about 'detachment from the trap of over-indebtedness'; I will add myself to those who also question the validity of the meaning of this title. There are many dimensions to "getting out of debt".

One such dimension that requires serious analysis is the view proffered by John Milios. The Memoranda were imposed on the basis that Greece has high public debt. Therefore, the debate over the large public debt legitimizes the enforcement of the Memoranda.

The public debt, which was caused by public deficits, and in fact by the large public sector of two million civil servants (regardless of whether it was already known that civil servants numbered less than one million) was framed as the crux of the problem. Since the public debt produced deficits, the need then arose to reduce the public sector, proceed with privatizations, etc.

Despite the eminence gained - especially in Greek society - by discussing the amount of the debt, we should ask ourselves – as the Left has debated this issue in depth several times throughout the crisis - what dimensions of this issue concern us and what dimensions do not affect us at all?

Let us therefore ask the question "which debt are we referring to?" as a unifying thread to explore the problem of public debt and the alternative options that are available to address it.

6. The international dimension of debt

Historically and presently, international financing and exchange are based on the neoliberal model of the organization of the financial markets.

Critiques of this model are plentiful. The 2008 financial crisis serves as a practical critique of the limits and functionality of this model. Globally, there is movement to identify another model; in Latin America they are efforts to organize something different, as is the case in Greece, where SYRIZA also has a different model to propose. As inequality soars, the need for a new model is gaining diverse supporters even certain neoliberal forces are not particularly happy with the way the current model works.

Under the neoliberal organization of the financial system, capital accumulation and expanded reproduction occur through public and private indebtedness, which is mediated by the money markets. The capitalist mode of production requires increasing credit in order to finance growth. However, the organization of credit can take on various forms or models. Changing the current international financial system is something that interests the Left, even if the idea of an alternative to the capitalist system of production is difficult to fathom.

What would altering the international system entail? It would entail nuanced changes in the organization of the financing of economies in a significant geographical area [a continent] to bring forth new results. The Left would have to address the financing of all economies in Europe, as one country alone would not be able to produce demonstrable change. Greece, France or Germany alone does not have the special weight to alter the rules of finance - each country can only produce a ripple in the sea of financial markets.

The first key point regarding debt and the terms of financing of economies therefore is: the need for an international response.

It is important to keep in mind is that there is both public and private debt, and that these two seem to exist in the absence of the other; namely, the countries that had little public debt, such as Spain, had a very high private debt and countries that had very low private debt, such as Greece, had very high public debt. Therefore, we must reframe the debate on the debt on a global scale that includes how economic functions are financed. Instead of limiting ourselves to debt, we should broaden the debate on the methods and conditions of funding economic operations.

A proposal for changes at the European level, i.e., for the ECB and (European) financial sector, generally, would position funding as a collective public good. The strategic importance of this proposal centers on the fact that the debt issue is European rather than national in scope, and this would apply to both public and private debt.

We must also consider what detachment from debt would entail. This prompts us to explore why the debt in Greece was created.

The general principle is that the neoliberal system generates debt. In Greece, however, the public debt was the result of the ruling classes desire to foster consensus for neoliberal regulation.

7. What shall we get rid of?

Previously, John Milios noted that the critical point in the debate on the debt 'haircut' is, conditionality: the accompanying conditions that need to be met for the money to be disbursed.

This arises in two ways. First, the inability to obtain financing of public needs creates the necessary dependence on interstate borrowing, hence the existence of the ECB. This in itself is not troubling. The problem arises from the obligations created, beyond the repayment of the money and the accompanying interest as can be clearly seen in the Memorandum, i.e. the obligation to practice specific economic and social policies in order to receive the instalments. For neoliberals, this is not a problem; it is a solution to the problem. Conditionality in the disbursement of money solves the 'moral hazard' where the governments that borrow succumb to the demands or resistance of their societies. Conditionality creates a polemical context that affords the leading classes the opportunity to disregard social alliances, as long as the political risk of using 'military' tactics against society does not impede the ability to exercise power. This is the basic tool for the imposition of neoliberal reforms. Of course, the most important aspect of conditionality is its content and the fact that it organizes a redistribution of wealth and power at the expense of the working world, and not the form itself. In contrast, the markets have until now, imposed conditionality indirectly and less effectively. However, we cannot expect the same degree of freedom in the future given the general reorganization of the financing system in Europe.

Secondly, conditionality can also be built into the financial needs for the servicing of the level of debt, which can further neoliberal imperatives.

Therefore, the attached conditions, the conditionality, is a crucial matter. In other words, given the choice between a proposal that abolishes neoliberalism and that gives us the chance to create a more equal, more democratic society, where everyone can live in dignity, with higher public debt *versus* a proposal for a very low debt that ignores social needs, the preferred choice is clear: to abolish neoliberalism.

Therefore, we must reframe the debate on the public debt to include the abolishing of neoliberalism. The crux of the matter is that neoliberalism has intensified and deepened in Greece over the past several years.

8. Strategies to address the problem of debt

The level of public debt as a percentage of GDP depends on the nominal economic growth (inflation plays a role), the surpluses / deficits and the level of interest rates and, on the ability for a decrease ('haircut').

A broader question concerning the public debt centers on its 'sustainability'. There is a widespread belief that a 'non-viable' debt is a high debt. This is incorrect. A debt of 40% may not be sustainable; for example, at the start of the crisis in 2008, the Spanish government had a public debt of 36% of GDP. Its creditworthiness was questioned, and it funded its debt for over a year with rates near 7%, until the ECB's policy changed under Draghi's direction, which called for a 'soft' management of the public debt with refinancing at low interest rates through the money markets.

Thus, 'sustainability' does not necessarily depend on the level of debt but rather on the ability to refinance and on perception of whether the debt can be refinanced or repaid 'normally'. This depends, in part, on the yearly obligations associated with amortization and interest, as well as on whether there are surpluses or deficits that can result in increased borrowing needs and debt, or greater obligations or weaknesses affecting normal repayment.

To exit the crisis, the Greek economy must face the aforementioned issues concerning the public debt and its servicing. The Greek economy and society today face very high unemployment, the immediate reduction of which requires funding and economic growth (to create jobs). In addition, the exit from the recession and the conditionality of the Memoranda require a resolution of the debt problem that will provide financing to both the private and public sector from the money markets on good terms, i.e. with reasonable interest rates and a 'good' distribution of repayment.

These two requirements, the release / availability of funds for growth and the access to money markets, form the basic technical discussion on debt sustainability and the level of debt.

The following is an example of 'solving' the debt problem, compatible with social needs: let us suppose that the entire debt could be organized as a swap, lasting 100 years with zero interest, i.e. all payment obligations, amortization, and interest would be assumed, and the government would repay these costs after 100 years with a zero interest rate. While this would not reduce the absolute amount of debt, it would make the debt seem as if it did not exist for a long period of time, as if it were 0%.

The primary surplus would not be directed towards interest payments or amortization, and could instead be directed to reducing unemployment. Additionally, each 'player' in the money market - with all factors fixed - by witnessing primary surpluses and thus the ability to repay, an outlook of positive growth rates that also create confidence in the solvency, and zero financing needs for amortization and interest, would be quite willing to buy 10-year bonds (in a time horizon of less than 90 years from the swap); surpluses and growth reduce risks, and participation in the single currency does not create additional risks (foreign exchange and interest rate ones) or expensive needs to hedge them thereby aiding the financing of emergencies that the public sector, which would take this swap, would likely face. The debt, in this case, seems perfectly viable even if the debt that the government agreed to swap amounted to 300% of GDP. Indeed, we should consider the following: A debt of 300% of GDP in 100 years will be much smaller relative to GDP due to the economic growth that will have occurred during the period in question (the debt is an absolute aggregate here that remains constant over time, while GDP changes each year; of course whether we should have continuous growth as a goal, given the environmental-economic effects is another issue that does not affect the generality of the discussion here).

Using this example for our analysis, we note that the central issue regarding ending the recession, namely reducing unemployment quickly and meeting the urgent needs of society, is the funding needs and their allocation over time.

The following two questions must be taken into consideration as we assess how this example would work. First, would 'someone' enter such an agreement, i.e. assume the debt for 100 years? Second, what are the minimum terms of such an agreement that would satisfy the demand to exit the crisis from a Left, anti-neoliberal perspective?

The answer to the first question is relatively simple. Obviously, this 'someone' cannot be an individual, because it is a one-sided agreement; however, under the present conditions, this may be the ECB. Indeed, the ECB could facilitate such a swap, and the agreement could be for an indeterminate period of time. This is a proposal, the primary consideration of which - the ECB's role as lender of last resort - has long been suggested by SYRIZA. Recent deliberations on this topic have begun - not in the extreme form that we presented in order to highlight the power limits - even by non-heterodox to the dominant thought economists, like Wyplosz.[7] Such a solution can be generalized to treat the full scale of European debt that is 'problematic', as also suggested by Wyplosz (including, for example, part of the Italian public debt, as well as of others, too).

The second question requires presenting ideas based on alternative technical 'scenarios', which I will not present here. Generally speaking, such an agreement cannot be accompanied by neoliberal conditionality, i.e., creating conditions based on neoliberal policies that prevent the necessary transformations of Greek society to overcome the crisis. Also, this agreement would need to include the largest possible part of the public debt (e.g. as a minimum, especially, to cover ECB bonds maturing in 2014-15, the IMF loans and, generally, loans ending by 2024 or with high interest, apart from the treasury, and the part of the debt that creates large financing needs in the future).

The required proposal would not create additional requirements for capitalization or mechanisms such as the ESM that cannot act on such a scale, or additional obligations for a member state. The ECB has the ability to undertake such a project on a large scale, and not only for the small - in absolute size - public debt of Greece.

Finally, we must consider how this proposal compares to the proposal to write off a part of the debt.

One proposal that has been submitted and concerns the immediate write off of 50% of the debt and allows for a grace period for the servicing of the financial needs has the advantage of reducing the conditionality of neoliberalism; the debt is not transferred to the ECB, and provides time for the implementation of policies that favour exiting the crisis. However, the better option may be some form of a combination of the two proposals, since the swap proposal is currently not an available option for the European Union in its entirety (which would create stable rules applicable to all Member States).

In closing, in either case we must address both the debt and the creation of conditions that will allow us to move beyond neoliberalism in Greece and in Europe this will be the path of a Left government.

Notes

1. The text is based on an oral intervention at the conference, based on notes from relevant research on the debt issue and many related articles and talks of mine; therefore it does not claim to have a strictly academic nature with the usual documentation. I thank the colleagues at Poulantzas Institute for the transcription and their patience in the delivery of the final text. In an effort

to stay true to the verbal intervention, I decided not to create another text, and thus I do not make extensive references.

2. To the extent that it was necessary, the narrative that there were structural weaknesses in the Greek economy and thus "the crisis had always been present", was promoted relentlessly until it became the dominant narrative. Its purpose was to legitimize the decisions being taken to address the crisis [i.e. austerity, privatizations, etc.], while seemingly explaining, and making up for, the past.

3. See, in more detail, Sotiropoulos, D. P., Milios, J., and Lapatsioras, S. (2013) *A Political Economy of Contemporary Capitalism and Its Crisis: Demystifying Finance*, London and New York: Routledge.

4. See, in more detail, Lapatsioras, S., Sotiropoulos, D. P., and Milios, J., "A journey in defeat: policies for confronting the crisis or policies for exploiting the crisis? Thoughts for a Left strategy", Part 2, *Theseis*, 2011, no. 116, pp. 117-146 (in Greek).

5. We should once again stress, with respect to the conditions for the creation of the world crisis: the outbreak of the crisis at that particular moment was not a necessity. It occurred due to Paulson's decision to let Lehman Brothers collapse, a systemic bank of global significance. See Lapatsioras, S. and Milios, J., "Financial crisis and 'economic regulation'", Part 2, *Theseis*, 2008, no. 104, p. 17 (in Greek).

6. For more details, check http://lapatsioras.wordpress.com/2010/03/29/%CE%BF-%CE%B4%CF%81%CE%BF%CE%BC%CE%BF%CF%83-%CE%B3%CE%B9%CE%B1-%CF%84%CE%B7%CE%BD-%CE%BA%CE%BF%CE%BB%CE%B1%CF%83%CE%B7/

7. "The PADRE plan: Politically Acceptable Debt Restructuring in the Eurozone", Pierre Pâris, Charles Wyplosz, 28 January 2014, voxeu.org

Crisis Management Policies in the Eurozone and the Preconditions for Recovery

by George Stathakis & Michalis Nikolakakis

The economic crisis continues to divide the member-states and European institutions. At the heart of this crisis is the very crisis management policy that has been implemented from 2008 until today. In what follows, we will try to capture the different moments in the course of the management of the debt crisis in the EU, and outline the main points why a different policy should be pursued at the European level.

Initially, in 2009, the approach to crisis management at the European level was simple. It was decided that only to the banking system would be given support. A first round of funding of the banks occurred, and then each individual country was left to exercise 'national policies' of crisis management, with a high degree of freedom. These national policies were to be exercised in violation of the basic pillars of the EU on competition, given that government subsidies to key industries would be temporarily tolerated. At the same time, the creation of temporary public deficits was also acceptable.

In this way, the EU's reluctance to take action and tackle the crisis at the European level was obvious from the outset. Each country was essentially called upon to bear the weight of crisis management on its own; interventions were required precisely at this level of policy-making due to the economic crisis' strong international and European dimensions, which were ignored. The crisis has had strong asymmetric effects in every economy, as a result of the shortcomings in the architecture of the Eurozone, which *de facto* require broader and coordinated policies in order to prevent the strengthening of asymmetries.

Shortly thereafter, the weaknesses of this approach appeared. In the US, China, Japan and elsewhere, an aggressive approach to the management of the crisis was followed, through support for domestic demand, the management of 'toxic securities' through extensive interventions in the banking sector, the gradual unwinding of the exposure of banks and corporations to heavy borrowing, and the stabilisation of public expenditure. The aforementioned measures imposed a looser monetary policy on fiscal deficits, which increased public debt. Globally, the increase went from 26 to 40 trillion dollars in three years, with a prominent contribution by the US, which rapidly increased its public debt.

In contrast, the EU, which had the lowest public debt relative to the other major economies up until that time, quickly became involved in the throes of a national public debt crisis that led almost all the economies of the European region to the brink of bankruptcy. The aversion to the idea of the mutualisation of part of the debt left the member-states with different sizes of debt unprotected against the markets.

In the absence of a European policy, the markets began to assess the risk of each national debt, creating a huge diversification in lending rates and finally, isolation of particular countries. Of course, the valuations vary each time, given that the response of the EU to successive debt crises of the member-states is also taken into account. In fact, very often the predicted response of the EU to the management of the successive debt crises is pre-subscribed.

Thus, the financial markets that found themselves refinancing, in part, a widening global debt, and thus treated the EU as a 'weak link'; amid a shortage of available capital and for obvious speculative purposes, the markets were involved in the evaluation of the public debt of each country. This quickly evolved into a key destabilizing factor of the Eurozone.

Greece quickly found itself unable to borrow from the markets, while most countries borrowed at gradually higher rates under conditions of uncertainty and great fluctuations. In addition, successive pressures began to emerge in the banking system, either in individual banks or in national banking systems. The major banking crises, such as in Ireland, quickly turned into public debt through the nationalization of banks.

The first phase of the crisis management policy ended in late 2009, and the second phase, 'the rescuing of the economies', was launched in early 2010. The EU became involved in processes of "rescuing the economies', virtually abandoning the assumption that the management of the crisis would remain a 'national cause' and recognizing that the European institutions, which until then were structured around the idea of 'no bailout', could no longer ignore the deep economic crisis.

However, the policy of 'rescue' that was chosen minimized the cost to the rest of the Eurozone countries while shifting the main burden to the 'problem' economies. Every country involved in the rescue scheme had to bear the burden of the policy of forced fiscal consolidation, internal devaluation, dislocation of the labour market and privatization. Through having each country that was unable to refinance its debt sign Memoranda, a new period was inaugurated that brought successive small economies of the region under a peculiar status of economic 'hostage'. The rescue would take place with the application of, essentially, pro-recession policies, with high economic and social costs.

The refinancing of the public debt occurred with the establishment of a temporary agency, which then became permanent and would act as an intermediary financial institution between the markets and the ailing economies. EFSF, with a small equity of only 80 billion Euros, which also constituted the only real contribution of the Member States, would borrow up to 500 billion Euros initially from the markets, which then increased by using guarantees from economies with a triple A rating. In this way, taxpayers would not be burdened while the banking system that had an exposure to the bonds of troubled economies would be shielded.

The policy of 'rescue' soon led to new roadblocks. The recession in the economies created failures in fiscal adjustment and made the debt blatantly unsustainable. Public debt, therefore, had to be restructured. Each program of public debt restructuring bore the burden of allocating the cost of restructuring among debt holders, taxpayers and future generations. In the case of Greece, a combination of 'hair-cutting' the value of bonds and the transfer of repayment in the future was chosen.

The banks, especially those abroad, had some time to minimize their losses by restructuring their portfolios, while a significant amount of their burden was transferred to domestic bond-holders. The problems that ensued for the domestic banks led to the need for the recapitalization [of the Greek banks] through a new program that would add new burdens on the public debt.

However, the management of the public debt is not solely an issue of refinancing debt through an intermediate mechanism. A second matter that needs to be addressed concerns the policy of the European Central Bank; the provision of liquidity to the banking system indirectly affects the refinancing of the public debt since it allows the organized intervention of the banking system in the bond markets.

The European Central Bank, finding itself in a rather awkward position and insulated by the restrictive institutional framework, is justified for not having even the slightest crisis management plan. Obviously, the ECB has undertaken many individual initiatives regarding the bond markets and the provision of emergency funding to national banking systems in both Greece and Ireland. This policy then gained enormous traction with the creation of an open credit, worth hundreds of billion Euros, to Italy, which faced significant problems without being covered by the ailing EFSF. Therefore, in this largely informal way, the ECB tried to manage the new developments without clear rules, objectives and initiatives.

However the problem remains. The initiatives for the consolidation of the European banking system, a process that would shield the banking system by creating uniform rules to diffuse the exposure of banks and facilitate the creation of security mechanisms for the management of individual banking crises, are beyond the scope of the ECB. The central bank's reluctance to adopt radical solutions is not surprising. In the absence of strict rules, the bank invokes the 'moral hazard' at every step of integration, an 'alibi' that is reasonable in times of economic growth, but weak in times of crisis. Thus, when drastic solutions are required - similar to those implemented by the US - the invocation of the 'moral hazard' leads to conservative choices that prolong the crisis.

The results of the June 2012 Summit confirm the aforementioned failure. The decisions made during the Summit, namely, the ESM's ability to recapitalize banks without state involvement, the oversight of the banking system, the provision of a spineless development package, the ESM's ability to make bond purchases from the secondary market, and the possibility of issuing special issue bonds, were cautious from the outset - and were never implemented in practice.

Despite the inefficiency and the reluctance to manage the crisis at the European level, the Summit's participants recognized, *de facto*, the existence of three separate problems: a) the recession, b) the public debt, and c) the instability of the banking system. These issues should have been simultaneously addressed at the European level, using common mechanisms.

Thus, it becomes clear that for the European economy to recover, it would require: a) the reorientation of the economic policy that focuses on inflation to that of unemployment (as in the US), b) fiscal adjustment of the development agenda with looser monetary policy and the enlargement of the EU budget, and finally, c) the regulation of private debt in order to stabilize the banking system.

The private debt, perhaps the least discussed of the issues of the European crisis, is central to the banking problem and is hampering the fragile efforts to create a banking union.

When money markets are deregulated, private debt surges during periods of growth, inflating securitized values compared to actual values. In the aftermath of the crisis, arguments on this issue continued to proliferate. Until recently, addressing private debt at the EU level reduced the international exposure of the national banking systems. However, since the measures that have been implemented coexist with pro-recession policies, maintaining virtual bank assets is a ticking time bomb in the foundations of any national or European effort to stabilize the banking system.

Today, despite the hegemony of the German-inspired view that Europe should be fiscally disciplined and internally asymmetric, there are other policies at the European level that are based on a different approach to the applied economic policy.

The European trade unions, for example, have submitted a comprehensive proposal regarding overcoming the recession and the sovereign debt crisis. This proposal entails European co-operation on tax evasion and avoidance, more stringent European regulation policy of the money market, cooperation for the creation of stable and quality jobs through the expansion of the European social achievements, and issuing Eurobonds. However, central to the European trade unions' proposal is the increase of the Community budget to 2% of GDP for the Eurozone countries, for at least 10 years. Such a plan could be implemented directly by a new institution that would create access to financing for all EU countries and could issue long-term European bonds at low interest rates.

The European trade unions' proposal is worth exploring; we should consider the following three questions: a) What types of taxation will be required to fund the initial capital needs of such a project? b) Which productive sectors will be set as priorities for the promotion of the ecological modernization of the European economy? And c) Who will be responsible for the implementation?

Regarding the first question, existing proposals include both unspent capital from the structural funds and additional taxes on financial transactions as funding sources, as well as more radical solutions - though they may face difficulties in their implementation - on the adoption of a pan-European "one-time" tax on wealth.

Ecological modernization must be carefully considered, and not spuriously set as a priority by the EU. A consensus on the creation of transport infrastructure and networks spur an energy transition in Europe; the savings from reducing dependence on fossil fuels would create the preconditions for securing resources in the mid-term to tackle the debt. Such an endeavour should prioritize support for health and education, permanent jobs, social housing, and the re-industrialization of Europe in line with ecological goals.

Despite the differences in the impact of the crisis or the political and social coalitions in each European country, making loans available to small and medium enterprises based on clear social and environmental criteria should be an area of consensus. Here, too, national or regional level public works, as well as social enterprises, should have access to funding.

Five years after the onset of the global financial crisis, the Eurozone remains vague and ambivalent in its approach to resolving the fallout. The reliance on austerity as the dominant policy is transforming the economic crisis into a crisis of the EU itself, and is intensifying existing gaps and asymmetries between the different economies. This strategy can prove fatal for Europe: instead of greater cohesion, Europe is at risk of disintegration.

Productive Transformation and Development in Europe

by Theodora Stathoulia

When it comes to approaching the issue of the development challenges in Europe and Greece, we must first examine the mode of thinking of the opponent. This is why we need to examine policies and available resources of the wider region that politically, historically, economically and geographically has been defined as the European Union.

Until the outbreak of the crisis in 2008, the design of development policy in the European Union was based on prosperity terms and enlargement policies. From 2008 onwards, this has changed entirely, due to the collapse of the financial system and the crisis that followed, with attributes that pointed to a financial crisis, or debt crisis. These events were dealt with embarrassment on behalf of the Left, which we can initially attribute to the lack of a comprehensive understanding of the functioning of the European Union during the previous period. Specifically, the lack of adequate understanding is due to ignorance concerning development policies and funding from the European Union, policies associated with structural funds, regional development, the agricultural fund (CAP), and other instruments. Due to the limited influence of the left on institutional developments in the European scene, there was no systematic approach to funding policies, or to the tools, objectives and ideology of European development objectives and funding programs.

Of course, we are now in a different situation, which requires a systematic and courageous approach, both to what is actually happening and to what could constitute an alternative future for funding planning. References to the extensive funding needs and a new 'Marshall Plan' may be signalling the necessary opposition of the Left to austerity, but are not sufficient. The insistence on the financing of a development plan by an organization such as the EU, which is both economic and political, is a matter of utmost importance because it involves strategy, ideology and the future, and brings a political history with it. If we seek, to disrupt our ties with this history, i.e., halting ties with Europe in its timeless historical - productive, economic, social, cultural - course, we should be strategically prepared to do so.

At this point, it seems that we are looking for the philosopher's stone, as Marx would say - drawing on the historical analogy of the example - when he referred to the meeting of revolutionaries in the occupied palace of Luxembourg, when they were seeking to establish a Ministry of Labour. Marx had said then, somewhat mockingly, that "while you are looking for the philosopher's stone at the palace of Luxembourg, the real money is cut at the City Hall". The City Hall was, exactly, the place where political and economic decisions were taken. In the same spirit, the Left should do both, building a bridge between the functions of the City Hall and the palace of Luxembourg.

In other words, the Left must simultaneously search for the philosopher's stone and for the place where money is 'cut'.

First of all, the European Union has never been innocent; it always knew all too well and in advance what it did for the two components - the philosopher's stone and money. Let's revisit a typical period for the EU. In 2007, the European Union - and by that I mean the balance of power between the Social Democrats and the Christian Democrats - stood before a growth rate of 3.7% that had been constant from 1998 until 2005. Moreover, it was in 2004 that the EU experienced the largest accession of member-states, a total of ten countries which joined at once. These included two Mediterranean countries and eight countries of the former Eastern bloc. The European Union was in a process of expanding its territories, something that is crucial for capitalism. New lands and new populations mean new sources of wealth. At that time, all of these components of the policy looked positive for the course of the EU.

Suddenly, in 2007, in the midst of this calm landscape of European bliss, the think-tank of the European Parliament claimed, through a very important study, that the way of measuring GDP should change.[1]

Why was this approach to the measuring indexes of GDP pursued? Why did environmental and social conditions have to be included in it and, furthermore, why in 2007?

At that time, the European Union had a positive stride but expected ominous data from the eight countries of the former Eastern bloc, which had achieved their integration without the ability to balance the collapse of the previous structures. The social structures had collapsed, there was poverty and misery, and this somehow had to be covered so as not to negatively alter the image of enlargement. Moreover, let us not underestimate the fear of progressive forces for a return to the Thatcherite nightmare, i.e. the message that "there is no such thing as society". This message always functioned as a nightmare; the officials of the EU would not want to go back to such a Europe that is sterilized from any social discourse. They feared that with the new states and the revelation of a welfare state under collapse, with the assumption that basic social structures were covered in the previous political and social regime, the accession process would lose its glamour. The traces of an enlarged European landscape that was about to be set up and was characterized by strong but contradictory elements had to be erased.

As such, Europe knows where it is going each time, and is aware of its forces very well; it also knows how to obscure the traces of a ruined landscape by changing the methodological tools.[2] What was the reason why the European Union did not adopt in 2009 what it had discussed in 2007?

Why didn't the EU do the same in 2009, i.e. change the method of calculating the GDP in order to obscure the overturning of the fundamental principles of its operating treaty, namely the limit of 3% of GDP for deficits and 60% of GDP for public debt? A partial answer is that in 2009 the danger was not coming from the dark landscape of the distant countries of the former Soviet bloc, but from the collapse of the banking system. It is important to uncover these turning points in the EU's course. It is important that the people of Europe know that the EU is not a fluid landscape, but has a strategy. The EU carefully plans what it does and we need to know the decisions of the 'opponent'. Moreover, Lenin once said "bring to me the newspapers of my opponent"; we always talk to our friends and companions, and know little of what opponents are really preparing. The essence of my argument is that what they are preparing will not have anything to do with the Left and the tools it needs to overcome the crisis.

The EU revised its strategy for growth in 2001, in 2006 and in 2009, i.e. with a frequency of two or three years, while we are not allowed to review any policy. For example, the EU strategy during the 2000s - the Lisbon strategy - as raw as a text by an economics freshman. However, at that time a more well-thought out strategy was not needed since everyone was rich. Everyone among the rich ones marched as she liked - and of course the surplus countries -, accumulating wealth from the current account balance, with social dumping after the historic compromise of Schroeder's social democracy in Germany. These countries decided to accumulate, while they left others - including Greece - to think that we lived in a bliss that was going to last forever. Through social dumping in surplus countries, wages were kept low while debt was being accumulated in the peripheral economies (in addition to all other domestic distortions). The responsibility of the Left - and of our own, small Left at the time - is that although it was able to see and investigate, and therefore understand in depth what was happening, it did not want to do so.

Thus, the Lisbon strategy for the 2000-2010 decade was a vague text that advocated that we had to develop in fields such as the 'knowledge society', etc.[3]

However, in 2008 we are at the beginning of a crisis, with the new strategy 'Europe 2020', and things begin to change. The debate does not concern general development and 'knowledge society', but measurable growth with conditionalities. The EU currently imposes development and requires us to be successful and live in prosperity.[4] And this is reflected in the 'Europe 2020' strategy, as shown for example in the poverty reduction target - a measurable objective. Moreover, the target is set as a condition, the non-fulfilment of which means the suspension of funding from the structural funds.

In this framework of objectives, Greece has to reduce the number of poor citizens by at least 450.000 by 2020. In conditions of austerity and absolute fiscal surveillance, with a crisis of a long and deep recession, Greece is asked to reduce the number of the poor only through the contribution of the European Social Fund (structural fund). Politically, 'Europe 2020' must be seriously reconsidered. There are voices among the Left European Parliament group that consider 'Europe 2020' as a condition in order to advance development and employment. A possible reason for this may be the lack of understanding of 'Europe 2020', and also the fact that, among the European Left, the topic of the development has not been sufficiently discussed.

This new scheme, 'Europe 2020', is not only plain hypocrisy, but also a self-refuting claim (relying on flexible political balances on strategic issues). So, the day the German automobile manufacturers stated that they would not follow the 'Europe 2020' strategy to reduce carbon emissions and carbon dioxide - a demand that was of course immediately adopted by Merkel - the adaptation of 'Europe 2020' in a more pragmatic context began. The adaptation of the automotive industry in the reduction of greenhouse gas emissions requires huge investments, which the industrialists do not want to make. Therefore, the goal gets to change. Automakers challenge a pillar of the strategy that requires the reduction of greenhouse gas emissions by 20 % by 2020. If it does not meet this condition, will Germany still be eligible to receive money from the structural funds? The answer is that, of course, its funding will continue unhindered.

Plus, Germany will also claim the return of its money - a rebate system for 'net contributors' to the European budget. This system was strongly promoted by Thatcher, who was asking for the UK to receive part of the money that it contributed to the European budget[5] - instead of having this money given to the 'southerners', as she used to say - and she finally managed to obtain this clause. The Netherlands, Sweden, Austria and Germany also have their rebates. This is the context of EU solidarity funding.

Besides, David Cameron also raised rebates as a condition in order to acquiesce to the 2014-2020 budget. With this system, an already poor European budget returns to the 'rich' a part of their contributions, and gives them 5% of the structural funds for 2014-2020 as an extra bonus (the countries that will achieve the best absorption targets (sic) will take 5% of the total budget for structural funds out of the performance reserve, as this was named, i.e. about 30 billion will be returned to the powerful countries). Additionally, it gives these countries generous funding for their regions, their agricultural products and their research, and the leftovers go to the rest.

Concerning financial instruments, Greece is funded by the European Union through the European Regional Development Fund, the European Social Fund, and the Cohesion Fund, which constitute a package of 20.1 billion Euros (2007-2013) and 14.5 billion Euros (2014-2020) respectively. Greece has additional funding from the agricultural fund and other smaller instruments, for aid to farmers and rural development.

Note that the funding for the programming period 2014-2020 falls under five conditionalities. The first three are ex ante conditionalities - fiscal discipline, smart specialization[6] and the internal distribution of funds (20% directed to social structures and 20% to environmental protection in order to address climate change) - and two ex post conditionalities.

The ex - post conditionalities are the successful achievement of milestones linked to the 'Europe 2020' objectives in each country, and the linking of the economic governance of the EU with cohesion policy.

If our planning does not follow these terms, then there is no funding.

Other financial instruments, such as COSME (European Programme for the Competitiveness of SMEs),[7] which constitutes the funding instrument of the EU for SMEs with a budget of 2.3 billion Euros for the 2014-2020 period, are policy instruments. Under the program 'Horizon' 2020 (74.5 billion Euros for the 2014-2020 period), a new tool for SMEs is created, the SME Instrument[8] with a budget of 3 billion Euros.

The European Investment Bank (EIB) signed an agreement with Greece to aid Greek SMEs with 500 million Euros; the guarantees for Greece come from the NSRF. The money is placed as collateral because they do not trust us therefore we lack these resources with which we could fund development in times of recession and humanitarian crisis. So far, 1.7 billion Euros have been 'mortgaged' as guarantees to the various financial instruments of the NSRF, with the risk of losing them (absorption until now has not exceeded 15%). No society can justify such a policy, especially when it could have this money in order to run nurseries and schools, give benefits, or initiate structures. However, the money from the EU funds are committed as guarantees and, with the method of leveraging funds, it is argued that the European Investment Bank and the Greek banks can finance SMEs. However, this scheme is not successful in conditions of extreme recession. So, this is what the EU means as development and these are the models that it uses.

For example, the CIP (Competitiveness and Innovation Program) involves a sum of 1.1 billion Euros for the period 2007-2020. Through this, the European Union sought - because it was a guaranteeing tool - to leverage an additional 10 billion Euros with this 1.1 billion Euros, in order to finance SMEs. Leverage was achieved, but banks in Greece do not lend to small businesses, but only sign guarantees so the money from the NSRF is detained without going to those who need it. Moreover, banks are not lending because the program provides for the risk sharing instrument. In other words, for a business to get money from the bank through this tool, it should not fall under the category of firms facing difficulties. Therefore, only healthy firms will receive money. In Greece, most enterprises face difficulties and with this system, the EU shows that it does not want to fund them.

From all the above, it appears that the EU does not want to fund development in Greece. This does not mean that the officials in the EU are bad. It simply means that, as Merkel stated, the EU budget should be limited, otherwise it will interrupt austerity. Member-states have to survive with the little money given to them. The EU will help member-states to emerge from recession not through a generous budget, but rather through the development of funding tools. The European Investment Bank received 60 billion Euros for a capital increase in order to leverage 180 billion Euros, something that was decided a few months ago in order to assist member-states to have liquidity between 2013 and 2015, because the EU budget will not do so.

In order to stabilize the economies of the member-states, the EU gave 60 billion Euros and urged its member-states to go to the market and get another 180 billion Euros that will be channelled into the economy. This is the growth employment instrument. The instruments that do leverage only serve countries that do not experience financial difficulties and budgetary constraints.

The funding tools and instruments of the EU reveal strategies and policies that in principle seem contradictory. Following closer inspection, however, they are consistent with the policy of financial subjugation of the 'peripheral' economies to the strategies of capital.

Notes

1. *European Parliament / Policy Department / Economic and Scientific Policy / Alternative progress indicators to Gross Domestic Product (GDP) as a means towards sustainable development.* One could argue that this effort realizes Delors' strategy concerning the role of social and environmental indexes in measuring GDP.

2. The discussion in the EU for the measurement of the GDP returned recently after decisions in the US. There, the inclusion of expenses for 'knowledge society' in GDP, i.e. the calculation of investment for research and technology as well as for the entertainment industry, 'corrected' the picture of the GDP for 2012, showing a decrease of recession. In the same line of argumentation, the Commission - with its announcement in 16 January 2014 - adopted the US 'corrective' policy and claimed an increase in GDP by 2.4% - from September onwards, when the results of this change will appear to the calculation indexes of the European GDP (ESA 1995) with ESA 2010. From this change, Finland and Sweden expect to have the greatest increase between 4% and 5%, Austria and Great Britain between 3% and 4%, and Germany, France, the Netherlands and Denmark between 2% and 3% of the GDP. Through the capitalization of the expenses for research, all appear richer, and recession, austerity and the destruction of the social state are thereby hidden.

3. F. Gonzalez, prime minister of Spain and president of the 'reflection group' for the future of Europe, recognized that the Lisbon strategy for development and employment has failed, a recognition that was then shared by the entire leadership of the EU.

4. 'Europe 2020' introduces 5 targets for employment, social inclusion, innovation, education and climate change, which must be achieved by 2020. According to the Commission's president, Barrozo, these targets are ambitious, and have been put in place by each country at the level of measurable results in the context of these predefined sectors. Of course, these targets and measurable results were never discussed publicly in Greece. On the contrary, even though they constitute conditions for funding from the structural funds, they were formulated without the opinion of the Greek society, together with all other crucial policies.

5. Two-thirds of the difference between what Great Britain gives to the EU and what it takes from it are returned to the country.

6. On the basis of 'smart specialization', three operational programs will be required and funding from synergies of European programs for research 'Horizon 2020', EUREKA, COST, etc. This change of paradigm in the developmental

utilization of funding instruments is essentially the innovation of the new funding period according to the theorization by the EU.

7. The EU has turned to a policy of mixture, synergies and leverage of existing resources from the funding instruments [COSME 2014-2020, 2.3 billion Euros, which replaces the Competitiveness and Innovation Programme (CIP) of the 2007-2013 period)]. The model of SMEs funding for 2007-2013 was based on the following scheme: High Growth and Innovative SME Facility (GIF1 & GIF2) SME Guarantee Facility (SMEG)

- GIF1: risk capital for early stage (seed and start-up) investments
- GIF2: risk capital for expansion stage
- Loan guarantees
- Microcredit guarantees
- Equity and quasi-equity guarantees
- Securitisation

We should note here that the fact that the Commission itself claims responsibility for the management of COSME is a significant element because, possibly, its implementation will be linked with fiscal conditionality and banking supervision, or because the Commission would like to have political responsibility for synergies with other funding instruments that are already in place from the current framework involving the banking sector (such as risk-sharing instruments). COSME for 2014 has an available budget of 260 million Euros. Out of these, 163 million Euros will be allocated to the action 'improvement of access to funding for SMEs in the form of own capital and debt'.

8. For the 2014-2015 period, 500 million Euros will be allocated. Moreover, at least another 7% will be added from the total budget of the two actions of HORIZON, which is 'Societal Challenges' and 'Leading and Enabling Technologies (LEIT)', i.e. approximately 300 million Euros, and 90 million Euros from the action on information and communication technologies for 2014 and 2015.

Development, Productive Reconstruction, Memoranda and Debt in Greece, a Country of 1.5 Million Unemployed People

by Nadia Valavani

In 2013, Greece is like Dresden in 1945:

- GDP has shrunk by 25% - the second largest such reduction worldwide during peacetime in modern history. According to the Labour Institute of GSEE (INE-GSEE), 15% is recoverable as productive potential while 10% is considered definitively lost, together with the related jobs.

The EU's forecast, along with the 2014 Public Budget, indicate that the Greek economy will grow by 4.6%; in other words, from a -4% decline in 2013, we will see an uptick of 0.6% marginal growth in 2014. This is unlikely: the calculations presuppose that direct private investments and exports will increase, despite being negative during the last two years, excluding oil. Given the relatively high growth rates during the first decade of the Euro (an economic distortion), and the fact that the vast majority of the 44,000 new businesses that opened in 2012 were restaurants [as opposed to firms, etc.], it is obvious that Greece requires not only economic growth to spur the economy, but substantial growth driven by a multifaceted productive reconstruction.

- Unemployment stands at 28%, with 1 million people having lost their jobs in four years, and facing long-term unemployment. Youth unemployment is 60%; in the four years of the Memoranda, 120,000 young people have emigrated-enough to populate a small city-many of them scientists and other educated young professionals. This brain drain eclipses the relatively low numbers of professionals [of all ages] who had returned to Greece pre-crisis. Between 2009 and 2014, the average real wage decreased by 22%, and the average nominal wage decreased by 50% during the same period.

These calculations are from a 2013 study on the European south by Ronald Janssen, *'Real wages in the Eurozone: Not a Double, but a Continuing Dip'*, and mirror those of INE - GSEE. Another of Jannsen's findings is that - contrary to the basic assumption of the theory of internal devaluation policy - in 'real life' price levels do not adjust to wage decreases as expected [i.e., based on IMF forecasts], resulting in the worsening of the wages / prices ratio during the 5-year period of the implementation of austerity policies.

- The proposals for the size of the public sector, per the 2013 EU Evaluation Report, include 3 scenarios: a public sector of 450,000 or 400,000 or 360,000 civil servants. The figures in these proposals fall outside the range for European countries, matching to instead a third-world public sector: quantitatively, qualitatively and in relation to the ability to service real social and developmental needs.

- Approximately 3 million people are uninsured, without access to public health services. The majority of registered members of the OAEE [health insurance] fund are unable to pay the premiums, and thus lack health care.

- The social security system is in complete disarray, with calls for the retirement age to increase to 70. By 2015, state funding may dry up altogether; pensions above 360 Euros per month will not be guaranteed for all pensioners or all funds.

- Five new studies on poverty conducted at four different universities were presented to Parliament in November 2013, under the auspices of the Budget Office. The studies highlighted Greece's above-EU average rates of poverty and the risk of poverty. Poverty is now present in urban rather than rural areas, affecting mostly Greeks (versus immigrant populations), and especially those of younger, productive ages. Single-parent families and families with children are even worse off, with a large increase in child poverty:

according to data from the last household survey by ELSTAT in 2012, more than one million people now live in households where no one is employed, and have no other income or subsidy. Of this group, 20% of them are college graduates, and 40% of these graduates hold masters and doctoral degrees.

- Achieving recovery in an economy without liquidity - a creditless recovery in accordance with a new theory (introduced in 2006 in academic journals, and of late, applied to countries as an 'experiment') - is a riddle.

The credit crunch continues in 2013 at approximately -3.5% with similar numbers expected for 2014; yet banks, which have been recapitalised with approximately 43 billion Euros of taxpayer money so far - with an 80% - 95% public shareholding base but with private management - continue to refuse to refinance even healthy small businesses. The business plans submitted to the FSF in the autumn of 2013, call for a negative credit expansion in 2013, per the Troika; the further reduction in lending leads to a 'better' loans/deposits ratio, to counter the many "toxic" loans.

- It is also misleading to include privatizations among growth factors, when the price that buyers pay is deposited in the creditors' special account in the Bank of Greece within 10 days of receipt. Also, formerly public enterprises, which were privatized in the 1990s - two thirds of the of the public sector's businesses fall into this category – showcase a completely different result from what was originally promised; there have been minimum new investments, broad divestiture with the selling of subsidiaries and property in Greece and abroad, drastic reduction of jobs, and an increase in tariffs.

This text is based on two fundamental assumptions, which will be introduced below. For the 1.5 million unemployed and indeed, for all of us, the crucial question that arises regarding development is: "Growth and productive reconstruction for whom?"

Getting rid of the policies imposed by the Memoranda is a precondition for recovery, for the benefit of workers and the country

Assumption I:

With Greece as the first social experiment, the policy of internal devaluation was shown to have failed completely. The obscure development policies set forth in the Memoranda prompted a downward spiral of self-sustaining recession. The front-loaded program played a definitive role, creating enough unemployment for labour costs per unit of product to fall decisively, and making labour relations sufficiently flexible - fast enough to drive the economy immediately 'to a race to the bottom', to a new lower point of equilibrium.

The new 'extrovert model', based on direct investment and exports would emerge from this 'shock therapy'. The first Memorandum predicted positive growth for 2011, and that recovery would be greater than 3% in 2012, allowing for the (outright, not pilot) return to the markets that same year. In reality, however, the exact opposite occurred: in 2011, the recession deepened and GDP declined 11%.

What caused these results? The very same authors of the Memoranda proffered their explanations toward the end of 2012 / beginning of 2013, which they characterized as a "series of mistakes":

Firstly, the story of IMF's 'self-criticism': The IMF's World Outlook in October 2012 and the report of its chief economist, Olivier Blanchard, stated that a 'mistake' had been made a criminal mistake, quite frankly in the recession multipliers, which blighted 28 countries that were in the program, including Greece.

This 'self-criticism', however, did not lead to the abandonment of the 'programs', but - on the contrary - to additional pressures for 'true' compliance with them. So, the Memoranda and the underestimation of the financial multiplier, i.e. the real impact of restrictive measures on the factors that jointly shape and affect GDP (consumption, investments, imports and exports, income, unemployment, etc.) and of course, the public debt needed more oversight. In a recent EU report (October 2013), the author, Jan in't Veld 'establishes' the greatest recessionary effect on the short to medium-term from spending cuts, and the greatest recessionary effect on GDP in the long-term from increases in taxation.

Next came the revelation by a team of researchers, that due to errors in calculations in the Reinhart - Rogoff econometric model. The conclusion of the two Harvard professors that growth stops when there is a deficit over 9% in any country, was totally unfounded. It should be noted that this 'critical' link between deficit and growth had been invoked by the leadership of the EU as the theoretical basis for the application of a general restrictive policy.

Finally, the effects of a coordinated policy of austerity in all European countries have been more obvious recently.

As Special Rapporteur of SYRIZA, I raised my concerns about the problematic aspects of the 2013 Budget in the report published by the Parliament as early as October 2012. I wrote then, "…furthermore (the IMF World Outlook) does not reach the logical conclusion to end the 'programs'; despite the fact that in all countries of the Eurozone, the so-called 'restrictive' internal devaluation policies are applied simultaneously [albeit with differing intensity] even in an environments with interest rates close to 'zero'. Each country not only suffers from the effects of its 'own' fiscal austerity, but from the effects of the coordinated policy of austerity in the European and international environment - what the international media have been recently calling the 'Suicide Pact'. GDP is not only reduced by internal measures of fiscal 'disciplining', but also (and mainly) through trade exchange. In this case - and this is already happening in the Eurozone - it displays the so-called 'budgetary paradox': instead of decreasing, the debt of heavily indebted countries is increasing."

Of particular interest on this point, is a recent report on the EU, titled, *"Fiscal Consolidations and Spill-overs in the Euro Area Periphery and Core"*, by Veld, which I mentioned earlier. Veld highlights the negative effect of financial restrictive measures on the development of key macroeconomic data in countries subject to the "programs" or that have implemented related policies, as well as in countries that are trading partners or where there are other economic relations. Studying the case of Spain, he concludes that the spill-over of the negative impact of restrictive measures from the interior of Spain to the countries with which it transacts increases the negative effects of their own restrictive measures by 10% on average. According to the report by Veld, Portugal saw the negative effects of its own 'adjustment' increase by 20% because of the extremely close commercial-economic relations it maintains with Spain.

Also noteworthy is the conclusion that the diffusion from the budgetary adjustments in Germany and the core countries has aggravated the economic situation in the countries of the periphery. Contrary to popular belief, a temporary fiscal stimulus in the surplus countries can help to reduce their surpluses, but the improvement in the current account deficits in the periphery will be small. Veld's overall conclusion is that in recent years, consecutive fiscal adjustments squeezed growth in the Eurozone. The simultaneous fiscal adjustments in all countries of the Eurozone deepened the recession, both in the countries that are in the 'program' (with Memoranda), and in the most vulnerable countries: while the average multipliers range between 0.5 and 1, depending on the degree of 'openness' of the economy of each of these countries, the negative diffusion of effects can add 1.5 - 2.5 units to the negative recessionary results.

His conclusion, which is similar to the IMF's, is that "the discovery of large negative effects in production and significant negative diffusion does not mean that we should have avoided fiscal adjustment". It means that we should have altered the "method", with back-loaded instead of front-loaded 'programs' and with their extension over time, "when conditions will have improved and the multipliers will be smaller, i.e. when credit restrictions will be loosened and monetary policy will be supportive".

Needless to say, none of these findings prompted any change in policy; the stance of the EU and its penchant for experimentation at the country level, in the case of Greece and elsewhere, remained the same.

The recent statement by the Prime Minister of Ireland is telling; he refused to accept the direct line of credit offered to the country by the Troika, after the expiry of the loan contract on July 12, 2013. The line of credit would be extended in 'exchange' for additional austerity measures of 3.1 billion Euros, in addition to the already agreed measures, incorporated in the 2014 budget, which would extend the 'agreed primary surplus' for 2014: "We shall not let the Irish economy become some sort of economic experiment for the austerity hawks... The only argument that we were offered for the (even larger) cuts is: Let's see how far the speedometer can go. Well, we are not an economic experiment in this country". (A rational take on the matter, if only a bit late.)

Conclusion: Any development and productive reconstruction policies require exiting the Memoranda. The [Greek] Prime Minister's positive spin on the fact that the loan agreement with the EU and the ECB is ending in May 2014 ignores the fact that because the instalments are dispersed over time, in 2015 lenders will still owe for 2014. To alleviate the current social conditions, SYRIZA / Left government would gradually abolish the hundreds of applicable laws and quantified targets of fiscal adjustment that extend through 2016, and with the current government updates will extend through 2017, as well.

The active write-off of debt, combined with a 'package' of relief measures for the remaining debt, is a prerequisite for development

Assumption II:

Any discussion of development is meaningless if the debt is not drastically reduced *presently*, not several years down the line in 2020.

The government's 2014 Budget does not address the monstrous and 'unsustainable' public debt that over the past four years (2010-

2013) has been a “black hole” for the [amounts of the] two loan agreements of the Memoranda, namely, 211.2 billion Euros with less than 2 billion Euros per year channelled into the primary budget deficit.

In addition, the two debt ‘haircuts’, the February 2012 PSI and the December 2012 buy-back, were designed in such a way so as to ‘trim’ the debt held by Greek banks, pension funds, universities, hospitals and small bond holders - i.e., the country shot itself in the foot.

Any trace of ‘debt impairment’ will be erased from the approximately 1.6 billion Euros - paid or pending payment - from privatizations in 2013 in the special account of the creditors; the method of “sale-and-lease-back” that has been applied to OPAP, the State Lotteries, DESFA, Golden Hall, Erimitis of Corfu, or the 28 central government buildings of ministries, police departments, tax offices, etc., amounts to a ‘donation with endowment’.

The cost shouldered by the Greek people during 2010-2014 should be revised to include at least another 30 billion Euros: the present ND - PASOK coalition, the last in the series of pro-Memoranda governments, have squeezed 33.3 billion Euros from spending cuts and 29.6 billion Euros from the Greek people through taxation, adding to a monstrous total of 62.9 billion Euros. And the result? A deficit reduction of 31.8 billion Euros.

In other words, over the last four years, the governments have “lost” half of what they took, directly or indirectly, from the pockets of the people due to the Memorandum policy of internal devaluation.

At the time of the first Memorandum in 2010, the debt was 328.6 billion Euros or 142.8% as a percentage of GDP; at the end of 2013, it is projected to soar 32 percentage points above the 2010 numbers, to 175.5%. In absolute numbers, the debt will have been reduced to just 321 billion Euros, i.e. 7.6 billion less. It is important to note that 2/3 of the debt is no longer owed to banks – as initially set forth in the IMF’s June ‘evaluation text’ that the Memoranda would rescue the banks - but to states, benefiting from the extremely favourable creditor status of English law.

Planning for development cannot occur without radically dealing with the debt: servicing such a 'monstrous' debt contributes both to the loss of valuable resources and to the credit crunch. For example, the Troika is pressuring the government to raise more than 40 billion Euros in 2014 from short-term borrowing at an interest rate of around 4% through the issuance of 3-month and 6-month treasury bills, the sole buyers of which are Greek banks - actively binding their available funds. The vicious cycle due to the lack of liquidity leads to the leverage of existing capital at 350%, creating conditions for a banking bubble. The government seeks to delay the issue until 2015, when it will undoubtedly be forced to seek an even greater amount.

There is no better proof regarding the 'bottomless' nature of debt than the fact that the prediction in the 2014 Budget, which indicates that the reduction of the total debt [as a percentage of GDP] will be by 1 percentage point, at 174.5%, and as an absolute number at 1 billion Euros. It is as if the 25 billion Euros of capital repayment (other than interest, i.e. another 6 billion Euros) to be paid in 2014 vanish without a trace.

As such, we understand the 'correction' in the last OECD report (2013), which added 30 percentage points to its prediction regarding the debt in 2020.

Given the size of the debt, the government does not dare to side with the IMF in intra-Troika conflict regarding the 'haircut', despite the encouragement of the Secretary General of OECD for an immediate 'haircut'. Similarly, the government avoided commenting on the June 2013 IMF report that included "self-criticism' because they did not insist that a large part of the unsustainable debt be written off in 2010. Instead, the so-called 'no casualties' approach (i.e., no losses for states-lenders and the ECB) is adopted, which is consistent with German economic policy, the Commission and the ECB. This 'approach' provides for debt relief to be further extended

30-50 years through a swap and a reduction of interest rates close to 0%, [debt] servicing through a combination of reduced amortization, high and recessional annual primary surpluses, and a predatory sale (fire-sale) of public property. Pre-crisis, public property was estimated at 320-350 billion Euros. In the first medium-term, it was determined that 50 billion Euros would be attained by 2015; when the predictions for the medium-term were revised, the objective decreased to 9.6 billion Euros by 2015 for the planned sale of the same assets.

From this point on, the views of the Troika and the government diverge. The government wants to return to the markets for additional sums in 2014 despite the fact that the interest rate would be higher than in 2010 (6.2% interest rate), during the Memorandum. The European part of the Troika wants Greece to enter a third Memorandum (without calling it a "Memorandum" it will be named in such a way as to "reference" development), accompanied by a small loan agreement, that will allow the Troika to recoup the funds in entirety.

Either way, this means that the EU and the ECB, together with the Greek government, add new criteria for the repayment of the debt, such as 'sustainability' (i.e. the capacity to repay) and 'serviceability' (i.e. simple debt servicing, with repayment extending to eternity). The debt will not be considered "unsustainable", for example, if interest can still be paid. This means that Greece will never escape from the debt's "noose", no matter how many years pass.

This affects the long-term: until 75% of the European debt is repaid - i.e. the longer it is after the middle of the 21st century – the repayment period will simply be extended further. According to the second European Regulation of the so-called 'two-pack' [472/2013], when countries subject to the Memoranda (as of in May 2013) finally exit the adjustment programmes, they will remain in a status of post-Memorandum 'enhanced surveillance'. This will be achieved by signing the Memorandum of Macroeconomic Adjustment, a quarterly control mechanism similar to the Troika; 'new measures' arise based on the evaluations, and a permanent task force settles in the country, similar to the task force of Raichenbach!

Practically speaking, this means that Greece will be subject to Memoranda in perpetuity, leading to the permanent transformation of the country into a debt colony.

Utilizing critical and valuable productive resources, enabling productive reconstruction and helping the working classes regain their economic and social footing can only be achieved by a drastic reduction of the debt, a moratorium of interest and the inclusion of a development clause for the debt payment - for Greece, but also for other EU countries with unsustainable debt. The existing government is completely incapable of even introducing such a proposal, let alone championing the will of the people and using all means and all possible alliances to succeed.

Our only hope for the future is a complete overhaul of the existing policies. Only a SYRIZA / Left government, with the broad political and social support of the people and with diverse international alliances, can fight for changes and achieve them. Only a SYRIZA / Left government can chart a radically different course for Greece—one that will benefit the majority of the people, create hope and ultimately, serve as a catalyst for change for all of Europe.

Greece's Economic Strategy and Eurozone Crisis: TAVA[1]

by Gary Dymski

This paper explores possible elements of economic strategy for a national government that would take office in Greece under the constraints imposed by Eurozone membership, even while hoping to transcend and transform those constraints. We first review some of the empirical and institutional economic realities faced both by Greece and the member nations of the Eurozone; while these are well known, it is important to recognize the parameters within which our considerations must unfold. We will then list some of the constraints that arise under the conditions of neoliberal global capitalism that provide what passes for order in the international economic system at the present time. We next turn to the problem of national economic strategy directly. As indicated, there are various alternatives, even if no one of them can eliminate all vestiges of the crisis that have made a dramatically new policy direction for Greece and for Europe necessary.

1.Empirical and political-economic realities in the contemporary Eurozone

Greece and the Eurozone as a whole are now caught up in a profound economic crisis whose logic is inextricably intertwined with the endgame of U.S. hegemony, the near-global embrace of neoliberal economic policy, and a profound crisis of global capitalism.[2] The Eurozone economies are locked into conforming with rules that limit the possibilities for autonomous national fiscal-policy and monetary-policy stimulus. Fiscal policy restrictions were established initially as the convergence criteria for national membership in the Economic and Monetary Union (EMU) in the 1992 Maastricht Treaty; these criteria were then embodied in the Stability and Growth Pact agreed by the European Union's member states in 1997, and were affirmed in the Fiscal Stability Treaty signed by all member-states of the Union (except for the Czech Republic and the United Kingdom) in March 2012. The European Central Bank, in turn, is statutorily committed to focusing on the control of price inflation as the sole objective of its monetary policy.[3] Since the inception of the EMU, both sets of rules have been occasionally violated – and even systematically broken - by member states, as circumstances have dictated; but as an overall construct for the guidance of economic policy, the European Union has stood by these principles.

This said, as the current Eurozone crisis has taken ever deeper root in the member nations of the Union, the power-brokers in Europe - the European Commission and the European Central Bank, in particular – have insisted that the pathway out of the crisis can be found only by following the rules laid down in Maastricht. Further, since New Classical and not Keynesian structural macroeconomic models guide the thinking of the economists advising these power-brokers, arithmetic rules are laid down as pathways for restoring the required fiscal/budgetary ratios, with no consideration of interactions between the pace of economic growth, debt levels, and so on. In some moments throughout the crisis, decision-makers and analysts at the International Monetary Fund (IMF) have provided some analytical support for these interactions – most famously, in the support given to the notion of a Keynesian expenditure multiplier in its October 2010 *World Economic Outlook*. But this support has not translated into consistent pressure by this Bretton Woods institution for a relaxation of austerity macroeconomic policies. At best, the IMF has followed a schizophrenic policy approach that has only served to illustrate the lack of coherent policy direction by the "troika" that has been orchestrating Eurozone crisis planning.[4]

The consequence of the Eurozone's misguided rules and of its confused or repressive responses to crisis has been slow growth or contraction in virtually all this global area's sources of aggregate demand. Figures from the OECD tell the story. Gross capital formation (that is, investment) has recovered to no more than 5% growth in northern Eurozone economies (including France), while plunging to negative levels in the southern Eurozone. In Greece, gross capital formation has fallen by 15% or more in every year after 2008. Consumption expenditure growth has been flat or negative even in the northern Eurozone economies. Government expenditure has shown the same pattern; in Germany, for example, government expenditure growth (in real terms) has fallen from approximately 3% in 2008 and 2009 to 1% thereafter. In Greece, again, the fall-off in both expenditure categories is worse.

The sole "bright spot" has been export market growth; for all Eurozone nations, a sharp 10% decline in 2009 was followed by a 10% gain in 2010, and then a further 5% gain in 2011. However, export market growth has fallen off sharply in 2012 and 2013. Further, in terms of overall net export position (for goods and services), only Germany and the Netherlands have substantial surplus positions. The net export position of the southern Eurozone nations – substantially negative in the mid-2000s – has improved after 2008. Italy and Spain both managed small surpluses in 2012, while Greece and Portugal (still negative) came closer to balance. It should be noted that these southern gains have resulted to a large extent because of the suppression of domestic demand.

So throughout the Eurozone, virtually all the sources of aggregate demand have been dampened or put into reverse in the wake of the outbreak of the 2008 subprime crisis. These factors interlock, of course. Since much of European nations' trade is internal to Europe, most firms have little reason to invest. In any case, the

BRICS economies that have been driving developing world growth have also slowed substantially.

Against this stagnant spending background, some other common trends in recent European experience can be noted. First, added to Europe's investment crisis is a decline in the share of manufacturing in GDP; this decline is being felt even in Germany. Second, a process of financialization has been at work, with many Europeans taking on more credit, in many cases to compensate for shrinking wages or reduced working hours.

A third trend across much of Europe involves the rise of megabanks – that is, of large, complex, highly leveraged, globally-active banking firms. Megabanks have been engaged in competition in rapidly evolving, interlocking financial markets; their activities now encompass securitization, equity and commodity trading, futures and derivatives, and other activities. A crucial fact regarding the Eurozone is that many member nations have seen their banks' balance sheets grow to be nearly as large as (and in some cases larger than) their national income levels. Greece's banks are less large (relative to GDP) than is the case for most other European nations. For many banks these days – especially the largest ones - much of their income-generating activity now involves zero-sum speculation, shadow-banking activity, and the generation of fee-based income. Consequently, these banks' contribution to core non-financial economic activities can be called into question. At the same time, European megabanks are among those that have been most deeply scarred by the collapse of various financial markets from 2007 onward; and many of these are affiliated with northern members of the Eurozone.

The fragility of these institutions, many of which are national champions in their home economies, has been a pronounced feature of European political economic dynamics since before the Eurozone crisis per se broke out in 2010.[5] Varoufakis and others have pointed out the Eurozone crisis is, at its core, a banking crisis. The fact that a substantial share of that fragility is rooted in the internal public and private borrowing and lending relations across national boundaries inside Europe means that management of the sovereign debt crisis is, for European decision-makers, simultaneously management of the balance-sheet fragility of large European banks. As Jim Millstein wrote recently in the *Financial Times* (14 November 2011), Europe's banks have become "too big to save." The sensitivity of this problem – and the inability of Europe's current institutional framework to manage it – was evident in the recently-concluded negotiations over a common bank resolution mechanism: a negotiation that succeeded only in emphasizing to all European Community members that their banks' insolvencies – which the ECB would not monitor – would remain a national problem, whose costs would be shared by the chartering nation's taxpayers and the institutions' liability-holders.

2. *Constraints and limits under neoliberal global capitalism*

The Eurozone's fiscal and monetary rules, its current economic near-paralysis, and its fragile megabanks, can be adequately understood only in the context of the broader dynamics and structural limits of the system of neoliberal capitalism as it has arisen since the 1970s. In some sense, much of what we see in the Eurozone represents reactions to (or preemptive actions taken in anticipation of) developments elsewhere in the global economy.

For our purposes, it is sufficient to summarize some of the more relevant global dynamics since the end of dollar-gold convertibility in August 1971. The collapse of the Bretton Woods system posed questions for the United States like those that Great Britain had faced at the beginning of the 1920s: would its currency lose its status as the preferred global reserve and international means of exchange, and how would it sustain its economic prosperity once it was a declining and not a rising or pre-eminent power?

As the 1970s unfolded, oil-price shocks, recessions, rising inflationary pressure, and an increasingly fragile system of financial intermediation certainly provided evidence, if any was needed, that the central place of the United States in global economic affairs was in jeopardy. Japan and other East Asian economies seemed positioned to push the U.S. aside. The first key move toward stabilizing the U.S.'s position was made by President Jimmy Carter in August 1979: the appointment Paul Volcker as Federal Reserve chair. Volcker prioritized inflation: he implemented an aggressive monetary policy that used skyrocketing interest rates and two sharp recessions to undercut rising prices. This policy led directly to the Latin American debt crisis, the near-failure of some of the largest U.S. banks (and the failure of one, Continental Illinois of Chicago), and a period of chaos in the global economy. [6]

The election of Ronald Reagan as U.S. president, in November 1980, on the heels of the May 1979 election of Margaret Thatcher as U.K. prime minister, cemented further radical shifts in employment, financial, and fiscal policy. Labor union contracts were undercut, and production jobs located in lower-wage regions or nations; the tightly-regulated banking system was deregulated and reshaped by bank mergers, securitization, and heightened competition. Welfare cuts and reduced taxes for the wealthy were put into place. Note that many other nations have, from the 1980s onward, had parallel experiences: financial crises, financial liberalizations, attacks on wage standards and social-welfare expenditures, reductions in taxes on the wealthy, and so on.

The results of these policy shifts were dramatic for the U.S. economy and for global economic dynamics more broadly. Regarding the U.S., the dollar retained its place as the key global reserve and transactions security. The combination of U.S. tax cuts and deindustrialization gave the U.S. economy a substantial current-account deficit, which has persisted from 1982 until the present. As a direct consequence, the U.S. has been for these three decades a global liquidity sink. Because of recurrent financial crises in other nations and of the dollar's reserve-currency status, the U.S. became a safe haven for globally mobile capital. The ability of the U.S. to maintain a current-account deficit facilitated the success of nations using export-led development strategies: most notably Japan, and then China.

Financial deregulation fed by continual capital inflows over the same three decades has made Wall Street the hub of many cutting-edge innovations in global finance; the list includes hedge and private-equity funds, collateralized debt instruments, junk bonds, leveraged buy-outs, asset-stripping, and subprime lending. A three-decade-long bank merger wave encouraged by the Federal Reserve, which has largely overlooked anti-trust laws and maintained a pro-market stance, has resulted in a financial complex dominated by six too-big-to-fail megabanks. This is the result of the implementation of a consolidation plan orchestrated by regulators in the name of "safety and soundness" as well as competitiveness considerations.

The United States economy, then, succeeded in remaining at the hub of the global economy, even while its manufacturing base gradually evaporated. No longer a manufacturing power-house, it benefits from low-wage manufactured goods made elsewhere in the world. Its financial markets, fed by persistent capital inflows, have pushed limits of leverage, risk-based lending, and speculation that other nations' banks have struggled to imitate. U.S. presidents, Treasury secretaries, and Federal Reserve chairs from Ronald Reagan onward have viewed the financial sector as the key area of U.S. comparative advantage.[7] Unable to maintain global economic order any longer, key sectors of the U.S. economy have prospered (as Volcker foresaw) by extracting gains from global chaos.[8]

The rationale for the Eurozone, of course, can be explained by European nations' difficulties in maintaining stable exchange rates, inflation levels, and GDP growth rates in the post-Bretton Woods period. Added to this is the geo-political necessity of stabilizing the France-Germany-Italy-Low Countries nexus. This said, the *design* of the Eurozone can be viewed clearly as a response to the economic options available to Europe, given the context of a neoliberal capitalism dominated by a post-hegemonic United States increasingly using Asia as the hub of a global factory system.[9]

One way in which the Eurozone design is reactive involves its cross-border openness policies. At the heart of the European Community's economic design is the notion of a "single market" which permits the intra-Community free flow of capital, goods, and labor. Given that several member nations of the European Community (the United Kingdom, Germany, and the Netherlands, to pick just three) are hosts to financial centers that have aspirations toward global financial-market leadership, Europe does not control the flow of capital across its borders (it is, of course, a different story for goods and immigrants or migrant workers). So the entirety of the Eurozone participates in the deregulated, free capital flows of the neoliberal order: an order in which global capital judges nations, and nations do not govern global capital (megabanks). The desire to compete with Wall Street and with offshore financial centers (and even to maintain intra-European offshore financial centers) is evident in this policy design.

Another reactive characteristic of Eurozone design is evident in Europe's competitiveness policy. Guided by analyses developed at the European Central Bank and the Bundesbank, export-led growth is accepted as the core principle of European economic planning. Not only should all nations avoid current-account deficits within the Eurozone; they should grow by increasing productivity and global competitiveness. If they now lack it, they should acquire it – either by enhancing educational quality or by undergoing internal devaluations (blanket wage and salary cuts). Many economic commentators – the influential Martin Wolf and Wolfgang Munchau of the *Financial Times* among them – have pointed out that this policy stance is self-undermining, in that every nation cannot have a current-account surplus in a global economy. Any fallacy of composition in global cross-border flows, however, disappears if we accept the maintained hypothesis that the United States will sustain a current-account deficit of 3-6% of its GDP. Then every other nation in the world can, in principle, trade its way to growth with the U.S. as a counterparty.[10]

A third reactive component of European economic strategy consists of its member-nations' efforts to follow the United States (and United Kingdom) in deregulating their financial markets and creating global financial champions, especially in the past 20 years. Spain, Italy, Portugal, and other nations engineered defensive mergers so their largest banks could stand up to intensified financial competition after the Euro was launched.[11] Of course, this imitation effect also encompasses the huge public subsidies provided by the United States in the years from 2008 onward to its troubled financial system, especially its too-big-to-fail megabanks.

More controversially, one final reactive element in Eurozone design can be mentioned: its architects' reliance on the sort of narrow, equilibrium-based approach that characterizes the economic mainstream in the United States. Certainly, many European economists who espouse widening the scope for market forces and minimizing the footprint of government activities are home-grown; but many of these economists have links to U.S. or U.K. institutions dominated by mainstream thinking. And many other European economists, relying in most cases on great European thinkers, take a very different view. Insofar as academic departments of economics in many European nations are systematically closing their doors to economists who espouse pluralist views, this can be accurately described as an Americanization process.[12]

3. Challenging the global neoliberal order and Eurozone austerity

In their book Christos Laskos and Euclid Tsakolotos (*Crucible of Resistance: Greece, the Eurozone, and the World Economy*, London: Pluto Press, 2013), make several fundamental points about Greece and about the Eurozone and global economic crises. Greece, they emphasize, cannot accurately be described as a holdout to neoliberal policy reforms; on the contrary, they show that episodes of privatization, market liberalization, and deregulation have occurred regularly for many years.

Regarding the Eurozone crisis, they emphasize, as we have here, that it emanates from the locus of Europe within a global economic crisis that is experiencing a profound reproduction crisis. They reject the notion that the simple application of Keynesian demand-management tools will bring resolution. They argue that the contradictions that have been exposed are related to the unstable and contradictory character of the capitalist economy. We cannot look back to the Bretton Woods era as a period where the combination of fixed exchange rates and social welfare states sufficed to guarantee prosperity. On the contrary, the Bretton Woods system - on which so many now look back fondly - was itself riddled with contradiction.[13] At root, then, the Eurozone is a flawed economic governance structure that commits (and even pre-commits) European nations to austerity.

This point must not be surrendered in the name of political pragmatism or economic expediency. The analysis on which it rests is sound, and operates with an undeniable logical force. If SYRIZA could be given the controls of the entire policy apparatus of the Eurozone, it could not put in place forces that would overcome this root contradiction. This does not mean that there is no policy space in which to operate, or that all proposals short of an all-out assault on the institutions of global capitalism are useless. Laskos and Tsakalotos' book does us the service of reminding us that no solution for the fundamental problems of capitalism is now in sight. This has to become a point of analytical reflection.

This brings me to one other point in the Laskos-Tsakalotos text: their emphasis on the fact that SYRIZA has grown so energetically and so rapidly as a political force to a large extent because of its emphasis on renewing – and in a sense reinventing – the concept of democratic participation in the economic and political decisions that affect the welfare of all people. The notion of a "town square" meeting that provides space for people to debate issues productively, but without surrendering to the fantasy that a bottom-up movement needs no "up" (as did the "Occupy" movement). This notion of democratic voice, reinvented, is critical at all levels of SYRIZA's engagement with issues – the purely local and regional, the national issues, and the European ones. To say that the latter are "out of bounds" and that democratic voice necessarily only matters for issues that can be resolved within (our) national borders is to assert – in the case of a Eurozone member nation – that democracy has no place in governing the real life conditions of people.

To sustain a systematic critique of global neoliberal capitalism as a component of SYRIZA's platform, then, while insisting that the key issues affecting people's economic welfare be subject to democratic debate and participation, is to insist that the institutional structures controlling neoliberal capitalism be opened to democratic debate and participation—to the extent feasible, of course. Two corollary points immediately follow from this argument: first, the Eurozone's governance institutions (including the European Central Bank) be democratically accountable; second, financial megabanks must be downsized, financial contracts must be simplified and made more transparent, and speculation must be limited.

It is clear that the current nexus of Eurozone control, in which democratically unaccountable banks and financial funds chartered in some nations are able to exert indirect pressures, policed by hair-trigger reactions in anxious global money markets, for cuts in living standards in other nations, all in the name of sustaining a common political-economic destiny, cannot continue. To restrict democratic participation to elections for members of a European Parliament that lacks effective control over the Eurozone's governing institutions will only devalue the value of the European franchise for Europe's citizens. The "European project" will be transformed into a medicine too bitter to swallow. This is not the place to launch a comprehensive discussion of how to achieve more democratic Eurozone governance institutions. It might simply be noted that the democratic turn that has permitted SYRIZA to gain support within

Greece will have to be replicated at the level of Europe itself. Alliances must be sought with political actors outside Greece who concur with the view that European institutions must be democratically accountable to all Europeans.

4. Transforming available resources

This brings us to the second strategic step: to expand the available resources and widen the base on which a sustainable economy can be built. Here a crucial step is to embrace a developmentalist approach, as against a competitiveness approach. The latter builds on the idea that a nation will renew its employment creation and renewed economic growth when its labor resources and its investment opportunities offer good "value for money" relative to other nations. Making labor globally competitive means either improving the skill (and thus education) of the workforce or inducing that workforce to work for a lower wage. Improving investment prospects, and thus inducing capital to expand its productive assets in the country, means reducing tax and regulatory burdens, providing location subsidies, and so on. The industrial project is to create an environment that is amenable to a high rate of return that will attract globally mobile capital.

The developmentalist perspective, by contrast, focuses not on the creation of a competitive environment but on the creation of industry. Building on the ideas of Schumpeter, Polanyi, Gerschenkron, Chang, and Mazzucato, the overarching insight is that productive national industry has to be built – or rebuilt – as an intentional project. Schumpeter's *Capitalism, Socialism, and Democracy* (1942) shows that perfect competition has virtually never existed in historical experience; instead, monopolistic or oligopolistic practices are not only common, but provide means for reducing uncertainty. Polanyi, in turn, argues that "laissez-faire was planned; planning was not" (*The Great Transformation* (1944, p. 147)). Chang (2002) shows that the developmental trajectory of the nations that currently dominate the global economy was facilitated by policies that blocked market forces – infant industry protections, subsidized credit, and so on. Gerschenkron emphasizes that finance plays a crucial role in coordinating industrial development for nations that are 'catching up'.[14] Mariana Mazzucato's recent book, *The Entrepreneurial State* (2012), highlights the role of organized public investment (as opposed to the individual entrepreneur working alone in a garage) in creating breakthrough innovations.

The competitiveness approach is problematic for the less economically advanced nations of Europe, such as Greece. Skilled and well-educated workers are free to move from lower-wage job opportunities, if those can be found, in their home countries to better-paid jobs in other Eurozone nations. Further, for nations that have experienced job loss, wage cuts, and stagnation, any policy inducements aimed at attracting capital are likely to be more than offset by capital's uncertainty and fear of instability.[15]

So, given the need to prioritize industrial policy (what we can make and sell) rather than competitiveness policy (what will attract investment by mobile capital), how to implement it? While there is no ready-made map, there are several key points to follow. One is to identify sources of potential strength. These can be found in traditional knowledge (people who work the land), in surviving knowledge (small firms and workers with special skills), in historical legacy industries (shipbuilding and goods movement), in locational and positional advantages, and in expatriates' skills and capacities. A second key is to target some possible growth champions for product and market development, paying attention to the possibility of up- and down-market linkages that can become self-reinforcing value chains. A third key is to ensure that "infant industry" supports are in place: the creation of market space, the use of cross-subsidies, the availability of 'patient' finance, and so on. It is clear, as Chang and Mazzucato have so forcefully argued, that government has to play a central role in facilitating, supporting, and even orchestrating such policy initiatives.

Learning from Brazil: Can Brazil's development bank be "transplanted" to Europe?

We now turn our focus to just one of these key points in industrial-policy development: the need for productive finance. In the remainder of this section, we discuss the possibility of using a development bank as an industrial-policy tool. Section 5 briefly considers financing productive mechanisms that could be implemented with fewer resources, and also means that can be used to limit economic losses from speculative financial practices.

There are two outstanding examples of domestically-focused national development banks in the world: the German firm KfW, formerly the Kreditanstalt für Wiederaufbau (Reconstruction Credit Institute), founded in 1948 as part of the Marshall Plan; and the Banco Nacional de Desenvolvimento Econômico e Social (Brazilian National Bank for Economic and Social Development, or BNDES). Here we summarize some characteristics of BNDES, an institution whose activities are universally acknowledged as a key factor in Brazil's economic growth.[16]

Founded in 1952, BNDES provided the finance needed to create Petrobras and other state enterprises as infant industries. Initially BNDES' mission equated development with industrial development; but with the 1990s – in the post-dictatorship period – the bank's mission broadened to include more attention to small-business development and to social development.

Technically, BNDES is a fund, not a bank, in that it does not create deposits that circulate as money. It does, however, borrow in the markets, and it meets Basil standards. It also operates as a "universal bank," in that it takes equity positions in Brazilian firms, especially start-up firms with high growth potential. In this activity, BNDES coordinates with FINEP, the public venture capital fund.

BNDES has consistently generated a surplus that, when calculated as a return on equity or on assets, exceeds that of private banks in Brazil.[17]

What are some of the keys to BNDES' success? – the hows and whys of its operations? One key is the diverse range of its credit provision. BNDES, like KfW, provides credit for activities ranging from trade credit to microfinance to equity provision, working capital loans, and so on. A second key is its scale of operations. BNDES provides 10% of all credit in Brazil, and 25% of all business credit. A third key is its nurturing of human capital. BNDES sponsors extensive training and educational programs for its professional staff; furthermore, a significant number of professional staff at mid- and senior-career stages rotate among Brazil's major public economic assets (the Bank of Brazil, the public savings bank (Caixa Federal), FINEP, Petrobras, and government agencies themselves, to cite just the main examples). A fourth key is political accountability. BNDES receives fiscal transfers from the Brazilian federal government, and its leadership and management team are held accountable for achieving success with their financing initiatives. A fifth key, related to the fourth, is that BNDES' credit commitments target emerging industries in which Brazil's global market share promises to be significant: cane, ethanol, pre-sal oil. It does not always 'guess right,' and sometimes absorbs significant losses.[18]

This analysis is not presented to suggest that Brazil's development bank has unlocked a magical formula for reducing poverty, maintaining industrial vibrancy, and sustaining economic growth. This is far from the case.[19] It is worth asking whether any part of the BNDES approach is useful in planning Greece's economic future. We might start with the fact that the European Community, too, has an investment bank, the European Investment Bank (EIB).

Many operational differences separate EIB from BNDES and prevent its playing a parallel role in enhancing European growth. For one thing, BNDES targets loans in areas of key industrial growth for Brazil, whereas the EIB distributes its loans among a wide portfolio of industrial and other activities. Both institutions have, as one part of their mandate, the obligation to provide funding for lower-income areas within the markets they serve. BNDES often does this in partnership with local public initiatives, such as the Banco de Nordeste in the underdeveloped northeastern region of Brazil. By contrast, the EIB can channel funds systematically to lower-income areas within the European Union only if the national governments with jurisdiction over those areas can provide matching funding for loans made. A further contrast involves accountability. As noted, BNDES' leadership is appointed by and accountable to the President of Brazil. The EIB is managed by a committee that represents all EU member nations. And whereas BNDES has recently been given more operational autonomy, the EIB has come under stricter control.

These points of difference – codified in European law – suggest that the EIB has no capacity to play a development-engine role for Greece, as BNDES does for Brazil. If the will for a politically integrated fiscal union existed, the EIB could be rechartered, linked to the EU budget process, and redesigned along the lines of Brazil's BNDES. Short of such an unlikely scenario, it is conceivable that the EIB could create (fund or co-fund) some autonomous national development funds; this could facilitate the rekindling of focused industrial activity in member-nations. If this is not possible, it may still be feasible to amend the charter (or operations) of the EIB to permit member nations – especially those in crisis – to use it to support more focused, coordinated industrial renewal initiatives.

5. Working within constraints

We now turn to a series of ideas that involve "working within constraints" in the sense of not requiring the consent of the European Union's governing bodies and coalition-formation with other southern European nations.[20] Again, our attention here is relatively narrow. We focus first on the possibilities for creating a productive financing structure, and then discuss ideas for uncoupling growth from debt.

A national government could establish a central public-banking entity to provide oversight, expertise, and secondary markets for locally-based banks making loans to local businesses in local areas. This entity could be funded via a tax on wealth. Local banks are now being set up by municipal governments/areas within Great Britain; and both Spain and Germany have strong traditions of local banking institutions, which offer some dramatic examples of both successes and failures in the past several years.

Given the high levels of migrant and immigrant movements across Greece's borders, it is worth exploring the possibility of linking the population of locally-based banks more closely to immigrant and diaspora communities: creative and productive links can be established between migrant workers, domestic workers abroad, and companies with local and global business networks. Another possibility is to facilitate the creation of an angel-investor network for creating business ventures in next-step areas of technological development.

To be maximally effective, the financing entities created – whether productive financing entities or venture-capital concerns – should be focused. Where possible, they should identify, link, and support value-chain-linked firm clusters; and their capacity should be sufficient to shift targeted economies from initial states of rest or inertia toward higher levels of activity and employment. This suggests the need for institutionalizing a national economic planning capacity.[21] This planning capacity should, in turn, be linked to the reinvention of democracy – especially as it concerns economic activities – that represents such a central component of SYRIZA's rise within Greece and more broadly within Europe.[22]

Two other initiatives for establishing a more productive financial system should be mentioned. The first is to restrict the extent of predatory lending by imposing stricter limits on consumer loan rates and by ensuring that escalating credit commitments are not used as vehicles for the asset-stripping of households already in distress. The second is to establish local exchange trading systems (LETS) in Greek cities and villages. The use of a token system that permits members of cash-short communities to exchange goods and services can bolster local solidarity, and can help develop links with LETS networks elsewhere in Europe. More generally, coops and solidarity-economy initiatives should be supported; they break the links between ownership of capital and economic participation, and develop ties with parallel initiatives elsewhere, especially in Europe and in the Mediterranean region.

Uncoupling growth from debt

Finally, steps have to be taken to ensure that sovereign, business, and household debt does not crush any possibility for growth. At the level of the Greek nation, a further "haircut" on national debt should be negotiated, optimally in partnership with other southern European member nations. The creation of an ECB-coordinated "bad bank" would enhance the prospects for sustained economic recovery throughout Europe.

At the level of households, limits should be permanently established on the rights of creditors when those rights contravene the welfare and security of vulnerable debtors. Principles of social justice and public health both can be evoked to establish reasonable and politically-defensible limits. For example, home seizures or foreclosures should be prohibited when they leave families or individuals homeless; and unpayable home loans should be renegotiated in such a way that the affordable portion stays with the original lender, while the 'unpayable' parts are channelled to a 'bad bank.' Affordable housing can be built or renewed via the imposition of taxes on the purchase of expensive property and on property purchases by foreign buyers.

6. Conclusion

So there *are* various alternatives (TAVA) for national economic strategy. The focus of our discussion here has been on building pathways to three linked alternatives that follow from SYRIZA's guiding principles as a Greek political movement. The first involves challenging the global neoliberal order and Eurozone austerity. It is crucial to insist that the Eurozone must change if it is to survive. It is in need of a fiscal recycling mechanism, as in the US, and of serious regulation of large financial institutions. This last point may require an alternative global scenario, in which coordinated state action to close loopholes and to shut the doors to off-shore registration – and thus to downsize the financial megabank complex – is necessary.

The second pathway to an alternative involves transforming available resources by establishing a productive financial sector (or mechanism) capable of rekindling industrial growth. In the meantime, Greece must do what is possible to find more resources and use them to generate new sources of growth. The third pathway to an alternative involves working within constraints as they currently exist. Here, our focus is again finance; but any action that reinforces the solidarity of the party with the worker, the firm-owner, the farmer, the unemployed, must be embraced.

The objectives for economic strategy that have been set out here embrace contradictory impulses. These are offered to fuel SYRIZA's internal dialogues, which necessarily involve embracing contradiction. How to both transform the Eurozone system of governance and to work within it? How to use democratic mechanisms that are available even while redefining the scope and depth of democratic participation? How to coexist with capitalism while transcending and transforming it? Such challenges are only confronted in so raw a form when severe crises are at hand. And while finding answers to such unsettling questions may not be easy or even possible, the situation will not be made more bearable by pretending that more manageable questions with simpler solutions are on the table.

Notes

1. What follows is a written (and expanded) version of my presentation at the conference "The Challenges of Debt Crisis and Questioning of a Way-Out," organized by the Nicos Poulantzas Institute in Athens on 29-30 November 2013. "TAVA" – "There are various alternatives" – was suggested as a phrase by Haris Golemis of the Poulantzas Institute to start the workshop on 29th November 2013.

2. The essential guide to this crisis is Yanis Varoufakis' *The Global Minotaur: America, Europe, and the Future of the Global Economy* (revised edition, 2013). Also see Heiki Patomaki's *The Great Eurozone Disaster* (2013) and Costas Lapavitsas' *Crisis in the Eurozone* (2013).

3. The enabling Statute establishing the European Central Bank specifies, under Chapter II ("Objectives and Tasks of the European System of Central Banks"), Article 2 ("Objectives"), that "the primary objective of the ESCB shall be to maintain price stability. … The ESCB shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources."

4. A partial account of this inconsistency is as follows: Managing director Lagarde warned of the dire consequences of austerity policy for the future of the Eurozone in September 2011 (*Financial Times* 24 September 2011); director Lagarde then applauded Spain's economic reform package, which embraced deficit reduction and benefit and public-expenditure cutbacks in July 2012 (*Financial Times* 1 August 2012); then in October 2012 she called for caution in forcing austerity on Greece, and noted that budget cuts and tax rises should be avoided if European growth slowed (*Financial Times* 11 October 2012), and two days later called for the US and Europe to take drastic (unspecified) action to address their sovereign-debt problems (*Financial Times* 13 October 2012); and a year later warned that the world economy faced years of sluggish growth unless the leading economies "raise their game" (*Financial Times* 8 October 2013). It is no wonder that *Financial Times* commentator Alan Beattie lamented in a 24 July 2012 column that the IMF has "struggle[d] to find its crisis voice"; he cited as reasons that the IMF wants to avoid being blamed for the global crisis, that there is "organizational differentiation between IMF staff and management," and the fact that the IMF is the junior partner in the Troika.

5. Some of the largest European banks experienced substantial losses after taking on collateralized debt obligations sold by Wall Street megabanks in the subprime lending boom. Michael Lewis documented this in his 2011 book, *The Big Short*.

6. Volcker had, indeed, foreseen this chaos, and even incorporated it into his planning process. Six months before his appointment to the Federal Reserve, Volcker had published "The Political Economy of the Dollar" in the Winter 1979 issue of the New York Federal Reserve *Economic Review*. It contains this passage: "It is tempting to look at the market as an impartial arbiter .. But balancing the requirements of a stable international system against the desirability of retaining freedom of action for national policy, a number of countries, including the U.S., opted for the latter. … a controlled disintegration in the world economy is a legitimate objective for the 1980s."

7. This is evident in the United States' unrelenting insistence, in the still-stalled Doha round of World Trade Organization talks, that financial services be fully liberalized in global trade agreements. Gretchen Morgensen pointed out, in a recent *New York Times* article ("Barriers to Change, from Wall Street to Geneva," March 17, 2012), that the removal of virtually all limitations on financial capital and services movements has been agreed by 125 of the 153 nations involved in the WTO negotiations. In some cases, these provisions have been agreed since the 1990s. Morgensen notes that some Wall Street strategies are asserting that this clause, and a similar clause agreed under the 1992 North America Free Trade Agreement, may be used to block implementation of the Volcker Rule and other attempted limits on the free mobility of financial capital.

8. Of course, everything has a limit. But if in 2007-2008 the U.S. economy reached the limit of possibility from using readily-available credit for households to substitute for falling wages and to maintain housing prices, it doesn't logically follow that this strategy is off the table. As the experience of Greece in the Eurozone crisis itself also demonstrates, the costs of (and gains from) crises are not borne by "the nation" as a whole, but instead vary widely among any nation's different class fragments.

9. These ideas about the design of the Eurozone are set out more fully in an article published two years ago: "Limits of Policy Intervention in a World of Neoliberal Mechanism Designs: Paradoxes of the Global Crisis," *Panoeconomicus* (*πauœconomicus*) 58(3), September 2011, pp. 285-308.

10. This "happy" conclusion ignores the fact that pushing the US current-account deficit so far into deficit implies an equally large increase in its global liquidity-sink role. It is difficult to regard the contradiction between having to absorb financial assets generated in a country so far from balance in its production of goods and services as sustainable, especially given the delicate sensibilities of those responsible for trading strategies in global financial hubs.

11. See Gary Dymski, "Financial Mergers and Acquisitions: From Regulation to Strategic Repositioning to Geo-Economics," Chapter 22 in *The Oxford*

Handbook of Mergers & Acquisitions, co-edited by David Faulkner, Satu Teerikangas, and Richard Joseph. Oxford: Oxford University Press, 2012. Pp. 566-92.

12. Philip Mirowski points out in his new book (*Never Let a Good Crisis Go to Waste*, Verso Press, 2013) that a large number of thought leaders in economics who take positions supporting Neoliberal policies have accepted significant financial support from foundations and corporations espousing such policies as a matter of self-interest.

13. Under the Bretton Woods system, widespread prosperity depended on key nation-states' capacity to maintain adequate levels of welfare and safety-net expenditures. These nations might, at any point in time, have positive or negative current-account positions. If any nation in that system experienced severe payments problems, the remedy available – certainly per the International Monetary Fund, when it stepped in – was to constrain aggregate demand. This would, however, have the effect of weakening the cross-border current-account balances of all other nations (directly or indirectly). So the system had a downward ratchet for nations in trouble, but nothing available to force nations with excessive current-account surpluses to increase their expenditure levels (to create an upward ratchet effect).

14. *Economic Backwardness in Historical Perspective* (1962). Schumpeter's 1911 masterpiece (published in English translation in 1934 as *The Theory of Economic Development*) also emphasizes the key role of finance in development.

15. The case of South Korea in the wake of its 1997-98 crisis is instructive. Guided by the IMF, Korea relaxed restrictions on foreign-capital entry, hoping that overseas capital would enter and renew economic growth. One target area was banking; it was thought that the entry of globally competitive banks would improve domestic banking outcomes. The strategy failed. Foreign investors steered clear of Korea because of their fears of worker militancy and of uncertainty; and the only financial investors that entered were private-equity funds looking to take advantage of bargain-rate prices for Korean banking assets. Korea has recovered because of a new wave of industrial innovation organized (as before its crisis) by chaebol companies such as LG and Samsung. Korea's global leadership in liquid-crystal display screen innovations has been especially important in this industrial renaissance.

16. For a comprehensive recent discussion of BNDES activities, see J. Hermann, "Development banks in the financial-liberalization era: the case of BNDES in Brazil," *CEPAL Review* No. 100, April 2010: 189-2003. Hermann shows that BNDES did not knuckle under to the market-led premises of the neoliberal age; to the contrary, it maintained its contrarian position.

17. Since BNDES is a not-for-profit institution, its earnings are channeled back into public coffers. This record of success has not shielded BNDES from criticism; to the contrary, some private banks in Brazil have recently organized a campaign arguing that BNDES' large-scale activities have squeezed out private lenders and distorted the market.

18. One recent example of bad lending decisions involves the credit provided to companies owned by Eike Batista. This said, a recent study has documented that BNDES does not make loans to non-performing firms it has previously supported ('throw bad money after good'); nor does it make loan decisions that respond to political insider connections. See S.G. Lazzarini, A. Musacchio, R. Bandeira-de-Mello, and R.M. Marcon, "What Do Development Banks Do? Evidence from Brazil, 2002-2009," Working Paper, Insper Institute of Education and Research, Sao Paulo, Brazil, April 27, 2012.

19. Brazil's success in creating its "new" middle class is due only indirectly to BNDES, and more directly to income support and minimum-wage programs. Much of the Brazilian "miracle" has been based on rapidly growing commodities trade over the past several years, especially with China; and this has been associated with a declining share of manufactured goods in Brazil's exports. There has, further, been some hollowing out of Brazilian industry in recent years, due in part to the high level of the Brazilian currency unit (the real), which is linked to Brazil's high interest rates and the carry trade.

20. This is not to say that the ideas set forth in this section are guaranteed to be permissible within the framework of European law. That requires a proper legal opinion. At the same time, the limits set by European law and policy procedures as they exist today cannot be taken as defining the limits of policy reform for Greece or any other member nation.

21. In the case of Brazil, there is a planning ministry within the elected government, as there is in Greece. However, BNDES has its own independent planning capacity. And, of course, some degree of economic coordination follows naturally from the circulation of mid- and senior-level professional staff among Brazil's public economic institutions (mentioned above).

22. In this respect, it can be useful to study the debates about the mixed-economy model in Poland and other Eastern European nations in the years leading up to these nations' helter-skelter 1990s' leaps into capitalism. See, in particular, Tadeusz Kowalik's "On Crucial Reform of Real Socialism" (Vienna Institute working paper no. 122, October 1986) and his *From Solidarity to Sellout: The Restoration of Capitalism in Poland* (Monthly Review Press, 2012).

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