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Bakas

# The crisis of Greek capitalism

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# The Crisis of Greek Capitalism

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New Research in Global Political Economy
Working Paper No. 1/2014
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## List of Abbreviations

BIS: Bank for International Settlements

DM: Deutsche Mark

EC: European Community

ECU: European Current Unit

ECB: European Central Bank

EEC: European Economic Community

EMU: European Monetary Union

EMS: European Monetary System

ERM: European Exchange Rate Mechanism

ESM[a]: European Social Model

ESM[b]: European Stability Mechanism

ETUC: European Trade Union Confederation

EU: European Union

FED: Federal Reserve System

FDIs: Foreign Direct Investments

GFI: Global Financial Integrity

GDP: Gross Domestic Product

GNP: Gross National Product

IMF: International Monetary Fund

OECD: Organization for Economic Co-operation and Development

PASOK: Panhellenic Socialist Movement

SCEC: Steel and Coal Economic Community

SMEs: Small and Medium Enterprises

SYRIZA: Coalition of the Radical Left (trans. from Greek)

USSR: Union of Soviet Socialist Republics

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## Introduction

Most of the current analysis which attempts to explain the Greek crisis tends to follow two trends. The first highlights the Greek crisis as a debt-crisis provoked by extensive corruption in every level of social, economic and political life. There are two problems with this argument. The first one is that it does not take into account the European and global context within which the Greek crisis took place. The second one is that it transforms a capitalist crisis to a mere debt crisis of public mismanagement and at the same does not answer how this peculiar clientilistic form of corporatism was historically developed.

The second trend gives a partial answer to the first problem of the first analytical context as it is focused on the fragile Greek domestic demand model which was unable to compete with the stronger export economies within the context of the Eurozone. This point of view stresses the structural weaknesses of the Eurozone and its weak fiscal and political union which were unable to protect the European economies, as a whole, against the global financial crisis. Greece is placed among other countries like Portugal, Ireland and Spain which did not have a high public debt prior to the Eurozone crisis. This trend of argumentation offers a European and global analytical context but it needs to be accompanied with a historical analytical context of highlighting the role and impact of the Greek productive sphere for the formation of the Greek crisis.

This paper aims to contribute in this direction by exploring the historical relation between the Greek crisis of production in the 1980s, Greek membership in the Eurozone and the Greek sovereign debt crisis by applying Marxist political economy. It argues that the causes of the Greek sovereign debt crisis of 2010 can be traced back to the crisis of the Greek productive sphere during the 1980s and in the implied Greek national economic strategies for the management of this crisis, based on the recovery of profit without the recovery of industrial growth. These strategies initiated the deterioration of the competitiveness of the Greek productive sphere, a process which was aggravated through Greek membership in the Eurozone and easy access to the financial markets. The already burdened Greek public debt as part of the management of the crisis of production in the 1980s continued to increase within the context of the EMU, leading to the Greek sovereign debt crisis within the general context of the Eurozone crisis. However, the manifestation, dynamic and management of the Greek sovereign debt crisis based on austerity measures are also related to the economic and political structures of the Eurozone and the present analysis will take place within this framework. In the theoretical part of the paper the dialectical method will be unfolded along with the theoretical framework of Marxist political economy. The empirical approach is revealed in two main parts. The first part focuses on highlighting the political, economic and social class implications of European integration till the creation of EMU and its recent crisis while the second part draws attention to the historical structural formation of the Greek crisis and its dialectical relation with the European Monetary Union.

# 1. Methodological and theoretical starting points

## *1.1 The Dialectical Method*

The theoretical and methodological structure of the present paper is based on Marxist political economy literature and more accurately on the works of Guglielmo Carchedi (2011), *"Behind the crisis: Marx's dialectics of value and knowledge*" and "*The EMU, Monetary Crises, and the Single European Currency"* (ibid.: 1997). Carchedi attempts to reassess the importance of the dialectical Marxian method as a method of social research and the Marxian value theory as a fertile theoretical ground for a better understanding of the international monetary relations of contemporary capitalism. As his starting point Carchedi asserts the idea that social phenomena are being subjected to constant change hence their theoretical conceptualization should include the careful study of the material and social forces that historically transformed them as much as the forces that would potentially change them. For example, feudal relations have been gradually abolished from social struggles but also from the development of trade and the formation of big cities as trade centers. The historical identification of the economic, political and social forces that cause a social phenomenon to change and the respective way in which these forces relate to different historical periods constitutes the main dialectical methodological framework. The process of locating and highlighting the forces associated with different social phenomena which can even have a contradictory relation when conceptualized together, is called dialectical contradiction and represents an important methodological tool of understanding historical change and the relation of social phenomena taking place in different historical periods (Carchedi, 2011: 39-41). In particular, the dialectical method shall be essentially useful in highlighting the dialectical relation of all structural problems of the Greek economy during the 1980s to Greek participation in the Eurozone. Then this connection will offer the necessary dynamic theoretical framework for answering exactly how the synthesis of these two processes has been established as a crisis-accelerator for Greece within the context of the Eurozone crisis.

The change of a social phenomenon is determined by other social phenomena in correlation with the unique dynamic that this particular social phenomenon has itself. The reproduction or supersession of a historical social phenomenon is not a one sided process as different social dynamics springing from different historical periods create a complex dialectical dynamic in every level of social life. By means of this point of view, it will be stressed how the unique Greek national crisis-dynamics have been aggravated within the Eurozone.

Taking into account that social phenomena are constantly subjected to change, it would suggest that specific forms of power relations are also subjected to change. A neglect of the dialectical change of social phenomena by presenting a static reality or a movement towards a static state (for example equilibrium) is an ideological construction which relates to certain interests, even when these interests may appear as the interests of the whole society (ibid.: 42). For example, the conceptualization of labour as a cost and the consequent quantitative methods of measuring labour costs, reflects the interests of capital. Considering the interests of the working class, labour is not a cost but the "*only value creating activity*" (ibid.: 51). Ideological constructions which present a static world determined by fixed power relations (existed throughout history e.g. slavery, racial and sex discrimination) perceive social change as a factor of social imbalance and uncertainty while in terms of reality it is the established interests and power relations that are contested (ibid.: 41).

## *1.2 Capitalist Crisis*

The decisions of the above process are not determined by an absolute power but rather through a constant class struggle between the owners of the means of production and the non-owners, the workers (ibid.: 33-34.). Class is conceptualized based upon the production and distribution of the surplus value determined further as "*the value the capitalist is able to extract from the labour-power he buys, above the exchange-value of the labour that he must pay*" (Singer, 2000: 66). For Marx capital is not a thing but a process of circulation for increasing the initial invested money (Harvey, 2011: 6). The continuity and acceleration of flow in the circulation of capital is crucial for higher profits while "*any interruption in the process threatens the loss or devaluation of the capital deployed*" (Harvey, 2010: 41).

There are many possible blockages to capital like policies of price manipulation and restrictions for the development of the financial sector, problems in aggregate demand, natural limits to supplies of raw materials and to the capacity of the environment to absorb waste or it can be produced by lack of discipline and cooperation by the workers (Harvey, 2011: 8). So, on one hand there is a constant need for reinvesting capital and on the other creating new fields for the absorption of the reinvested capital (ibid.: 45) . When the surplus production and reinvestment are blocked then a crisis is produced till the absolute limit that blocked the circulation of capital is transformed into a barrier to be overcome (ibid.: 47). Nevertheless, the transcendence of one blockage can also have an implication on the circulation of capital and create the conditions for a crisis (Harvey, 2011: 11). For example, one way to avoid the consequences of the decreased rate of surplus value in the production sphere and at the same time create an effective demand is to increase the quantity of money through the strengthening of the financial and speculative sectors (Carchedi, 1997: 86). However, the uncontrolled strengthening of the financial sphere can trigger another crisis with the creation of a financial bubble. "*Capital never solves its crisis tendencies; it merely moves them around*" (Harvey, 2011: 11). One blockage that would be historically examined within the context of European integration is how the monetary policies of currency devaluation can block the international circulation of capital. In the empirical part it will be shown how the "solution" of the Greek crisis of profitability in the production sphere during the 1980s created the conditions of another crisis by establishing a public sector and a welfare state based on public debt without parallel developments in the production sphere. This dynamic was aggravated by the monetary deprivation of currency devaluation through Greek participation in the Eurozone.

### *1.3 Technological competition and monetary policies*

The technological innovators, despite a drop in the surplus value extracted from workers, can still realize a higher rate of profit at the expense of competitors who have been technologically left behind. The price mechanism facilitates this process as the innovators can sell greater output *"for the same unit-price as that of the technological laggards (whose output per unit of capital invested is lower), realise a greater surplus-value per unit of capital invested"* (ibid.: 91). Moreover, the *"goods whose price rises at a higher rate appropriate value from those whose prices rise more slowly"* (Carchedi, 1997: 86). This process redistributes value both between capital and also among labour if the price of wage goods increases faster than the wage rate. At the same time, the innovators increase their profitability but they conduce to a decrease in the total production of international value. This case shows the effects of technological competition on the average rate of profit, but ceteris paribus, without including changes in the currency exchange rates (Carchedi, 1997: 86-88).

The latter way of increasing the profit rate can be achieved through the exchange rate mechanism. The exchange rate mechanism is not just an "*institutional arrangement for the exchange of different currencies*" but it works as *"an objective system of appropriation of international value"* (ibid.: 88). The prices of the products *"are expressed in different currencies, the production of and distribution of (international) value, or price formation, is inextricably bound with the mechanism of value."* (ibid.: 87). Every single change in the exchange rate influences the appropriation of value. If one currency is revalued against another, it means that the holders of the revalued currency can appropriate more international value against the holders of the weaker currency. If the prices of imported goods remained squarely the same, then imports would be increased and *"share of international value appropriated on this account increases"* (ibid.). However, exports will eventually be decreased due to the fact that foreign importers will need more of the revaluated currency to buy the goods of the country with a stronger currency. The bottommost effect observed on the exports, checks the dynamic of the revaluated currency. Reversely, with currency devaluation, the holders of the devaluated currency can appropriate less international value, in spite of an encouragement of the exports (ibid.).

A highly interesting question is which strategies could be adopted by the countries that have been technologically outmatched by other countries. If a country cannot improve significantly its position in the technological competition then its alternative option is to use competitive devaluations in order to boost its exports. On the one hand, the holders of the devaluated currency will gain less international value for each exported good and will have to pay more international value for each imported good (ibid.: 90-91). On the other hand, the increase in the price of the imported goods contains the loss of value and through the increase of exports *"a greater quantity exported can increase profits in national currency even if less national currency is exchanged for the foreign currency received for each commodity exported"* (ibid.: 90).

The technological laggards are also forced to follow specific labour policies in order to compete with the technologically stronger countries: 1) They must force their workers to work longer and more intensively. 2) In order to increase the rate of profit and surplus value, the higher production through the intensification of labour must not be rewarded by higher wages. 3) If the workers resist the intensification of labour exploitation, then a third strategy, which lies in the monetary sphere, is the decrease of real wages through inflation. The danger which is latent in this strategy is that high inflation can trigger further devaluations and inflation; thus, significantly decreasing the value of the currency (ibid.: 92-93). Not to be presumed as a general rule (as there are many intermediary and peculiar cases like the one of the US), but countries with technological advantage record higher exports and tend to appreciate their currency while counties with inferior technological competitiveness tend to devaluate it (ibid.: 93).

# 2. Historical origins of the Eurozone

### *2.1 The class based project of the European integration*

The historical analysis of the class based character prevailing throughout the creation of the EMU is a necessary component for a better understanding of how the Greek structural weaknesses in the productive sphere have been constantly reproduced via the process of the Europeanization of capitalist accumulation. This process has been placed in a non-deterministic dialectical context as *'transnational processes are those that take place simultaneously in subnational, national and international arenas'* (Van Apeldoorn et al., 2003: 39).

The European integration started in 1952 with the Steel and Coal Economic Community (SCEC). Its political significance lies in defending the European markets against Communism, an ideology which generated a strong political and social impact after the Second World War especially in Italy, France and utterly in Germany performed by its division into a West and East part (Bonefeld, 2002a: 118-119). This also explains the facilitating role of USA in the reconstruction of the European market as USA did not use structural austerity programs through IMF like they did for third world countries (ibid: 120 and Moss, 2005: 8).

The SCEC was the continuance of a steel cartel which was set up in the 1930s in order to protect European companies from price wars after the Great Depression and it was mainly created for the protection and growth of monopolistic interests and also as protection against the communist ideology within the context of the Cold War (Halevi & Kriesler, 2005: 22).

Since its very early steps European integration was an elite project and the cooperation of the French and German bourgeoisies over the control of coal and steel was sharply translated as peace between the two nations. (Bonefeld, 2002a: 123). The role of SCEC was crucial for the development of the European integration until 1971 (Halevi & Kriesler, 2005: 22).

The time period of the late 1960s and 1970s is very crucial for understanding the European integration and the creation of the EMU. During the 1960s the European currencies were tied to the dollar through the system of Bretton Woods but in the late 1960s the inflationary pressures to the dollar due to the development of the German and Japanese industry along with the financing of Vietnam war, induced an inflationary pressure to the European countries which were also confronting an intense class struggle at the time (Bonefeld, 1998: 58). More to the point, during this same period (in the late 1960s and early 1970s) the class struggle was very intense as the traditional class struggle in the workplaces was also extended in other social spheres actuated by feminist, student and antiracial social movements (TPTG, 2010: 247). The European governments responded with fiscal expansionism in order to contain the intense class struggle which was also substantially influenced by the ideological context of the Cold War (Bonefeld, 1998: 56). However, this fiscal expansionism in relation to the inflationary pressures of the dollar and the difficulties of increasing the production of surplus value has generated high rates of inflation, mass unemployment, sluggish economic growth and a limited tax base unable to sustain the welfare state (ibid.). Ultimately, it was after the mid-1970s that the produced surplus capital which could not contribute to an increase of the rate of profits, due to a general decrease of the production of surplus value, was directed to the financial sector and financial flows started to be liberalized at a global level "*playing also the role of the "watchman" of the global capitalist profitability, directing the flows of capital into locations of profitable investment*" (TPTG, 2010: 248). The increased role of the financial flows for the profitability of capital was accompanied by successive capital tax reductions combined with the inability of governments to direct expenditures to productive investments. . In fact by the end of 1970s, this caused, according to the OECD, a double or triple of the government debt in the West developed countries (ibid.: 248-249).

The mainstream debate has presented these developments as a crisis of 'ungovernability' caused by the politicization of economic relations (Bonefeld, 2002a: 125). Through the sphere of politics, the workers, consumers and citizens caused, with their excessive demands, asymmetric shocks and a crisis of democracy itself (Moss, 2005: 15). In Marxist terms, this period has been characterized by a worldwide crisis of profitability (non efficient exploitation of labour with stagnant or decreasing production of surplus value) and also it was supremely the manner by which the capitalist classes tried to secure alternative ways to keep their profitability that signified the rise of the neoliberal era.

Neo-liberalism requires a supranational institutionalization of the strategies which aim to the tightening of monetary policies focusing on low inflation, on the dismantling of the welfare state via reductions of the social and public spending and on increased privatizations even if such policies provoke "*lower growth and productivity, mass unemployment and job insecurity"* (Moss, 2005: 4). According to the neoliberal perspective, the working class must be excluded from influencing the capitalist accumulation through the political sphere and political sphere must be excluded from influencing monetary policies (Bonefeld, 2002a: 123). The political parties during their electoral competition are vulnerable to the expectations of the working class as they want to secure a bigger part in the electoral market in a way that *"the state* […] *becomes vulnerable to society* […] *creating a dependency culture"* (Bonefeld, 1998: 61). The European monetary relations had to be depoliticized within a depoliticized European institutional juridical system in order to be achieved three main goals: 1) The redistribution of the produced surplus value by insulating the Europeanization of capitalist accumulation from inflation and devaluation strategies, politically influenced by class struggle. 2) The increasing of the creation of the absolute surplus value, in the name of competitiveness, produced by each nation bended in the common currency. 3) The stabilization of the financial European sector for the facilitation of the intra-European and worldwide financial transactions by establishing the euro as a credible international currency against the dollar. The countries with superior technology could then appropriate more international surplus value from the technological laggard countries (both in a European and on an international level) while the last ones would be forced to increase their imports, experience intense deindustrialization and increase the production of surplus value as their only remaining competitive policy.

### *2.2 The mechanism of the EMS*

The first *"attempt of creating a zone of monetary stability in Europe"* was the so called "Snake", a system based on a parity of the European currencies against the dollar (Bonefeld, 1998: 55). However, the devaluation of the dollar during the 1970s and the need of France and Italy, in the light of intense class struggles, to accommodate their working classes with growth, against the hard money and price stability of Germany, soon led this early attempt to its shortfall and to its replacement by the European Monetary System (Moss, 2005: 16).

As it has been argued, countries with stronger productivity pursue high profitability without using inflation in order to decrease real wages and are also opposed to inflation as it would influence price competitiveness with consequent currency devaluation (Carchedi, 1997: 97). Such country was Germany which could not accept currency devaluations as it would also undermine its aim to render DM an international currency and thus appropriate more international value (ibid.). On the other side, countries with lower productivity had to use inflation and devaluations in order to compete against the productive stronger countries (ibid.). The Bretton Woods system collapsed between 1971 and 1973 and the European currencies started to float against each other something that allowed competitive devaluations between the European countries (Bonefled, 1998: 56). Italy for example by devaluating lira against DM (but with a rise relatively to US dollar) managed to achieve by the end of 1970s a "*strong overall export surplus in merchandise, also in the balance of trade with Germany, and the highest growth rate in Europe*" (Halevi & Kriesler, 2005: 29). This strategy was clearly against Germany's as well as France's interests, not only because of the export sector but rather because it was also standing against the efforts of the French ruling classes to stabilize the value of franc vis-à-vis DM (ibid: 30-31). If France started to devaluate its currency like Italy along with the parallel depreciation of the US dollar after 1971, Germany's position would become very difficult. These developments led Chancellor Helmut Schmidt and President Valery Giscard d'Estaing to launch the EMS in 1979 (ibid.). The members of EMS had to keep their currency fluctuations, through the European Exchange Rate Mechanism (ERM), between ±2.25% starting from a certain initial point, "*of a common accounting unit called Ecu*" (Sinn, 1996: 32) which in terms of reality was semi pegged to DM. Consequently, Italy due to its weaker productive sector, was forced to increase its imports, in an indirect way to set limits in the inflation rate (also losing an anti-cyclical strategy in times of crisis) and at the same time in case that Germany was lowering its interest rates to put pressure on lira to be appreciated. If this appreciation was more than 2.25%, Italy would have to lower its interest rates; but then again, this strategy would be a source of inflationary pressures (Carchedi, 1997: 97-98).

The ERM according to its restrictions was forcing the technologically weaker countries to increase the intensity of labour exploitation containing at the same time part of their monetary policy while the stronger ones could appropriate, more efficiently, international value through the export sector (ibid: 98). From 1981 till 1987 the total EC grew only 1.9%

per annum "*with industrial production at 1.3%, real wages 1% and investment only 0.8%* […] *There was little sign of the technological modernization promised by the Commission and governments; on the contrary productivity growth over the long haul declined* "(Moss, 2005: 18). The rates of profitability have been restored but the rates of investment, productivity and growth "*remained at half the level of the golden years"* (ibid.). Moreover, *"manufacturing trade stagnated from the 1970s among founding members and from 1980s among newcomers. Investment did so from the late 1990s"* (ibid: 22). By 1989 Germany "*had accumulated the largest current account surplus in its post war history being above 4% of GDP, 60% of which stemmed from trade with the rest European Community"* (Sinn, 1996: 32). The class based apparatus of ERM with its anti-labour strategies was also an important initial step of transforming the DM into a world currency. The European capitalist elites were seeing the creation of Euro, not only as the way of accumulating the produced surplus value within Europe but also as a suitable way to appropriate more international value against the dollar (ibid.: 34).

### *2.3 The German and French capitalist interests*

One of the most important historical moments for the European integration in post 1945 Europe was the German unification in 1990. Interestingly, all the European institutions like the Commission and the European parliament were marginalized and the process was led by the governments of USA, USSR and West Germany (Halevi & Kriesler, 2005: 20). The German unification increased the public and private demand and the consequent high demand for DM created a strong dynamic for appreciation beyond the bands of EMS (Sinn, 1996: 11). The result was that the German interest rates were increased against those of other countries and the political efforts to keep the appreciation within the ERM bands failed while the other members of EMS tried unsuccessfully to avoid devaluations and inflation pressures by increasing the short term interest rates. The constant appreciation of DM and the devaluations of other member states like Italy and UK gave an end to the EMS in 1992 (ibid.: 13-14).

After the German unification, the collapse of the EMS and the shift of Germany from exports to domestic demand, German bourgeoisie had to redirect its plans for the international accumulation of surplus value. That is to say, "*even if domestic demand generates stronger growth it may be viewed as bad thing compared to guaranteeing exports and foreign investment outflows into the wider world"* (Halevi & Kriesler, 2005: 35). The more countries entered in the EC (and then in EU) the more surplus value could be appropriated through the price and exchange rate mechanism based on the German export model. This strategy would be supported by a common exchange rate which would abandon once and for all the threat of competitive devaluations and it would facilitate the accumulation of surplus value from labour and weaker capital to the capitalist advanced European centers and particularly in Germany. In effect, the strategy started to pay off in 2003, as Germany returned to a surplus position (ibid.: 34-35).

The EMS was initially set up mainly as an agreement between the French and German bourgeoisie in order to avoid a currency war; but gradually it blossomed into Germany's main mechanism for the appropriation of international value (ibid.: 31). The French elites wanted the parity with the DM as a means to ensure the credibility of their financial sector but in order to achieve that and at the same time to prevent capital outflows based on inflationary fears, they had to increase their interest rates against the German since their financial sector was not tied so much with the industry like Germany's. However, after 1990, along with the increase of the German interest rates, this task became extremely difficult. The parity of franc with the DM was not beneficial without the participation of countries like Italy and Spain as in case of currency devaluations of other European competitors, the French exporting sector would be harmed (ibid.: 38).

Such developments directed the strategy of the French bourgeoisie to push the acceleration of a common European currency which would benefit both their financial and productive sector. A European common currency under a European central bank would be the effectual way for the French bourgeoisie to contain the increased power of the German central bank and "*gain a policy-making influence over European monetary policy"* (Bonefeld, 1998: 57, see also Callinicos, 1997 and 2001: 13). France was initially against the German unification in 1989 but after an agreement between Germany and France on the creation of a European central bank and the acceleration of the processes for the launch of the Euro, France gave its consent for the German unification. *"It is an open secret that Germany had to buy the consent of France by sacrificing the deutschmark"* (Sinn, 1996: 2). Nevertheless, Germany's acceptance for the acceleration of the processes regarding the creation of the EMU, was accompanied by its insistence on strict convergence criteria by which *"the transition to EMU […] continued unabated legitimizing austerity across western Europe"* (Bonefled, 1998: 57). Beyond its economic dimension, this historical compromise has an ideological importance. If the German capitalist class attempted to achieve its interests outside the European context, there was always the visible danger that it could revive memories from the Second World

War, triggering in consequence, an anti-German bloc within but also outside of Europe (Callinicos, 2009: 173).

## 3. Unfolding the class structure and crisis of Eurozone

### *3.1 The structure of the EMU*

In the above chapters there has been highlighted how the European containment of the monetary policies, through the creation of a European Monetary Union relates to the Europeanization of capitalist accumulation, and also how the control of the inflation and price stability reflects the need of securing the property structures of the financial markets in a transnational level as part of an exit strategy from the crisis of profitability in the production sphere (Harvey, 2007: 2). The gradual strengthening of the financial sector does not imply that the financial capital has overpowered the productive one as "*the creation of surplus value, and hence capital itself, is predicated on the exploitation of labour-power in production*" (Macartney, 2011: 29-30). The increased financial activities of companies and the possibility of high profits with less extraction of surplus value in the production sphere created a "*tendency toward the expansion of the size and importance of the financial superstructure in relation to the economic base, occurring over decades*" (Bellamy, 2010). This can be proved by examining the gross capital formation in the Eurozone in the last decade. The secondary sector of economy (the sector of production manufactured goods) corresponds less than 30% of GDP in Germany, Italy, Spain and Portugal and 20% of GDP in Greece (Lapavitsas et al., 2010a: 15). It has been also highlighted how the different interests between the French and the German economic and political elites were politically and economically linked for the launch of the EMU. The next three chapters shall highlight the dynamics of the class struggle based on the monetary, fiscal and labour policy areas of EMU.

### *3.2 Monetary policies*

The transferring of monetary policies, to a distant supranational institutional mechanism of technocratic elites protects the capitalist accumulation from class conflict. In fact, this does not mean that EMU *"makes democratically unaccountable what previously had been democratic accountable. The importance is rather that national states, on their own initiative, will no longer be able to accommodate class conflict through credit expansion on currency devaluation"* (Bonefeld, 1998: 64). The role of the ECB is to guarantee price stability as well as the credibility of Euro which is accounted, by the proponents of EMU, as increasing, in proportion to the decreasing of political influence (ibid.). Due to that reason it *"cannot be given instructions by any democratic body, as if it were a court of law rather than an instrument of public policy"* (Grahl, 1997: 138). Its main task is to keep inflation in low levels and all the other policies are being subordinated to this one (Bradanini, 2012: 85). ECB was also excluded from lending directly national governments in order to finance their government deficits. According to the neoliberal perspective, since the national governments are not responsible for monetary policies then the economic relations are self-regulated and that leads to the neoliberal conclusion that any economic failure within the EMU framework reflects excessive demands of the working classes which should be contained (Bonefeld, 2002b: 3).

### *3.3 Fiscal policies*

The fiscal policy is partly protected by supranational surveillance and 'co-ordination' (Bonefeld, 1998: 64). Fiscal policy was not directed to be a full responsibility of the union because that would entail the creation of a supranational system of redistribution (Bonefeld, 2002b: 3). A fiscal supranational Leviathan, in Hobbesian terms, would have been the precondition for an open supranational class conflict as the sovereign would be visible and then "quis custodiet ipsos custodes?", "who is going to protect the [neoliberal] guardians" from an open class struggle? (Bonefeld, 1998: 63). However, fiscal policy could not be left entirely to the national states because this would leave open the possibility of excessive fiscal expansionism in times of intense resistance by the working class which would undermine the monetary union. So, the intermediate possibility was to *"undercut fiscal free-riding at the national level and prevent the possibility of fiscal redistribution at the supranational level"* (Bonefeld, 2002b: 3). This was achieved through the Maastricht convergence criteria which set limitations to debt and inflation. One problem for the working class is that this intermediate level obscures the responsibility for the fiscal policy between the national governments and the union (ibid.: 4). Fiscal policy was subjected to a supranational judicial control and European law was subjected to market criteria (Bonefeld, 2002a: 129). The 'political' had to be drawn away from the 'economic' sphere in a way that even *"'inequality' cannot become an election issue."* (Bradanini, 2012: 85). The fiscal policies in EMU can be also analyzed in a Machiavellian context. EMU is the collective prince (or bourgeois) which is personified by the ECB (Bonefeld, 1998: 60). The purpose of the prince is to depoliticize the monetary policy and to extract more surplus value from the European working classes (the subjects of the prince) while at the same time facilitating the accumulation of the surplus value to the capitalist European centers (Carchedi, 1997: 100).

According to Machiavelli (1996: 183) "*there are two methods of fighting, the one by law, the other by force.*" A prince "*must imitate the fox and the lion, for the lion cannot protect himself from traps, and the fox cannot defend himself from wolves*" (ibid.: 184). The lion is the power of the state to enforce the austerity and the fox is the ideology along with the fiscal policy. Through ideology, the collective prince aims to the internalization of his rationality (extraction of surplus value) to his subjects in a form (e.g. competitiveness) which will seem to express the general interest of the society. The other characteristic of the fox is the fiscal policy. The purpose of the fiscal policy was to mask the prince as a benevolent and trick his subjects (Bonefeld, 1998: 66). Actually, this was achieved by the European Social Model (ESM[a]), a "*bait for the working class"* (Moss, 2005:5). The ESM[a] was introduced after the general French strike of 1968 and "*then under Jacques Delors in the mid-1980s as legitimizing compensation to labour for the damage anticipated under a single market and currency"* (Moss, 2005: 5). Delor's idea was that economic growth should be combined by social progress. However, ESM[a] concept was used in the Maastricht and post Maastricht period as "*a hegemonic strategy to create consensus on EU economic governance under EMU and the single market, and particularly in incorporating labour union representatives"* (Bradanini, 2009: 14). The austerity measures undertaken in many European countries in order to reduce their public debt, deficit and inflation rate were justified through the creation of an ESM[a] in order for the working classes and the unions to believe that *'the current state was only transitional, and even more importantly, that they would have an argument to use against internal opposition'* (Hermann & Hofbauer, 2007: 128).

The adjustment of the European working class to the new deteriorating labour conditions required time and for that reason an initial laxity of the Maastricht criteria was allowed in order to offset the gradual price and wage discipline. Furthermore, it was expected that the technologically laggard member countries of the Eurozone would also experience a competitive deindustrialization, provoking a rise of the unemployment. For that reason, fiscal policy had to accommodate the working classes, especially of those members of the Eurozone who would experience an accelerated deindustrialization of their productive sector (Bonefeld, 1998: 65-68). Nevertheless, in case that a member country with its national bourgeoisie and political elites continued to use the tool of fiscal policy that was designed to "trick" the working classes in an initial stage as a tool to "trick" the other national bourgeoisies, the whole project would be at stake. If this country is suspended from EMU then this entails the danger of a general undermine of the credibility of EMU with a destructive domino effect. Therefore, if the European technocrats empowered to replace the undisciplined national governments and necessitate what the national government did not, what would be the result, provided that *"a member state cannot simply replace its discontented working class by a more docile one"* (ibid.: 67). In such a scenario in the absence of inflation mechanisms, currency devaluation and fiscal redistribution, the working class can only be disciplined to the austerity by the violent means of the state. If the balance of class power of one member state of the EMU changes in favor of the working class then this "*will have immediate effects on all other member-states due to its impact on the euro and, through it, on monetary relations across Europe"* (ibid.). Moreover, if the working classes of other member states would also start to resist, it might led to an international battle between the national bourgeoisies, expressed through the rise of nationalistic behaviors, as *"the European bourgeoisie is […] united in EMU for as long as labour carries the burden"* (ibid.).

Taking into account the dynamics in the technological competition and financial sector, it becomes evident that the productive weaker countries would anyhow be gradually directed to non-productive activities, through financial debt-creating flows, in order to generate growth and accommodate their working classes, no matter the intensity of their fiscal discipline. So, in times of a financial crisis these counties would be in the same position no matter their pre-crisis fiscal discipline. A default of a member state could then *"destabilize global financial relations through speculative runs on the euro but also deepen the crisis of capitalist accumulation on global scale"* (ibid.: 68). Then a European fiscal support would be necessary, but even if this support could be achieved through FDIs, it can be done once again with even more harsh austerity and in such case the violent means of the state would appear as the only means to ensure austerity. To conclude with, the class struggle within the EMU is rather enhanced than resolved (ibid.).

### *3.4 Labour policies*

The labour policies of deregulation, flexibilization, privatizations and welfare reform have been left to be implemented by the national state in the name of competitiveness (Bonefeld, 1998: 64). Competitiveness, rather than being the means to achieve wider social objectives, like social welfare and increased employment, it becomes a metaphysical goal itself and is constituted as an abstract national interest (Bradanini, 2009: 3-4). The worker must be productive, competitive and uncertain so as to be efficient. The welfare state though, through its social stability reduces the willingness and incentives of the workers to be productive and efficient. EMU promotes a normalization of the working instability and risk which is conceptualized as flexibilization and flexicurity. The working class is being translated to individuals who are responsible for their adaptability to the market conditions and the state is only responsible for motivating the individuals to comprehend work not as their social right but as a moral duty (ibid: 16,22). This process entails great dangers for the parliamentary democracy. If the state is seen just as a mechanism of enforcing people to work in deteriorating conditions and if the working people are responsible for their own unemployment and their social derogation, then the "*active element of citizenship, which encourages the citizen to participate in community and democratic life*" (ibid.: 23) will be increasingly weakened bearing uncertain social outcomes, especially in times of crisis.

In conclusion, with no currency devaluation and inflation and yet with fiscal policies being gradually more tightened by EMU, the European working classes will experience a gradual rise of labour pressure whose purpose will be the increased production of surplus value (Bonefeld, 1998: 64). Working classes, especially these of technologically laggard countries will arrive to three choices: 1) Accept to live and work within deteriorating conditions, in the name of competitiveness and low labour costs. 2) Immigrate to the European capitalist centers. 3) Intensify their resistance against EMU's anti-labour policies. The third choice gets weakened by both the first and second one, as long as the national working classes are territorialized and the resistance is being fragmented. The influence over the monetary relations through class struggle is a way of transmitting class struggle in an international level by influencing the international capital circulation. Hence, the depoliticization of the monetary relations is also a way of containing the class conflict to the politics of austerity in regional territories and this suggests an even more harsh and disciplinary control of the labour markets by the state (ibid.: 56).

### *3.5 The Eurozone Crisis*

The Eurozone crisis has been promoted by the neoliberal media and the elite of European political classes as a sovereign debt crisis of the so called periphery of the Eurozone (Greece, Portugal, Spain and Ireland). The public debt of Ireland in 2011 was 106.4% of its GDP, Greece's 170.3%, Portugal's 108.3% and Spain's 69.3% of GDP (Eurostat, 2013a). The increase of the public debt in these countries caused a constant downgrading of their ability to borrow from the financial markets and gradually led them to the European supportive financial mechanisms. Nevertheless, this argument lacks validity for a number of reasons. In 2007, the debt of Ireland was 25.1% of GDP, Spain's 36.3% and Portugal's 68.4% of GDP. Only Greece's public debt, was 107.4% of GDP back in 2007 (ibid.). The increase of the public debt in these countries was not the cause of the Eurozone crisis but the symptom of the economic and political structure of the Eurozone which was exposed under the pressure of the global financial crisis. When the private consumption and investments dropped due to the global financial crisis, the public spending was used as a shield against a further economic contraction (Niechoj & Treeck, 2011: 247). The crisis began to spread in the European banking sector and the European governments increased their borrowing even more in order to bailout their banking industries. Furthermore, in a crisis environment the "*agents take their deposits out from risky banks and switch their portfolios in favour of money and safe assets such as public bonds*" (Frenkel & Rapettin, 2009: 5). This in fact, facilitates the public expenditures in order to retain the demand of the market, given that the increase in the demand for public bonds means that the cost of borrowing for the government is being reduced (ibid.). The only problem is that inside the EMU considering the restrictions of ECB, this happened in favor of the core and especially in favour of Germany. It has been estimated that the interest rate advantages of the period 2010-2012 and in view of the upcoming years would relieve *"Germany's budget of an estimated EUR 67bn – enough to slash around 3 percentage points off Germany's government debt ratio* (Broyer et al., 2012: 5). The members of the periphery came to a position where part of the private debt had been transformed into public by bailing out their banking sector, the government revenues were reduced, then they could not continue financing their growth model, as the interest rates were skyrocketing in the secondary financial markets and yet, they could not proceed to a currency-devaluation either, to boost their growth. It was this situation that led to a dead end and eventually opened the way to the Eurozone crisis.

However, a European silent crisis of the production was developing during the Euro decade; yet it remained masked because of the private debt-creating financial inflows from the core to the periphery of the Eurozone. Eurozone's growth was divided in two different models. The first one, adopted by the periphery, was based on domestic demand and the second one, adopted by the core, on the export surpluses (Niechoj & Treeck, 2011: 248). The European process of capitalist accumulation has gradually divided more and more the European regions and downgraded them to exist under the European shadow of the wealthy capitalist centers, leaving them solely with an ideological European identity far from any social dimension. The European average annual real GDP growth kept on decreasing decade by decade since the early steps of the Europeanization of capitalist accumulation in the 1970s. Specifically, in the period 1971-1980, which is known for its stagflation and the crisis of 'ungovernability', the annual average European real GDP growth was 3.4%, in the 1980s it was 2.4%, in the 1990s 2.2% and between 2001-2010 the Eurozone's average GDP growth was just 1.1% (Ryner, 2012: 649). Moreover, "*since 2000 inequalities have been growing again, reaching 1987 levels in 2007*" (Hadjimichalis, 2011: 257). There are regions with GDP higher than 75% of the EU-average and regions with GDP less than 75% with the last being located in the European south. In 2002, 10% of the people of the EU-27 population who lived in the poorest regions of east and south Europe accounted for 1.5% of total EU-27 GDP while the respective number for the 10% living in the wealthy regions of north and central Europe was 19% of total EU-27 GDP (ibid.: 257-258). The difference of the purchasing power between the top and the bottom 10% of people in real prices was 12.5:1 and in 2008, the European capitalist accumulation was geographically evident as 43% of EU GDP was produced in 14% of its territory,"*within the geographical area defined by London, Hamburg, Munich and Paris in which one-third of the Union's population live and work*" (ibid.: 258).

The divergence between European regions, as an outcome of the European capitalist accumulation, became more evident inside the weaker south regions whose economy was based on SMEs. During the 1980s the structural funds (part of the neoliberal strategy employed at the time, in order to create a consensus between different capitalist fractions together with the European working classes) have contributed to the growth of the European solitary agricultural regions like "*in Canarias, Extremadura, Aragon and Navarra in Spain, in Algavre, Norte and Alentejo in Portugal and in northern Aegean islands, Crete, the Ionian Islands and Eastern Macedonia and Thrace in Greece*" (ibid.). However, since 1990s the European south intermediate regions, whose economy was based on SMEs and on cultural tourism, started to experience the consequences of the neoliberal era. The rise of the financial sector and the gradual development of new markets after the geopolitical changes of 1989, in Eastern Europe, northern Africa, Turkey, India, Vietnam and China based on low quality materials, has provoked for the majority of the SMEs massive shutdowns (ibid.: 259). The productive weaker member states in the lack of high capital mobility and strong production systems within a European currency union which was designed for the facilitation of capitalist accumulation in the North-central European centers and especially in Germany, experienced a "*regional divergence in economic structures* […] *and inflation accelerated"* (ibid.).

If this silent crisis was expressed in the productive sphere, its loud expression was manifested in the financial sphere. When EMU was firstly introduced, ECB set one common interest rate for all of the Eurozone members which led to high interest rates for the low inflation countries and low interest rates for the high-inflation countries (Laski & Podkaminer, 2012: 256). Lending and nominal wages stagnated in countries with low inflation and boosted in countries with high inflation (ibid.: 256-257). The easy access to cheap international credit for the countries of the periphery and the European financial deregulation, vividly promoted by the ECB, facilitated the financial debt-creating outflows from core to the public and private sectors of the periphery (Niechoj & Treeck, 2011: 249). Since Greece, Spain and Portugal joined EMU their total debt (private + public) has been increased between two and three times (Lapavitsas et al., 2010b: 1-2). The financial outflows from core to periphery played a significant role in the increase of periphery's GDP. During the period of 1995-2008, the GDP had been increased, by 61% in Greece, 56% in Spain and 124% in Ireland while Germany's GDP growth on the same time was 19.5%, Italy's 17.8% and France's 30,8% (Milios & Sotiropoulos 2010b: 227). On the one hand, labor costs in the periphery increased by 25%-27% lacking an equal increase in productivity; on the other hand, Germany's labour costs remained stagnant for a whole decade, not that much due to its productivity but mostly because of wage stagnation (Laski & Podkaminer, 2012: 259). The low German labour costs, "*reaching a level of 105 in 2011 from a base of 100 in 2000"* (Hadjimichalis, 2011: 263) meant that a product produced in Greece in 2011 cost 25% more (similarly for Spain, Portugal, Italy and 23% for Ireland and 13% for France) compared with the same product produced in Germany (ibid.).

Beyond several important differences (the Greek debt is mainly public and external, Portugal's is private and external and Spain's is domestic and private) among the economies of the periphery, their common characteristic is that "*are heavily indebted abroad relative to GDP, Spain at 169%, while Portugal and Greece at, respectively, 233% and 162%*"

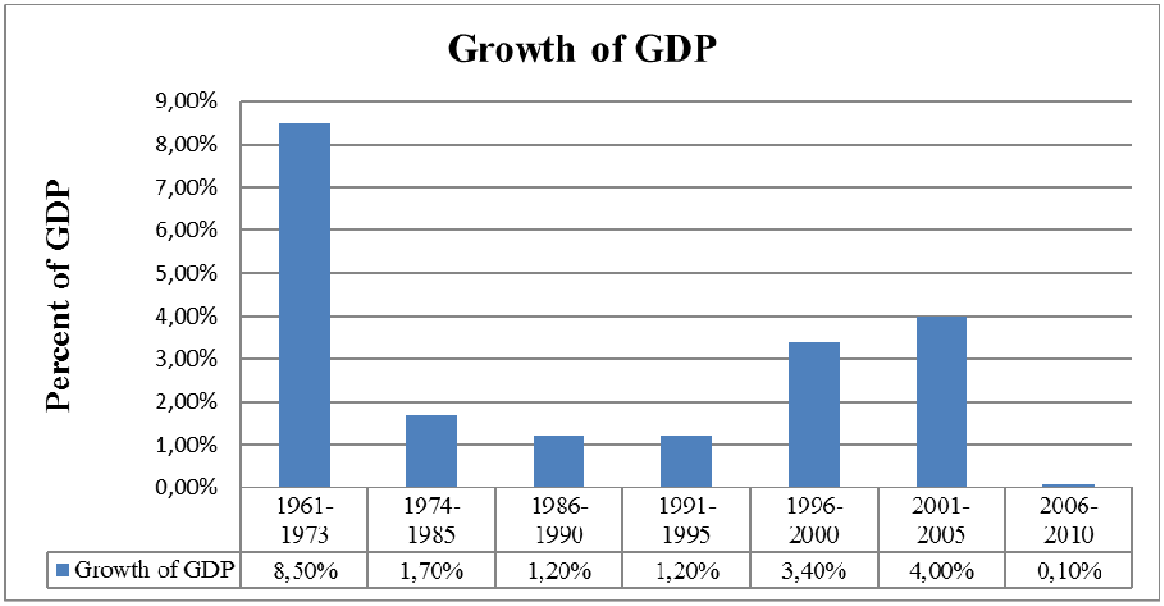
(Lapavitsas et al.2010b: 9). Quite interestingly, the bondholders of these debt securities are by an average 85% European, which also highlights a European tendency towards financialization and a redistribution of international surplus value from the periphery to the core in the form of financial transactions under a common currency (ibid.: 9-10). The ECB, despite the fact that "*bank credit is a more proximate cause of the bubbles and booms",* (De Grauwe, 2010: 8) has not checked the unsustainable Eurozone's private debt dynamics, hence the growth rate of total bank credit, between 1999-2009, had been annually increasing by 10% (ibid.). More to the point, in "*no official document there is any acknowledgement of the fact that the monetary policy of ECB played a role in the crisis"* (Bradanini, 2012: 91) which explicitly reflects the neoliberal structure of the EMU. Within the period of 1993 till mid-2009 only 723 articles (0.7%) of the leading journals of common market studies have been referred to the gradual destruction of the productive sector of the south regions, the socio-economic divergence of the Eurozone members or to the dangerous growth dynamics based on debt-creating financial outflows from the core to the European south (Ryner, 2012: 649).

## 4. Tracing the pathogenesis of Greek capitalism

### *4.1 The golden era of Greek capitalism*

The golden era of Greek capitalism, characterized by high GDP growth rates, can be traced back in the 1960s. During the 1960s Greece had an annual average of 8.5% increase of its GDP (see Graph 1). Along this period the manufacturing was developed in a mass scale in accordance with the development of mass consumption with the industries to be located in a national level (Ioakimoglou & Milios, 1993: 96). In 1961, Greece signed an Association Agreement with the EEC. The comparative advantage of Greek capitalism was the combination of 'traditional' and 'modern' production methods, producing relative (reducing wages, increasing productivity and intensity of labour) and absolute (increasing the working hours) surplus value at the same time (ibid.).

## Graph 1




Sources: European Statistical Annex, Spring 2013

The intense pressure of the Greek working class has been facilitated by the fact that the reverberations of the Greek civil war (1944 and 1946-1949), still echoed the military and political defeat of the left; thus, there was neither political nor social resistance, against the establishment of capitalist productive relations. The discipline of the working class was supported by "*a quasi-totalitarian political regime of persecution and terror, not only against Left activists, but also the labor movement*" (ibid.). In the upcoming years, a gradual political democratization and mobilization of the Greek working class against its intense exploitation took place, but it was violently suppressed by a military dictatorship in April of 1967 (ibid.).

### *4.2 The preliminary period of the crisis: 1970s*

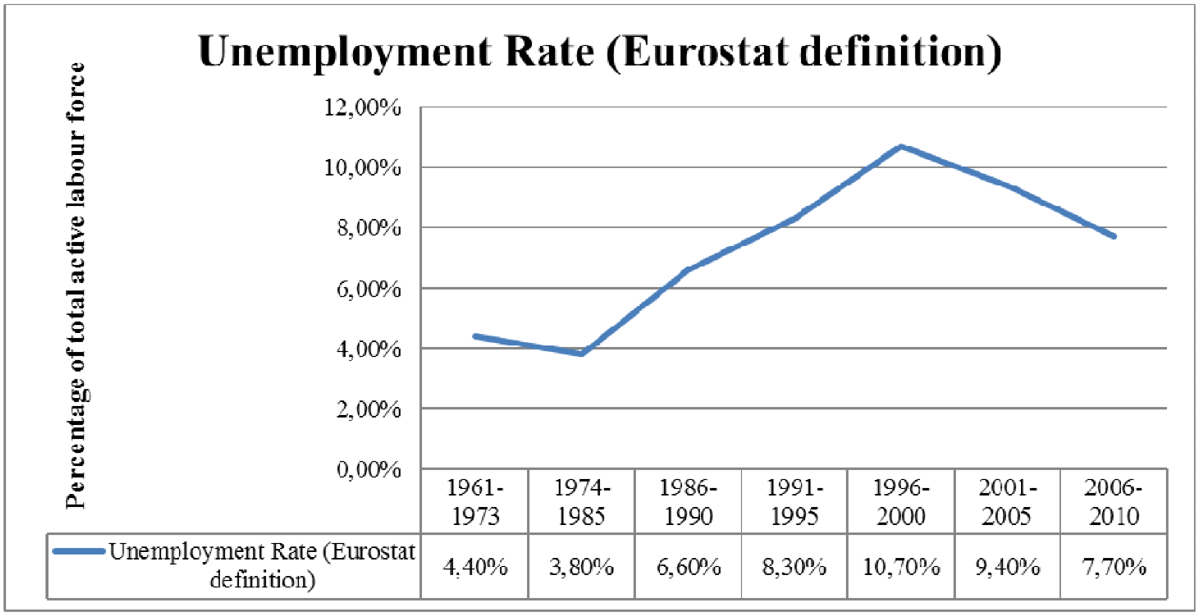
In the period 1961-1973 the Greek state's budget was relatively small and the public expenses were balanced by the revenues (see Graph 2). During the period 1962-1979, Greek capitalism had very high growth rates compared only with Spain and Japan (Ioakimoglou & Milios, 1993: 81). In the early the 1970s, the Greek economy was experiencing high rates of growth due to various boosters, such as the shipping industry, many local and foreign investments in the industrial sector and the modernization of agriculture. The cities were transformed into centers of economic development through massive urbanizations, public investments have been made in infrastructure and an economic cycle between firms, households and state was created, which excluded the involvement of the banks in the processes of savings and investments (Stathakis, 2010: 1).

However, despite the fact that during the 1970s the Greek economy scored a fast increase of its exports with a parallel increase of demand due to a visible rise of the real wages, the first signs of a crisis started to appear since the annual growth of GDP slowed down (see Graph 1). In 1974, the end of the dictatorship signaled a new era for Greek capitalism. By the period of 1974-1978 the working class was politically organized and trade unionism had started developing. These developments forced the capitalist elites to move from the production of absolute surplus value to the production of relative surplus value (Ioakimoglou & Milios, 1993: 97). This shift has been supported by the construction of a taxation system favoring the profitability of the domestic capitalist elites. The taxation system was constructed by having as its base, the indirect taxation (basically on consumption taxes). The indirect tax constituted the 2/3 of the whole tax receipts and the waged and salary strata were the main sourse of the income taxes (Stathakis, 2010: 1). Because of the insignificant tax contributions by big businesses plus the political and social mobilization of the Greek working class, the political elites tried to create a class consensus through taxation arrangements. The farmers who represented more than half of the population were excluded from direct taxation (ibid.: 2). The industrial sector was being supported by the state with protection tariffs, tax arrangements and subsidies and so long as the credit was being absorbed by industry, infrastructure and agriculture, the only way in which the commercial middle class could be favored was by an informal allowance of tax evasion. The unofficial allowance of tax evasion has also helped the SMEs to reproduce themselves despite their lack of benefits in relation with the big businesses (ibid.).

### *4.3 The crisis of profitability: 1980s*

During the 1980s the unemployment rate started to increase (see Graph 2) and the *"low capacity utilization rates significantly contributed to decreasing output/capital ratio and to a fall in the profit rate"* (Ioakimoglou & Milios, 1993: 98).

## Graph 2




Sources: European Statistical Annex, Spring 2013

Moreover the international recession during 1980-1982 caused a shrinking of the external demand therefore the Greek exports were decreased (ibid.: 87). Thereupon, the high growth of Greek capitalism came to an end and the increase of the Greek Gross Domestic Product (GDP) fell from 8.5% in the 1960s to 1.2% in the period 1986-1990 (see Graph 1).

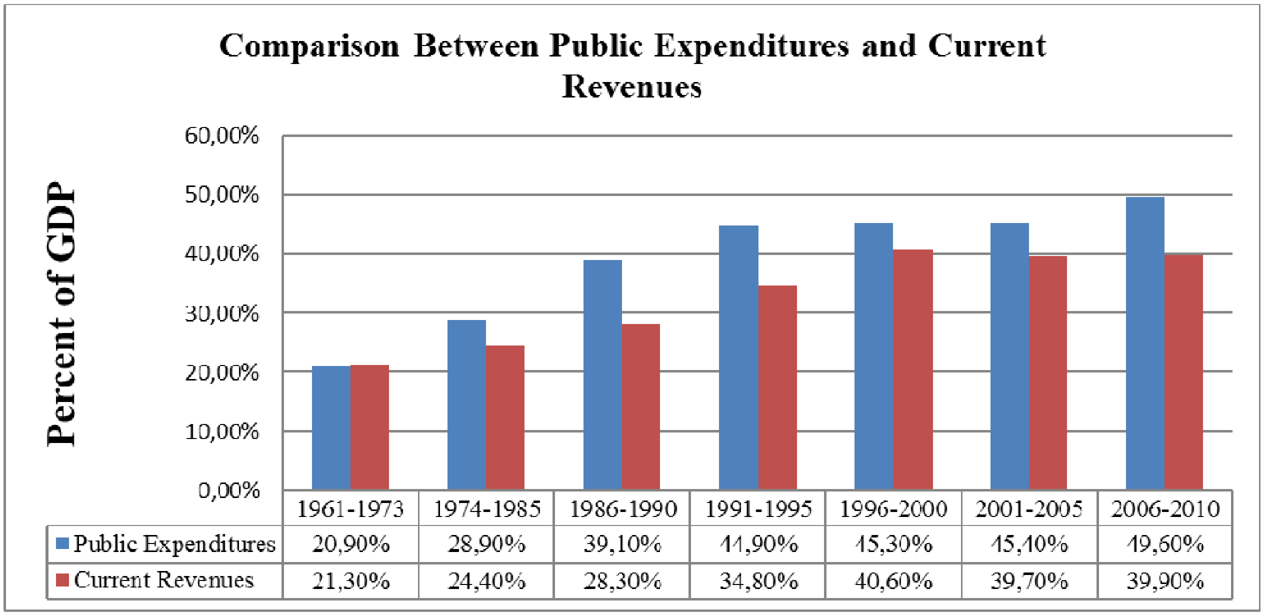
The conservative economists and politicians were arguing that the stagnation was caused by wage increases and the excess power of trade unions while supporting the liberalization of the Greek economy as a 'solution'. The interpretation on the part of the social democratic party, namely by PASOK, was that the stagnation of the Greek economy was caused by the austerity policies which reduced the domestic demand of the working class and contributed to the reduction of growth within the environment of an international recession in the late 1970s (ibid.: 81-82).

In 1981, Greece joined the EEC under the conservative government of New Democracy. The membership of Greece to the European Union was used from the political elites as a means to safeguard the political stability by attracting easier financial resources. Right after the participation of Greece in the EEC, the social democratic party, PASOK, won the elections in the same year and proceeded to substantial real wage increases, rapid changes in labor legislation in favor of the workers and to the establishment of the Greek welfare state (ibid.: 97-98).

The economic policy of PASOK intended to escape economic stagnation by increasing the internal demand as a mean to generate new jobs and innovative investments. While other European countries were undergoing austerity, in Greece *"by 1985, real wages in manufacturing were 70% above those in 1974 and 15% above those in 1981"* (ibid.: 98). Despite the fact that Greek manufacturing was exposed more than ever to the international competition, it was expected that state-intervention with high public expenditures and a lax in the supply of money would boost growth and productivity by investments in "*new, more efficient technology, keeping capacity utilization high, introducing new organizational principles and working practices"* (ibid.).

In terms of reality, the establishment of the Greek welfare state during the 1980s was used much more as part of a consensus for the resolution of the intense class struggle rather than as a development in favour of the Greek working class. This in fact implies that the long-term costs for the working class were much greater than the short-term benefits. The Greek welfare state has been established in midst of an extremely unsustainable economic environment. The inflation of this decade was between 20% and 25% and the Greek currency, namely the drachma, was being devaluated every year; but the uttermost economic fact of this period was rather that despite the booming in the tourist industry and the boost of agriculture by European subsidies, the imports increased drastically and eventually undermined the benefits of the above developments (Stathakis, 2010: 3). So, the question lies in how public expenditures reached to be around 40% of GDP at the end of the 1980s from being around 20.90% of GDP in the period 1961-1973 (see Graph 3) in such economic conditions? The answer to this question sums up the way through which the Greek working class would get to be tricked by a temporary "carrot" into accepting its long-term discipline through the "stick". The Greek elite political class was continuously increasing the public debt without any policy in favour of the working class in the production sphere or in the taxation system. The taxation system remained socially unequal, the private market was characterized by few private monopolies, the shadow market was growing its share to the Greek GDP and the tax-evasion was still compensating the low wages and the low profitability of the SMEs. Banks, manufacturing commercial firms as much as many other professionals (doctors, engineers, lawyers) were actually not contributing to the tax revenues yet (ibid.: 4). The Greek welfare state remained socially unequal and a source of funds for its long term reproduction was out of sight (Featherstone, 2008: 24-25). In the next graph (Graph 3) the gradual increase of the public expenditures without the consequent increase of the public revenues is evident.

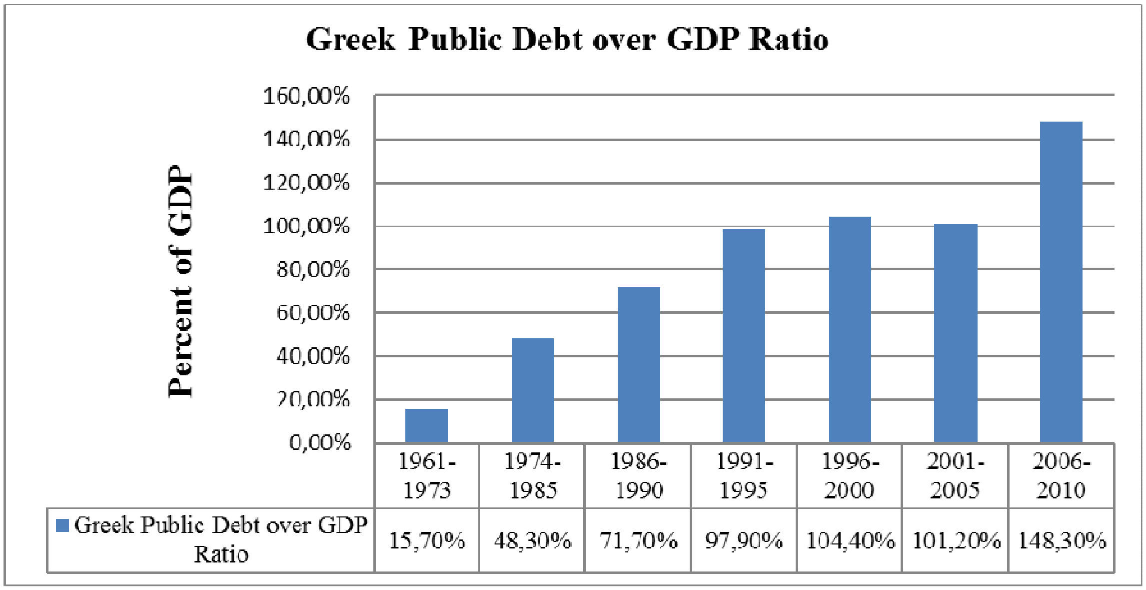
## Graph 3




Source: European Statistical Annex, Spring 2013

The flexibility of labour was promoted with measures like compulsory overtime or with short time labour contracts, a tendency which has rendered the public sector more desirable for the workers, neither because of its high wage returns nor thanks to its vocational training but chiefly because of its long term job protection against the uncertainty of the weak private sector (Featherstone, 2008: 19,25,26.). As a consequence of all of the above developments, the Greek public debt initiated a growth without being supported from any development in the production sphere (see Graph 4). Finally, despite the pro-cyclical economic policies of PASOK "*the profit rate continued its fall as a result of the squeeze on the profit share on the one hand, and of the falling 'productivity of capital' on the other"* (Ioakimoglou & Milios, 1993: 99). In the period between 1985 and 1987, the social democratic party PASOK introduced austerity measures and the wages along with the profit rate started to increase and thereupon, *the* employer's organization acknowledged the policy of austerity measures as "realistic" in contrast with "unrealistic" Keynesian experiments (ibid.).

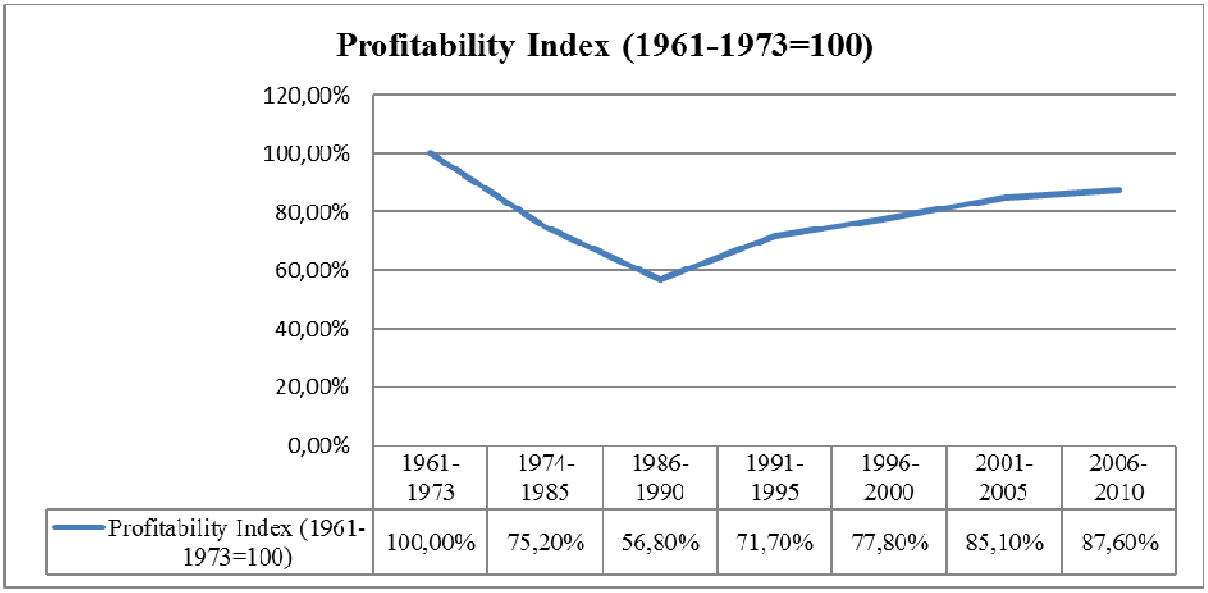
## Graph 4




Source: European Statistical Annex, Spring 2013

The austerity policies caused an extended class struggle scoring *"the highest number of strikes and 'lost working hours' ( per year) in Greece since the 1960s, in the subsequent period 1986-1988"* (ibid.) which forced the social democratic government of PASOK to accept *"a reduction of the wage cuts by a half of their initial size"* (TPTG, 2010: 256). Despite a gradual recovery of the profitability, observed in the upcoming years (see Graph 5) the growth has never returned to the levels of 1960s and 1970s (see Graph 1); in Marxian terms that would require a reorganization of the production process equipped with technological innovations, which not only did not happen in the first place but rather contrarily, a period of deindustrialization arose instead (Maniatis, 2005: 513).

## Graph 5




Source: European Statistical Annex, Spring 2013

### *4.4 Euro-preparations: 1990s*

In 1990, the conservative party, New Democracy, continued the austerity policies of the social democratic PASOK and additionally shut down non-profitable plants by calling them 'enterprises facing problems' (Ioakimoglou & Milios, 1993: 99). Before long, in 1993, despite that the profit-wage ratio returned to the levels of 1976 *"there was no substantial recovery in the general and especially in the net rate of profit, as well as in the mass of profits"* (Maniatis, 2005: 513). During the same year, the social democratic government, PASOK, won the elections and since that moment, it started an ideological campaign of promoting EMU as the European union of "first class" countries in contrast with the "second class" countries that would stay outside of it (Herz & Kotios, 2000: 171). In order for PASOK to create a consensus with the working class about the necessity of EMU and at the same time to ensure the reproduction of its political power, it did not persist on the fiscal austerity handed in by the previous conservative government and used an expansionary fiscal policy (ibid.). PASOK tried to achieve a convergence according to the Maastricht criteria by increasing the indirect taxation of consumption and the interest rates and proceeding to a currency revaluation (ibid.).

By the end of 1997, Greece was still not converged with the Maastricht criteria and the social democratic government of PASOK enforced an austerity program accompanied by privatizations in order to reduce the public debt as much as the long-term interest rates (ibid.). *"The lower inflation helped to bring down long-term interest rates, so that interest payments on public debt fell from 12% of GDP in 1996 to 9% in 1999"* (ibid.). In 1999, Greece officially stated that it had lower than 3% of GDP public deficit but the public debt was still above 100% of GDP and not complied with the Maastricht criterion of 60%. However, it was then in 1999, that the European Council (ECOFIN) decided that Greece "*does not have an "excessive deficit" and is therefore in compliance with the public finance criterion*" (ibid.: 172). Later in 2004, it has been revealed that the actual numbers of the deficit were 6.6% in 1997 instead of 4.0%, 4.3% in 1998 instead of 2.5% and 3.4% in 1999 instead of 1.8% (Eurostat, 2004: 4). The economic elites, through their political representation, had done everything humanly possible for a Greek participation in the Eurozone; after all, for them this was a one way road (by simply facilitating the financial inflows to Greece) to the temporary resolution of the long-term crisis of profitability of Greek capitalism in the production sphere, since the 1980s, without changing the domestic economic and political power relations.

The Eurozone deprived Greece from currency devaluations and increased its imports which were supported by the cheap credit provided by the economic power of Germany. The easy access to financial markets without changing the established social, economic and political power relations offered the means for the reproduction of the ruling political class and the business oligarchs who controlled the media and the wealth of the country and ultimately, the manipulation of the statistical data was a necessary step towards the realization of their goal. The Greek working class could be exploited even more intensively and be politically disciplined through the opportunity to increase its domestic consumption by increasing its private debt. Then the clientelistic network of welfare provisions and the monopolistic economic relations would be further developed, the taxation system would stay socially unequal favoring the big businesses, the tax evasion of the middle class would be reproduced in order to balance the poor private sector and the political elite class would ensure its electoral winning, altogether running within a system that *"was even from the late 1990s non-viable*" (Stathakis, 2010: 9).

### *4.5 The Eurozone period*

Greece entered the European Monetary Union with a peculiar economic structure which was characterized by extensive capital-blockages for the process of the national capitalist accumulation. In Greece during the period 1970-2005, the agricultural and fishing sectors have not been "*characterized by capitalist relations of production as the ratio of self-employment and family workers taken together exceeds 95 percent of total employment for most of the period*" (Passas, 2010: 11). Gradually, the total employment in the agricultural sector has been decreased from 38.05% in 1970 to 11.91% in 2005 (ibid.: 14). The removed from agricultural activities self-employed workers with their families have been incorporated into capitalist wage relations through the state mechanism primarily into education and health public sectors and secondarily in trade and services (ibid.). Nevertheless, concerning the sectors of education and health and despite the fact that they have been integrated into capitalist wage relations, "*their product is not transformed into surplus value since it is offered by the State universally and for free, at least nominally*" (ibid.: 11).

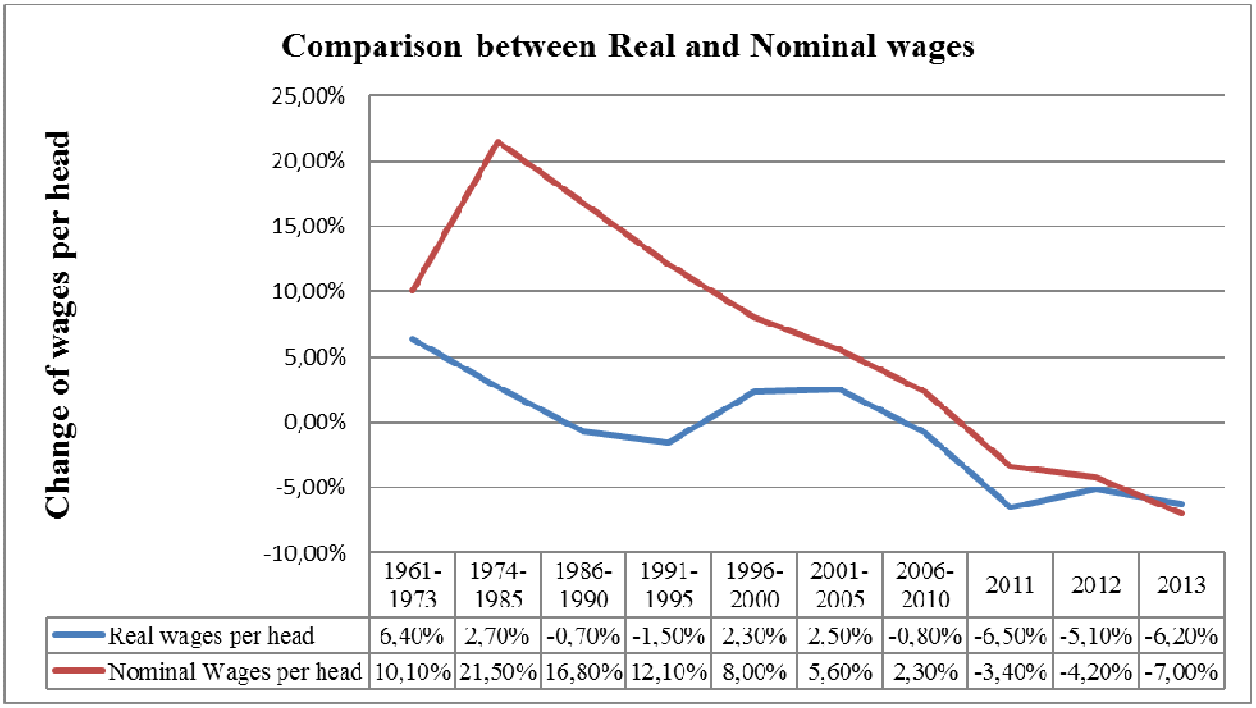
The extended manufacturing (mining, manufacturing, public utilities and transportation) increased during the 1970s, then it started to decrease during 1980s and 1990s, it went on by showing a small increase after 1997 but it never returned to the pre-1980s levels (ibid.: 14). In the period of 1981-2005, the ratio of the labour which did not contribute to capitalist accumulation was doubled and specifically during the period of 1990-2005, 132 thousand jobs in mining, consumer, intermediate and investment good industries were lost while at the same time the public sector was compensating this loss by creating jobs on its own internal structure (ibid.: 17). This means that the extraction of surplus value in the private sector was constantly decreasing and thus creating problems in the rate of profitability within the production sphere.

One out of three Greek manufacturing firms employs less than ten workers compared with the respective 4.3% in Germany (Economist, 2012). The proportion of the Greek manufacturing firms which have more than 250 workers is 27% while in Netherlands is 34% and in Germany 54% (McKinsey, 2012: 7). According to The Economist (2012) the productivity of the European firms with less than 20 workers is around 50% less than the productivity of firms which employ more than 250 workers. So, despite the fact that the exploitation rate rose in the period 1996- 2004, the Greek crisis of capital's profitability in the production sphere, starting in the period of 1980s has never been overcome (ibid.: 253). The Greek bourgeoisie was searching for ways of recovering its profitability but the rise of the exploitation of labour was not enough. On the one side, the participation of Greece in the Eurozone increased the crisis in the productive sphere and on the other it offered an opportunity to the domestic economic elites to increase their profitability with non-productive activities and expand their monopolistic control of the Greek economy.

The competitiveness of the Greek economy declined since 2000 with the industrial and agricultural sector experiencing the greatest deterioration (Malliaropoulos, 2010: 1). For the period of 2000-2009, according to estimates by the ECB and the Bank of Greece, the Greek competitiveness has declined by 18% and 21% according to IMF (ibid.: 2). In the end of this period, the exports (agricultural and industrial products) accounted no more than a 10% of GDP and imports increased to 40% of GDP (Stathakis, 2010: 6).

The Greek products, comparing the periods 1995-2000 and 2001-2005, have become more expensive than "*Austrian, Finnish, French, German, and Portuguese products to Eurozone markets*" (Aristotelous, 2008: 49). Nevertheless, even if the Greek exports have been greatly damaged within the context of EMU, the prices in the industrial sector "*have increased faster than wages per unit output since 2000*" (Malliaropoulos, 2010: 12). This means that *"the profit margins, [...] the difference between prices and production costs, of the Greek industries have increased relative to trading partners over the past decade"* (ibid.: 12-13). Since 2000 the nominal wages per unit have increased by 20% and the prices for industrial goods by 24% which implies a 4% increase in the profit margins. For the same period the prices of industrial goods of the main trading partners of Greece have decreased by 6% and wages increased by 10%. This has generated a 16% loss of profit margins for the trading partners of Greece which is translated into a 20% (16% + 4%) increase for the profit margins of Greek industries. The excessive prices of the Greek monopolistic network were a significant factor of the profitability of the Greek bourgeoisie but the deterioration of the production sphere extended further the import substitution of domestic producers (ibid.). Another route that the domestic economic elites traced in order to retain their profit rate was through a credit expansion, construction of public works with setup competitions favoring few private interests and through a boom in the real estate sector (Kaplanis, 2010: 221). The private debt of households has been increased from 13% in 1995 to 61% in 2008 (Milios & Sotiropoulos, 2010b: 252) while the net savings of the households have been decreased from 3.9% of GDP in the period 1996-2000 to -3.8% of GDP in the period 2001-2005 (European Commission, 2013). Moreover the increase of the Greek nominal wages did not reflect the life standards of the Greek working class inasmuch the increase of the real wages was much less and limited for the period 2001-2005 alone (see Graph 6).

## Graph 6

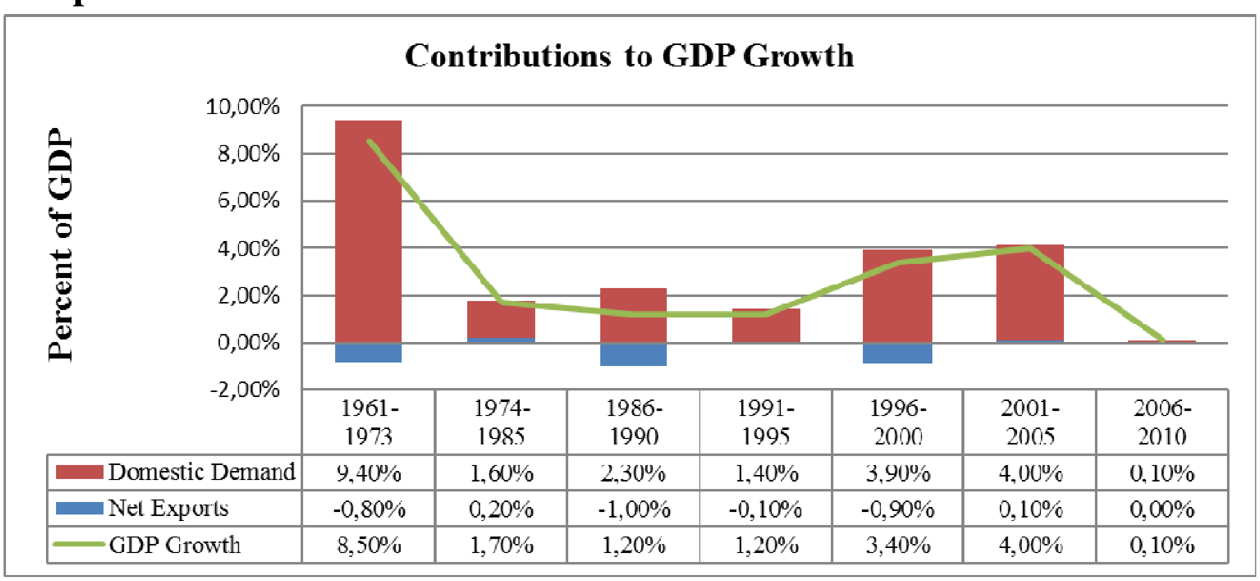



| | 1961-1973 | 1974-1985 | 1986-1990 | 1991-1995 | 1996-2000 | 2001-2005 | 2006-2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|
| Real wages per head | 6,40% | 2,70% | -0,70% | -1,50% | 2,30% | 2.50% | -0,80% | -6,50% | -5,10% | -6,20% |
| Nominal Wages per head | 10,10% | 21,50% | 16,80% | 12,10% | 8,00% | 5,60% | 2,30% | -3,40% | -4,20% | -7,00% |

Source: European Statistical Annex, Spring 2013

The high annual growth rate in the period 2001-2005 (see Graph 1) was not based on technological innovations and investments in the productive sector or on exports but rather on domestic demand (see Graph 7).

## Graph 7




| | 1961-1973 | 1974-1985 | 1986-1990 | 1991-1995 | 1996-2000 | 2001-2005 | 2006-2010 |
|---|---|---|---|---|---|---|---|
| Domestic Demand | 9,40% | 1,60% | 2,30% | 1,40% | 3,90% | 4,00% | 0,10% |
| Net Exports | -0,80% | 0,20% | -1,00% | -0,10% | -0,90% | 0,10% | 0,00% |
| GDP Growth | 8,50% | 1,70% | 1,20% | 1,20% | 3,40% | 4,00% | 0,10% |

Source: European Statistical Annex, Spring 2013

## 5. The management of Greek crisis

### *5.1 The dead-end austerity measures*

The neoliberal answer to why Greece has to enforce austerity measures, is located in the amount of public debt which was 129.7% of GDP in 2009, 148.3% of GDP in 2010 and 170.3% of GDP in 2011 (Eurostat, 2013a). High officers from the ECB, the EC and the IMF, called by the press "Troika" are supervising the enforced program of austerity in Greece (Weisbrot & Montecino, 2012: 3). The entire mechanism of austerity measures is based on the neoliberal concept of internal devaluation (ibid.: 2,9). According to it in order for Greece to regain its international competitiveness it must lower its wage costs (that would include weakening of the minimum wage and the collective bargaining) by recession and unemployment (ibid.). The regaining of its competitiveness will help to reduce its fiscal deficit and public debt and by succeeding in that, it will re-obtain its ability to borrow from the financial markets (ibid: 9). Greece and the other countries of the periphery must decrease their labour costs, which have increased during the euro decade, through wage deflation against the almost unchanged nominal labour costs of Germany (Laski & Podkaminer, 2012: 259). Wages must keep falling for years and by taking into account the flatness of German nominal remuneration, Greece must increase its productivity something which is peculiarly contradictory when the enforced policies of austerity are used as a vehicle for it; reversely productivity requires a prosperous investment environment with new technologies and opportunities (Lapavitsas, 2010a: 51). Austerity measures also failed according to the relevant estimation made by the enforcers. Week after the meeting of the Eurozone's finance ministers in Brussels in February of 2012, Reuters and Financial Times (Spiegel: 2012) published a "strictly confidential" analysis which starts with the statement that the fifth review of IMF is not valid as things were "*worse than expected, both in terms of growth and the fiscal deficit*" (February 15, 2012). According to this analysis growth was below -6% for 2011 than the initial projection of -5.5%. If Greek economy starts to show growth up to 2.3% in 2014 and then 2.9% in 2015 and manages to be stabilized for the next 5 years till 2020 to an average of 2.6% of GDP annual growth, then the debt will fall to 129% of GDP in 2020 (ibid.). It was right then, that an alternative scenario was presented. As to this scenario Greece had -1.0%

growth in 2013 and then started slowly to have a growth of 1.3% in 2014, 1.9% in 2015 and then an average for the next 5 years of 2.2% annual growth bringing the public debt to 159% of GDP in 2020 (ibid.).

This alternative scenario has not only been proven to be the only realistic one but paradoxically it can be also characterized as "optimistic". The reasons for such a claim derive from the fact that according to Eurostat (2013c) in 2013 Greece would have -4.2% growth rate and in 2014 it is projected to have 0.6% which is even below the 1.3% of the alternative "pessimistic" scenario. However, there is another estimation of OECD published in the end of May 2013, which projects -1.2% growth rate for the year 2014 and an increase of public debt from 175.1% in 2013 to 180.6% of GDP in 2014 (OECD, 2013b: 125). It is becoming clear that one way or another the current neoliberal management of the Greek crisis has no prospect. Even IMF's chief economist, Olivier Blanchard has stated that IMF misjudged the consequences of the austerity measures on European countries and their potential negative impact for the reduction of government debt, like in the case of Greece (Schneider, 2013).

Therefore, the question that must be answered now is what is going to happen with the unmanageable current Greek debt? The focal point of this question should not be of "what" but of "when". OECD (2013b: 125) forecasts a new debt relief and additional official financing but then the succeeding question would be, why did the Greek working class has to suffer so much for a project that was destined to fail?

### *5.3 The reasons for the Greek "bailout"*

If the bailout packages and the austerity measures in Greece had nothing to do either with the reduction of the public debt or with the increase of the Greek competitiveness, then which were the causes of their enforcement? One argument could be that the austerity measures were directed to the minimization of the losses of the holders of Greek debt securities and to the stabilization of the banking system of the Eurozone (Hadjimichalis, 2011: 268). This may partly forms the explanation but still it does not fully explain the reasons of the Greek bailout and the instability of the Euro through the constant speculation concerning the potential exit or stay of Greece in the Eurozone. Greece, contrary to what is being promoted by the mainstream media, is not so significant either in terms of its contribution to EU's GDP (only 2%) or judging on its debt. According to the Bank for International Settlements (BIS) in the third quarter of 2012 the European bank exposure to the Greek total debt (private + public) was $79.1bn, mainly located in Germany ($25.2bn) and France ($31.7bn) (Stabe et al., 2013). In order to highlight the significance of the Greek total debt for the stabilization of Eurozone's banking sector it would be worthy to compare it with the Spanish and Italian respectively. The European exposure of the European banks to Spain in the end of September was 2012 $448.3bn (total debt) mainly located once again in Germany ( $122.5bn) and France ($107.9bn) and then a smaller part in United Kingdom ($81.4bn); this is 5.6 times higher than the European banking exposure in Greece. Italy was exposed by $622bn (almost 8 times higher than Greece) in the European banks with the biggest proportion located similarly in France ($334bn) and Germany ($125.9bn). Moreover Portugal's European foreign exposure is $143bn but $74bn of them are located in the Spanish banking sector and then to the German ($23.3bn), French ($17.2bn) and British ($17.6bn) respectively. This highlights of how easily a destructive, to the Eurozone's banking sector, domino effect could be created from a possible default of Portugal which in turn would influence Spain and then France and Germany (ibid.). The explanation given of the stabilization of the Eurozone through the Greek bailout is partly correct. Greece was used as the counterplot terrain or diversion in order to give *"the euro area time to build a firewall to protect other vulnerable members and averted potentially severe effects on the global economy"* (Waterfield, 2013). Gradually, it is revealed that the bailout packages and the austerity measures were not even considered, on the early stages, as a solution to the reduction of the Greek debt. A critical report of IMF points out that when "*in 2010 the IMF lent €36bn (£30.5bn) to Greece"* the risk was so *'significant that staff were unable to vouch that public debt was sustainable"* (ibid.). The same report, also reveals that "*the impact of austerity policies in Greece was badly underestimated as EU institutions and leaders tried to save their political skins at the expense of the Greek economy"* (ibid.).

The other reason of the Greek bailout and the harsh austerity policies which "*are among the most severe and unjust fiscal austerity packages in Europe since the Second World War"* (Hadjimichalis, 2011: 268), is interrelated with the first argument and forms part of the construction of a social, economic and political consensus with the other vulnerable members of the Eurozone. It can be seen as a political and social discipline of the European working classes to a certain form of neoliberal reconstruction of the labour markets in order to increase the production of surplus value on a European level.

In the case that Greece had left the Eurozone in 2010, of course it would have faced tremendous problems at least in the initial stage, like capital flights, problems in servicing debt, a devaluation, inflation and austerity measures; the international experience though, shows that after one or two years of a country's default and devaluation the growth gets boosted (Subramanian, 2012). South Korea had 9 years with 6% of GDP growth, Indonesia 5% of GDP for the same period, Argentina almost 8% and Russia above 7% of GDP (ibid.). However, it should be mentioned that the above defaults and their subsequent high growth did not happen within the context of a global financial crisis. So, the following argumentation should be seen as a hypothetical experiment. If Greece after 2 years of recession started to have growth within the year of 2013, which currently has more than 4% of GDP contraction, what would this suggest for countries like Spain, Ireland and Portugal or even Italy, still faced with the Eurozone crisis? Greece would symbolize an alternative path against the neoliberal oppression of labour on a European level. Initially the people of the above countries and gradually even people of the core of the Eurozone, dealing also with unemployment and anti-labour policies, would exercise tremendous pressure to the European governments threatening the whole neoliberal structure of the Eurozone. At the same time this hypothetical course of events would offer an alternative visible example, beyond the neoliberal orthodoxy, of what is considered economic and political “possible” for the decision-makers.

### *5.4 The reformist alternative strategy*

The Greek left political party, that is to say Syriza, gathers around 27.5% electoral power and is projected second behind the conservative party of New Democracy which gathers 29.5% (Public issue, 2013c). Syriza has persistently declared, by its leader Alexis Tsipras, that party’s goal is to *“save Greece within the Eurozone, to save Greece within the euro and not to save the Euro at any cost”* (To Vima, 2013). The strategy of Syriza is based on the possible positive outcomes for labour with the gradual European discontent towards the management of the Eurozone crisis; thus generating a strong European euro-skeptic movement capable of changing the power relations within EMU in favour of labour (ibid.).

This Euro-skeptic movement would have as a basic strategy to reform EMU by employing policy tools derived from Keynesian and post-Keynesian macroeconomics. It would include an enlarged European budget, a European minimum wage, cross-European investments and circulation of the surpluses of the core in the form of non-debt creating flows with FDIs (Lapavitsas et al., 2010a : 1-3). No country would be allowed to have current account surpluses and deficits beyond a certain limit with sanctions on both sides when this rule is violated (Niechoj & Treeck, 2011: 264-265). Furthermore, ECB has to issue Eurobonds and purchase state debt in a more relaxed environment than the restrictions of the present (Lapavitsas et al., 2010a: 1-3). This strategy has also been expressed by the academics Yanis

Varoufakis and Stuart Holland as "Modest Proposal" (Galbraith, 2011). They proposed to convert 60% of GDP of every member of the Eurozone into a common Eurobond, to recapitalize and Europeanize the banking system by breaking the strategies of national banks to speculate over the national governments and to create a European New-Deal with investments throughout EMU along with the assistance of ECB (ibid.). Of course there are worries about inflation; but on the same time, there are studies which show that *"ECB can both increase the size of the balance sheet and adjust the assets side with very limited impact (if any) inflation targeting policies"* (Valiante, 2011: 4). This strategy would require a reform of the Maastricht treaty, the stability pact and the Lisbon Agenda (Lapavitsas et al., 2010a: 9). Another thing that could benefit the aim of the strategy is the taxation of the high capital incomes at a European level (Deutschmann, 2011: 19). The implementation of such a strategy is being also supported by a recent study of the Pew global organization which was released on May 2013 and highlights the growing different positions of Germany and the rest of the members of EMU. France's support to the EU has decreased from 60% in 2012 to 41% in 2013 and Spain's from 60% to 46% (Pew Research, 2013: 1). According to the same research, the Germans were satisfied by 57% about the country's direction while the French were dissatisfied by 80%, Spanish by 94%, Italians by 96% and Greeks by 97% (ibid: 11). In the category about the top economic problem, only 28% of Germans considered unemployment as a top economic problem (with more important problems, the public debt with 31% and rich-poor gap with 51%) but for French (80%), Italians (97%), Spanish (94%) and Greeks (99%) unemployment was the top economic problem (ibid.:15). From 2007 to 2013, in the ages 18-29, there was a tremendous decrease of the positive perspective of EU (ibid.:25). In Spain and France the positive perspective of the youths (18-29) for the EU has decreased from 88% and 75% in 2007 to 46% and to 47% in 2013 (ibid.).

Syriza constructs its strategy based on these developments and on the fact that despite the increased discontent, especially from Spain and France, the support for Euro still remains strong. In Italy the percentage of people in favour of Euro increased from 52% in 2012 to 64% in 2013, in Spain the same, from 60% it rose to 67% and in France it dropped only by 6%, from 69% to 63% (ibid.). In Greece, despite the general social dissatisfaction about the austerity measures and the disappointment about the future, with 64% of the people to believe that 2013 would be worse than the previous years (ekathimerini, 2012), in 2012, around 70% of the Greek people were in favor of Greece staying in the EMU (Pagoulatos, 2012: 61). This number has being also verified by the Pew Research Center which has given 71% (Pew

Research, 2013: 26) and also according to another research, published in the end of 2012, the percentage in favour of the EMU membership had even reached 76.5% (ekathimerini, 2012).

Nevertheless, this strategy faces many obstacles. The historical development of EMU, as it has been described in the first part of the thesis, with the international direction of the Euro against the dollar (Lapavitsas et al., 2010a :10) for the appropriation of more international value and the neoliberal target of increasing the competitiveness of the European markets as a whole within a deregulated, de-politicized European financial and labour market which will increase the production of surplus value and its accumulation in the European centers, render a return to past Keynesian macroeconomic welfare policies as a very difficult scenario. The French attitude towards EMU is gradually resembling more and more with Italian, Spanish and Greek (Pew Research, 2013: 35) but the French reaction does not tend to any solidarity towards to the south member states but to an increase of nationalistic tendencies. In 2012, 53% of French were in favor of providing financial assistance to other EU countries and in 2013 this percent decreased by 13% to 40% (ibid.). Moreover, 77% "*of the French think closer business ties with the rest of Europe have undermined their overall economy"* (ibid.) and in the category of measuring the stereotypical views among European countries, French people consider Greeks as the least trustworthy in EMU (ibid.: 9). The perspective of giving more power to Brussels is less than 50% for Italians (49%), Spain(47%) and France (47%), barely above 50% for Germany (51%) and only three out of ten Greeks believe that more EU decision-making power will make things better (ibid.: 24).*"The result in the crisis was to reproduce nationalistic and antagonistic attitudes, far from the idea of a 'United Europe' and of 'European solidarity'"* (Hadjimichalis, 2011: 269).

The trade unions which operate on a European level despite the organization of some multinational strikes, like this of the November of 2012, are also far from operating with a multinational coherent strategy and there is nothing to be expected on their part, at least in the moment. The European Trade Union Confederation (ETUC), materially dependent on *"friendly, but self-interested, European institutional elites"* (Hyman, 2011: 22) and ideologically absorbed within the technocratic European processes and rhetoric, has renewed its support to the internal market after the publication of the final EU 2020 strategy under the condition that the environmental and welfare policies would promote 'fair working conditions' (ibid.: 24). This position is way too distant from the present developments in the Eurozone and "*reveals a continued unwillingness to confront the reality that the internal market is weakening social welfare and undermining workers' rights and fair working conditions*" (ibid.). Moreover, the increased unemployment on a European level and the wage cuts in both private and public sector will weaken even more the actions and functions of the European trade unions (Bieling, 2012: 267).

The possibility of a lax of the neoliberal austerity policies is being posed as a dilemma for the German elite economic and political class but not in the direction of a Keynesian transformation of the Eurozone. The continuation of the European and international capitalist accumulation through the structures of EMU requires a minimum consensus with the European working classes which is currently being tested. Will Germany risk a breaking of EMU which would endanger its export model, as Euro is weaker as DM would be at this point and to which extent is it willing to lax the European austerity? What is more likely to happen, is the use of the carrot precisely when the stick will have been used too much. The high intensity and the long use of the stick against the European working classes will potentially make a small temporary carrot to appear as an important compromise between capital and labour. Even the German people, through the constant propaganda used by the mainstream media, suddenly appear as being in favour of providing financial support to other EU countries, from 42% in 2012 to 52% in 2013 which affirms the Machiavellian use of the carrot. German Finance Minister Wolfgang Schaeuble has recently said in the Group of Seven in U.K. that "*governments have earned 'enough room to maneuver' to act, having reduced budget deficits and bond yields*" (Ryan & Katz, 2013) and French Finance Minister Pierre Moscovici has proclaimed that *"we reject an austerity track, this dogma which slows growth"*, with Olli Rehn expressing the same argumentation "*we can for the moment afford a smoother path of fiscal adjustment*" (ibid.). These plans, for an ease of the austerity, will allow some extra time for the implementation of the neoliberal anti-labour adjustments (ibid.).

The scenario of Greece staying in EMU with the prospect of a limited debt relief and some time extension to enforce the anti-labour neoliberal program of privatizations, dismissals of public servants, wage cuts and market flexibilization are the only realistic targets within EMU. Jeroen Dijsselbloem, president of the Board of Governors of the European Stability Mechanism (ESM[b]) has recently said in a Greek newspaper interview that *"the Commission's approach regarding fiscal consolidation is more flexible, giving certain countries more time to meet their targets. I believe that this will be the case for Greece if needed"* (Maltezou, 2013). As for the debt relief, he noted that *"we will meet at some point in 2014 to see what more Greece will need on the condition it has met the set targets […] We have not made any decisions on what form this debt relief will take and whether it will include erasing part of the bilateral loans"* (ibid.). Concerning the debt relief, this would be the only way for Greece to reduce its debt as the current austerity program does not aim to its reduction. The question is what would be the social and political consequences for Greece till that day.

### *5.5 The exit strategy from the Eurozone*

Money has become an element of the construction of national identity through the ideological transformation of the value of money into the expression of the worth of a whole nation (Lapavitsas, 2011: 64). This means that countries with hard currencies reflect the power of their country in a fetishistic way. The anger of EU leaders has been expressed as a reaction against the sullenness of the Greek unreliability towards "their" Euro (ibid.). The majority of Greek people perceived, for a long period, a return to their national currency as a loss of their prestigious European identity among "first class" European economies despite their general dissatisfaction with the austerity measures (ibid.).

However, the percentage of Greek people that are in favour of Euro has gradually decreased. More to the point, in February 2013, the percentage of the Greek people in favour of Euro was 70%, in March 59% and in April it dropped to 56% (public issue, 2013b) but can an exit of Greece from the Eurozone actually benefit the working class and also what would be the obstacles to such a strategy?

According to a careful study, if Greece would exit Eurozone, an afterwards 50% currency devaluation would lead to 5%-9% inflation in the first year and 37%-42% increase of Greek competitiveness (Lapavitsas et al, 2011: 85-86). The return to the Greek national currency, drachma, would also have a positive impact on the growth of the impoverished agricultural sector and would contribute to the reduction of the extremely high prices for dairy products and vegetables (Lapavitsas et al, 2011: 87). The myth that Greece is "*not Argentina with soybeans and oil for the Chinese market"* (Galbraith, 2011) has nothing to do with reality as between 2002 and 2008 the exports of Argentina have contributed only 12% to its growth (Weisbrot& Montecino, 2012: 16-17). It was rather the recovery of domestic consumption and investments which contributed in the tremendous increase of growth in Argentina and Greece has even more potential sources for investments than those Argentina had back in 2002 (ibid.: 17).

Despite the beneficial aspects of an exit from the Eurozone it would bear along, significant problems. The relative price of imports would increase and this would affect worker's consumption. In electricity, Greece *"is practically self-efficient* […] *through domestic production of lignite which would have to be intensified for a period"* (Lapavitsas et al, 2011:

87) but 2/3 of its energy, mainly used for transport, is based on imported oil and its reserves cannot last for more than three months (ibid.). A progressive left government should try*"to secure access to foreign exchange and to an emergency access to supplies of energy, food and medicine"* (ibid.). At the same time, bilateral agreements would be necessary with producers of vital commodities and oil such as Russia (ibid.). In the present austerity program Troika has rejected the state-owned Russian energy company Gazprom and the private one Sintez despite the fact that they made the highest offers for the sale of DEPA, Greece's gas utility and Desfa, its pipeline subsidiary (The Economist, 2013). This rejection occurred after "*American and EU officials voiced disapproval*" (ibid.) with the announcement from TAIPED, the privatization agency, that "*all five shortlisted bidders seek Western partners"* (ibid.). Moreover, it would be important for the government to relieve the poorest Greek households with tax and subsidy policies as for several months the Greek state would be in a state of emergency but this would be "*the cost of escaping long-term decline within the EMU"* (Lapavitsas et al, 2011: 87).

The strategy of currency devaluation, despite its initial beneficiary effects for the Greek competiveness, is not enough for long-term development in favour of the Greek working class as "*the rise in the price of imports would eventually pass through to domestic prices and to the price of exports"* (ibid.). Currency depreciation and the removal of austerity would allow the restoration of Greek competitiveness from the destructive growth dynamics of EMU but one must keep in mind that they are not the remedies or the path for the development of Greek economy in favour of the working people. This path would be full of social, political and economic challenges; sustainable development would require high employment, higher share of labour in the GNP, public investments aiming at strengthening the Greek industrial sector, the introduction of new technologies and a breaking of the monopolies in key sectors such as medicine and food, thus facilitating the streamline commerce and the reproduction of the SMEs (ibid.: 87-88). Such a strategy would require capital controls and a nationalized banking system which would offer state guarantees on the private debt of households and enterprises, denominated in Euro within a context of an organized labour and civil society which would have the economic, social and political leadership, shifting the power relations in favour of the working class (Lapavitsas at al.: 89). If this strategy would collide and provoke conflicts with the EU, then the government underpinned by the Greek working class should be ready to reconsider its relations with Brussels (ibid.). However, this strategy has not yet found strong political expression.

Despite the fact that within the context of Eurozone the Greek public debt is constantly growing, the Greek economy continues to contract and the Greek growth dynamics have been restrained there is still an argument against a Greek exit from the Eurozone: Greece will still need to have a substantial haircut and without the support of the German economic position and the context of the Eurozone it will come into even more difficult position. The answer to this argument is that the debate about the Greek debt and the option of exit from the Eurozone has been ideologically constructed to prioritize the money relation against the social needs. The question which should include the question of public debt and not the opposite, is the following: what are the policies that can reverse 65% of youth unemployment, almost 30% of adult unemployment, a 25% economic contraction, a destruction of the welfare state, a general humanitarian crisis and the increase of extreme nationalistic ideologies (Lapavitsas, 2013). In an empirical level the public debt can only be dealt through a default and a moratorium of debt payments. Debt should *"inevitably be cancelled, including official debt held by the troika, and there should be negotiations with the lenders under full public scrutiny"* (Lapavitsas, 2012). This process as it has been described will not be easy and it is by far not the "solution". Nevertheless, it is an ideological prejudice not be examined at all as an alternative path in the scenario that the reformist plan will be proved unattainable. In conclusion, a political strategy of exit or stay in the EMU should be first mediated by the society and the needs of its people and then by credit-debt relations.

## Conclusions

The main research objective of the paper was to relate the historical dynamics of the Greek crisis of production in the 1980s to the Greek participation in the Eurozone and the Greek sovereign debt crisis of 2010. In order to establish a common analytical framework of social research for different historical periods it brought forward the dialectical method and the concept of dialectical contradiction which describes how the process of reproduction of a social phenomenon can at the same generate its own gradual deconstruction. The Greek participation in the Eurozone has on the one side reproduced a non-viable system of capitalist production with its structural problems originated in the crisis of production during the 1980s and alongside, it has also aggravated its structural problems within the context of the Eurozone crisis. A double line of argumentation has been followed. The first one was an attempt to conceptualize the Eurozone as a long term historical development of an international monetary facilitator of the European capitalist accumulation. It has been shown that the currency exchange mechanism is not based on class neutral relations but rather operates as a means of accumulating the international surplus value from technologically laggard countries with weaker currencies to countries with superior technology and stronger currencies. The unequal technological competition leaves the technologically weaker countries with only one option that is to increase their exports through competitive devaluations and discipline their working classes through inflation. However, this monetary policy operates as a blockage to the accumulation of international surplus value in the advanced capitalist centers. This blockage was greatly manifested in Europe during the crisis of profitability during the 1970s and the exit-strategy from this crisis was based on a triple plan: 1) Increase of the rate of profit with non-productive activities. 2) Increase of the European accumulation of international surplus value through the currency exchange mechanism (competition with the dollar). 3) Increase of the production of surplus value by increasing the exploitation of the European working classes.

The neoliberal era in Europe started by the efforts of the capitalist elites to accomplish the above three goals. The monetary policies had to be gradually insulated from the political sphere which was historically subjected to class struggles. A European common currency under a depoliticized central European bank was seen as a synthesis of this triple strategy which would restore the rate of profit. The European working classes of the technologically laggard countries had to be gradually incorporated into increasingly exploitative capitalist relations with massive de-industrializations. Without the strategy of currency devaluation or inflation policies for the discipline of labour, the workers would be forced either to unemployment and migration to the capitalist advanced European centers or living in extremely deteriorated conditions, producing increased proportions of surplus value. These clearly class based projects could not be forwarded without the consensus of the European working classes. For that reason these goals were initially supported by the idea of the European Social Model (ESM[a]) and right after by the first part of the triple strategy, by masking an accumulation of debts into an accumulation of capital with increased growth rates. The debt-creating financial flows of the core of the Eurozone increased the private debt of businesses and households of South Europe. In the case of Greece which had a non-competitive monopolistic private sector, closely interconnected with the state, the debt-creating financial flows were directed to the Greek public sector.

The second line of argumentation had as its purpose to trace the national genealogy of the development of Greek capitalism and highlight how its unique national characteristics were related to its adjustment in the Eurozone and how its structural problems located in the production crisis of 1980s were aggravated within the economic and political context of the Eurozone. After the shaking of the Greek capitalist crisis of production in the 1980s the Greek economic and political elites were struggling to find a way to restore the rate of profit. They focused on policies of short-term recovery of profit but in lack of strategies aiming in the recovery of growth through investments in new technologies and reorganization of the production sphere. They increased the rate of labour exploitation and they enforced an austerity program alongside with substantial reductions in the taxation of big businesses. These policies, within the context of the intense resistance of the Greek working class against the enforced austerity, have been supported by substantial increases on the levels of public debt. This dynamic found its dangerous reproduction through the efforts of the economic and political capitalist elites to refinance the public debt through the Greek participation in the Eurozone which would temporary reproduce the established economic and political power relations by creating a fictitious growth. Greece entered the Eurozone bearing the dangerous dynamics of a crisis in the production sphere which was never overcome within an economic environment in which the monetary policy tool of currency devaluation would not be available. During the Eurozone decade all the Greek structural problems were aggravated. Greece experienced an intense de-industrialization and a constant destruction of its productive powers. The dramatic decrease of Greek competitiveness has been shown, as well as the rise of household's private debt and also how Greek growth was based on domestic demand and on the enlargement of the Greek public sector which was compensating the weak private labour market.

Furthermore, the failure of the management of the Greek crisis based on austerity measures has been highlighted along with showing how they do not contribute to the reduction of the public debt or to the recovery of growth and competiveness of Greece. The austerity program was never aiming at reducing the Greek public debt. Among its main goals was to "buy some time" by using the Greek crisis as diversion  in order to secure the Eurozone's banking sector against potential distortions originating from the banking sectors of other members. Another intention was the political use of the "Greek crisis" as an example of disciplining the other European working classes in order for them to accept more easily the neoliberal reforms. What has been projected next was the fact that there will be a new Greek haircut and that more time will be given to Greece for the enforcement of the neoliberal program of Troika. The final chapters present two major alternative strategies for the management of the Greek crisis; the reformist strategy, supported by the Greek left political party Syriza and the strategy of exit from the Eurozone. The reformist strategy is based on the assumption that a Keynesian transformation of the Eurozone would be possible through a European euro-skeptic social and political movement. This argument is based on the fact that despite a drop in the percentages of people that support the Eurozone project, the respective share of people throughout Europe who support a solution outside the Eurozone is much less. However, if the obstacles for this strategy will not be surpassed then the strategy of an exit from the Eurozone should be carefully examined without a priori ideological presuppositions with a long term perspective for the recovery of growth.

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