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The legacy of a fractured Eurozone: The Greek Dra(ch)ma[☆]

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ABSTRACT

This paper addresses neoliberal origins of the acute geoeconomic and social crisis that was inflicted on Greece since 2010 with the unleashing of the 3 consecutive bailout plans and the implementation of fierce austerity policies. We further scrutinize the composition of the soaring Greek debt and most importantly, the unsettling utilization of the troika loans for the 2010–15 period. For the first time in the literature, we provide evidence that the vast bulk of the loans went overwhelmingly not to benefiting a "profligate" Greek state but to avoiding the write-downs of bad loans made by reckless creditors (mainly, German and French banks) to the Greek government and private banks. We propose the temporary adoption of a parallel currency in the form of government IOUs, together with other drastic measures to reboot the ailing Greek economy inside the Eurozone.

1. Introduction

A decade since the beginning of the Great Recession, and the acute economic crisis afflicting the Eurozone countries does not abate. The economic malaises of the neoliberal[1] market economy that were exposed by the financial meltdown in 2008 have been amplified by draconian austerity measures that the "structuralists"[2] have imposed in the common currency area. Fiscal retrenchment programmes were presumed to deal with what has been commonly framed as a sovereign debt problem. In the process, real GDP in the most deeply affected countries remained substantially below pre-crisis levels, leading them into a depression. Real GDP is −23.3% (Greece), −7.1% (Italy), −6.4% (Spain), and −2.9% (Ireland) below its respective 2008 levels (source: Eurostat 2014). The result is an ever more serious social and political crisis: Greece and Spain suffer from huge unemployment rates around 20%, while youth unemployment hovers around the 50% mark.

Arguably, macroeconomic indicators have recently improved in countries like Ireland and Spain (and in the Eurozone as a whole mainly as a result of the European Central Bank's (ECB) quantitative easing monetary policies) but, whatever temporary rebound is evidenced through dry statistics, it is plagued by five, in our view, main characteristics of 21st century neoliberal capitalism: (i) Rising economic and social inequality which increases the marginalisation of large sectors of national populations and concentrates even more forms of capital within certain geographic regions and among certain groups, a phenomenon of uneven spatial development (Harvey, 2005); (ii) Increased propensity to crisis and secular stagnation (as described by A. Hansen, see below) with the explosive financialization of the capital accumulation process; (iii) Business concentration, hoarding of cash reserves and lack of productive investment by big companies; (iv) Casualization of the labour force ("Gig" underclass of labourers, "Uberization", impoverished middle class); and (v) Hollowing-out of

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[1] For details, see the discussion in Section 2.
[2] We refer to as "structuralists" the dominant Eurozone neoliberal policy makers that believe, out of ideological conviction, that whatever the economic problem, structural reform, deregulation, and fiscal flexibility in framing the future steps of austerity, will grow ailing economies stronger.

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democratic institutions.

The aim of this study is to revisit and re-examine key economic data following the inception of the Euro for Greece, the undisputed "guinea pig" of the "Alice in Wonderland" economics of austerianism. Given that since 2010, turbo charged fiscal consolidation is being undersigned by debt fundamentalists through 3 consecutive bailout plans (see Karanasos et al., 2017, for details) as the prime remedy for the tumultuous state of the Greek economy, a fresh assessment is needed for its geoeconomic impact and efficacy. Two are our main contributions.

First, we present new evidence about the composition of the soaring Greek sovereign liabilities and, crucially, of the unsettling utilization of the "troika" (IMF, European Union, ECB) loans. We demonstrate that the vast bulk of the loans went overwhelmingly not to benefiting a "profligate" Greek state but to avoiding the write-downs of bad loans made by reckless creditors (mainly German and French banks) to the Greek government and Greek systemic banks. We view this destabilizing conduct by the Eurozone's economic elites as a form of what Harvey (2005) terms as 'accumulation by dispossession': "By [accumulation of dispossession] I mean the continuation and proliferation of accumulation practices which Marx had treated of as 'primitive' or 'original' during the rise of capitalism. These include...colonial, neocolonial, and imperial processes of appropriation of assets (including natural resources)...and usury, the national debt and, most devastating of all the use of the credit system as a radical means of accumulation by dispossession" (p.159).

Second, we propound a concrete alternative plan with a number of interconnected and synergistic actions that will alleviate the Greek crisis, will avert the dissolution of the Eurozone and shake discredited neoliberal beliefs and economic functioning. Our key proposal is the temporary adoption of a parallel (to the Euro) currency whilst, crucially, Greece remains formally a Eurozone member. A complementary currency may be pertinent not only for Greece but for other troubled nations within the Eurozone, foremost Italy, given the state of its economy and of its ailing banking system.

We acknowledge that the synergistic forces behind the genesis and the unfolding of the Eurozone crisis are extremely deep-seated ranging from over-accumulation, surplus absorption, monopolization and the financialization of the capital formation process that characterize the world economic system to Eurozone specificities.

For the present analysis, we employ Peck et al.'s (2012) understanding of neoliberalism as market disciplinary regulatory restructuring. Crucially, it is this disciplinary impulse that, in Polanyi's model, gives the Euro project its chimerical character, due to the political impossibility of allowing the societies of the member states to be transformed into heap of ruins (Polanyi (1944[2001], pp. 202) by the sanction of hunger (Polanyi (1944[2001], pp. 123), although both testaments are tested to the limit in the case of Greece. The result is an inevitable coupling of market disciplinary reforms (e.g., the inception of the Euro) to the growth of financial backstopping institutions which provide state-funded security (e.g., European Stability Mechanism (ESM), European Stability Fund (ESF)), in other words an expansion of big-government finance under the auspices of small-government ideology, in an escalating cycle of crisis and crisis interventions.

In recent related work, Hatgioannides et al. (2017) addressed in detail the Eurozone's woes and the prospect of secular stagnation (see below) in the common currency area by unravelling (i) the supply-side imbalances that formed the core-periphery economic divide, and (ii) the necessity of the periphery's sovereign debt to finance imports from the export-led core. Since in a monetary union, a member state cannot devalue to boost its exports and put a brake on its imports, it is the fiscal budget balance that will have to fill up the gap left out by private and external sectors; hence the explosion of sovereign debt in parts of the periphery and the need of debt "mutualisation".

The prevailing view that countries of the core have funded the sovereign debts of the periphery was thus challenged, and subsequently it was demonstrated that the commonly held argument that the periphery countries (first and foremost Greece) have lived beyond their means -due to wages growing beyond what is justified by productivity gains- is in stark contrast to the trajectories followed by the wage shares. In addition, they provided evidence that intra-euro mercantilism was forming the salient economic project during the booming times 2001–2007 of the monetary union.

They further scrutinized the credit flows, the role of FIRE (finance, insurance and real estate) as a major source of economic stimulus by partially soaking up surplus capital and the role of the ECB in creating an asymmetric monetary union. During the pre-2008 period, it was shown that the main booming private enterprise of the recently deemed as troubled countries of the periphery was a rampant financial sector fuelling a multi-facet credit bubble. A bubble that was funding the unsustainable purchase of goods from the exporting core and the explosion in speculative property construction. At the same time, the private sector agents (banks, insurance companies, pension funds) of the richer and higher saving core, funnelled huge money flows to the poorer periphery. As this investment decision was driven by their quest for boosting short-term profitability, it had a destabilizing impact on the allocation of scarce resources at the recipient states. During the ongoing austerity era, the very same private institutions are reversing former and reckless cross-border investments. The credit draught in the periphery, the differences in the funding costs of core/periphery states, were found to be symptoms of the concurrent attempts by surplus countries private creditors to repatriate the massive opportunistic claims they have accumulated on deficit countries debtors.

As early as 1938, the leading Keynesian economist in the US Alvin H. Hansen dubbed the term secular stagnation: According to this theory, the modern developed capitalist economy has an enormous capacity to save, both because of its corporate structure and because of the very unequal distribution of personal income. But if adequate profitable investment opportunities are lacking, this saving potential translates not into real capital formation and sustained growth but into lowered income, mass unemployment, and chronic depression, a condition summed up in the term stagnation (see Sweezy and Magdoff (2009/1987), pp. 30). Secular stagnation might "prove the New Normal".[3] With reference to the world economy, both Summers (2013) and Krugman (2013) are adamant that what is needed is increased spending of all kinds to get the economies moving again, initially through expanded government expenditure, but with the object of jump-starting private investment spending.

If, or rather when (in our opinion) should the current disastrous policies perpetuate, Eurozone goes into stagnation, there are many problems endemic to this block of countries; most notably, that this is one region of the world where "rules" have triumphed over even mainstream economic pragmatism (see Stockhammer and Sotiropoulos, 2014), forcing to pointless cuts in government spending. It is the cobwebbed, yet conflicting, dynamics of structuralism (see Footnote [2]) and an obsession with the "rules" that shape the contradictory and geographically uneven institutionalization of the political project of neoliberal integration in the Eurozone.

Conceptually, the tendencies toward neoliberalization, financial marketization and, ultimately, economic integration in the common currency block of countries are conditioned by a Polyanian (1944[2001]) "double movement". This is driven, on the one hand, by an overarching laissez faire ideology and the concomitant impulses of

[3] See Lawrence Summers (2013). Another leading Neo-Keynesian, Paul Krugman (2013) picked up Summers' comments arguing that "an economy facing secular stagnation...isn't just a temporary state of affairs, it's the norm". As Magdoff and Foster (2014) point out, "Neither Summers nor Krugman offer a theoretical or historical explanation for secular stagnation. Instead they focus simply on the liquidity trap in which interest rates approach zero-making it difficult to stimulate the economy monetarily by further lowering rates", pp.2. In a footnote, they carry on noting that "Hansen's theory is discussed by Krugman as if it merely emphasized demographic factors, not issues such as industrial maturity, monopoly and inequality", footnote [7], pp. 23.