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THE GREEK SAGA: COMPETING EXPLANATIONS OF THE GREEK CRISIS

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Abstract

This paper reviews the alternative explanations offered to explain the Greek crisis and checks there analytical and empirical validity. The first part focuses on the mainstream explanations. It distinguishes three main versions ('Greek disease', EMU is an unrectifiable non-OCA, EMU has problems but can be rectified). Mainstream explanations are criticized for failing to comprehend properly the deep structural dimensions of the Greek crisis and attributing it to policy errors. The second part reviews the radical explanations and particularly those around the 'financialization thesis'. It also distinguishes three versions (EMU is the problem, Minskian case, equilibrium of class struggle). These explanations are criticized for offering a weak structural explanation of the Greek crisis by focusing upon policy or conjectural elements. The last part surveys the more classical Marxist explanations of the Greek crisis. These have a different understanding of the relationship between real and financial accumulation from all the previous explanations. Three versions are presented (TRPF, TRPF and underconsumption, TRPF and imperialist exploitation). It is argued that Marxist explanations grasp better than the rest the deep structural dimensions of the Greek crisis.

Keywords: Greek economic crisis; Eurozone crisis

JEL codes: B50; E65; F50; H60

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I. Introduction

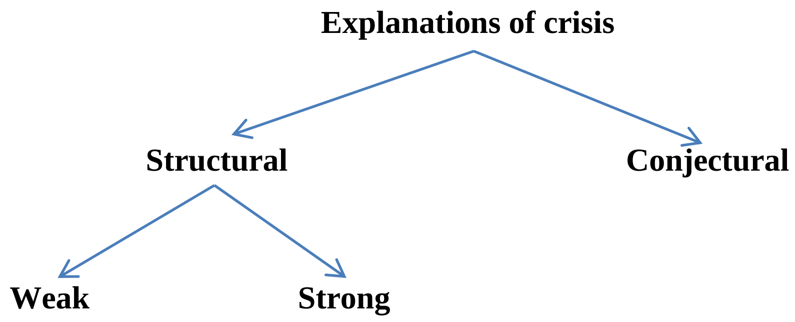
Five years after its eruption, the Greek crisis continues to grasp international attention as one of the major epicenters of Eurozone's crisis. It is considered one of the main sovereign debt crises threatening the very foundations of the ambitious european integration project (as expressed by the European Union (EU) and particularly its European Monetary Union (EMU)).

Since the beginning of the Greek crisis, officially in 2009, several analytical streams compete in order to explain its causes and suggest relevant solutions. This paper reviews these various competing explanations of the Greek crisis. The analysis follows the Marxist Political Economy perspective but it argues that this perspective can explain better than its competitors the causes and the specificities of the Greek crisis. The main underlying analytical framework follows a *circuit of capital perspective* (Fine & Harris (1979), Foley (1986)). This means that the sphere of production is considered the dominant one in the total circuit of capital and the spheres of circulation and distribution follow. However, this interaction involves feed-back relations (that is the subordinate spheres influence in return the dominant one). The paper's main argument regarding economic crises is that all major and protracted crises necessarily have a gearing in this dominant sphere of production. This does not deny the existence of crises that do not stem from the sphere of production. However, these crises are expected to have lesser and shorter impact in national and international economic affairs.

The terminology employed in the analysis is the following (summarized in Fig.1). '**Structural explanations**' trace the fundamental causes of crisis in the structure of an economy and not simply to erroneous economic policies (although the latter usually play their role as well). As such they focus on long-term processes. '**Conjectural explanations**' focus on erroneous economic policies (national and/or supra-national). Thus they emphasise short-term processes.

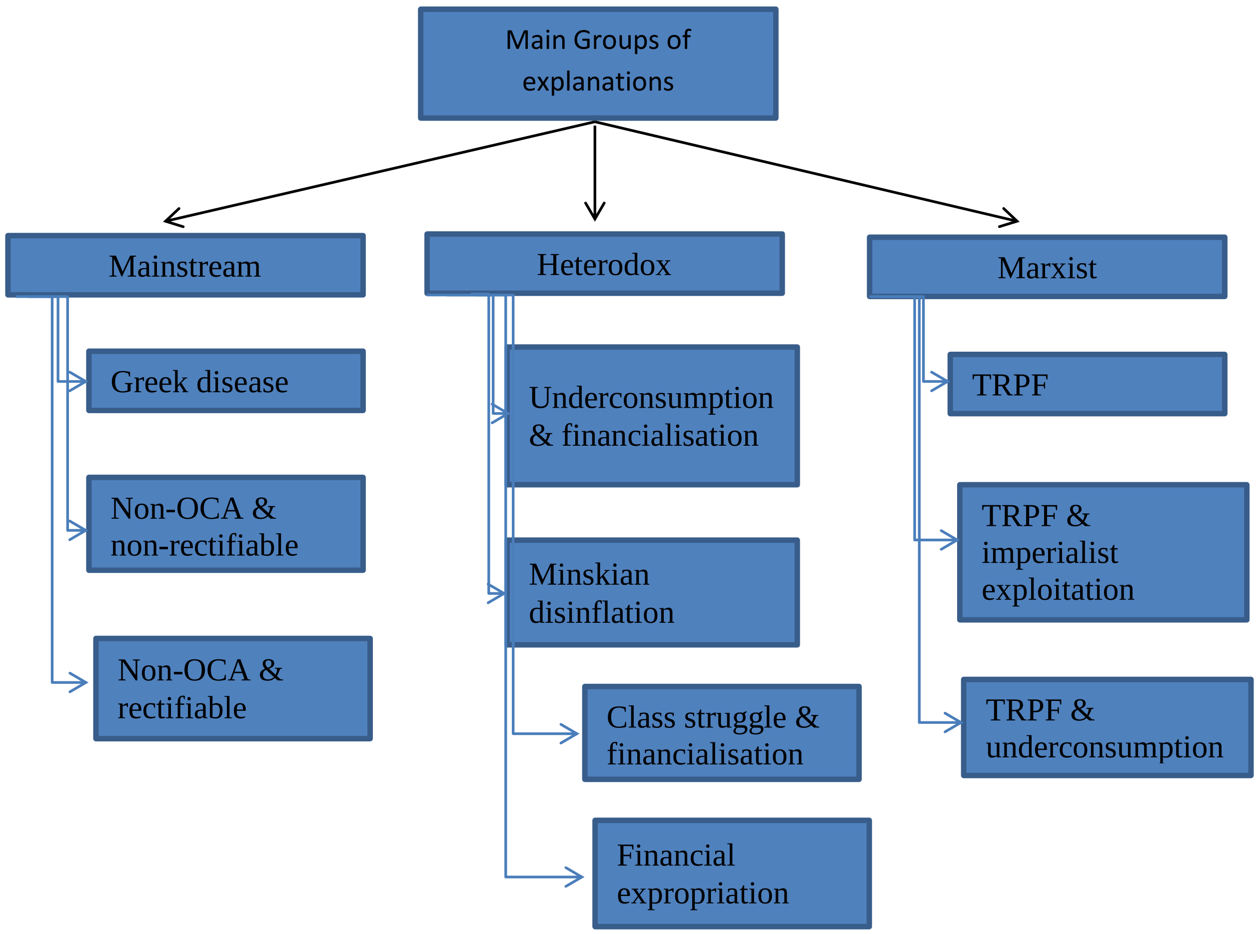
'**Structural explanations**' are further divided in two sub-categories: (a) '**deep structural**' and (b) '**weak structural**' explanations. '**Deep structural**' or '**systemic explanations**' are those that trace the crisis causes in factors that lay at the heart the capitalist system. For the Marxist tradition these causes are related to its basic motive of operation (that is the profit motive and its main variable, the profit rate). Systemic causes stem from truly long-term processes. '**Weak structural**' **explanations** add to conjectural economic policies some structural background. However, this is of a *middle-range nature*: it refers to the characteristics of a period or of a special state of affairs but not to the deep essential relations of the capitalist system. Such types of analysis are those, for example, that attribute the crisis solely to neoliberalism or to the European Monetary Union (EMU).

Figure 1. Analytical distinctions



The explanations of the Greek crisis are classified in three main groups: Mainstream, Radical and Marxist explanations. This classification is not formalistic but it reflects a direct correspondence between the theoretical perspective, the analytical focus and the policy proposals that unites the streams of each group and separate them from those of the other groups. That means that there is a significant uniformity within each group regarding its main analytical tenets and its policy proposals.

Figure 2: Competing explanations of the Greek crisis



The **Mainstream explanations** are sub-divided in three streams:

(a) The first one considers the Greek crisis as a 'Greek disease' (i.e. caused by special policy errors and resultant structural deficiencies). Therefore, it emphasizes mainly **policy errors** and recognizes structural deficiencies only as a consequence of these nationally-specific policy errors. This perspective is usually conferred by European pundits coming from the dominant EU circles.
(b) The second perspective, usually stemming from Anglo-Saxon commentators, argues that whatever national 'disease' was aggravated by EMU's structural deficiencies. That is, EMU is characterized as a non-Optimal Currency Area (OCA) which is prone to asymmetric shocks that exacerbate national 'diseases'. Thus, this second perspective emphasizes the European **structural dimension**. It argues that EMU's fundamental flaws cannot be rectified and its collapse is on the table.
(c) The third version is a 'middle-of-the-road' blend: **policy-driven (national disease) cum EMU's rectifiable structural flaws**. It is argued that while the Greek crisis has national origins it abated existing flaws of the EMU. However, these flaws can be rectified.

All these versions are criticized for either attributing the problem to policy errors or having a weak structural explanation. The first perspective, faithful to the typical neoclassical approach to economic crises, considers the Greek case a national specificity created by bad policies. The second perspective recognizes a rather weak structural cause. It concerns mainly the sphere of circulation (i.e. how the common currency is related to diverse national economies) and has not much to do with the sphere of production per se. Concomitantly, Greek and the Eurozone crises have to do mainly with the architecture of the European monetary system. The third perspective also attributes the structural problems to the sphere of circulation (with the additional argument that, contrary to the second perspective, these problems can be surpassed) and neglects the sphere of production. Thus, all three Mainstream perspectives **fail to appreciate the fundamental structural dimensions** of the problem at hand. According to them the Greek crisis, the Eurozone sovereign debt crisis and moreover the 2007-8 global crisis have nothing to do with the sphere of production. The 2007-8 global crisis is considered solely a financial one, having nothing to do with real accumulation. A more robust account should refer to the deeper structural problems that arise from the sphere of production.

The survey of the **Radical explanations** focuses mainly on the more popular 'financialization' thesis; i.e. the argument that modern capitalism is radically different from classical capitalism since money capital is not dependent on productive capital but it has acquired an independent mode of existence and dominates the latter. The other Radical stream, underconsumptionism (which is usually blended with the 'financialization' thesis) is neither particularly popular nor applicable regarding the Greek crisis. The 'financialization' perspective emphasizes the structural component but only regarding the sphere of circulation which is, implicitly or explicitly, assumed to dominate the sphere of production. Three versions of this thesis are discerned regarding the Greek crisis:

(a) The first version places 'financialization' in the context of the North – South divide. It attributes the imbalances that caused the Greek crisis predominantly to this divide as it is articulated in the EMU.
(b) The second version downplays the significance of the North - South divide as an erroneous dependency argument. Instead, it attributes the Greek crisis to mainly national elements and less to EU's or EMU's structure.
(c) The third version offers a Minskian inflation – disinflation explanation.

The 'financialisation' explanations are criticized for offering inadequate **weak structural explanations** by not considering the problems in the sphere of production. Furthermore, it is shown that their empirical arguments are not verified for the Greek economy: the latter is far from being a 'financialised' economy. Thus these explanations resort to the stratagem of importing 'financialisation' from the external environment (the world economy).

Marxist explanations of the Greek crisis differ substantially from the two other groups. They propose a **strong structural explanation** by attributing the fundamental causes of the Greek crisis to problems grounded in the sphere of production. In most Marxist analyses two structural components are being discerned. The first component is 'internal': it is argued that Greek capitalism participated in the 2007-8 global crisis which is a crisis a-la-Marx (i.e. stemming from the tendency of the profit rate to fall - TRPF) and not a primarily financial crisis. Thus the 'internal' cause of the Greek crisis is falling profitability. The second component is 'external': Greece belongs to the lower clusters of the European imperialist integration and, therefore, it is subject to imperialist exploitation (i.e. unequal exchange) from the more advanced economies of EU. This aggravated further the 'internal' problems of capitalist reproduction. All Marxist explanations focus on the role of profitability and on the complex interplay between the instances of production, circulation and distribution within the total circuit of capital.

Three Marxist explanations are being discerned. The first version emphasizes the role of the TRPF in causing the Greek crisis. The second version recognizes that the Greek is essentially a profitability crisis. It adds that deteriorating competitiveness became a major aspect of the crisis and that, once the crisis erupted, the resultant underconsumption aggravated it further. The third version argues that TRPF was coupled with imperialist exploitation that aggravated further the falling profitability tendency and caused structural disruption in the Greek economy. The distinction between productive and unproductive labour is crucial for both the first and the third version whereas the second one leaves aside this aspect.

The paper argues that Marxist explanations grasp better the deep structural dimensions of the Greek crisis and its roots in the sphere of real accumulation.

Table 1 summarises the crucial analytical differences that exist between these three currents of explanation of the Greek crisis.

Table 1: Analytical differences among the competing explanations of the Greek crisis

	Connection to 22007-8 global crisis	**Causes of Greek crisis**	**Analytical focus**	**Importance of profit rate**	**Emphasis on Optimal Currency Area theory**	**Acceptance of the Twin Deficits Hypothesis**
Mainstream explanations	external	Non-systemic: policy errors culminating in national 'illnesses'	Exchange and financial relations	no	yes	yes
Radical explanations	internal (through the financial circuit)	Non-systemic: conjectural policies and structures	Exchange and financial relations	no	yes	mixed answers
Marxist explanations	internal (through both the financial and the productive circuits)	systemic	Total circuit of capital (productive and exchange relations)	yes	Looking behind it: capitalist uneven development	No, the twin deficits are a consequence of processes

The structure of the paper is the usual. The next section surveys the Mainstream explanations. The third section analyses the Radical 'financialisation' explanations. The fourth section presents the Marxist explanations of the Greek crisis. Finally, the last section concludes.

II. Mainstream explanations[1]

As Mainstream explanations of the Greek crisis are categorised those inspired from the neoclassical and/or neo-Keynesian perspectives. Unsurprisingly, these

[1] For a broader analysis of the Mainstream explanations see Mavroudeas & Paitaridis (2014a).

explanations are offered not only from established academic voices but also from institutional centers of the politico-economic elites both in Europe and elsewhere. The Mainstream explanations of the Greek crisis fall into three distinct perspectives.

II.1 A primarily Greek 'disease'

The first version has now become a bit arcane. It was expressed vociferously during the beginning of the Greek crisis and before the eruption of the Eurozone crisis. In its initial version it centered mainly upon the public sector as this basically came under attack with the first Memorandum of Understanding (MOU) between Greece and the troika of EU – ECB and IMF. Subsequently, after the first MOU's reviews and as the private sector came also under attack, it was expanded to the whole Greek economy. In a nutshell, it identified the Greek 'disease' with two major deficiencies of the Greek economy: (a) large and persistent fiscal deficits financed through borrowing (which created large external debts) and (b) a falling competitivess. It argued that these deficiencies were caused by particular Greek national characteristics (special policy errors and structural deficiencies), i.e. it is a Greek 'disease'. Therefore, it emphasizes mainly **policy errors** and recognizes structural deficiencies only as a consequence of these nationally-specific policy errors. Again unsurprisingly, this version was expressed predominantly by the EU, the ECB, commentators and think-tanks of the euro-core countries but also by the Greek governments that signed and support the troika MOUs. Of course it was echoed and popularized by Greek and international media in order to justify and legitimize the first MOU.

This version maintains that Greece is a special type of economy which is prone to fiscal profligacy. It is argued that it is characterized by large and persistent fiscal deficits and a falling competitiveness. More specifically, the it maintains that the Greek economy is characterized by low productivity, high wages and a big public sector. High wages are the product of the big public sector which is clientelist (thus voters are bought through provision of employment and wages). In addition, the public sector has low productivity and a falling ability to collect taxes (due to clientelism fomenting tax evasion). Consequently, fiscal deficits are accumulated. These are financed through loans resulting in a widening external debt (expressed in a deteriorating current account). Cheap borrowing was possible because since the entrance to EMU Greece benefited from low interest rates. In addition, Greece exploited EU's benevolence by forfeiting statistical data and thus violated the provisions of the Maastricht Treaty (that founded the euro). With the advent of the 2007-8 crisis international financial markets started scrutinizing fiscal deficits and external debts. Consequently, the unsustainability of the Greek debt was discovered and the Greek crisis erupted. Thus, the deep fiscal cuts of the first MOU were justified. This was a political choice since the Greek and EU establishment aimed to pass piecemeal the MOU strategy. Therefore, it focused initially on the public sector and public employees by staging a truly defamation campaign aiming at creating a rift between public and private sector employees. The slant of the 'lazy and corrupt public employees' is the trademark of this first version.

However, as soon as the first MOU program started failing to reach its milestones, austerity had to be expanded to the private sector. That led to a new array of measures (such as the reduction of minimum wage, the deregulation of the labour market, the weakening of collective agreements etc.) that impacted directly upon the hitherto only indirectly affected private sector employees. In order to justify this expansion the problem of competitiveness was surfaced. It was argued that not only the public but also the private sector is characterized by low productivity, high wages and rigid labor market regulation culminating in a falling competitiveness. Consequently, the current account worsened not only because of public borrowing but also because of diminishing exports and increasing imports. High wages fueled consumption which was directed towards imports, since domestically produced goods were uncompetitive. The trademark of this new propagandistic campaign was that Greek workers collectively (private and public sector) are overpaid and inefficiently working.

Papers from the governing EU and ECB bodies and also from the Bank of Greece are typical examples of this approach. For example, in the first Greek MOU (EC (2010), p.6) the origins of the Greek crisis are defined as:

(a) Persistent fiscal and external imbalances that led to a significant increase in government and external debt
(b) Rigid product and labor markets

These Greek vulnerabilities were exposed by the 2008-9 global crisis. Subsequently - and while not at the origin of the problem - the banking sector was affected by the economic and confidence crisis (p.7). This verdict is reiterated in the second Greek MOU (EC (2012), p.9) where the origins of the Greek crisis are attributed to:

(a) Unsustainable fiscal policies, partly hidden by unreliable statistics and temporarily high revenues;
(b) Rigid labor and product markets;
(c) Loss of competitiveness and rising external debt;

It is again reiterated that 'while not at the origin, the banking sector was affected by the economic and confidence crisis'.

It should be noted that in its 2010 version this explanation emphasized fiscal and external imbalances with the emphasis on the former. The problem of competitiveness is mentioned but in a somehow subdued manner. Moving to the second MOU competitiveness is brought forward and emphasized[2].

The Greek 'disease' explanation lost credibility when other EMU economies (Ireland in 2010, Portugal in 2011) were also obliged to enter in bail-out programs through MOUs with the troika: suddenly the supposedly Greek problem proved to be much wider. The initial defense was to attribute the expansion of the problem to **contagion from Greece** (e.g. Arghyrou & Kontonikas (2010). This was an obviously weak argument because it neglected the significantly different characteristics of the other economies (e.g. Ireland and its predominantly banking crisis). This newer version led to collectively branding these countries as prone to fiscal and banking profligacy: instead of a Greek a South 'disease' was discovered. Typical examples of this newer version of the South 'disease' are ECB (2012), Kosters (2009), Panetta (2011) and Weidmann (2012)). However, as the EU's crisis expanded beyond the PIGS and started touching Italy and even euro-core countries (e.g. Belgium, Netherlands and France) the popularity of the South 'disease' explanation started receding.

The analytical foundation of the Greek (or South) 'disease' explanation hinges upon the **Twin Deficits Hypothesis** which contends that there is a strong link between the current account balance and the government budget balance. A twin deficit occurs when an economy has a current account deficit plus a fiscal deficit with the causality running from the latter to the former. In the Greek case this argument is expressed as follows. An increasing fiscal deficit is caused by the profligate and clientelist state (mainly because of exorbitant wage increases but also because of widespread tax evasion). In order to finance this fiscal deficit the country borrows heavily. This has increased public debt. Since, after the accession to the EMU, external borrowing was cheap and indeed favored by the EMU's rules then the public debt became external debt; thus deteriorating the already existing current account deficit. At this point a supplementary argument is brought forward: the current account worsened not only because of the fiscal deficit but also because of the falling competitiveness of the whole economy. Therefore, it is argues that the Twin Deficits Hypothesis is verified.

The applicability of the Twin Deficits Hypothesis for Greece is far from unambiguous. Studies that tested it have produced mixed results. Most interestingly, recent studies (e.g. Katrakilidis & Trachanas (2011), Nikiforos, Carvalho & Schoder (2014)) has argued that while the Twin Deficits Hypothesis is confirmed for the pre-accession to the EMU period (1960-80) it is rejected for the post-accession period (1981-2007). For the latter period the opposite is confirmed: trade (and thus current account) deficit has caused increasing budget deficit.

[2]The first MOU set as a short-term objective the fiscal consolidation and as a medium-term objective the improvement of competitiveness and altering the economy's structure towards a more investment- and export-led growth model. However, in practical terms only the short-term objective was pursued. This was done by the PASOK government but in full knowledge of the troika (despite later bickering).

II.2 EMU is not an OCA

The second perspective argues that, whatever national Greek 'disease' exists, it is aggravated by EMU's structural deficiencies. Because EMU is not an Optimal Currency Area (OCA), it is prone to asymmetric shocks that exacerbate national 'diseases'. Thus, this second perspective emphasizes the European **structural dimension**. It argues that EMU's fundamental flaws cannot be rectified (i.e. EU cannot become something similar to the US). This view refers to the Greek case (or the other PIGS), as a lever in order to spearhead its main criticism: EMU is inherently faulty. This perspective is expressed mainly by Anglo-Saxon commentators either neoliberal (e.g. Feldstein (2010a)) or new-Keynesian (e.g. Krugman (2012a)). There is an obvious explanation of this geopolitical origin.

The euro is one of the main instruments through which European capitals attempt to dispute US world supremacy. More specifically, euro challenges the dollar as the main world currency (Bergsten (1997a, 1997b, 2002), Mundell (1997)). This challenge threatens not only US' direct advantages from being the issuer of the main world currency (seigniorage etc.) but also its indirect strategic advantages that stem from this. Consequently, US hostility was expressed, even in academic debates, from its very beginning. For example, Feldstein (1997) criticised bluntly the upcoming EMU: 'the adverse economic effects of a single currency on unemployment and inflation would outweigh any gains from facilitating trade and capital flows' and that, while 'conceived of as a way of reducing the risk of another intra-European war', it was 'more likely to have the opposite effect' and 'lead to increased conflicts within Europe and between Europe and the United States'.

The Anglo-Saxon hostility towards the EMU was coupled with the theory of Optimal Currency Area (McKinnon (1963), Mundell (1961)). A currency union of different economies has to fulfill several crucial requirements (e.g. high factors mobility, structural economic convergence, a fiscal equilibration mechanism). Most analyses of the EMU agree that these requirements are missing. Thus EMU is not an OCA. Dornbusch (2001) expressed summarily the opinion of the majority of US economists towards the euro: 'It can't happen, it's a bad idea, and it can't last'. This is also shown in Jonung & Drea's (2009) wide-ranging (but also pro-EMU) survey of US economists' opinions. But as soon as they were ready to discard the US views[3] the eruption of the European sovereign debt crisis fomented US criticisms (accompanied with the aggravation of the US – EU rivalry[4]).

[3] In a similar vein, De Grauwe (2003, p.58), while accepting the OCA theory and pointing out himself to certain EMU deficiencies, he rejects US skepticism: 'The traditional theory of optimal currency areas tends to be rather pessimistic about the possibility for countries to join a monetary union at low cost'.

[4] For an analysis of the intra-imperialist contradictions between the US and the EU see Mavroudeas (2010a, 2010b, 2012).

OCA theory is the closer thing Mainstream economics have to the Marxist disproportionality (or uneven development) thesis. Essentially, OCA theory maintains that you cannot have a common currency for a set of very diverse economies. Thus - unless there either a similarity between the participating economies or at least some strong convergence process - a common currency would end up in failure. The OCA view relates the viability of the common currency to the productive structures of the member-economies. Of course, it does not profess any judgment regarding the possibility of convergence of the underlying 'real' economies. The Marxist uneven development thesis, on the other hand, argues that capitalism is characterized by the uneven development of either the regions within a single economy or between different countries. As such it is the exact opposite of the convergence thesis that is derived by definition from the neoclassical growth model[5]. Marxist Political Economy argues that convergence is a utopia and capitalism is inherently prone to uneven development. This unevenness refers primarily to the production sphere and is then expressed in the sphere of circulation. The unevenness of capitalist development can be managed within a national economy through economic policy and institutional means. However, it is extremely fragile and ultimately unfeasible in a supra-national union comprising of different economies with different economic necessities and polities. Mainstream economics cannot have this production-centered emphasis as they are by construction economics of the exchange sphere. The OCA theory is the closest possible notion to the disproportionality argument. It essentially states that unless there is a production-based convergence then any circulation-based unification is futile. EMU's structural problems vindicate this view.

Concluding, this mainly Anglo-Saxon explanation of the Greek crisis while sharing the fiscal profligacy argument of the first explanation recognizes a rather weak structural cause. It concerns mainly the sphere of circulation (i.e. how the common currency is related to diverse national economies) and has not much to do with the sphere of production per se. Concomitantly, Greek and the Eurozone crises have to do mainly with the architecture of the European monetary system.

II.3 The Greek problems has national origins exacerbated by errors in EMU's structure

The third Mainstream explanation of the Greek crisis is a 'middle-of-the-road' blend. It attributes the Greek crisis to the combination of national policy errors (high fiscal deficits and debt) with problems created by the incomplete architecture of the EMU. Moreover, it is argued that these problems can be solved with the deepening EU's economic and political unification. This explanation is expressed mainly by European analysts that are in favour of European unification but have ideological

[5] For a review of the convergence thesis see Mavroudeas & Siriopoulos (1998).

(basically Keynesian) and/or practical reservations regarding the actual process of the European integration.

De Grauwe features prominently among this stream. In De Grauwe (2010a, p.1) he argues that the major responsibility for the Greek crisis 'rests with the Greek authorities who mismanaged their economy and deceived everybody about the true nature of their budgetary problems'. But, he adds, that 'the crisis has exposed a structural problem of the Eurozone". This is the fact that the monetary union is not embedded in a political union and is lacking a fiscal union pillar. In another paper (De Grauwe 2010b) he explicitly rejects the fiscal profligacy argument for Spain and Ireland (but not for Greece). Similar arguments have been voiced by Lane (2012). Then this argument about EMU's incompleteness is linked to the deteriorating current account imbalances that subvert its function. More specifically, the existence of a North-South dichotomy within the EMU – with euro-centre economies having current account surpluses and euro-periphery economies suffering from current account deficits – is recognized as a source of malignancies that threaten its existence.

There are to main variants of EMU's current account imbalances argument. The first is Mainstream and suffers nowadays from some form of intellectual schizophrenia. Blanchard & Giavazzi (2002) have argued that EMU economies have different savings rates (the poorer countries have lower savings rates) and different growth rates (less developed [and poorer] countries have higher growth rates). As a result of these differentials and within a supposedly convergence process (reinforced by the monetary union) there is a flow of funds from the richer countries to the poorer ones, thus resulting in a current account deficits for the latter. This was branded as 'good imbalances' that supported the convergence process and would ultimately be smoothened as this convergence process proceeded. Once the crisis erupted the proponents of this variants abruptly changed position and the 'good imbalances' became 'bad'. This time it was the fiscal profligacy of the poorer countries that led to increased external borrowing and, thus, caused an unsustainable current account deficit (Jaumotte & Sodsriwiboom (2010)). This mainstream variant of the current account imbalances argument is compatible with the Twin Deficits Hypothesis.

There is a second variant of the current account imbalances argument proposed by post-Keynesian criticisms of EMU (e.g. Botta (2012), Hein, Truger & van Treeck (2011), Stockhammer & Sotiropoulos (2012)). It is argued that EMU's very structure causes real exchange rate differentials that favour the North at the expense of the South by making the former more competitive. Thus, euro-core economies acquire trade surpluses against euro-periphery's trade deficits. This is reflected in the current account deficits of the latter. In this variant the Twin Deficits Hypothesis is rejected and instead current account deficits are posited as the cause of fiscal deficits (e.g. Nikiforos, Carvalho & Schoder (2014)). The more combative versions of this second variant argue that EMU is a neo-mercantilist structure where the North exploits the South. This argument is even more pronounced in the more radical post-Keynesian 'financialization' explanations of the crisis.

The first variant of the current account imbalances argument has been taken up by the aforementioned Mainstream theorists that do not ascribe to the 'financialization' thesis but aim to rectify EMU by making it more unified (e.g. Merler & Pisani-Ferry (2012)). The usual additions are a fiscal union and a banking union.

This third Mainstream perspective has also serious deficiencies. First, it offers only a 'weak' structural explanation as it discerns structural problems only in the sphere of circulation and neglects the sphere of production. It agrees with the second mainstream explanations with regard to EMU's problems pointed out by the OCA theory. But it believes that a more unified economically and politically EU can overcome these problems. In this belief it departs from the harder versions of the second explanation which believe that an economic and political unification of the EU similar to that of the US is impossible. This is the second major problem of this perspective. Its political and economic voluntarism goes against historical wisdom. Europe has been the main ground where capitalism was born on the basis of the nation-state and national political and economic identities are deeply entrenched. This makes a politically and economically unified Europe a utopia.

II.4 Mainstream explanations: A Critique

The three Mainstream explanations analysed above represent broad lines of thinking. Overtime Mainstream explanations of the Greek crisis became more eclecticist and usually blend elements from all these basic lines of thinking (e.g. Nelson, Belkin & Mix (2011)). However, in the end, they fall into one of these three main sub-groups.

Moreover, the great majority of mainstream explanations, irrespective of their differences, ultimately understand the internal causes of the Greek crisis through the lenses of the Twin Deficits Hypothesis[6]. This is their hardcore analytical device since all of them identify the Greek crisis as simply a (fiscal) debt crisis which evolved in an external debt crisis (i.e. in toto as simply a **debt crisis**). Then wages are posited as the factor triggering both the fiscal and the current account deficits. It is argued that Greek (nominal) unit labor costs increased faster than those of the other European countries. Thus they worsened both the budget deficit and the current account deficit e.g. EC (2010), p.3).

[6] Only the post-Keynesian variant of the third explanation might differ with regard to the Twin Deficits Hypothesis by stressing the current account imbalances as an independent factor causing the Greek problem.

There are a number of well-known problems with this argument.

(1) There is an extensive literature disputing whether (nominal) unit labor costs are a convincing measure of competitiveness.

(2) The Kaldor paradox argues that competitiveness is not an exclusive virtue of low wages; on the contrary. A crucial corollary of the Kaldor paradox is that competitiveness depends not only on costs and especially wage costs (costs competitiveness) but also on qualitative factors (structural competitiveness).

(3) Contrary to the assertions of the EU and the Greek government, Greek wages have been constantly lagging behind productivity increases. Furthermore, Greek productivity increases have been much better that, for example, those of Germany. Thus, the Greek real unit labor costs (i.e. the wage share in the product) have been falling continuously for several decades.

(4) A decrease in wages aiming to restore competitiveness presupposes that rival economies will maintain their wages stable or, at least, will reduce them less. However, the universal trend is a downward push on the level of the real wages. This can take place by two ways: a) directly through legal acts including the MOUs and, b) indirectly by the increase of the reserve army of employees due to depression, political turbulence and war conflicts.

Some of these arguments have been voiced, rather shyly, even in the ECB bulletin before the onset of the crisis. Thus it has been convincingly argued that the data on labor compensation and productivity suggest that the weakness of the external accounts of several EMU countries comes from the international specialization of their economy, rather than from the 'faulty management' of the labor market. The ECB (2008, p.92) confirms this when it claims that in the first 10 years of the EMU the member economies with an overweight in labor-intensive sectors lost positions in favor of emerging economies with a relative comparative advantage, whereas member economies specialized in the higher-price and higher-quality segments of mature industries and products even gained market shares. This implies that the loss of competitiveness of some EMU economies was caused by structural deficiencies and not by wage increases.

But the mainstream explanations of the Greek crisis have also wider problems.

First, they totally underestimate the role of the 2007-8 capitalist crisis. This, as said before, is unanimously considered as a mere financial crisis without origins and causes in the sphere of real accumulation. However, if this crisis is so significant and lengthy as it appears to be, it must surely have some basis on the main sphere of economic activities (the sphere of production).

Second, they consider the Greek crisis as independent of the 2007-8 crisis. This is a point on which both international and Greek pundits agree. Most international reports (those of the EU, ECB and IMF included), before the onset of the Greek crisis, maintained that the Greek economy was insulated from the 2007-8 crisis and that, once the crisis erupted, it was left unattached. Indicatively, in a pre-election debate in 2009 both G.Alogoskoufis and N.Christodulakis[7] agreed that the Greek economy is insulated from the crisis because its banking sector is better capitalized than those of the West. The 2007-8 crisis has only an exogenous impact on the Greek economy by worsening the international economic environment and setting off grey expectations about sovereign debts.

Last and compounding all the previous problems, all three mainstream perspectives **fail to appreciate the fundamental structural dimensions** of the problem at hand and instead relegate it either to policy errors and/or to weak structural origins. The first perspective, faithful to the typical neoclassical approach to economic crises, considers the Greek case a national specificity created by bad policies. The second perspective recognizes a rather weak structural cause. It concerns mainly the sphere of circulation (i.e. how the common currency is related to diverse national economies) and has not much to do with the sphere of production per se. Concomitantly, Greek and the Eurozone crises have to do mainly with the architecture of the European monetary system. The third perspective also attributes the structural problems to the sphere of circulation (with the additional argument that, contrary to the second perspective, these problems can be surpassed) and neglects the sphere of production.

III. Radical 'financialization' explanations[8]

Several Radical explanations[9] of the Greek crisis have been advanced. The main points that differentiate them (apart from the methodology and the analytical tools) from the Mainstream explanations are the following:

(a) They emphasize the crisis-prone nature of capitalism. Consequently, more emphasis is placed on the structure of world capitalism and on the 2007-8 crisis.

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[7] They are both academic economists which have served as finance ministers the former of ND and the latter of PASOK.

[8] For a more extensive critique of the 'Financialisation' explanations see Mavroudeas (2014).

[9] The term 'Radical' is used here to denote approaches belonging to heterodox economics. That means perspectives belonging to the radical post-Keynesian, institutionalism, Radical Political Economy etc.

(b) They are critical of the neoliberal dominance of economic theory and policy over the last three or four decades and put the blame for the problems that arise to neoliberalism.
(c) They criticize the neoliberal architecture of the EMU and argue either for its dissolution or for its radical overhauling.

Overall, radical explanations are shy of recognizing the general deficiencies of the capitalist system; although several of them do mention them but in a rather implicit of disguised manner (e.g. Polychroniou (2013)). However, they do not think that the immediate problem is capitalism as such but rather its forms of management. Therefore, they strive for an end to neoliberalism and a return to more humane form of capitalism (or variety of capitalism, for those ascribing to the varieties of capitalism approach - VoC). The more politically radical versions consider this step a move towards a long but unspecified march to socialism. Several of these more politically radical approaches have a relation to Marxism and some even ascribe to Marxism as such. However, in this work we will treat them as separate from Marxism per se. This does not reflect a sectarian view but crucial analytical and political considerations. The gist of these considerations is twofold:

First, the rate of profit – i.e. the crucial Marxist variable for understanding capitalism and especially its crises – is absent from their analyses. Instead some form of Keynesian lack of effective demand or neo-mercantilism argument is employed.

Second, even the more radical versions that refer to socialist transition cannot – and in fact are unwilling to – define the exact process through which the overturn of the capitalist assault is a link in the transitional socialist program.

The focus of this chapter would be on the ‘financialization’ versions of the Radical explanations. This does not imply that other versions do not exist. For example, there is another radical version that recognizes the Greek crisis as a mainly fiscal crisis but attributes it to the tax-evading and crony nature of Greek capitalists (e.g. Stathakis (2010)). Others (e.g. Laskos & Tsakalotos (2012)) add to this the argument about the trade imbalances existing within the EMU that we have seen in the third middle-of-the-road variant of the mainstream explanations. The more traditional underconsumptionist explanations of crises (either of the Marxist Monthly Review (MR) or the Keynesian variant) are not popular regarding the Greek crisis. The main reason is that they do not fit to empirical data as the period preceding the onset of the crisis was characterized by a spectacular growth of consumption. Thus, underconsumptionist views usually hide behind the ‘financialization’ thesis. The latter is by far the more popular radical explanation of the Greek crisis.

The ‘financialization’ thesis argues that in modern capitalism finance (i.e. the operation of money capital) assumes an increasing primacy in relation to other capitalist activities. With regard to Marxism the origins of this thesis go back to Hilferding’s

(1910 (1981)) seminal work and his implicit notion (never explicitly stated) that in modern capitalism finance takes a dominant position. It was somehow reiterated by Sweezy (1942). However, neither of them broke the classical Marxist relationship between surplus-value and interest. The former is extracted by 'productive' capital at the sphere of production and then it is redistributed between profits (accruing to 'productive' capital), interest (accruing to 'non-productive' finance capital) and commercial profits (accruing to 'non-productive' commercial capital).

A major change took place in the end of the 20th century. The predominance of neo-conservatism and the structural transformations of particularly the Western economies dictated by it led to widespread empirical beliefs (or stylized facts) that a new era of capitalism has come: finance has broken lose from the grips of 'productive' capital and has established it dominance on the former. Several neo-Marxist (but with a growing distancing from Marxism) and Institutionalist currents (e.g. the Regulation Approach) have already been signaling this conclusion. This led to the formation of the 'financialization' thesis. Thus, in the beginning of the 21st century the term as such was coined by radical approaches belonging to the Keynesian and Marxist approach (particularly their ambiguous merge in the Monthly Review tradition). It was actually launched through a series of papers (by Kippner, Crotty etc.) in an influential collective volume edited by Epstein (2005).

It was energetically adopted by post-Keynesianism who developed the concept and its analyses (e.g. Stockhammer (2004)) and sometimes treated the term as their exclusive property (e.g. Treeck (2008)). Seldom post-Keynesians posit 'financialization' within stages of capitalism theory arguing that a new stage of capitalism has emerged by the end of the 20th century. This new stage is characterized as 'finance-dominated capitalism' (Hein (2013)) or 'finance-dominated regime of accumulation' (Stockhammer (2009)); the latter borrowing the terminology of the Regulation Approach. The post-Keynesian launch of the term 'financialization was based on the Keynesian notion of the *rentier;* i.e. an 'unproductive' stratum collecting various rents which are being subtracted from profits available for productive investment. Thus, the rentier is a drag on capital accumulation.

The incorporation of the term in Marxist analyses followed a bit letter. The Monthly Review (MR) school has used similar terms long ago (e.g. Sweezy (1994), Editors (2008)) but not actually coined the term. Thus it adopted it rather lately in order to explain the 2007-8 crisis since pure underconsumptionism had serious explanatory difficulties (e.g. Foster (2010)). Coming from a different perspective from that of the MR, Lapavitsas (2008) adopted the notion of 'financialization' and gave it a strange twist. He argued that 'financialization' is a new stage of capitalism. Till now his argument had nothing original comparing to its previous definitions. What gave it its special flavor is the thesis that in this new stage of capitalism finance capital[10] not only dominates 'productive' capital but it also exploits directly the working class through usurious activities (through the provision of loans). Thus the term financial exploitation was initially coined. After a series of criticisms (e.g. Fine (2009)[11]) for confusing capitalist exploitation with pre-capitalist usurious exploitation it was cosmetically changed to financial expropriation. However, the essential meaning of the term remained the same.

Despite its popularity, the 'financialization' thesis is quite problematic on both analytical and empirical grounds. In analytical terms 'financialization' theories argue that capitalism has somehow returned to a pre-capitalist stage: the period when capitalist relations were not yet born but the pre-capitalist figures of the merchant and the banker – as they operated within feudalism – prepared the ground for capitalism's birth. The crucial point of the operation of merchants and bankers in feudalism was unequal exchange and usury as a rule in contrast to equivalent exchange as a rule in capitalism. This functioning on the basis of unequal exchange was able because of the monopolistic and heavily regulated rules of the feudal system. Once however the primary accumulation of capital took place and capitalism established the monopolistic feudal rules were abolished and capitalist competition ruled. Then the operation of money capital took its characteristically capitalist modus operandi. The 'financialization' thesis argues that this is liquidated and that there is a return to the pre-capitalist modes of operation. In other words, 'financialization' theories maintain that interest ceases to be a part of surplus-value and that it acquires an independent existence. Concomitantly, money capital is not only autonomised from 'productive' capital but also dominates the latter. But, if the latter is the ultimate source of wealth, this domination would necessary entail - and this is actually a conclusion of 'financialization' theories - a stifling of productive investment and thus of the accumulation of capital. The obvious question is how is it possible in the long-run such a deformed capitalism to exist. Additionally, regarding the 2007-8 crisis, 'financialization' theories argue that it is not an a-la-Marx crisis (i.e. rooted in the sphere of production) but a financial crisis (a crisis of financialised capitalism). In this they agree with mainstream theories. An obvious question is that if the current crisis is so deep and prolonged as the 'financialization' theories accept then how it cannot be based on the fundamental economic sphere (the sphere of production).

[10] The term 'finance capital' is not identical to Hilferding's concept (which denotes the fusion of 'productive' with banking capital under the dominance of the latter). It refers to capital operating in the financial system (i.e. money and capital markets).

[11] Fine (2009) uses also the notion of 'financialization' but in a different sense from that of the approaches mentioned before. For him it does not constitute a new stage of capitalism and of course finance capital cannot acquire an autonomous means of exploiting the working class (it will always be dependent upon the extraction of surplus-value by 'productive' capital). Thus, 'financialization' is a special phase of neoliberalism. New forms of operation of money capital and novel institutional arrangements are policies that are used by capital in order to surpass its problems and contradictions.

Three main financialisation explanations of the Greek crisis have been proposed:

(1) The Lapavitsas' version is based upon his theory of financial expropriation
(2) The version advanced by Milios & Sotiropoulos and has affinities with the post-Keynesian notion of financialisation.
(3) Argitis' proposal of a Minskian explanation.

III.1 Financial expropriation

Lapavitsas *et al.* (2010a, 2010b) agree with the Mainstream explanations that the Greek is a debt crisis. But they add that it 'is symptomatic of a wider malaise' (2010a, p.11) that has its roots in (a) financialized capitalism and (b) the EMU. Financialisation caused the 2007-8 crisis (through leverage that created unsustainable bubbles) which is not an a-la-Marx crisis (that is, the profit rate played no role in it) but simply a financial crisis. The world crisis affected the fragile foundations of the EMU (because it is not an OCA). For Lapavitsas et al. EMU has three pillars:

(a) the independent ECB which commands monetary policy
(b) fiscal stringency
(c) relentless pressure on wages in order to ensure competitiveness

Lapavitsas accurately points out that ECB's monetary policy follows the needs of the euro-core countries (the North). However, the third point agrees with the mainstream arguments on competitiveness. Then Lapavitsas et al. argue that the North (and especially Germany) was more competent in pressurizing wages and thus acquired a permanent competitive advantage against the South (the euro-periphery). This is again the mainstream argument in reverse: it is not the lazy Southerners but the over-prudent Northerners that caused the problem.

Thus, the Eurozone was polarized in a North with trade surpluses and a South with debts: the North gave loans to the South in order for the latter to buy its products. The eruption of the 2007-8 crisis disrupted this structure as international financial markets questioned the creditworthiness of South's sovereign debts. Thus, the Eurozone's crisis began. According to Lapavitsas et al. the EMU transmitted the world crisis in Europe because of the imbalances that were latent within it. Again, till this point Lapavitsas et al. analysis does not differ essentially from post-Keynesian analyses which accept a North – South divide argument[12].

[12] For example Stockhammer (2011, p.90) argues that 'this was not primarily a Greek crisis but a Euro system crisis'. 'The Euro has long been a political project based on dubious economics' (opp.94). EMU is part of the global neoliberal pattern which began with the deregulation of finance (the neoliberal mode of regulation) and gave rise to a finance-dominated accumulation regime. This polarized EU in two

The final conclusion of Lapavitsas' analysis is that the EMU cannot be rectified; although he sometimes refers to a European Marshall scheme as a solution only to immediately discard it as implausible. Thus, he suggests the exit of Greece from the EMU but not from the EU.

Lapavitsas' explanation neglects any reference to the production structure of the Greek and the other EMU economies (for example differences in technological structure and productivity as expressed in their Organic Compositions of Capital (OCC)) or qualitative issues (productive specializations). Thus he is unable to see the existence of relations of economic (imperialist) exploitation between the North and the South (or else relations of 'broad' unequal exchange[13]) and he understands only a reversed and problematic version of the 'narrow' unequal exchange. Moreover, he accepts uncritically the Mainstream arguments about Greek relatively high wages being the cause of Greece's deteriorating competitiveness (for example he accepts uncritically the high (nominal) unit labor costs argument).

His analysis suffers also on the 'financialization' plain. The Greek financial system was significantly less leveraged than the Western ones. Additionally, Greek workers' private debts are a relatively new phenomenon (they began with the introduction of the euro) and they are smaller than their Western counterparts. Therefore, 'financialization' cannot be discovered in Greece and has to be imported from outside. Thus, in Lapavitsas' analysis 'financialization' is imported through public (and not private) external debt.

Lapavitsas' policy suggestions are also problematic. If the Greek crisis is simply a debt crisis then there may be solved not by exiting the EMU but by reforming it towards a full OCA (i.e. by unifying it fiscally and politically). If the crisis is something more profound and has to do with the sphere of production and relations of unequal exchange stemming from it then exiting the EMU and remaining within the Common Market want suffice. A full exit from the EU is required. But Lapavitsas shies away from this conclusion.

III.2 'Financialisation' and class struggle

Contrary to Lapavitsas et al., Milios & Sotiropoulos (2010) argue that it was not the loss of competitiveness that gave rise to high indebtedness, but the other way

groups: a Northern one following export-led growth and a Southern one following credit-led growth (opp.86).

[13] Emmanouel (1972) distinguishes two categories of unequal exchange in international trade:

(a) 'Broad' unequal exchange: it is derived from differences in the OCC, i.e. a more developed country (with higher OCC) exploits a less developed country (with lower OCC).
(b) 'Narrow' unequal exchange: it is derived from differences in the wage rate and the rate of exploitation, i.e. a higher wages country is exploiting a lower wages country.

around. More specifically, EMU by bringing together countries with very different rates of growth and profitability, gives rise to high levels of borrowing for the euro-periphery countries. That is because euro-periphery countries have higher profit rates which attract capital from the euro-core. This trend was augmented since euro's adoption because EMU allowed euro-periphery countries to borrow at low interest rates. Foreign loans boosted euro-periphery's domestic demand, therefore giving rise to increasing inflation and the deterioration of competitiveness. Milios and Sotiropoulos essentially reject the North - South divide as an expression of the problematic Dependency theory. For them foreign loans were not a trick to rob Greece but a perfectly natural phenomenon that helped boost growth. On this point they totally agree with the mainstream arguments in Greece that the EU helped Greece's development. Indeed, the pre-crisis mainstream argument was that current account deficits were good imbalances because euro-periphery countries with relatively low levels of real GDP per capita were catching up with richer north European economies. Greater growth opportunities and expectations of faster productivity growth justified elevated levels of fixed investment relative to the pool of domestic savings, hence the need for a current account deficit. Thus, Milios & Sotiropoulos implicitly accept the Mainstream convergence thesis and Blachard & Giavazzi's (2002) version of 'good imbalances'. But the reality of the Greek economy proved to be different. The sustained current account deficit did not finance investment in productive assets but was used to buy euro-core's imported goods. Thus, Greece's productive structure instead of being developed it was actually eroded. As a corollary, Greece instead of converging with the EU actually – after a period of convergence – started to diverge.

Moreover, Milios & Sotiropoulos' analysis replicates the fairy-tale 'strong Greece' story presented before the crisis by the mainstream academic and official circles. Then they add 'financialization'. They argue that because modern capitalism is financialised it leads to extreme leveraging and financial bubbles. The 2007-8 crisis (which they too understand as a mere financial one) derailed the till then malevolent euro-periphery's current account deficits. In order to sustain them fiscal deficits were augmented and this led to the euro-periphery's collapse.

For Milios & Sotiropoulos the EMU played only a peripheral role in this affair. Although they accept that EMU is not an OCA and that it is a neoliberal project, they do not envisage a Grexit (Greece's exit from the EMU). but the progressive restructuring of the EU.

III.3 Minskian inflation and disinflation

Argitis (2012) proposes a Minskian financialisation explanation of the Greek crisis. He begins by arguing that Greek capitalism till today had:

(a) a weak and obsolete technological structure.

(b) a structurally weak competitiveness (because of its weak and obsolete technological structure) causing chronic and significant current account deficits (because it was obliged to import a significant portion of either intermediate or final goods).

(c) strong and extensive cronyism between private businesses and the state (resembling the Minskian notion of the 'strong state'): the state (together with its central bank) managed the inflation – disinflation process (by using the fiscal deficits more as a redistributive tool than as an anti-cyclical one) in order to bolster capitalist profitability.

For Argitis the basic cause of the Greek crisis is that Greece's accession in the EMU dismantled this traditional structure without being able to substitute it with another equally functional. After entering in the EMU, the 'strong state' remained but lost its central bank (as the Bank of Greece followed the ECB directives). Consequently, debt management became dysfunctional and the financialisation of the economy became necessary. That is the economy's growth was based on financial leverage. This increased the inherent instability of the capitalist economy (as Minsky's (1992) Financial Instability Hypothesis suggests). Then the 2007-8 crisis (which for Minskians was caused by the neoliberal policy that dethroned the stabilizing Keynesian policy suggested by Minsky and, thus, increased financial instability) derailed the already unstable (because of EMU) Greek capitalism. The 'strong state' without a strong central bank could not manage and control the debt inflation – disinflation process. Hence, the Greek crisis erupted.

The Minskian theory, has been rightfully criticized as (a) phenomenological and (b) focusing excessively on the financial system and neglecting the real economy. It has also been criticized for having a very narrow and poor understanding of the role of fiscal and monetary policy. This poor understanding derives from Minsky's problematic conception about the role and the character of the monopoly in the capitalist system.

Regarding the explanation of the Greek crisis, the Minskian perspective has serious problems. The more significant one is that the Greek crisis was not caused by excessive private debt. On the contrary, the latter is small comparing to that of the more developed Western economies. Thus, it cannot be convincingly argued that the Greek problem was borne from the inflation – disinflation circle of private debt. It is for this reason that Argitis (2012) leaves aside the typical mechanism of the Financial Instability Hypothesis and sticks more to Minsky's (1986) previous work on the significance of the political and institutional framework for securing the stabilization of the financial system. His central argument is that the disintegration of the 'strong state – strong central bank' pair led to the inability of functionally managing the inflation – disinflation process. However, this argument is disputable because:

(a) It unwarrantedly assumes that the policy of the Bank of Greece was always accommodative during the post-dictatorship period

(b) It equally unjustifiably implies that, after the accession to the EMU and the relinquishing to it of the monetary and exchange rate policy, the government and the Bank of Greece lost any ability to exert discreet policies.

Finally, if Argitis (2012) explanation is correct, then the obvious policy suggestion is Grexit. But this is something that he rejects.

III.4 'Financialisation' explanations: a critique

Apart from their analytical problems, the 'financialisation' explanations of the Greek crisis face serious empirical problems. For reasons of analytical clarity we can distinguish two versions of the 'financialisation' argument. The first version can be branded as strong 'financialisation': Greek capitalism is a financialised one. The second version can be branded as weak 'financialisation': Greek capitalism is not yet financialised but 'financialisation' is imported from the external environment (the world economy).

The strong 'financialisation' argument requires there exist in the Greek economy and they are crucial in its functioning two basic conduits of 'financialisation':

(a) The private sector should be financialised. That means that capital markets have dominated the financial system and have established their hegemony over its other pillar (the banking sector) which has been assimilated by them and follows their modus operandi.

(b) For those 'financialisation' theories that argue that finance exploits directly (and independently from productive capital) the workers (e.g. Lapavitsas), there should be an exorbitant degree of indebtedness of private households.

A series of studies have shown that the degree of financialisation of both the public and the private sector in Greece is strikingly low. This is explained by several reasons. For example, traditionally the Greek stock exchange had a small size and a minimal impact on the Greek economy. It was boosted aggressively by government policies in the late 1990s and had a meteoric growth for some years. Then it crashed in 1999 never to recover again till today. Moreover, public and social entities (like the pension funds) had no or limited exposure to the stock exchange and to the 'new financial products'. More importantly, Greek capitalism has always been and remains bank-centered as even mainstreamers recognize (e.g. Pagoulatos (2014)). This 'financialisation' per se plays an insignificant role in private sector's financing.

The same empirical problems exist also in the second area. Private households' indebtedness is strikingly low. Private households' debt was traditionally low in Greece, began to increase after the accession to the EMU (with a very fast rate of increase indeed) and collapsed with the crisis. In absolute numbers it never reached the levels of most western economies. Households' low indebtedness has to do with the post-war structure of the Greek economy. The middle strata but also increasing segments of the peasants and the workers had the ability and the culture to save. This changed with the introduction of the euro when the savings ratio collapsed and households started amassing debts. The covert increase of inflation in mass consumption goods eroded the purchasing power of all these classes. Hence, in order to sustain their living standards and induced by the relatively low interest rates and the aggressive marketing policies of the banking sector households turned to debt. This explains the very high growth rate of households' debt. However, this process was always significantly weaker than in Western economies and was terminated abruptly by the eruption of the Greek crisis. On top of all these, the Greek economy did not show any signs of weak – or even faltering – demand before the crisis; quite the contrary.

The almost obvious empirical failure of the strong 'financialisation' argument leads many of its proponents to the soft version: 'financialisation' has been imported in Greece through the international environment. This argument is very weak. Apart from generalities about the 'financial crisis of 2007-8' there is no robust proof how 'financialisation' was imported in the Greek economy. In toto, the 'financialization' explanations of the Greek crisis have a **weak structural emphasis** by not considering the problems in the sphere of production. For this reason they fail to account adequately for the Greek case.

IV. Marxist explanations

All the above explanations, despite of their different viewpoint and the political implications that arise from them, they share a crucial common analytical feature. Neither of these explanations attributes the crisis to the internal logic of the system. They either attribute it to policy errors or to weak structural factors pertaining mainly to the sphere of exchange. In contrast to them Marxist Political Economy offers a **strong structural explanation** of the Greek crisis by attributing its fundamental causes to problems grounded in the sphere of production. More specifically, it emphasises two structural components. First, it is argued that 2007-8 economic crisis is a crisis a-la-Marx (i.e. stemming from the tendency of the profit rate to fall - TRPF) and not a primarily financial crisis and this represents the *'internal' cause* of the Greek crisis. Second, it is shown that there is also an *'external' cause*. This comes from the relations of imperialist exploitation (i.e. unequal exchange) that exist within the EU and which divide it between North (euro-core) and South (euro-periphery) economies.

The main analytical differentiae specificae of the Marxist explanations is their use of the Labour Theory of Value (LTV) tools and the focus upon the profit rate. Another crucial issue, that affects significantly empirical analysis, is the use (or not) of the productive – unproductive labour distinction. To put it simply, empirical analysis requires that National Accounts data are being transformed in order to correspond to the Marxian categories and the productive – unproductive labour distinction affects crucially these transformations. This framework is used to test whether the classical Marxist crisis theory (that is that a major crisis must be grounded in the sphere of production and expressed in a secular fall of the profit rate which then is transmitted in the rest of the circuit of capital) is applicable in the Greek case. The answer of the Marxist explanations is positive.

Three main Marxist explanations have been proposed:

(1) The first version emphasises the role of the TRPF in generating the crisis. This version adopts the productive – unproductive labour distinction in its empirical investigation.

(2) The second version focuses upon the evolution of the profit rate and also discerns a falling profitability trend. But it recognises also other causes (apart from the TRPF) of this falling profitability. This version does not employ the productive – unproductive labour distinction in its empirical investigation.

(3) The third version recognises also the TRPF as the systemic cause of the crisis but it emphasises also the problem of imperialist exploitation within the EU. This version also employs the productive – unproductive labour distinction in its empirical investigation.

Regarding their policy suggestions, all Marxist explanations agree that what is required is a long-term transitional programme aiming to the creation of a socialist economy. They also agree that the crucial intermediate anchor of such a programme is Greece's disengagement from the EU (and not simply from the EMU). Disengagement from the EU would liberate the ability to create a self-centered economy serving the people's interests and being able to democratically plan the long-term structural transformations required in order to restructure the Greek productive system.

IV.1 A TRPF crisis

Maniatis & Passas (2013, 2014) estimate, using the methodology suggested by Shaikh & Tonak (1994), the main Marxian variables are estimated for the postwar period (1958-2009) period. On the basis of this analysis different phases of capital accumulation and growth are outlined and discussed. Then, the existence of a negative trend in the Marxian and the net profit rates starting before the 1973 crisis is verified. Moreover, it is shown that this falling profitability trend is caused by the increase of the organic composition of capital.

Maniatis & Passas, based on the analysis of the movement of the profit rate delineate three broad phases of capital accumulation in the Greek economy before the onset of the current crisis. The first one which lasts from 1958 until about the middle of the decade of the 1970s could be characterized as the 'golden age' of Greek capitalism: high profit rates (despite a slightly falling trend) caused high rates of capital accumulation and output growth, significant increases in productivity growth and increases in the real wage for productive workers and workers in general even with a rising rate of surplus-value. The second period is that of the stagflation crisis, starting in 1973-1974 and lasted until 1985. The significant increase in the OCC during the 'golden age' combined with the fall in the rate of surplus-value and the profit share as a result of successful labour struggles after the fall of the military dictatorship, produced a sharp fall in profitability affecting negatively investment, output growth, productivity, real wage growth and employment. After 1986 (and especially after 1991) starts the third phase, that of neoliberalism. This led to a dramatic increase in labour exploitation. However, the resultant recovery in profitability was not coupled with a sufficient devalorisation of capital and a significant decrease of unproductive labour. These requirements were not politically feasible at that time. Hence, the neoliberal period brought about just a partial recovery of the profit rate, which resulted in a low rate of investment activity, output growth and most importantly slow productivity growth. Even the anemic output growth of the period, especially after 1995 (when the initial boost of neoliberal arrangements and institutions had lost steam and profitability during the neoliberal period had peaked) was achieved through the indirect impact of the financial bubbles created mostly by the expansive monetary policy of that period. Those bubbles, first in the stock exchange market and then in the real estate sector created significant 'wealth effects' for the households stimulating consumption demand, the only source of growth during the neoliberal period as low profitability held investment activity down. However, when all the bubbles burst the crisis erupted in 2009, this time with a time lag of just two years compared to what had happened in the major capitalist economies. Fundamentally, the crisis resurfaced due to the low profitability of capital, a result of capital overaccumulation caused by the rising OCCC. This rise could not be offset any more by increases in the rate of surplus-value or by some kind of expansive fiscal or monetary policy.

IV.2 Causes of the Greek profitability crisis

Economakis, Androulakis & Markaki (2014) study of the Greek economy for the period 1960-2012 focuses also on the key Marxian variables.

They distinguish four basic phases. The first phase (1960-73) represents the 'golden era' of Greek capitalism. During it the profit rate exhibited a striking increase (the best for the whole 1960-2012 period), peaking in 1973. The proxy variable for the

OCC was low for this period thus explaining the increasing profitability. Although wages increased during that phase, wage increases lagged behind labour productivity increases leading to the decrease of the labour share. The 1973 crisis was a benchmark as it ended the post-war ‘golden age’ of Greek capitalism.

During the next phase (1974-85) profitability declined as labour struggles intensified in the aftermath of the fall of the military dictatorship. Also the OCC increased contributing to the falling profitability trend. The decline in profitability of this period ended in 1985, when the social-democratic government of Panhellenic Socialist Movement (PASOK) turned to neoliberal restrictive policies.

The 1986-2006 phase of neoliberal policies was characterised by a weak recovery of profitability that stayed well below the levels achieved during the ‘golden age’ of Greek capitalism. There was also a non-significant decrease of the OCC because there was not sufficient destruction of capital during the crisis, so as to ensure the restart of capitalist accumulation on smaller and healthier bases.

Finally, the last phase is that of the crisis (2007-12). During that phase there is a rapid fall in profitability leading to the lowest levels for the entire 1960-2012 period. This is accompanied by a dramatic increase of the OCC.

From this study three main conclusions are drawn. First, that the Greek debt crisis is essentially a competitiveness crisis. Second, the hypothesis that the pressure of international competition was crucial for the profitability of the Greek economy is rejected, on the grounds that the latter was mainly on productive sectors not exposed to the international competition (non-tradable goods and services). Third, it finds that the deep depression that followed the troika austerity policies has led to a sharp decline of profitability, mainly due to the activation of the underconsumptionist factor of the crisis. This underconsumption, however, is only the form of appearance of Greek capitalism’s deeper problems, i.e. of its development model mainly in the 2000s. The economic growth with high current account deficits reached its limit when the onset of the global economic crisis blocked this type of development, since the transfer of ‘savings’ from the European ‘centre’ to the European ‘periphery’ stopped. The ensuing implementation of the Memoranda’s austerity measures led to the emergence of the underconsumption trend.

IV.3 A dual crisis of overaccumulation and imperialist exploitation

Mavroudeas (2013) and Mavroudeas & Paitaridis (2014) have proposed a third Marxist explanation of the Greek crisis. By studying empirically the post-war development of the Greek economy it is found that the TRPF is the fundamental cause for both the 1973 and the 2007-8 crises. The empirical methodology used is similar with that of Maniatis & Passas (2014), stemming from Shaikh & Tonak (1994), with two differences. The first difference is that the agricultural sector is considered a capitalist sector and is included in the estimations of the Marxian variables. The second difference is that the consumption of fixed capital of the unproductive trade and royalties sectors and the intermediate inputs of royalties sector so long as their value flows from the sphere of production is included in Marxian value added. The distinction between productive and unproductive labour is also employed in the construction of the Marxian variables. Another important feature of this Marxist explanation is the importance placed upon the 'external' dimension. It is argued that Greek is middle-range capitalism with limited imperialist abilities. It continuously strives to exploit other areas and at the same time fall prey to the exploitation from its more developed western partners.

On the basis of this investigation three main periods are being discerned after the 2nd WW: the 'golden age' (1960-73), the capitalist restructurings era (1973-85) and the neoliberal restructuring era (1985-2009).

The 'golden age' was initiated after the 2nd W.W. and the civil war and thanks to its post-war restructuring and also the defeat of the Left. During that era Greek capitalism exhibited a remarkable profitability leading to a strong growth rate and also increased competitiveness; all of them leading to the ascendance within the international division of labour. However, the Greek post-war 'golden era' differed substantially from the western one in that it did not include a developed welfare state and was based on the suppression of workers' rights and pay. Moreover, it had a significant imperialist component as Greek capitals expanded remarkably their activities particularly in the Mediterranean area and the Middle East. Similarly with the more developed western capitalisms the 1973 global crisis put an end to Greek capitalism's 'golden era'. As in the West (Shaikh & Tonak (1994)) the 1973 crisis in Greece was an overaccumulation crisis caused by a falling profit rate due to the increase of the organic composition of capital (OCC). The overaccumulation crisis was simmering in Greek capitalism since its 'golden age' as the increase of the rate of surplus-value started slowing down whereas OCC was rising rapidly. This caused a falling profitability trend that led in a curtailment of investment and a long period of anemic performance. Moreover, the 1973 crisis coincided with the fall of the military dictatorship and the reappearance of the labour movement. In order to defuse popular radicalism Greek capital was obliged to resort to progressive Keynesian policies of income redistribution in favour of the working class. Hence, Greek capitalism's evolution was de-coupled from the West: it adopted progressive Keynesian policies of income redistribution later than the West and at a period when the latter turned to neo-conservatism. This placed additional burdens on capital's profitability and accumulation.

Thus the post-dictatorship governments employed policies trying to combine (a) growth (which was slowing down due to global economic crisis) and (b) managed pro-labour income redistribution but in a manner not dramatically detrimental to capitalist profitability.

At the same time Greek capital made the strategic choice to participate in the European integration process and Greece became an EEC full member in 1981. The reasons behind this choice were: (a) to secure the system from popular radicalism, (b) to push through capitalist restructuring with the help of the then EEC and (c) to upgrade Greek capitalism from middle-range imperialism to a partner in one of the major global imperialist blocs. This contemporary 'Big Idea' of Greek capitalism was fraught with risks from its very beginning. Especially, it led to a declining competitiveness that caused a deteriorating current account deficit.

However, these progressive Keynesian policies failed to address the economic crisis and to bolster the profit rate because they applied the successful post-war recipes in totally different socio-economic conditions. Post-war growth-boosting Keynesian policies were successful because the war had devalorised the previously overaccumulated capitals. This was not the case with the 1973 crisis as capitals remained critically overaccumulated in the aftermath of the crisis. Therefore, as soon as the post-dictatorship popular radicalism was checked, Greek capital abandoned progressive Keynesian policies and turned to capitalist restructuring policies inaugurating thus its second post-war era, which cover the whole 1985-2007 period.

First, conservative Keynesian restructuring policies (anti-cyclical demand-led growth policies but without pro-labour income redistribution) were employed. At the same time Greece's accession in the EEC removed trade protectionism and dealt a severe blow to Greek capital's competitiveness against the more developed EEC economies. The conservative Keynesian policies had limited results as they failed to suppress adequately wages and devalorise overaccumulated capitals.

They were succeeded by the already dominant in the West neo-liberal restructuring policies (formally introduced in 1990). As Greek capitalist restructuring was already lagging significantly, Greek neo-liberal policies almost bypassed monetarism (closed economy neo-liberalism) and espoused directly open economy neo-liberalism. EEC and EU directives played a crucial role in this. The neo-liberal agenda (opening of the economy, privatisations, curtailment of the welfare system, tax reforms benefiting the wealthy, deregulation of labour market and the financial system etc.) guided all the subsequent governments. Neo-liberal restructuring policies bolstered more forcefully than their conservative Keynesian predecessors labour exploitation which was expressed in the increase of the rate of surplus-value. Of particular significance was the marked increase of the actual work-time from the mid-1990s and onwards (Mavroudeas (2013)), which reinvigorated the extraction of absolute surplus-value, after a considerable dormancy period.

Concurrently, Eastern Bloc's disintegration opened a new area of opportunities for Greek capital, particularly in the Balkans. Taking advantage of its geographical proximity and EU membership, it penetrated these countries reaping imperialist extra-profits. Moreover, the massive migration to Greece from these – and later from other as well - countries facilitated the depression of wages (especially in certain sectors, e.g. construction) and the expansion of flexible working relations.

Greece's 2001 accession in the EMU complicated the situation further. Greek capitalism attempted to decisively upgrade its position within the international division of labour by participating in the upper tier of European integration. But this strategic choice was risky since the severe constraints on national monetary, industrial and commercial policies weakened further Greek competitiveness vis-à-vis the euro-core countries which were characterized by productive superiority. In the beginning, these problems were ameliorated by securing – thanks to the euro - cheap credit that promoted an artificial growth. This was boosted further by the organization of 2004 Olympic Games in Athens whose exorbitant and over-priced works bolstered Greek (and western) capitals' profitability but at the same time worsened fiscal deficit. Essentially, whenever capital accumulation faltered the Greek state stepped in and, directly or indirectly, subsidized it. The ballooning FD was manageable because of the cheap foreign loans and the relatively high growth rates of the Greek economy.

On top of that Greek capitalism, during that period, followed the international trend of aggressively employing credit and fictitious capital expansion[14]. Cheap credit was boosted by euro's low interest rates. The stock market became for a short period a major (but never the dominant) source of enterprise finance, whereas traditionally its role and size were minimal. By artificially (through government policy and bank cartel agreements) lowering interest on deposits to negative real rates, the vast majority of traditional middle-class depositors was pushed to the stock market with the promise of higher returns. It is exactly in this period that the traditional post-war popular and middle-class propensity to save collapses[15]. This inflated the stock market for a short period till its collapse in 1999-2000. In public discussions this was branded as the 'stock market robbery' as the great majority of small 'investors' lost their holdings.

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[14] This does not verify the financialisation hypothesis, as already argued, for the following reasons. Firstly, it was a very short-term phenomenon and did not succeeded in changing the traditional features of Greek capitalism, Thus, secondly, the financial system remained a bank-based one. Thirdly, households' debt increased rapidly but never achieved western levels. Furthermore, it collapsed equally rapidly. In toto, there was no significant long-term structural change of the Greek economy along the financialisation lines. The only effect was an artificially boost of capitalist accumulation through fictitious capital and lax monetary policy.

[15] Wage earners' savings collapsed mainly because euro's introduction ushered rapid price increases in mass consumption goods and thus eroded their saving ability. Middle-classes' savings collapsed because they faced negative real interest rates in bank deposits and were lured to the stock-market.

Additionally, private consumption was artificially ballooned via cheap personal credit offered by the banks. As a result, household debt increased significantly. This fomented consumption for a considerable period and boosted economic growth.

Lastly, during that period there was an influx of foreign capitals that either speculated in the stock market or were invested in services. A very small portion of this influx went to productive investment as indicated by the rather low share of FDI to GDP (see http://www.tradingeconomics.com/greece/foreign-direct-investment-net-inflows-percent-of-gdp-wb-data.html).

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All these unsustainable and conjectural factors led to an 'artificial boom' period with better than the rest of the EU growth rates. This 'artificial boom' period had another hidden handicap: there was a steep increase of unproductive activities (particularly around finance and trade) which eroded internally profitability's foundations.

To sum up, the period 1985-2007 was marked by capitalist restructuring waves which strived to reverse the falling profit rate trend and the overaccumulation of capital. Their policies revitalized the counteracting forces to the TRPF by (a) increasing the rate of surplus-value, (b) reducing the value of labour-power, (c) reducing the value of constant capital, (d) reducing turnover time, (e) increasing foreign trade and (f) reaping imperialist extra-profits from abroad. These restructurings were only partially successful. There was a recovery of the profit rate but this never reached the level achieved in the beginning of its fall. Moreover, capital was insufficiently devalorised as Greek capitalism shied away from the deep and painful devalorisation required. Thus the fundamental problems remained and the 'financialisation' tricks and the 'artificial growth' only postponed and at the same time augmented them.

The 2007-8 crisis ended abruptly this euphoria. The 'artificial boom' collapsed and the lurking behind profitability crisis resurfaced. The 'financialization' deus-ex-machina postponed the crisis but, at the same time, amplified further the problem of overaccumulation. As soon as productive capital's profitability - under the auspices of which surplus-value (and thus total profit) is generated – started tattering crisis re-emerged in all its glory. 'Financialization' gave only a temporary respite to the crisis of profitability but at a very high cost. It increased significantly the portion of surplus-value extracted by productive capital but accruing to money capital. This aggravated further the falling profitability of productive capital and set the whole house on fire. Additionally, imperialist extra-profits collapsed as the Balkan economies entered recession and competition with other stronger imperialisms was aggravated. Also, the global financial collapse ended cheap credit. Thus, Greek capitalism abruptly fell in crisis.

This crisis is characterized as a dual crisis of overaccumulation (caused by the TRPF) and imperialist exploitation (that traumatized Greek capital's profitability and productive structure). This dual crisis took the form of the twin deficits (fiscal and current account deficit). The fiscal deficit was augmented because the state rushed to subsidise the private sector. The current account deficit was already worsening because of the falling competitiveness of Greek capital vis-à-vis its western competitors. Then the one reciprocally worsened the other. That is, contrary to the Mainstream twin deficits hypothesis, bot deficits are expressions of the falling profitability of Greek capitalism.

V. In place of conclusions

This paper argues that in order to explain such a deep and protracted crisis as the Greek one, an explanation founded on the fundamental economic structure of Greece and EU should be sought for. This significance of the structural dimension is implicitly accepted nowadays by even those explanations that do not place emphasis on it.

For example, whereas Mainstream explanations focus on debt they have moved – even before the 2nd Economic Adjustment Programme for Greece - towards recognizing a 'structural' dimension. In subsequent reviews of the programme there is a marked slide towards structural reforms. This was coupled with a rather shy and limited but explicit debate about a 'new economic and productive model'. However, neither the EU nor the Greek politico-economic elite have spelt out a detailed and concise plan of what is this 'new economic and productive model'. This is partly caused by Mainstream theory's inability to grasp effectively structural issues and particularly the sphere of production.

Radical explanations of the Greek crisis cannot also grasp properly this structural dimension. Their infatuation with the inappropriate for the Greek case financialisation perspective has led them to ignore the deep structural problems of Greece's productive model. Thus, they emphasise weak structural aspects (mainly around the monetary sphere and trade) and neglect to study the sphere of production. For this reason their policy proposals are limited in methods of making debt viable and reforming of leaving the EMU. The issue of the productive restructuring of the Greek economy is either absent or merely paid a lip service.

On the contrary, Marxist approaches exhibit a better ability to account for the Greek crisis. Their main thrust is that they seek a deep structural explanation and focus especially on the sphere of production. Concomitantly, their policy proposals emphasise the need for a progressive productive restructuring of the Greek economy.

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