DRAFT VERSION

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See No Evil: Financialized Shock Therapy in Greece

Introduction

From October 2009 onwards, the Greek economy has been in a near-constant state of crisis. In May 2013, Greece entered its sixth recession and remained reliant on external loans from the 'troika' of the International Monetary Fund (IMF), the European Commission (EC), and the European Central Bank (ECB) to service its public debt. Measures aimed at reducing this debt, imposed by the troika as a condition for extending loans to Greece, have not produced the predicted 'expansionary austerity,' but instead have produced the ostensibly counterproductive effect of throwing crisis-hit countries into deep depressions and rendering it more difficult to repay their debts.

I address this apparent paradox by examining both the integration of Greece into the EMU and post-crisis austerity measures with respect to the ongoing process of financialization within the EMU. I do so by employing a historical materialist framework focusing on Marx's concept of 'fictitious capital,' capital not backed by a commodity transaction, but by a claim on future value. I argue that financialization is best understood within the context of the contradiction-prone cycle of fictitious capital accumulation and destruction and apply this insight to the ongoing Greek sovereign debt crisis.

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This research was supported by the Social Sciences and Humanities Research Council

I argue that, while the crisis is overdetermined, one hitherto unexplored dimension is the incomplete and fragmentary financialization of the Greek economy in the 1990s and 2000s. More specifically, Greek banks expanded to neighbouring countries, and borrowing by households and firms spiked dramatically after Greece adopted the Euro, but a number of domestic political-economic factors acted as drags to the financialization process. These include the following: 1) Greece's dependent development associated with its outward-oriented bourgeoisie; 2) the dependence on foreign funds from financial capital, emigrants, tourism, and EU transfers; and 3) the highly fragmented nature of Greece's welfare and taxation systems, which have created one highly protected stratum and one highly unprotected one. In this context, I argue that the crisis has served as an opportunity to impose a radically accelerated process of financialization aimed at restructuring the Greek economy in line with the ideal neoliberal utopia. This can be understood as one of the three responses to a crisis of fictitious capital: internal devaluation (i.e. austerity) aimed at restoring balanced accumulation, asset devaluation, or upward socialization (for example, through the issue of Eurobonds or more aggressive ECB intervention). However, the success of this project is far from guaranteed: so far the austerity project pursued by the troika has failed to replace the old Greek class compromise, and has not yet successfully undermined either the strong public sector unions or the entrenched political, economic, and media elites which have dominated the Greek political economy.

The rest of the paper is organized as follows. I begin by constructing a historical materialist theoretical framework based on Marx's concept of fictitious capital. I then argue that financialization is best understood within the contradiction-prone cycles of fictitious capital accumulation and destruction. I then review several of the causal strains that have led to the (overdetermined) Greek debt crisis. These primarily include the institutionalized asymmetries within the European Monetary Union (EMU) between the exporting North and the importing South, creating permanent balance-of-payment problems, as well as the dysfunctional Greek political-economic system which emerged from the military junta, arguing that neither of these explanations can capture the whole story. I then apply my theoretical framework to pre-crisis Greece, focusing primarily on the role of the Greek banking sector after the adoption of the Euro. Finally, I place the austerity project undertaken in Greece within the context of this framework, and conclude with a discussion of the possibilities for resistance and change in the future.

Financialization and Fictitious Capital

Financialization, like many terms in political economy, is notoriously un- or under-defined.

> A quick scan of the 35 titles listed by the web of science demonstrates that the topics discussed encompass general developments within capitalism, understood as a global system; the restructuring of the welfare state and the increasing dependence of households on the ups and downs of financial markets; transformations of the business model of banks and other financial service providers; the growing reach of financial logics into geographically widely dispersed product chains; the cultural preconditions for financialization and their effects on self-perceptions and identity; the relation of the rise of finance to the privatization and liberalization movements of the 1980s and 1990s; the rise of shareholderism and the spread of accounting and management techniques that financialization requires, and so on. (Engelen 2008, 115)

However, a number of broad similarities can be drawn from the various works on financialization. Epstein concisely defines financialization as “the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies." (Epstein in Martin et al. 2008, 122) Similarly, Lapavitsas (2011) characterizes financialization as a transformative process comprising the following: 1) increased corporate financial capacities and a consequent independence from bank credit; 2) a reorientation of banks towards mediating transactions, consumer credit, and handling household financial assets; and 3) increased involvement of workers within the financial sector, with respect to both increased borrowing and the holding financial assets (Lapavitsas 2011, 623). In contrast to this process-based view, regulationists have taken financialization to be part of the (relatively) stable post-Fordist accumulation regime, which is based more on financial accumulation through financial asset price rises, or through interest rate arbitrage (Becker et al. 2010, 227). Taken together, we can define financialization as the increasing size and importance of global finance as well as the new embeddedness of households and non-financial firms into networks of global finance.

On its own, this definition is somewhat problematic. After all, finance is hardly a new phenomenon; Lenin and Hilferding were warning about financial domination over a century ago, and Marx was writing about the necessity for finance even before that. What is different about this period is that many of the limits to finance present in the early days of capitalism have been overcome and worked out. For instance, the speed of financial communication is now nearly instantaneous, and advances in computing technology have allowed an almost limitless variety of credit instruments to be constructed. As well, the previous ideal of an entrepreneur establishing a firm with his own capital has been replaced with bank intermediating, and an entire class of executives who manage ethereal capital tied up in joint-stock multinationals rather than supervise their own capital. This has been made possible by the above-noted innovations, in particular securitization, which allows for the slicing up of capitals into a variety of pieces, which are then reconfigured in different investors' portfolios, so that very few can claim to employ their "own" capital, but rather own many pieces of different capitals.

Before contextualizing financialization within the cycle of fictitious capital, a few remarks are necessary on the credit system, which contains within itself the contradictions inherent in this cycle. As Marx (and much later, Keynes) argued, the credit system is necessary for the reproduction and expansion of capitalism as it can help to overcome the "natural" limits of capitalism which are imposed by the limited consumption of households. The value in a commodity can only be realized when that commodity is purchased with wages, but because of the tendency to push down wage costs to increase profits and the tendency (associated with technological growth) to replace workers with machines, over time more products are created, but without the corresponding wage base to purchase them. Thus, their value is not realized. Credit helps to circumvent this limit by allowing industrial capitalists to produce more goods as well as allowing workers to consume more goods, thereby valorizing capital. In other words, credit speeds up problems of overaccumulation, but also helps to displace them forward in time (Marx 1991, 613-614; see also Harvey 2003). This limit imposed by the declining wage base helps to explain why credit always returns, expands, and increases in complexity after each crisis.

Finally, because of the credit system, idle money located anywhere becomes potential interest-bearing capital. For instance, the savings account of a household, the excess cash of an industrial capitalist who cannot expand production, or a merchant with excess cash after selling goods can all be put into the credit system to earn interest. (Marx 1991, 638) As the credit system increases in size and complexity, it because easier to use excess money as interest-bearing capital. For instance, risk-weighting and the proliferation of derivatives products allow any idle money to be converted into interest-bearing capital which suits nearly any need.

This leads us to the concept of fictitious capital, which is defined as capital backed not by any commodity transaction, but which represents a claim on future value (Harvey 2006, 266-267). This concept is related to the concept of net present value in modern accounting, as fictitious capital implies that *any* regular periodic income can be thought of as the interest on a sum lent out at the going rate of interest (Marx 1991, 597). For instance, a $100 regular payment (say of wages) with a prevailing interest rate of 5% can be capitalized as $2000, which represents the value of possessing this $100 regular payment. In the case of sovereign debt, which is fictitious capital backed by the state's ability to tax future production, a $2000 loan to the state provides the lender with a legal title to $100 annual interest payment. However, turning $2000 of idle money into interest-bearing capital only produces the superficial circuit M-M', rather than the valorization produced by capital invested in production, M-C-M'. Yet the independent fluctuation in fictitious capital, independent of the underlying value, strengthens the illusion that these claims constitute real capital, rather than ownership titles (Marx 1991, 598).

By its very nature, fictitious capital must always be created ahead of real production, as it simply represents a claim on future value, and is thus *prima facie* free from the limit imposed by consumption. However, fictitious capital is fundamentally linked to the nature of money as both a medium of circulation and measure of values. As David Harvey (2006) notes, this creates a tension

> between the need to sustain accumulation through credit creation and the need to preserve the quality of money. If the former is inhibited, we end up with an overaccumulation of commodities and specific devaluation. If the quality of money is allowed to go to the dogs, we have generalized devaluation through chronic inflation. Thus are the dilemmas of modern times neatly presented. (Harvey 2006, 280)

During expansionary phases, this tension is unproblematic. The fictitious capital represented by legal titles circulates easily, and can be used in place of money as a medium of circulation to a degree depending on the liquidity of the title and fictitious capital can be easily created, as expectations regarding the future state of the economy are high. The demand for money-capital "calls forth its own supply since faith in the system is sufficiently strong to allow even debt claims to circulate as a form of money capital." (Harvey 2006, 303) Yet while fictitious capital can be created out of thin air, its worth ultimately rests on the monetary base defined by actual commodity production. When the creation of fictitious capital gets too far ahead of the monetary base, the result is a crisis of confidence in all fictitious capitals and often the credit system itself. The interlinked nature of fictitious capital means that the value of these assets is thrown into doubt, with potential knock-on effects to the balance sheets of lenders, which may themselves then have the value of their own fictitious capital thrown into doubt, and so on.

A crisis of fictitious capital can be resolved (or more accurately, displaced into the future) through some combination of three means: upward socialization, asset devaluation, and internal devaluation. By upward socialization I refer to the ability of states and their central banks to purchase assets and so realize fictitious values at their going (or inflated) price. Ideally, this ends the ‘credit crunch’ and allows accumulation (as well as the creation of fictitious capital) to restart anew. Two problems are immediately obvious. First, the central bank now holds fictitious commodities whose actual value is in doubt; these commodities must either be held with the hope to sell later and realize a positive return, or be acknowledged by the central bank as a loss, a move which has the potential to trigger a new crisis of confidence in the state’s capacity to borrow. Second, with the central bank printing money to realize fictitious values, the temptation potentially becomes (much like with the creation of fictitious value itself) to create too much money. This of course can result in generalized inflation or localized asset bubbles, both of which have the potential to cause a new crisis of fictitious capital or threaten the credit-worthiness of the state.

Asset devaluation, on the other hand, refers to processes such as debt restructuring, exemplified by the Greek Private Section Initiative (PSI, discussed in more depth later). Here, a quantity of fictitious capital is subject to a carefully managed devaluation, rather than sticking to the pretense that the fictitious values will be realized in full. This of course can have particularly devastating consequences if not managed correctly; a deal such as the Greek PSI wiped out a great deal of (supposedly risk-free) capital in the Greek banking system and necessitated a larger recapitalization of the sector. This vicious cycle between sovereigns propping up their banking system, in turn threatening their bond ratings, which their banks hold and so need further propping up, etc. has been a major concern in the European sovereign debt crisis.

Finally, internal devaluation, popularly referred to as austerity measures, refers broadly to a set of policies aimed at devaluing commodities, including labour-power. The overall goal of these measuresis to rationalize and restructure production and subject all aspects of social life to capitalist discipline, and in doing so, ideally restore confidence in fictitious capital (Harvey 2006, 326). This devaluation is undertaken with the hope to drive down wage and commodity prices in order to enhance 'competitiveness' vis-à-vis the rest of the world and, when taken alongside the rationalization and restructuring of a state's political economy, to create "a 'controlled recession' that will have the long-run effect of putting accumulation back on track." (Harvey 2006, 328)

To theorize how the relative mix of these three choices is determined, we can turn to Bob Jessop's (2008) Strategic-Relational Approach, as the capitalist state is generally the central actor in determining this mix, and supranational institutions such as the IMF and ECB can be theorized with the same framework. Jessop offers a powerful theory of the state, which considers the state not as a reified subject, but as an institutional apparatus comprising various power capabilities and which is responsible for reproducing the (capitalist) social structure, of which it is merely a part. State action, then, is not predetermining, but is strategically selected on the basis of these various power capabilities and interests. In other words, Jessop encourages us to break away from monolithic groups, and look at how smaller factions carry out their goals. In other words, the capitalist system introduces certain pressures on agents, but the outcome is never predetermined, instead being strategically selected based on this configuration of forces. In the case of Greece, then, we can understand the fragmented tax system on the basis of the political power of the professional classes, which have largely been able to escape taxation. Similarly, Greece's compliance with austerity demands in the face of widespread social unrest can be understood as resulting from the historically outward-oriented bourgeoisie. This approach helps conceptualize how costs of devaluation are distributed, both within Greece and within the EMU.

When fictitious capital takes the form of sovereign debt, this choice is also influenced to a large degree by what I have argued (Hembruff 2013) to be the primary contradiction at work in the operation of sovereign bond markets. Put simply, this is the need for creditors to pursue two contradictory goals: 1) keeping indebted sovereigns within the lending game by ensuring that the imposed austerity and privatization policies are not so severe that they cause a default or social collapse in the indebted state; and 2) facilitating expanded accumulation in the debtor state (through privatization and financialization), and maintaining investor confidence in debt repayment (generally with bureaucratic reforms, spending cutbacks and investment-friendly policies). Soederberg (2005) has termed this the "golden noose" of neoliberalism, as the noose must be loose enough to prevent a debtor delinking from the global lending game, while tight enough to ensure debtor governments follow through on privatizations and austerity measures.

Debtors are pressured both by conditions attached to loans and by the hegemonic development orthodoxy which posits that development should be financed by debt (so that an enticing climate for capital can be created with low taxes and few barriers to investment), with the debt being repaid when the state has fully 'developed.' Political elites in debtor states, then, also have a vested interest in staying within the golden noose, given that economic and social stability is dependent on the continual refinancing of maturing loans. This highlights an important power imbalance between lenders and debtors that is often obscured in dominant interpretations of sovereign debt; debtor states need to follow the prevailing development orthodoxy (generally prescribed by the IMF and World Bank) because to deviate is to risk losing access to new loans, leading to default. This then gives creditors, and the political elites to which they are allied, control over space and time in the developing state, since they have the power to set up repayment schedules, dates and sizes of emergency funding, privatization schedules, and so on.

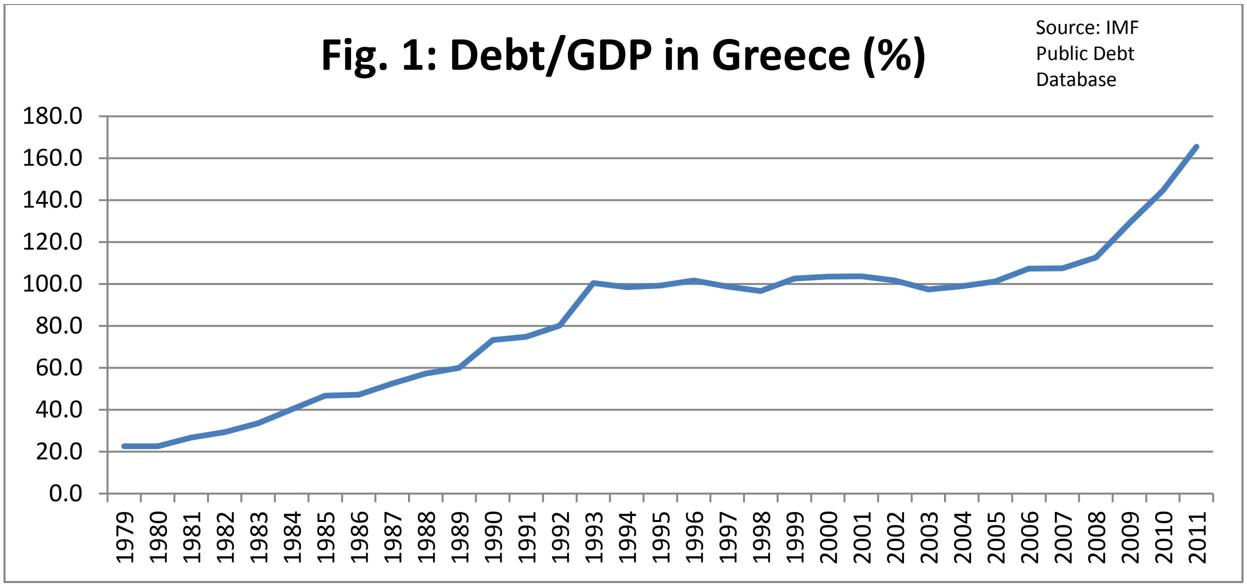
To return to the topic posed at the outset of this section, financialization is implied in both the creation of fictitious capital as well as crisis-fighting measures. During credit-fuelled expansions, financialization expands hand-in-hand with the creation of fictitious value, as the speed of this credit-based expansion is determined by an increase in the complexity of credit provision and/or new institutional features. For the former we can point to examples of securitization and derivatives, and for the latter, it will be shown how the EMU's focus on capital freedom and banking harmonization helped spur a massive increase in credit provision within millennial Greece. During crises of fictitious capital, and the management of fictitious values, financialization is again implied, particularly during internal devaluation. Privatizations, which are generally part of austerity packages, shift control of organizations from public hands to the market and institutional reforms (particularly in tax collection and ease-of-doing-business) are generally portrayed as rationalizations of a dysfunctional political economy. Indeed, it could be argued that a finance-dominated regime is the most 'rational' from the standpoint of capital, as it removes human fallibility by taking control not just of state bureaucrats, but also from individual capitalists who are frequently viewed as having a too-cozy relationship with the state apparatus in the developing world. But as noted above, the credit system can never solve problems in underlying production, but only displace them into the future.

Dominant Interpretations of Greece's sovereign debt crisis

The first of the approaches to the European sovereign debt crises has been to blame the indebted state for its own woes. In this narrative, Greece has long been plagued by a dysfunctional, patrimonial political system, out-of-control spending, and a weak social safety net (Mitsopoulos and Pelagidis 2011). Greece promised European leaders it would fix these problems if it were allowed into the European Union, and was granted transitional loans that would allow it to undertake the macroeconomic reforms necessary reduce patrimonial corruption, reform the state administrative capacity, and improve tax collection. Private investors flooded the country with money, believing that reforms would be carried out and that the European Union as a whole would take responsibility for any potential problems. Sinn, as quoted by Young and Semmler (2011), has claimed that capital outflows to peripheral states such as Greece "deprived Germany of necessary investments and led to the lowest growth rates-second only to Italy-between 1995 and 2005" (Young and Semmler 2011). Peripheral countries such as Greece experienced a demand-driven boom, with a current account deficit financed by cheap core-provided credit. As the story goes, Greece abused the 'privilege' of EMU membership and deserves to be punished for its profligacy in order to be put back on track.

The reverse of the above argument blames Germany for its artificially competitive labour productivity and pathological obsession with maintaining a current account surplus at the expense of the Eurozone periphery. According to this narrative, Germany (and to a lesser extent, other 'core' states such as France) has been the main beneficiary of the EMU at the expense of the Eurozone periphery. Germany took a lead role in designing the institutional structure of the EMU, aiming for the 'sound money' and 'sound finance' principles exemplified by the Bundesbank. "The problems of imbalances had been disguised, in part by the design of the EMU and in part by the elimination of the risk of exchange-rate shocks with currency union… As long as debtor states complied…imbalances were assumed not to be a problem." (Dyson 2010, 604)

According to this perspective, the root of the problem lies within divergent labour competitiveness, compounded by differences in the real rate of inflation. Germany achieved its export boom (and associated current account surpluses) through a policy of wage moderation. These reforms focused largely on reducing non-wage labour costs and increasing flexibility in labour markets in order to achieve fiscal consolidation (Young and Semmler 2011, 10). Because the member states of the EMU share the same monetary policy — one aimed at inflation targeting and price stability, with Maastricht criteria limiting the freedom of fiscal policy — pressure is forced onto labour markets as a lever for increasing competitiveness (Lapavitsas et al. 2010). Germany maintained structural current account surpluses through labour cost repression and technological excellence, while in the periphery of the EMU the scope for relative gains via labour repression was much smaller. Germany, then, induced peripheral states such as Greece to join the EMU as quickly as possible in order to recycle these surpluses profitably in the booming periphery.



While both of these perspectives highlight important aspects of the Greek sovereign debt crisis, particularly structural Balance of Payments problems between the North and South and a fragmented Greek bureaucracy, they fail to capture the whole story. Most notably, both of these theories predict a long-term secular increase in Greece's debt-to-GDP ratio after joining the EMU, whether from cheap borrowing costs (which converged to German levels, see Blythe 2013, 80), structural Balance-of-Payments imbalances, and/or a dysfunctional government's profligate spending. However, Greece's debt-to-GDP remains nearly constant from 1993-2007 at around 100% (see Fig. 1). This flatness, despite debt servicing costs, chronic balance-of-payments deficits, and public infrastructure investments related to the Athens games would actually seem to imply that Greece actually consolidated its fiscal position during this period, although not to the degree that would actually drive down the debt-to-GDP ratio to Maastricht levels. True, Greece's debt-to-GDP ratio is still much higher than the prescribed Maastricht limit of 60%, but Greece's fiscal position pre-crisis was nowhere near as dire as most of the mainstream theories predict.

The Political Economy of Greece

As noted above, both these dominant theories fail to capture the whole story with respect to the Greek sovereign debt crisis. In particular, they obscure the story of the Greek domestic financial system, precisely the area to which the study of fictitious capital and financialization draw our eye towards. In this section and the next, I apply the theoretical framework developed in section two to the incomplete and patchy financialization that took place between Greece joining the EMU in 2001, and the onset of the crisis in 2008. More specifically, while Greek banks expanded to neighbouring countries, and borrowing by households and firms spiked dramatically after Greece adopted the Euro, a number of domestic political-economic factors acted as drags to the financialization process. These include: 1) Greece's dependent development associated with its outward-oriented bourgeoisie; 2) the dependence on foreign funds from financial capital, emigrants, tourism, and EU transfers; and 3) the highly fragmented nature of Greece's welfare and taxation systems, which have created one highly protected stratum and one highly unprotected one.

Greece has always remained a middle-of-the-road country in terms of its development, and these factors have acted as drags on the financialization process during the 2000s. The bulk of manufacturing is also concentrated in low-to-medium technology sectors, focusing largely on processing agricultural products and textiles. This pattern has persisted even today, with FDI in manufacturing accounting for only 33% of total stock, 2/3 of which was in sectors producing consumer goods, with only 0.8% devoted to the manufacture of capital goods (Monastiriotis and Jordaan 2011). Furthermore, much of Greece's agricultural sector is dependent on the EU's Common Agricultural Policy, which provides market price support and has only recently begun focusing on rural development policies (farm income support makes up 75% of CAP spending, mostly direct payments to vine growers and subsidies for olive oil — see Psaltopoulos et al. 2006). Initially, Greece possessed a comparative advantage in agriculture and manufacturing due to its low labour costs, however now Greece is still less productive than technology-intensive producers in core EMU states, but has higher labour costs than developing states such as China. This has been compounded by the removal of tariff barriers, which devastated traditional manufacturing sectors (primarily food and drinks, tobacco, and textiles). Since 2004, there has been a steady drop in most manufacturing exports, with only food & beverages remaining constant, and only tobacco and plastics growing (Athanasoglou et al. 2010). Import penetration from the EEC quadrupled during the 1980s, and during the 1990s capital from the core of the EEC began taking over the few remaining viable firms.

Despite the devastation of its fleet during World War Two, shipping is an integral component of Greek capitalism. Greece has been the international leader in shipping since the 1970s, and in 2011 Greek owners controlled a record 16.2% of the world's deadweight tonnage (UNCTAD 2011, 41). Many of these owners, however, live in the United States or the UK, and most of these ships are registered under flags of convenience such as those of Cyprus or Liberia. In Greece, the port system has long been publically owned; however, the government has announced plans to privatize the ports of Thessaloniki and Piraeus as part of its austerity program, and in 2008 the Chinese firm COSCO Pacific won a 35-year concession to operate two container ports at Piraeus (UNCTAD 2011, 92).

During the early postwar period, it was hoped that shipping capital would be reinvested in Greece itself, driving the development of manufacturing within the country. However, neither local capital nor shipping capital ever showed any interest in undertaking the country's industrialization. Shipping capital was either siphoned out of the country, or invested in stock markets or the tourism sector (Serafetinidis et al. 1981).

The state has continued to take a highly permissive approach (particularly with respect to taxation and legal requirements) to shipping capital in order to keep Greek shipping from moving elsewhere, and in the hopes that it can drive development. Shipowners pay a tonnage tax, but are exempt from income taxes, and there are no restrictions on the re-exporting of funds made by shipowners. Since the accession to the EMU, the movement of funds by shipowners has been made much easier with the liberalization of the financial sector and the removal of capital barriers (Serafetinidis et al. 1981; UNCTAD 2011, Fotopoulos 1992; Featherstone 2008).

The Greek shipping sector is highly dependent on foreign funding through the international financial market for its operation. Currently, loans booked in Greece and worldwide amounted to just over $66bn in 2011, 96.5% of which originate from banks within the Eurozone (Petropoulos 2012, 3). While Greek banks used to be important in ship finance, enjoying a symbiotic relationship with ship-capital, the sector has rapidly been penetrated by foreign capital, owing to the liberalization of financial markets. 2011 marked the first year in which no Greek bank was one of the top 5 lenders to the Greek shipping industry. Far and away the biggest lender is RBS, with Commerzbank-Deutsche Schiffsbank and Credit Suisse also representing key players (Petropoulos 2012, 4).

Indeed, it is not simply from lenders that Greece has been reliant on an inflow of foreign funding. Following World War Two, Greece encouraged emigration, and many Greeks abroad still send funds back home, which is an important source of funds for Greek families. Emigration was encouraged in the immediate postwar period both to create a stable source of foreign funds via remittances, and to defuse the massive unemployment problem, which threatened the survival of postwar Greece. Remittances peaked in the 1970s, when they covered over one quarter of the balance of payments deficit, but have steady declined since (Fotopoulos 1992). The tight monetarist policies pursued by the advanced economies following the stagflation of the 1970s, however, meant that opportunities were much more limited in these countries, drastically reducing the usefulness of emigration.

The EU is also an important source of funds for the Greek economy; as mentioned earlier, price supports from the CAP make up most of the income for Greek farmers. Other transfers include cohesion policy funds for infrastructure development and administrative reform. Greece is reliant on foreign funds via (mostly European) tourists, which has steadily increased in importance since the 1970s, and replaced the declining share of remittances. The tourist sector is also highly spatially concentrated, with tourism (and related services) largely concentrated around Athens and the Greek islands.

In terms of welfare provision and the tax system, Greece also exhibits a clear core and periphery, or perhaps more correctly, one highly protected stratum, and one unprotected one. Taxation in Greece is largely based on indirect taxation, which constitutes 2/3 of tax receipts, and in particular consumption taxes. Direct taxes, such as income taxes, are paid only by waged and salaried workers, which constitute a much smaller portion of the population than most European states given the small size of most firms and large black market economy. Most business activity is exempt from anything more than symbolic taxation, including banks, commercial firms, and professions such as lawyers, engineers and doctors, and various forms of legal tax evasion are used to conceal income revealed through consumption of expensive luxuries. In effect, legal tax evasion is the norm, as no party has been willing to go up against these powerful groups. This has added up to a regressive tax system with no redistributive effect, and meant the inability of Greece to cover government spending with taxation (Featherstone 2008).

Similarly, the welfare system in Greece is highly fragmented and weak, and in effect, almost nonexistent. 'Welfare' in the broadest sense of the term, is generally provided directly by the Greek state in the form of protected, public-sector jobs, and high pensions. The state then relies on the informal links (such as family and community ties) to distribute these funds to those in need, as the state lacks the capacity to carry out direct welfare policies (Leontidou 1993). Like the emigration policy noted earlier, this has been undertaken to control the unemployment problem in Greece and reduce social unrest. This has been done through the provision of public sector jobs with generous pensions and high job security.

The state began to expand under the conservative ND party immediately after the collapse of the junta. ND nationalized Greek companies which were under stress due to the international economic crises in the late 1970s. When PASOK took power in 1980, it did not expand the nationalization program, but instead focused on developing the welfare state through public funding of healthcare, education, and pensions. However, Greece is somewhat of an anomaly compared to most advanced industrial countries, in that money spent on families is low, while the cost to the state of pensions is high (Stathakis 2010). The construction of the welfare state helped to bring in the disenfranchised Left (which had been persecuted heavily both before and during the junta), and accounts for the large rise in public debt over this period.

For those not lucky enough to work in the public sector, there is an extremely thin and patchy institutional apparatus for unemployment relief.

> The family has taken up many tasks of the public sector and the welfare state, including the support of unemployed members and their placement into jobs. The mobilization of the extended family network often creates an intricate, self-help network of unemployment relief based on personal acquaintances. They place the unemployed in jobs without contacting formal agencies, which leads to a chronic underestimation of unemployment. Income-sharing in many communities is customary. Younger and older women within the family take up roles such as child-rearer, nurse for the sick and the old, teacher, etc., alongside their domestic tasks. (Leontidou 1993, 63)

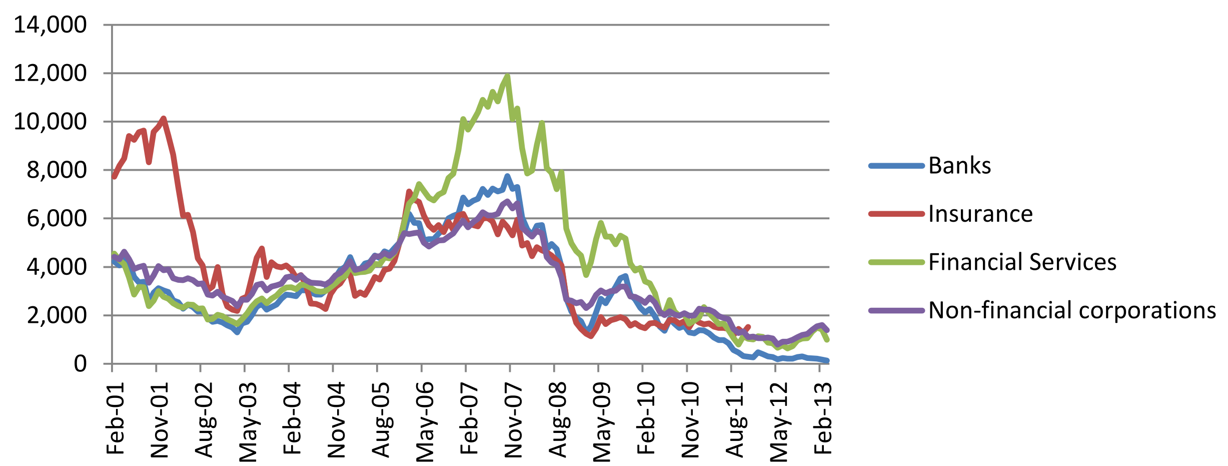
The large influx of foreign funding has created a type of rentier capitalism, and a highly sophisticated and demanding consumer society, without the productive base to match. This foreign-oriented, comprador bourgeoisie directed capital towards activities such as banking, commerce and shipping. A large agrarian and service sector, alongside a limited manufacturing base and an economy structured on small and medium-sized enterprises that were predominantly family-owned, shaped the economy.

Fictitious Capital and Financialization in pre-Crisis Greece

Greece's insertion into the integrated market created by the EMU was driven by consumption and credit, both of which had been relatively muted in the pre-EMU years. Prior to the mid-1980s, the Greek banking system was characterized by a high degree of state interference. These controls were gradually relaxed, and capital controls removed during the late-80s and early 1990s in preparation for the EMU ascension process (Hondroyiannis et al.

1999). By the time the country joined the EMU in 2001, its banking system was fully liberalized in line with the other Eurozone members. The 1990s and early 2000s also saw a wave of mergers and acquisitions, and by 2006, the six largest banks controlled more than 80% of the market and were witnessing nearly double-digit annual profit growth (Alexiou and Sofoklis 2009, 98). As late as 2006, Eurobank predicted that "the Greek banking system has significant growth potential" due to the seemingly limitless demand for credit (Eurobank 2006, 4).The strong performance of the banking and financial sector can be seen in Figure 2. Between 2001 and 2007, bank stocks doubled, while stock prices of financial services corporations tripled.

Fig. 2: Athens Stock Market Indices (31.12.2005=5000)



In many ways, the period from Greece's entry to the EMU to the global financial crisis was the country's first experience with the financialization process based on the creation of vast amounts of fictitious capital, which is shown in Figures 3 & 4.

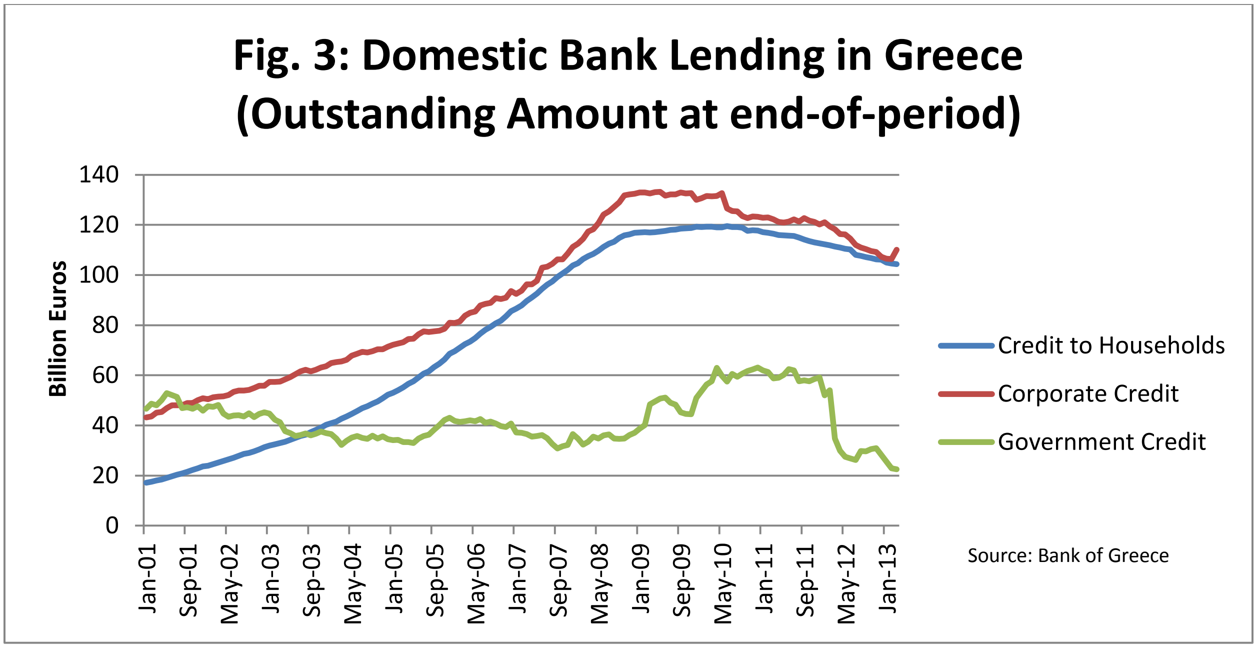


Fig. 3: Domestic Bank Lending in Greece
(Outstanding Amount at end-of-period)
Billion Euros
140
120
100
80
60
40
20
0
Jan-01
Sep-01
May-02
Jan-03
Sep-03
May-04
Jan-05
Sep-05
May-06
Jan-07
Sep-07
May-08
Jan-09
Sep-09
May-10
Jan-11
Sep-11
May-12
Jan-13
Credit to Households
Corporate Credit
Government Credit
Source: Bank of Greece

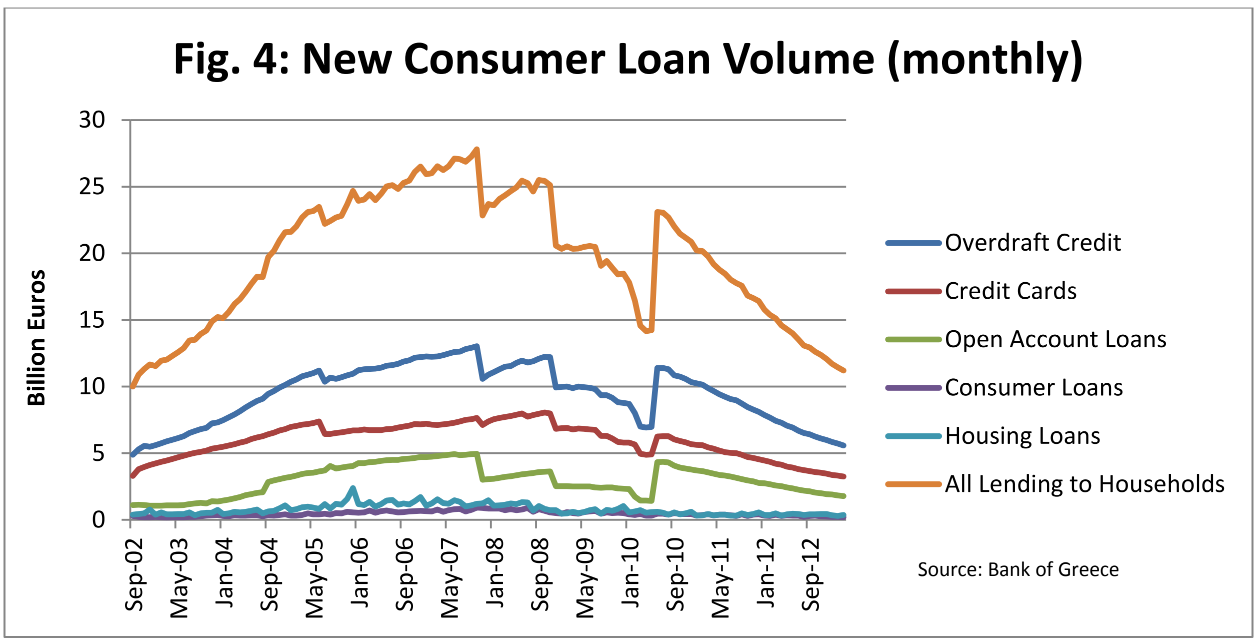
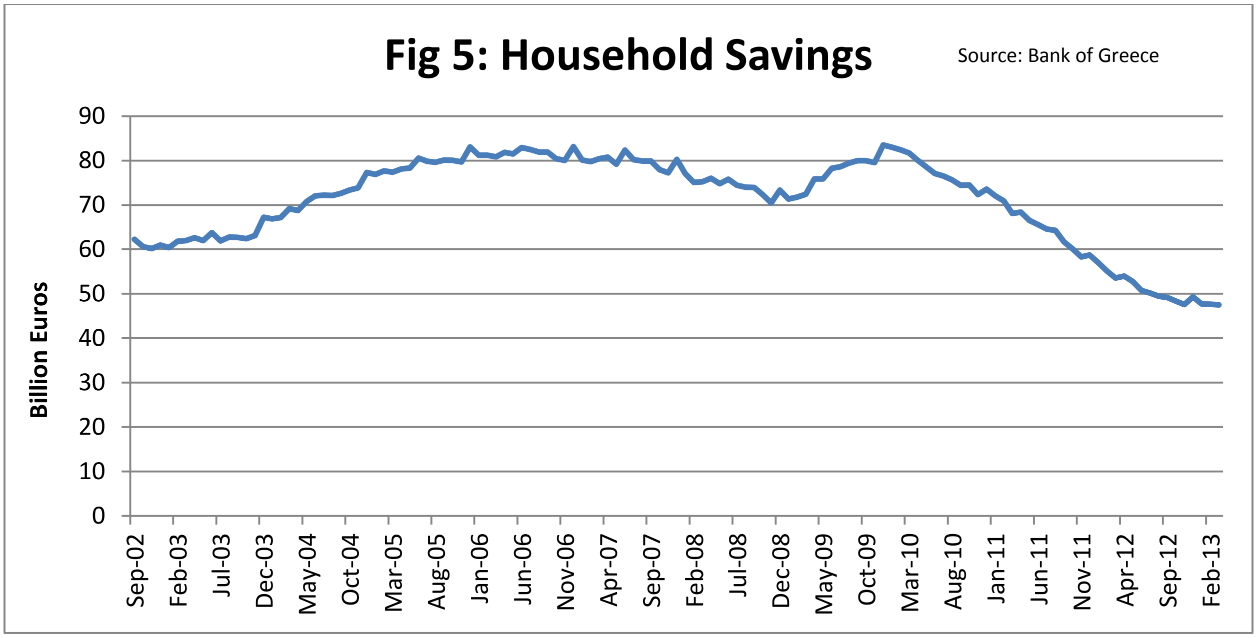
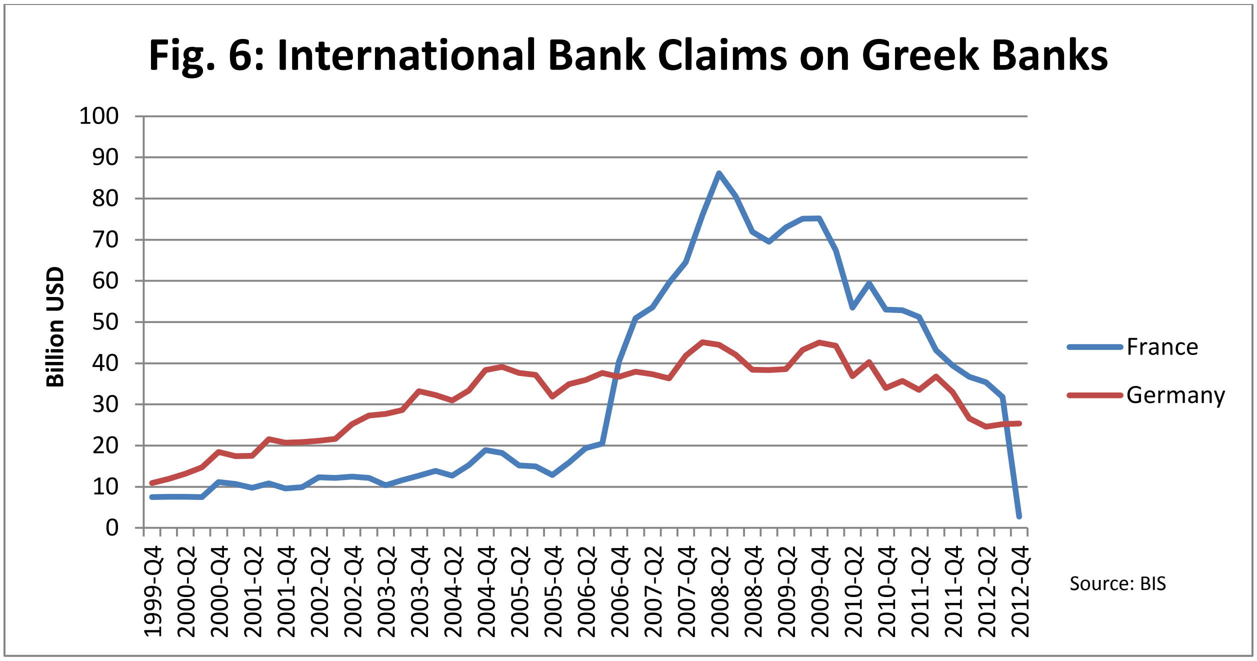
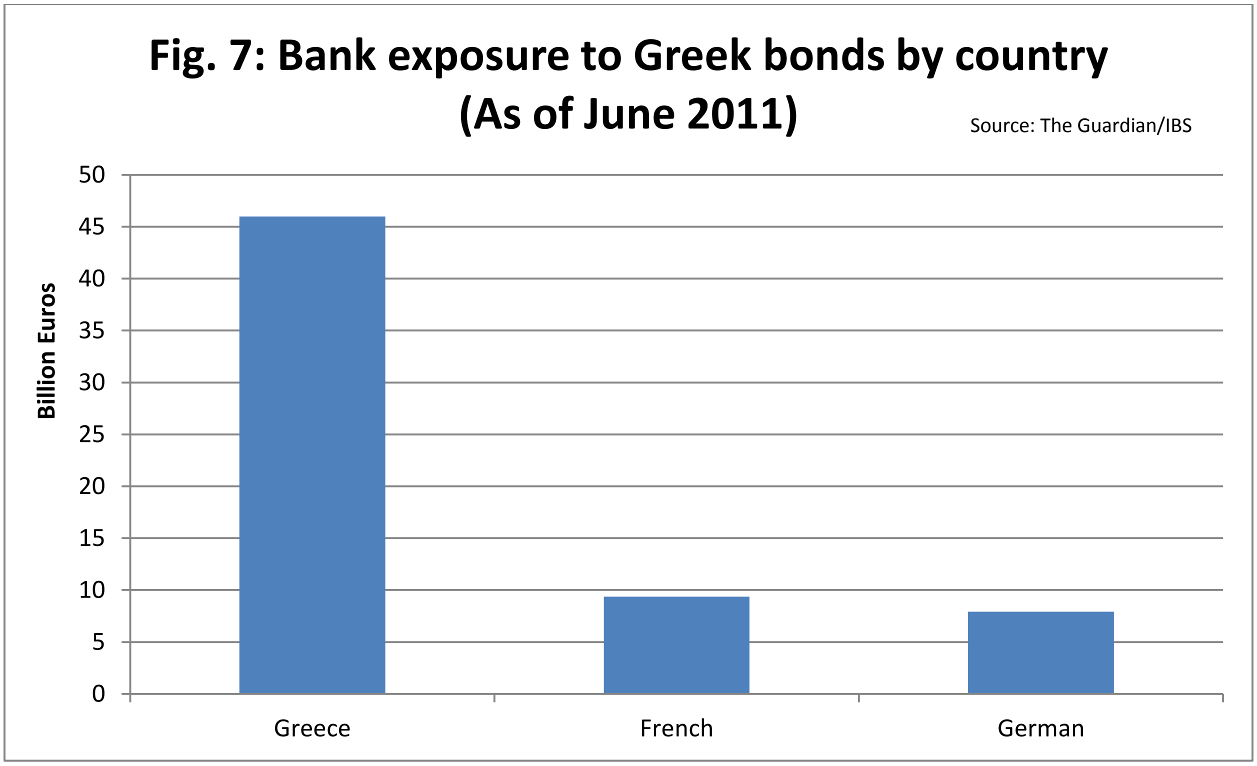


Fig. 4: New Consumer Loan Volume (monthly)
Billion Euros
30
25
20
15
10
5
0
Sep-02
May-03
Jan-04
Sep-04
May-05
Jan-06
Sep-06
May-07
Jan-08
Sep-08
May-09
Jan-10
Sep-10
May-11
Jan-12
Sep-12
Overdraft Credit
Credit Cards
Open Account Loans
Consumer Loans
Housing Loans
All Lending to Households
Source: Bank of Greece



As Fig. 3 shows, outstanding loans to households grew nearly 600%, from approx. €17 billion in September 2001 to €119 billion in October 2009. Over the same period, outstanding loans to corporations increased a more muted, but still strong, 207%, from approx. €43 to €133 billion. Similarly, as Fig. 4 shows, new credit issuance to consumers per month increased 180%, from approx. €10 billion in September 2002 to a peak of €28 billion in October 2007. However, as Fig. 5 shows, household savings over this period only increased by 1/3, from €60 billion, to a relatively stable pre-crisis level of €80 billion. These figures point to a working class that was becoming rapidly integrated into, and dependent upon, the financial system to meet their consuming needs and facilitate social reproduction. The fact that most new consumer loans took the form of either overdraft credit or credit cards (Fig. 4) implies that this excess credit was being spent on current consumption in an attempt to 'catch-up' to the living standards of the Eurozone core. This meets Lapavitsas' (2011, see above) third criterion for financialization: increased involvement of workers within the financial sector, with respect to both increased borrowing and the holding financial assets.





At the same time consumer credit was exploding, there was an increasing amount of foreign penetration into the Greek banking sector (particularly among French and German banks, see Fig. 6), even as financing for the Greek public debt continued to be provided largely by domestic banks (see Fig. 7). Greek banks were also engaging in rapid expansion into southeastern Europe by opening branches and purchasing local financial institutions. Much like Greece in the early 2000s, southeastern Europe was seen as an untapped market, due to extensive privatizations, low access to credit, and rising household demand. By 2006, Greek banks controlled 14.3% of banking assets in Romania, 16.3% in Serbia, 28.3% in Bulgaria, and 32% in Albania (Eurobank 2006, 27). "From 17% of the total foreign claims on southeastern Europe at the end of 2004, it rose to 57% in 2007, 49% in 2008 and 44% at the end of June 2009. In terms of total assets, the presence of the Greek banks in emerging Europe has increased to 43% at the end of 2008." (Kapopoulos & Lazaretou 2011, 13)

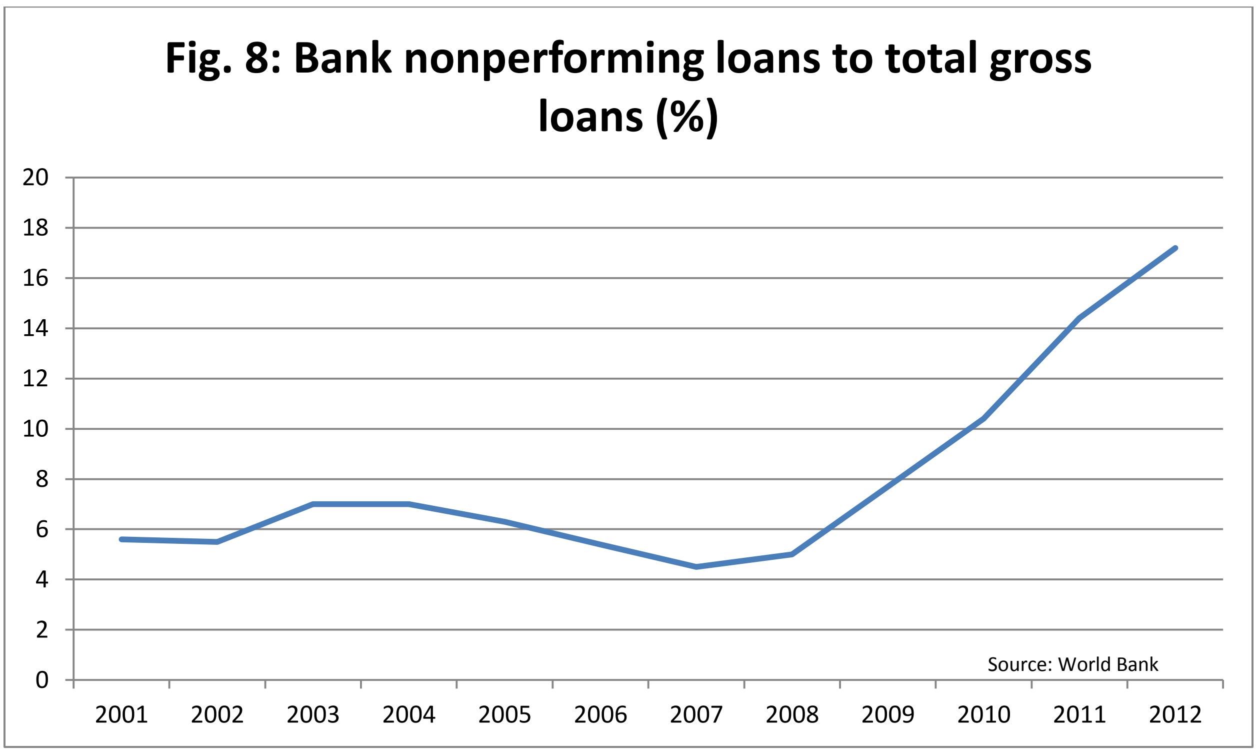
Overall, the actions of banks partially satisfy Lapavitsas' (2011) second characteristic of financialization, a reorientation of banks towards mediating transactions, extending consumer credit, and handling household financial assets. While banks were certainly reorienting this way in the pre-crisis period, the onset of the subprime (and subsequent) crisis has slowed this process. However, the first characteristic, increased corporate financial capabilities and bank independence, does not seem to be met. As Fig. 3 shows, corporations have remained reliant on bank financing, which is likely attributable to the prevalence of small-and-medium enterprises in Greece, in contrast to the large multinationals in much of the developed world. To recall the discussion of Greece's political economy, the large Greek enterprises have been outward-oriented (particularly shipping), which has acted as a drag to domestic financialization, as there was no incentive to expand finance in Greece when shipping capital was well-served in major financial sectors such as London. Similarly, the dependence on foreign funds from emigrants and tourists also created no incentive for the expansion of the financial system, as these funds were used directly for consumption rather than recycled into the credit system. Finally, the fragmented welfare and tax system posed strong disincentives to financialization. If a finance-dominated political economy is the most rational from the perspective of capital, those who benefitted the most from the skewed welfare and tax regime had no incentive to rationalize these systems, as that would mean higher costs for them.

To recall our discussion of fictitious capital, we can see how the vast creation of credit facilitated the 'obstacle' posed by low domestic demand and production. Although the stock of fictitious capital represented by the Greek sovereign debt remained relatively constant, consumer and corporate credit exploded during this period, and Greek banks even began providing credit in neighbouring countries, hoping to facilitate the same 'miracle' that Greece was experiencing. Yet, recall that fictitious capital must always be created ahead of real production, as it simply represents a claim on future value, and that different types of fictitious capital are highly susceptible to contagion — a decline in confidence in one fictitious value can easily and quickly turn into a lack of confidence in other fictitious values, or even fictitious capital as a whole.

The Crisis in Greece and Financialized Shock Therapy

It is impossible to overstate the degree to which the 2007-2008 US subprime crisis sent shockwaves through the global financial system. States borrowed to fund automatic stabilizers, recapitalize their banking systems, and launch stimulus programs. In the EMU, where monetary policy is shared, fiscal policy was the first available tool to smooth out the recessionary shock caused by the aftermath of the subprime crisis. While the subprime crisis set in motion the events that would trigger the Greek sovereign debt crisis, the crisis itself can be said to have begun in October 2009, when the incoming PASOK government revised the estimated government budget deficit from 6.7% to 12.7% of GDP (Nelson et al. 2010, 3).

After this trigger, the crisis of fictitious capital in Greece was composed of three interlocking processes. First, the worldwide recession triggered by the subprime crisis, and exacerbated by PASOK's announcement, made loan repayments difficult for Greek households and firms. Nonperforming loans rose from a low of 4.5% in 2007 to 17.2% of total gross loans in 2012 (Fig. 8).



At the same time, Greek banks were also hurt by falling prices, and diminished creditworthiness of Greek Government Bonds (GGBs). While government bonds are normally considered risk-free for the purposes of collateral swaps and balance sheet accounting, the credit downgrade of GGBs in February 2012rendered them ineligible for use in repo transactions with the ECB ('Greece Feels Collateral Damage From Bank,' *Wall Street Journal* Feb 29, 2012). The ECB did not accept GGBs as collateral again until December 2012, after Standard & Poor's increased Greece's credit rating in the wake of the successful PSI and years of austerity measures ('Greek bonds boosted by ECB eligibility,' *Financial Times* Dec 19, 2012). However, the PSI seriously compromised the GGB-laden Greek banking system even further, as existing bonds were swapped for new ones with 31.5% of the initial face value ('Greece pushes bondholders into record debt swap', *Bloomberg* Mar 9, 2012). Finally, the Greek banking system saw widespread deposit flight after the onset of the crisis, as Greeks feared a banking collapse or a return to the drachma (see Fig. 5). This was especially significant as Greek banks were more reliant on deposits than large banks in the North, owing to the incomplete financialization, and the vicious cycle between GGB credit downgrades and bank downgrades made tapping international capital difficult (see Bank of Greece 2012).

The crisis is, at its heart, a result of the contradiction between fictitious capital and its monetary base. While fictitious capital creation in Greece was dramatically accelerated owing to EMU integration, which was based primarily on financial integration at the expense of other aspects, actual production lagged far behind. The crisis demonstrates the ease of contagion between forms of fictitious capital, particularly between Greek banks and the GGBs, but also between Greece and other Southern European states which were facing similar issues. The need to manage this crisis of fictitious capital has become the overriding priority for the troika, as it has the potential to spread even to the core states, via the PIIGS, thereby threatening the existence of the monetary union.

The current tack in response to the crisis has been to impose reforms on crisis-hit states and centralize control while building up funds which can be used to assist distressed banks and states. On May 10, 2010 the EU announced the creation of a Special Purpose Vehicle (SPV) called the European Financial Stability Fund (EFSF). This fund, totaling €750bn and to include €440bn from the European Council and €250bn from the IMF, was to assist distressed Eurozone countries by buying up government bonds (BBC News, May 10, 2010). The EFSF is set to be replaced by a permanent institution, the European Stability Mechanism (ESM), in 2013. The ESM is based on the EFSF, and is set to provide over €800bn when brought into being as the so called 'firewall' against the debt crisis ("The World from Berlin: 'Even a 1-Trillion Euro Firewall Wouldn't Be Enough'" *Spiegel* Mar 30, 2012). Both the EFSF and the ESM will provide assistance to distressed Eurozone economies on the condition of stringent economic and fiscal adjustment. These so-called 'austerity' conditions follow a neoliberal logic similar to that of the IMF's structural adjustment programs in the 1990s and include the privatization of public assets, social spending cutbacks, and a shift to more flexible employment.

Austerity reforms have been portrayed with an air of inevitability,implying that submission to the logic of capital is both beneficial and necessary—echoing the 'Eurosclerosis' discourse surrounding the creation of the EMU itself. The involvement of the IMF has served to reinforce the illusion that these reforms are necessary, technocratically-developed, and politically neutral. Financial markets are portrayed as testing the strength and resilience of the euro area as well as the willingness and ability of EU authorities to preserve the integrity, stability, and competitiveness (as a destination for capital) of the EMU. A recently released EC Task Force report recommended an enhanced surveillance framework aimed at preventing the emergence of (and combating existing) macroeconomic imbalances (ECB 2011, 100-101). Responding to this, the ECB has noted that, while the proposals are a step in the right direction, there needs to be a "quantum leap" in economic governance to consolidate the functioning of the EMU (ECB 2011, 101). The ECB argues that there needs to be stricter penalties applied for noncompliance, less discretion and more automaticity in discipline, and better data collecting and reporting on the macroeconomic conditions of member states (ECB 2011, 108). The report focuses heavily on the themes of 'competitiveness,' 'confidence,' and the 'proper incentives' for member states, reusing the neoliberal discourse of the EMU's initial construction and justification. Heavily emphasized is the need to recognize joint responsibility for stability in the Euro area, and the need to "take the historic opportunity offered by the reform process to fully exploit the current Treaty framework to strength euro area economic governance" (ECB 2011, 102).

Here, we can see all three strategies for managing fictitious capital crises at work. The first, upward socialization, can be seen first in the recapitalization of the Greek banking system by the Greek state (Bank of Greece 2012) and second in the actions of the troika. Through the Securities Markets Programme (SMP), the ECB purchased €33.9 billion in GGBs (ECB 2013), and the troika has provided hundreds of billions in loans to the Greek state. Both of these now represent liabilities which are borne by the entire Eurosystem. The second, asset devaluation, can be seen in the PSI, wherein private bondholders would agree to write down some of their holdings. On March 9th, 2012, Greece activated collective action clauses (CACs), which enforced losses on investors who refused to participate in an exchange that swapped existing bonds for Greek bonds at 31.5 per cent of the initial value, and notes of the European Financial Stability

Facility at 15 per cent of the face value. This swap reduced the €206bn of privately-held Greek debt by 53.5 per cent, making it the largest debt swap in history (Argentina's debt swap in 2005, previously the largest, was US$81.8bn) ("Greece pushes bondholders into record debt swap," *Bloomberg* March 9, 2012).

The third, internal devaluation, can be seen in the austerity and privatization measures which have been imposed as part of the conditionalities attached to troika loans. Euphemistically, the goal of internal devaluation is to restore 'competitiveness' in order to reconnect the monetary base with fictitious capital, and reignite confidence in future repayments. This is done by aggressively driving down the price of commodities, including labour. Wages in Greece have decreased by an average of 40-50%, and private sector minimum wages have been driven down to around €700 per month, with public sector wages slightly higher (Woestman 2012, 383). According to the European Commission,

> The extensive labour market reforms, implemented as a prior action for the second programme, have already led to a substantial improvement in competitiveness in terms of unit labour cost, and to a slowdown in inflation…But much more needs to be done to create the basis for renewed growth, which will have to rely more than in the past on private investment and exports. An acceleration of product and service market reforms is crucial to bring about investment, innovation and competition. A stronger focus on microeconomic reforms is, therefore, imperative to ensure sustained productivity growth and a reduction in prices to increase disposable income. (European Commission 2012, 2)

The so-called "Memorandum of Understanding" signed on to by Greece as a condition of receiving loans emphasizes "rationalizing and reducing expenditures," "tax reform and rationalization," and extensive privatizations of government holdings (European Commission 2012, 3-4). These remarks echo Harvey's argument that the overall goal of internal devaluation is to rationalize and restructure production and subject all aspects of social life to capitalist discipline, and in doing so, hope to restore confidence in fictitious capital (Harvey 2006, 326).

Internal devaluation can also be seen as connected to the process of financialization. Finance-dominated political economies can be seen as the most 'rational' from the perspective of capital, as they represent control by impersonal market forces, rather than imperfect humans. Privatizations and capital-friendly labour reforms place more aspects of an economy under the control of market forces, and thereby accelerate the process of financialization. The extensive attacks made against the large unions and privileged groups can also be seen as attempts by the troika to remove the obstacles that blocked financialization in the past (see above). In other words, the crisis renewed the push for financialization, and provided an opportunity to impose financialized 'shock therapy' in the Eurozone periphery.

Internal devaluation, however, is contradictory, particularly when it is applied with such speed and vigour, as it undermines the social basis of production. Greece has seen near-constant unrest since the onset of the crisis, which has seriously compromised its ability to carry out the reforms required by the troika. There also is serious political opposition presented by privileged groups who have benefitted from the skewed tax and welfare regime, such as the professional classes and public sector employees. More worryingly is the recent meteoric rise of the neo-Nazi party, Golden Dawn. Despite being linked to a variety of racially-motivated assaults, Golden Dawn is the third most popular party in Greece, commanding around 10% popular support, and is widely supported by the police forces, which often overlook attacks carried out by members ("Greek schools fertile ground for neo-Nazis," *AFP,* 6 December 2012. See also: Philips, "High police support for Greece's Golden Dawn," *Al Jazeera English*, 1

December 2012). With the ruling coalition beginning to fracture over the revelation of tax evader cover-ups, the possibility that Golden Dawn might become a part of a new coalition government is a very real one. Despite the scope of unrest, German Chancellor Angela Merkel has continued to take a hard line on an 'austerity-only' approach, and has clashed with the ECB, who favour a gentler approach ("Merkel raises new hurdles on EU bank union," *Reuters*, Oct 19, 2012). This has largely been attributed to the effects of German domestic politics, where the most of the voting populace considers the profligate Greeks responsible for their own fate, and that Germany is simply throwing 'good money after bad.'

> These responses have been the main, almost exclusive topic in the 2011 and 2012 regional elections in Berlin, and will feature much more importantly in the upcoming federal elections scheduled for September 2013. Neither of the two main political parties that in the past have supported EU integration can hope to accrue 40% of the vote. With this in mind, they are reflecting on the extent to which people in Germany can be expected to accept EU integration. (Mahnkoph 2012, 480)

These trends are worrying signs that there may be limited possibilities for progressive change in Greece, as much of the discourse has devolved into reactionary extremism. One option that has been floated by much of the Left in Europe is an orderly exit from the EMU and a return to the drachma, which could then be devalued to restore competitiveness. However, there is much to be skeptical about in this plan. For one, European elites have demonstrated a strong desire to maintain the integrity of the EMU, and it is hard to believe that they would allow an orderly Greek exist without putting up a strong fight. In particular, the amount of GGBs held by the ECB means that they would take a serious hit to their balance sheet if the Greek government were to return to a devalued drachma, or to default on its debts entirely. Similarly, the ease of contagion between forms of fictitious capital would likely invite speculative attacks on the other PIIGS countries, forcing the troika into another crisis of fictitious capital.

Comparisons with other countries in similar situations are difficult to make. Argentina successfully defaulted on its debt, but has remained mired in legal issues. As well, Greece's integration into the Eurozone would make imposing capital controls extremely difficult. The Latin American debt crises in the 1980s also do not provide optimistic examples. Here, the script of the crises reads very much the same as the Greek crisis, as debtor states were blamed for their internal failings, granted loans with harsh conditionalities, and later granted partial debt write-downs when default looked imminent. These countries have since remained mired in debt and economic dysfunction, and arguably never escaped from the shadow cast by their debt crises (on this topic see Corbridge 1993).

Conclusion

In this paper, I have argued that the Greek crisis can be best understood as a crisis of fictitious capital, bound up with an incomplete process of financialization. Greece experienced a domestic credit-driven boom in the 2000s, which was shattered as the world was affected by the aftermath of the 2007-2008 subprime crisis. Subsequent actions carried out by the troika and the Greek state are then attempts to manage this crisis of fictitious capital through a combination of three means: upward socialization, asset devaluation, and internal devaluation. However, the success of this management is far from guaranteed: in the best-case scenario, Greece muddles through years of economic stagnation as a neoliberal, financialized 'balanced accumulation' regime is restored. In worse scenarios, the upward socialization extends Greece's problems across the whole Eurozone, ultimately undermining the monetary union itself. Similarly, the extreme social unrest caused by internal devaluation has the very real possibility to undermine its implementation. These are tragic consequences to capitalism's attempt to circumvent the limits to consumption and valorization through the use of the credit system. The only possible positive outcome of this crisis is a shift to an economic system where the lives and health of the body politic is prioritized ahead of maintaining vague confidence in fictitious capital.

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