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Abstract

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

Keywords

B50, G21, H12

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[1]This paper expands on Gary Dymski's presentation for the conference "The Challenges of Debt Crisis and Questioning of a Way-Out," organized by the Nicos Poulantzas Institute in Athens on 29-30 November 2013. "TAVA" – "There are various alternatives" – was suggested as a phrase by Haris Golemis of the Poulantzas Institute to start the workshop on 29th November 2013.

Greece's economic strategy and Eurozone crisis: TAVA

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6 October 2014

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

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

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

This said, as the current Eurozone crisis has taken ever deeper root in the member nations of the Union, the power-brokers in Europe - the European Commission and the European Central Bank, in particular – have insisted that the pathway out of crisis can be found only by following the rules laid down in Maastricht. Further, since New Classical and not Keynesian structural macroeconomic models guide the thinking of the economists advising these power-brokers, arithmetic rules are laid down as pathways for restoring the required fiscal/budgetary ratios, with no consideration of interactions between the pace of economic growth, debt levels,

[2] The essential guide to this crisis is Varoufakis (2013), Patomaki (2013) and Lapavitsas (2013)
[3] The enabling Statute establishing the European Central Bank specifies, under Chapter II ("Objectives and Tasks of the European System of Central Banks"), Article 2 ("Objectives"), that "the primary objective of the ESCB shall be to maintain price stability. … The ESCB shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources."

and so on. In some moments throughout the crisis, decision-makers and analysts at the International Monetary Fund (IMF) have provided some analytical support for these interactions – most famously, in the support given to the notion of a Keynesian expenditure multiplier in its October 2010 *World Economic Outlook*. But this support has not translated into consistent pressure by this Bretton Woods institution for a relaxation of austerity macroeconomic policies. At best, the IMF has followed a schizophrenic policy approach that has only served to illustrate the lack of coherent policy direction by the "troika" that has been orchestrating Eurozone crisis planning.[4]

The consequence of the Eurozone's misguided rules and of its confused or repressive responses to crisis has been slow growth or contraction in virtually all this global area's sources of aggregate demand. Figures from the OECD tell the story. Through the end of 2013, gross capital formation (that is, investment) in the northern Eurozone countries Germany, Netherlands, and France was negative for the second year in a row, after recovering to only an annual growth rate of 6% in 2011; meanwhile, in the southern Eurozone countries of Portugal, Spain, and Italy, investment growth has been negative (with the exception of Italy's 0.6% growth rate in 2010) since 2008. In Greece, gross capital formation has fallen by 13% or more every year after 2008.

Real consumption expenditure growth has been flat or negative even in the northern Eurozone economies since 2007; the maximum consumer growth achieved there was Germany's 2.3% in 2011. Italy, Spain, and Portugal registered a recovery in consumption growth to modestly positive rates in 2010, but consumption growth has been consistently negative since then. Meanwhile, real government expenditure has shown by less than 2% in these northern economies after a modest boost in 2008 and 2009; in Germany, for example, government expenditure growth has fallen consistently from 3.2% in 2008 to 0.6% in 2013. In the southern Eurozone countries, government expenditure has consistently shrunk after 2010, with Greece again experiencing the most dramatic fall-off.

The sole "bright spot" has been trade in goods and services. For all Eurozone nations, a sharp 10% decline in export market growth in 2009 was followed by a 10% gain in 2010; subsequently, however, export market growth has been falling steadily for most Eurozone nations. In terms of overall net export position (for goods and services), only Germany and the Netherlands have substantial surplus positions. The net export position of the southern Eurozone nations – substantially negative in the mid-2000s – has improved after 2008. Italy and Spain both managed small surpluses in 2012; in 2013, they were joined by Portugal, and Greece came closer to balance. It should be noted that these southern gains have come to a

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

large extent because of the suppression of domestic demand.

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

[Figure 1]

To complement the picture, a huge increase in non-performing loans can now be observed across the European periphery. This is an important parameter in that it interlinks and exacerbates the already-ongoing European recessionary spiral. Especially in Greece, as Figure 1 shows, non-performing loans have been skyrocketing even compared with the rest of the countries of the European periphery. Indeed, the above-mentioned developments on the demand front are significantly aggravated in the case of the Greek economy, so much that we can refer to the '*Greek drama version of austerity'*. In particular, as illustrated in Figure 2, other than the usual vicious cycle between demand, output and employment (left side) there has also been an additional destabilizing force linked with non-performing loans and assets seizures (right-hand side). This mechanism shows that either directly or indirectly the fall in real incomes translates into non-performing loans both for households and firms, therefore leading to asset-stripping and bankruptcies[5]. This in turn feeds back to the downfall of output and employment, further intensifying it.

[Figure 2]

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

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

The fragility of these institutions, many of which are national champions in their home

[5] Another widespread phenomenon during the crisis in Greece has been the rise of gold buyers who, taking advantage of households' desperate need for liquidity, offer to buy gold and other precious assets at ridiculously low prices. In our diagram such phenomena are included in the bottom-right box.

economies, has been a pronounced feature of European political economic dynamics since before the Eurozone crisis per se broke out in 2010.[6] Varoufakis and others have pointed out the Eurozone crisis is, at its core, a banking crisis. The fact that a substantial share of that fragility is rooted in the internal public and private borrowing and lending relations across national boundaries inside Europe means that management of the sovereign debt crisis is, for European decision-makers, simultaneously management of the balance-sheet fragility of large European banks. As Jim Millstein wrote recently in the *Financial Times* (14 November 2011), Europe's banks have become "too big to save." The sensitivity of this problem – and the inability of Europe's current institutional framework to manage it – was evident in the recently-concluded negotiations over a common bank resolution mechanism: a negotiation that succeeded only in emphasizing to all European Community members that their banks' insolvencies – which the ECB would not monitor – would remain a national problem, whose costs would be shared by the chartering nation's taxpayers and the institutions' liability-holders.

Greece's banks are less large relative to GDP than is the case for most other European nations. However, the Greek banking sector was relatively highly concentrated even before the crisis; and as Figure 3 shows, the unfolding of the crisis and the resolution of several banking entities has further consolidated the sector's concentration. As a result there are nowadays four major banks left in the market, all of which are private.

[Figure 3]

Mixed with clientelism, a key feature of Greek capitalism (Laskos and Tsakalotos, 2013), and with what SYRIZA has labelled the 'triangle of sin'[7] – wherein the real political and economic power is concentrated between the bankers, the members of the corrupt political system, and the mass media owners[8] - the above statistics give a gloomy picture of the post-crisis functioning of Greek banks. More than anything, the rise in the concentration of the banking sector should be expected to further enforce such power structures.

Even more, such a power set-up consolidates and explains to an extent the paradox of the coexistence of liability side pseudo- "Keynesianism" with the persistence of neoliberal norms in banks' asset-side, that is, in the terms and conditions that govern the provision of credit. In particular, as illustrated by Figures 4 and 5, this paradox translates into generous bailouts of banks by public funds, on one hand, and into credit stagnation, on the other. Thus, rather than establishing a public banking entity capable of running in a counter-cyclical manner and of promoting growth (also see discussion below), Greek authorities have been patiently waiting for the humors of bankrupt bankers to shift before credit starts expanding.[9] Moreover, rather than being used to expand credit towards the real economy, most of the improvement recorded

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

[7] See for instance http://greece.greekreporter.com/2012/12/19/the-triangle-of-sin-that-rules-greece/

[8] Interestingly, the banking scandal of 'Hellenic Postbank' - a scandal that came up in early 2014 and that involves accusations of money laundering and fraud against a number of Greek 'big business' people – can be taken as an all-in-one example of the "triangle of sin" conception; see for instance http://www.ekathimerini.com/4dcgi/_w_articles_wsite1_1_11/01/2014_535480 and http://www.ekathimerini.com/4dcgi/_w_articles_wsite1_1_15/01/2014_536027.

[9] See for instance the discussion conducted in Bank of Greece (2013)

in terms of availability of domestic deposits, has been so far directed towards the partial repayment of the funding received from the state (essentially ending up to the international lenders of the Greek state) – as explicitly demanded by the Troika (for discussion and evidence see Bank of Greece, 2013, as well as Figure 4). On top of that, bankers' unwillingness to provide credit has been systematically used to support the most antisocial and misanthropist pieces of legislation, such as, for example, the one in favor of the expansion of housing foreclosures.

[Figure 4]

[Figure 5]

2. Constraints and limits under neoliberal global capitalism

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

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

As the 1970s unfolded, oil-price shocks, recessions, rising inflationary pressure, and an increasingly fragile system of financial intermediation certainly provided evidence, if any was needed, that the central place of the United States in global economic affairs was in jeopardy. Japan and other East Asian economies seemed positioned to push the U.S. aside. The first key move toward stabilizing the U.S.'s position was made by President Jimmy Carter in August 1979: the appointment Paul Volcker as Federal Reserve chair. Volcker prioritized inflation: he implemented an aggressive monetary policy that used skyrocketing interest rates and two sharp recessions to undercut rising prices. This policy led directly to the Latin American debt crisis, the near-failure of some of the largest U.S. banks (and the failure of one, Continental Illinois of Chicago), and a period of chaos in the global economy. [10]

The election of Ronald Reagan as U.S. president, in November 1980, on the heels of the May 1979 election of Margaret Thatcher as U.K. prime minister, cemented further radical shifts in

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

employment, financial, and fiscal policy. Labor union contracts were undercut, and production jobs located in lower-wage regions or nations; the tightly-regulated banking system was deregulated and reshaped by bank mergers, securitization, and heightened competition. Welfare cuts and reduced taxes for the wealthy were put into place. Note that many other nations have, from the 1980s onward, had parallel experiences: financial crises, financial liberalizations, attacks on wage standards and social-welfare expenditures, reductions in taxes on the wealthy, and so on.

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

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

The United States economy, then, succeeded in remaining at the hub of the global economy, even while its manufacturing base gradually evaporated. No longer a manufacturing power-house, it benefits from low-wage manufactures made elsewhere in the world. Its financial markets, fed by persistent capital inflows, have pushed limits of leverage, risk-based lending, and speculation that other nations' banks have struggled to imitate. U.S. presidents, Treasury secretaries, and Federal Reserve chairs from Ronald Reagan onward have viewed the financial sector as the key area of U.S. comparative advantage.[11] seen this is clearly seen as a key component of the nation's Unable any longer to maintain global economic order, key sectors of the U.S. economy have prospered (as Volcker foresaw) by extracting gains from global chaos.[12]

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

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

The rationale for the Eurozone, of course, can be explained by European nations' difficulties in maintaining stable exchange rates, inflation levels, and GDP growth rates in the post-Bretton Woods period. Added to this is the geo-political necessity of stabilizing the France-Germany-Italy-Low Countries nexus. This said, the *design* of the Eurozone clearly can be viewed as a response to the economic options available to Europe, given the context of a neoliberal capitalism dominated by a post-hegemonic United States increasingly using Asia as the hub of a global factory system.[13]

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

Another reactive characteristic of Eurozone design is evident in Europe's competitiveness policy. Guided by analyses developed at the European Central Bank and the Bundesbank, export-led growth is accepted as the core principle of European economic planning. Not only should all nations avoid current-account deficits within the Eurozone; they should grow by increasing productivity and global competitiveness. If they now lack it, they should acquire it – either by enhancing educational quality or by undergoing internal devaluations (blanket wage and salary cuts). Many economic commentators – the influential Martin Wolf and Wolfgang Munchau of the *Financial Times* among them – have pointed out that this policy stance is self-undermining, in that every nation cannot have a current-account surplus in a global economy. Any fallacy of composition in global cross-border flows, however, disappears if we accept the maintained hypothesis that the United States will sustain a current-account deficit of 3-6% of its GDP. Then every other nation in the world can, in principle, trade its way to growth with the U.S. as a counterparty.[14]

A third reactive component of European economic strategy consists of its member-nations' efforts to follow the United States (and United Kingdom) in deregulating their financial markets and creating global financial champions, especially in the past 20 years. Spain, Italy, Portugal, and other nations engineered defensive mergers so their largest banks could stand up to intensified financial competition after the Euro was launched.[15] Of course, this imitation effect also encompasses the huge public subsidies provided by the United States in the years from 2008 onward to its troubled financial system, especially its too-big-to-fail megabanks.

[13] These ideas about the design of the Eurozone are set out more fully in Dymski (2011).
[14] This "happy" conclusion ignores the fact that pushing the US current-account deficit so far into deficit implies an equally large increase in its global liquidity-sink role., It is difficult to regard the contradiction between having to absorb financial assets generated in a country so far from balance in its production of goods and services as sustainable, especially given the delicate sensibilities of those responsible for trading strategies in global financial hubs.
[15] See Dymski (2012).

More controversially, one final reactive element in Eurozone design can be mentioned: its architects' adherence reliance on the sort of narrow, equilibrium-based approach that characterizes the economic mainstream in the United States. Certainly, many European economists who espouse widening the scope for market forces and minimizing the footprint of government activities are home-grown; but many of these economists have links to U.S. or U.K. institutions dominated by mainstream thinking. And many other European economists, relying in most cases on great European thinkers, take a very different view. Insofar as academic departments of economics in many European nations are systematically closing their doors to economists who espouse pluralist views, this can be accurately described as an Americanization process.[16]

3. Challenging the global neoliberal order and Eurozone austerity

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

Regarding the Eurozone crisis, they emphasize as we have here that it emanates from the locus of Europe within a global economic crisis that is experiencing a profound reproduction crisis. They reject the notion that the simple application of Keynesian demand-management tools will bring resolution. At root, they argue, the contradictions that have been exposed are related to the unstable and contradictory character of the capitalist economy. We cannot look back to the Bretton Woods era as a period in which the combination of fixed exchange rates and social welfare states sufficed to guarantee prosperity. To the contrary; the Bretton Woods system, on which so many now look back fondly, was itself riddled with contradiction.[17] At root, then, the Eurozone is a flawed economic governance structure that commits (and even pre-commits) European nations to austerity.

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

[16] Mirowski (2013) points out that a large number of thought leaders in economics who take positions supporting Neoliberal policies have accepted significant financial support from foundations and corporations espousing such policies as a matter of self-interest.

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

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

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

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

4. Transforming available resources

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

The developmentalist perspective, by contrast, focuses not on the creation of a competitive environment but on the creation of industry. Building on the ideas of Schumpeter, Polanyi, Gerschenkron, Chang, and Mazzucato, the overarching insight is that productive national industry has to be built – or rebuilt – as an intentional project. Schumpeter's *Capitalism, Socialism, and Democracy* (1942) shows that perfect competition has virtually never existed in historical experience; instead, monopolistic or oligopolistic practices are not only common, but provide means for reducing uncertainty. Polanyi, in turn, argues that "laissez-faire was planned; planning was not" (*The Great Transformation*, 1944: 147). Chang (2002) shows that the developmental trajectory of the nations that currently dominate the global economy was facilitated by policies that blocked market forces – infant industry protections, subsidized credit, and so on. Gerschenkron emphasizes that finance plays a crucial role in coordinating industrial development for nations that are 'catching up'.[18] Mariana Mazzucato's recent book, *The Entrepreneurial State* (2012), highlights the role of organized public investment (as opposed to the individual entrepreneur working alone in a garage) in creating breakthrough innovations.

The competitiveness approach is problematic for the less economically advanced nations of Europe, such as Greece. Skilled and well-educated workers are free to move from lower-wage job opportunities, if those can be found, in their home countries to better-paid jobs in other Eurozone nations. Further, for nations that have experienced job loss, wage cuts, and stagnation, any policy inducements aimed at attracting capital are likely to be more than offset by capital's uncertainty and fear of instability.[19]

So, given the need to prioritize industrial policy (what we can make and sell) rather than competitiveness policy (what will attract investment by mobile capital), how to implement it? While there is no ready-made map, there are several keys to follow. One is to identify sources of potential strength. These can be found in traditional knowledge (people who work the land), in surviving knowledge (small firms and workers with special skills), in historical legacy industries (shipbuilding and goods movement), in locational and positional advantages, and in expatriates' skills and capacities. A second key is to target some possible growth champions for product and market development, paying attention to the possibility of up- and down-market linkages that can become self-reinforcing value chains. A third key is to insure that "infant industry" supports are in place: the creation of market space, the use of cross-subsidies, the availability of 'patient' finance, and so on. It is clear, as (2002) and Mazzucato have so forcefully argued, that government has to play a central role in facilitating, supporting, and even orchestrating such policy initiatives.

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

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

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

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

There are two outstanding examples of domestically-focused national development banks in the world: the German firm KfW, formerly the Kreditanstalt für Wiederaufbau (Reconstruction Credit Institute), founded in 1948 as part of the Marshall Plan; and the Banco Nacional de Desenvolvimento Econômico e Social (Brazilian National Bank for Economic and Social Development, or BNDES). Here we summarize some characteristics of BNDES, an institution whose activities are universally acknowledged as a key factor in Brazil's economic growth.[20]

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

Technically, BNDES is a fund, not a bank, in that it does not create deposits that circulate as money. It does, however, borrow in the market, and it meets Basil standards. It also operates as a "universal bank," in that it takes equity positions in Brazilian firms, especially start-up firms with high growth potential. In this activity, BNDES coordinates with FINEP, the public venture capital fund. BNDES has consistently generated a surplus that, when calculated as a return on equity or on assets, exceeds that of private banks in Brazil.[21]

What are some of the keys to BNDES' success? – the hows and whys of its operations? One key is the diverse range of its credit provision. BNDES, like KfW, provides credit for activities ranging from trade credit to microfinance to equity provision, working capital loans, and so on. A second key is its scale of operations. BNDES provides 10% of all credit in Brazil, and 25% of all business credit. A third key is its nurturing of human capital. BNDES sponsors extensive training and educational programs for its professional staff; further, a significant number of professional staff at mid- and senior-career stages rotate among Brazil's major public economic assets (the Bank of Brazil, the public savings bank (Caixa Federal), FINEP, Petrobras, and government agencies themselves, to cite just the main examples). A fourth key is political accountability. BNDES receives fiscal transfers from the Brazilian federal government, and its leadership and management team are held to account in achieving success with their financing initiatives. A fifth key, related to the fourth, is that BNDES' credit commitments target emerging industries in which Brazil's global market share promises to be significant: cane, ethanol, pre-sal oil. It does not always 'guess right,' and sometimes absorbs significant losses.[22]

[20] For a comprehensive recent discussion of BNDES activities, see Hermann (2010). Hermann shows that BNDES did not knuckle under to the market-led premises of the neoliberal age; to the contrary, it maintained its contrarian position.

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

[22] One recent example of bad lending decisions involves the credit provided to companies owned by Eike Batista. This said, a recent study has documented that BNDES does not make loans to non-

This analysis is not presented to suggest that Brazil's development bank has unlocked a magical formula for reducing poverty, maintaining industrial vibrancy, and sustaining economic growth. This is far from the case.[23] It is worth asking whether any part of the BNDES approach useful in planning Greece's economic future. We might start with the fact that the European Community too has an investment bank, the European Investment Bank (EIB).

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

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

5. Working within constraints

We now turn to a series of ideas that involve "working within constraints" in the sense of not requiring the consent of the European Union's governing bodies and coalition-formation with other southern European nations.[24] Again, our attention here is relatively narrow. We focus first on the possibilities for creating a productive financing structure, and then discuss ideas for uncoupling growth from debt.

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performing firms it has previously supported ('throw bad money after good'); nor does it make loan decisions that respond to political insider connections. See Lazzarini *et al.* (2012).

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

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

A national government should establish a central public-banking entity as a means to stimulate access to credit. In view of the huge amounts already given to the banking sector, such a proposal would not require any additional funding, but rather some political determination. In addition such a bank could contribute to growth by providing oversight, expertise, and secondary markets for locally-based banks making loans to local businesses in local areas. This entity could be funded via a tax on wealth. Local banks are now being set up by municipal governments/areas within Great Britain; and both Spain and Germany have strong traditions of local banking institutions, which offer some dramatic examples of both successes and failures in the past several years.

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

To be maximally effective, the financing entities created – whether productive financing entities or venture-capital concerns – should be focused. Where possible, they should identify, link, and support value-chain-linked firm clusters; and their capacity should be sufficient to shift targeted economies from initial states of rest or inertia toward higher levels of activity and employment. This suggests the need for institutionalizing a national economic planning capacity.[25] This planning capacity should, in turn, be linked to the reinvention of democracy – especially as it concerns economic activities – that represents such a central component of SYRIZA's rise within Greece and more broadly within Europe.[26]

Three other initiatives for establishing a more productive economic and financial system should be mentioned. The first of these would be to impose an adequate level of capital flow regulation, so as to protect the Greek economy from inflows of speculative finance. As shown empirically (Agosin and Huaita, 2011), capital inflows other than FDI can be very destabilizing when they are large compared with the domestic financial system. Thus, speculative flows are not only detached from any productive investment due to their short-term horizon; they may also be an important explanatory variable behind financial crisis episodes and capital flow reversals.

A second initiative would be the active encouragement of workers' self- management schemes. There have already been several cases in Greece in which workers have attempted to take over businesses that have gone bankrupt.[27] Although such attempts are often incentivised by the fear of unemployment, they open the door to an entirely different approach to corporate management, wherein decisions are taken democratically by workers' assemblies, and wherein

[25] In the case of Brazil, there is a planning ministry within the elected government, as there is in Greece. However, BNDES has its own independent planning capacity. And, of course, some degree of economic coordination follows naturally from the circulation of mid- and senior-level professional staff among Brazil's public economic institutions (mentioned above).
[26] In this respect, it can be useful to study the debates about the mixed-economy model in Poland and other Eastern European nations in the years leading up to these nations' helter-skelter 1990s' leaps into capitalism. See, in particular Kowalik (1986; 2012).
[27] See for instance the case of Vio.Me., a metal & chemical industry located in Thessaloniki; for more info click http://www.viome.org/

profit is partially replaced by the needs of surrounding communities as the motive force behind production. So far such initiatives have been mainly supported by solidarity campaigns run by local communities, leftist parties and activists. However, by being in government, SYRIZA would be in a position to offer access to credit, resources, knowledge and networking opportunities for those establishing such schemes. In addition, a SYRIZA government would be able to set up the legal framework permitting such schemes to be recognized as equal participants in the market.

The third initiative is to encourage the further establishment and use of local exchange trading systems (LETS) in Greek cities and villages (for an overview of existing schemes in Greece, see Sotiropoulou, 2010). The use of a token system that permits members of cash-short communities to exchange goods and services can bolster local solidarity, and can help develop links with LETS networks elsewhere in Europe. Moreover, such networks can support and be supported by the above mentioned workers' self- management schemes, further consolidating both schemes' usefulness and vitality. Most importantly, it should be noted that both workers' self-management schemes and LETS networks should be understood and evaluated not only in terms of economic efficiency, but also as a grounded step towards an alternative way of organizing social and economic life. They can be seen as what Sotiropoulou (2010) labels as *'cracks'* on capitalism.

Uncoupling growth from debt

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

At the level of small and medium size firms, regulations that protect them from bankruptcy should be put into force. For instance, similar with SYRIZA's proposal on national debt, the repayment of business loans made to firms can be linked to these firms' levels of profitability, therefore enabling them to postpone debt repayments with no extra charge as long as they remain below a certain threshold. Furthermore, at the level of households, other than the re-establishment of the minimum wage and a satisfactory level of welfare provision, limits should be permanently set on the rights of creditors when those rights contravene the welfare and security of vulnerable debtors. Principles of social justice and public health both can be evoked to establish reasonable and politically-defensible limits. For example, home seizures or foreclosures should be prohibited when they leave families or individuals homeless; and unpayable home loans should be renegotiated in such a way that the affordable portion stays with the original lender, while the 'unpayable' parts are channelled to a 'bad bank.' Affordable housing can be built or renewed via the imposition of taxes on the purchase of expensive property and on property purchases by foreign buyers.

Furthermore, maximum limits should be imposed on interest rates charged on loans made to domestic businesses (focusing especially on small and medium size firms), consumers, and housing. Those limits should apply not only to future debt contracts, but also to existing ones. In the case of the latter, an interest rate reduction would bring down the outstanding amounts of total debt directly by reducing future installments, while it would also apply backwards so as for banks to deduct a part of the interest they have already received from the total amount of outstanding debt. By embracing the past, the present and the future, such a proposal should be more effective than a simple hair-cut approach at promoting growth and redistributing wealth from finance towards the real economy.

6. Conclusion

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

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

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

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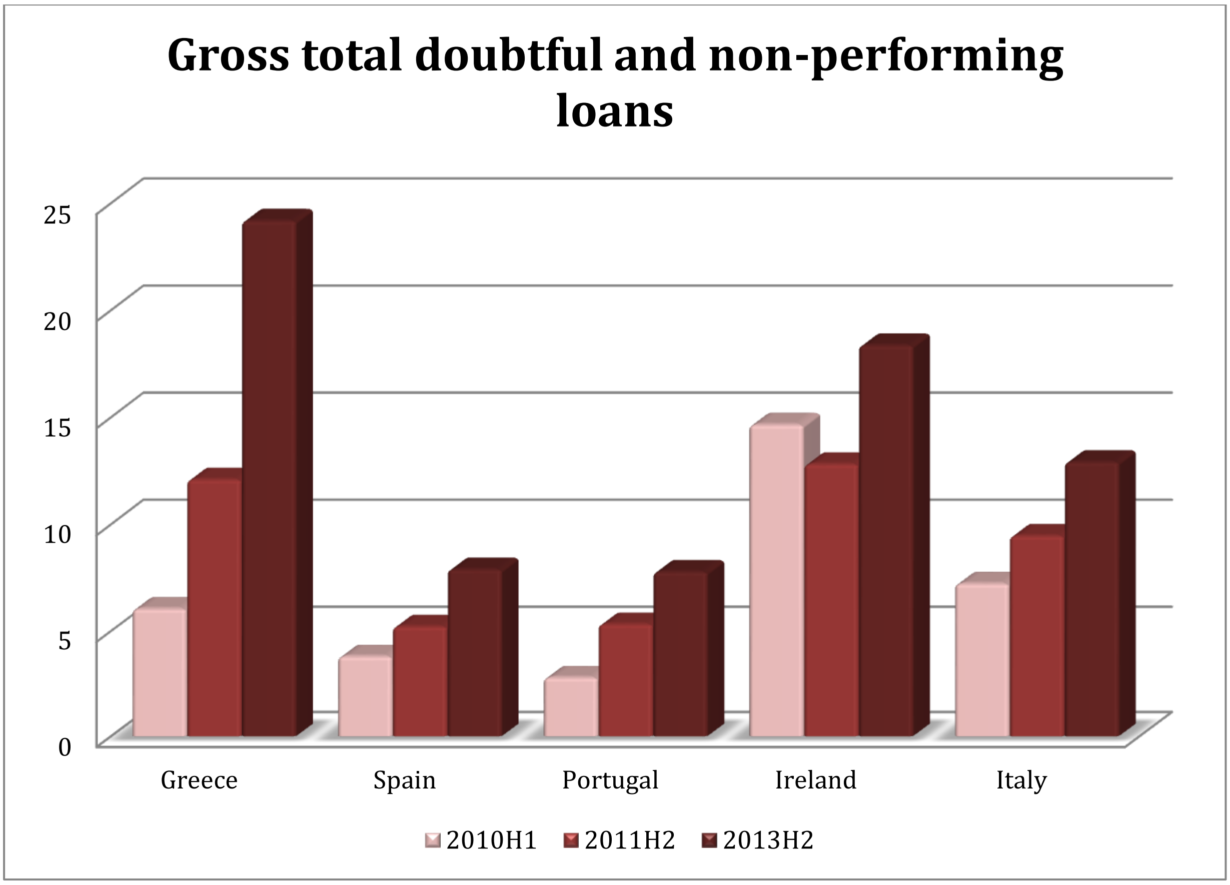

Figure 1. Gross total doubtful and non-performing loans (percentage unit); source: ECB Consolidated Banking Data

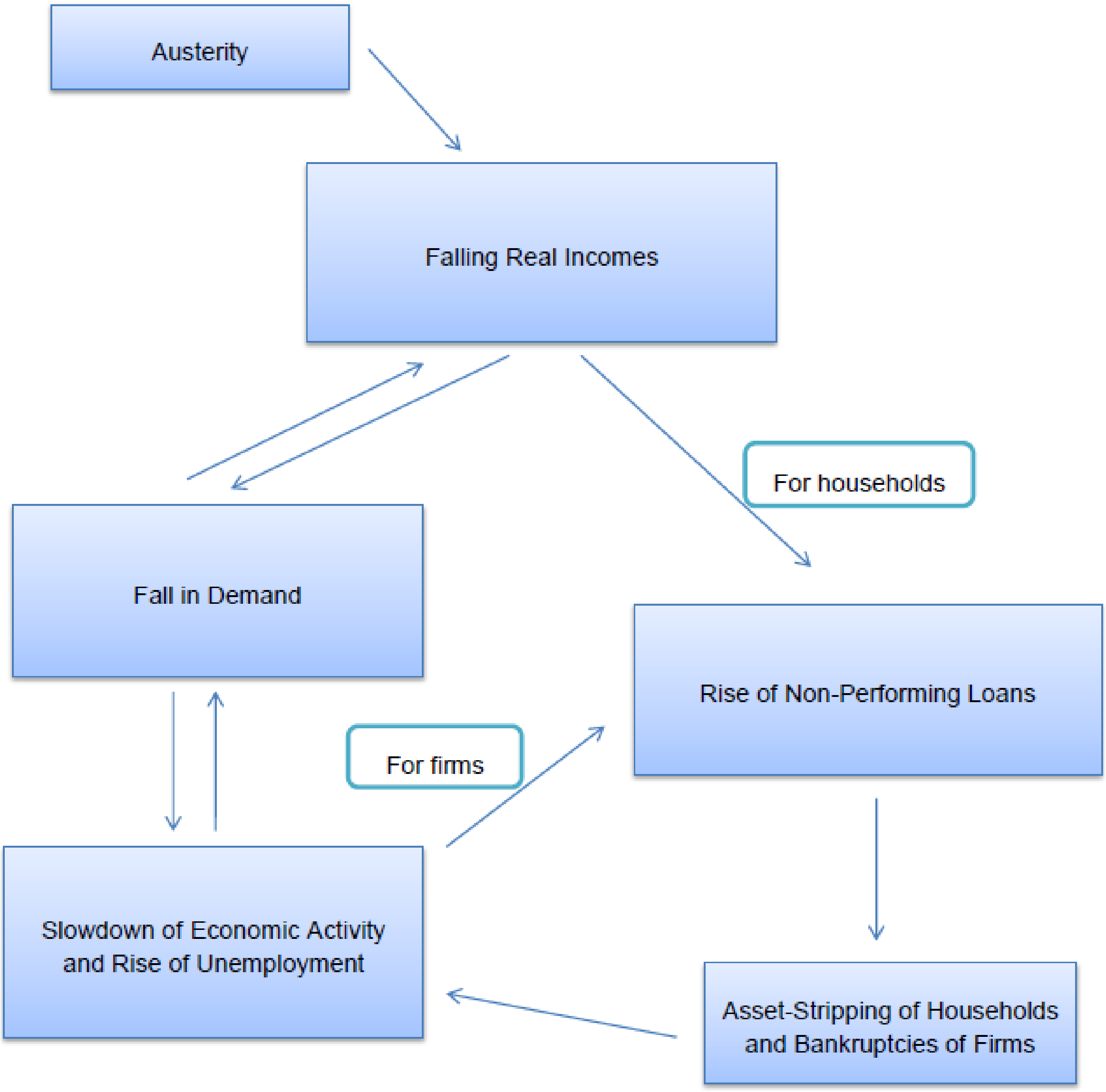

Figure 2. The Greek Drama Version of Austerity; source: authors' elaboration

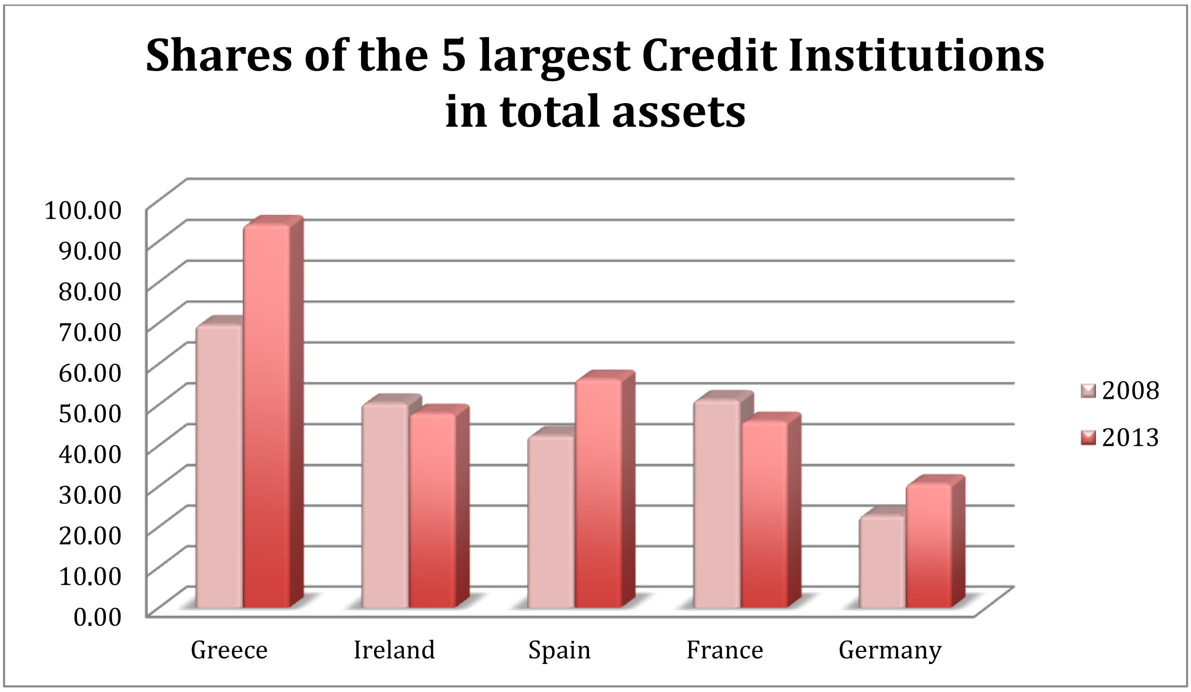

Figure 3. Share of the 5 largest credit institutions in total assets (percentage unit); source: ECB Structural Financial Indicators

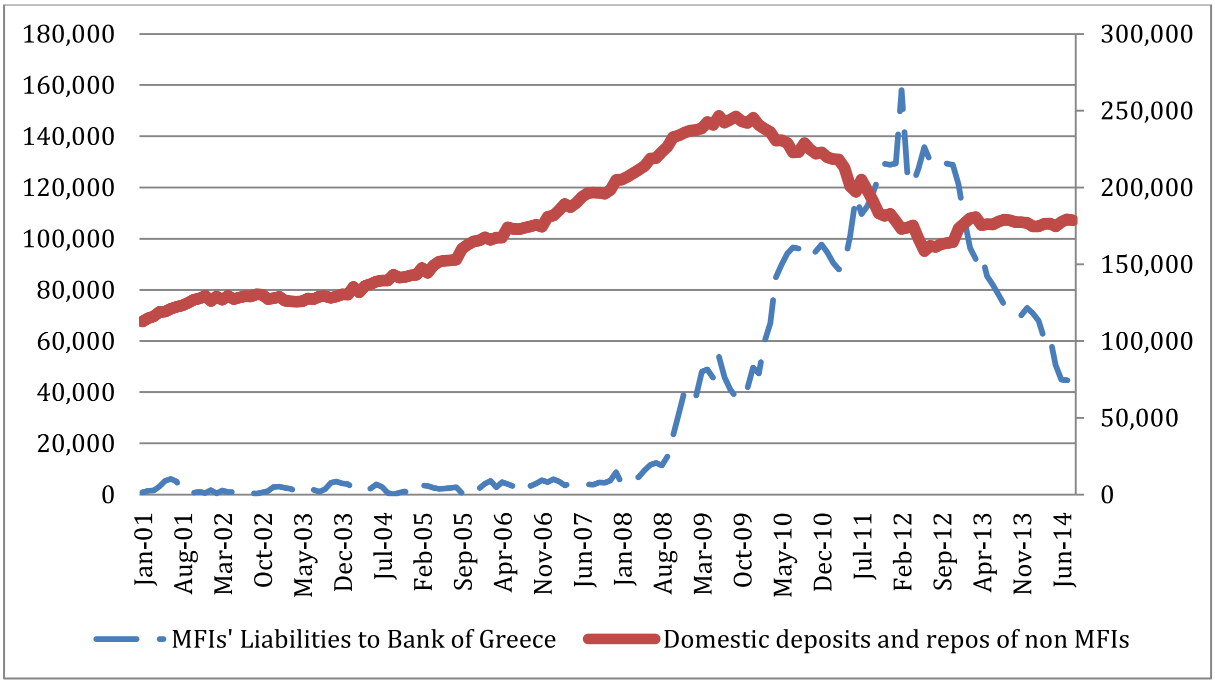

Figure 4. Banking bailouts (statistically registered as MFIs' liabilities to Bank of Greece; measured in the left hand axis) and domestic deposits of non MFIs (measured in the right hand axis); unit: EUR millions, source: Bank of Greece

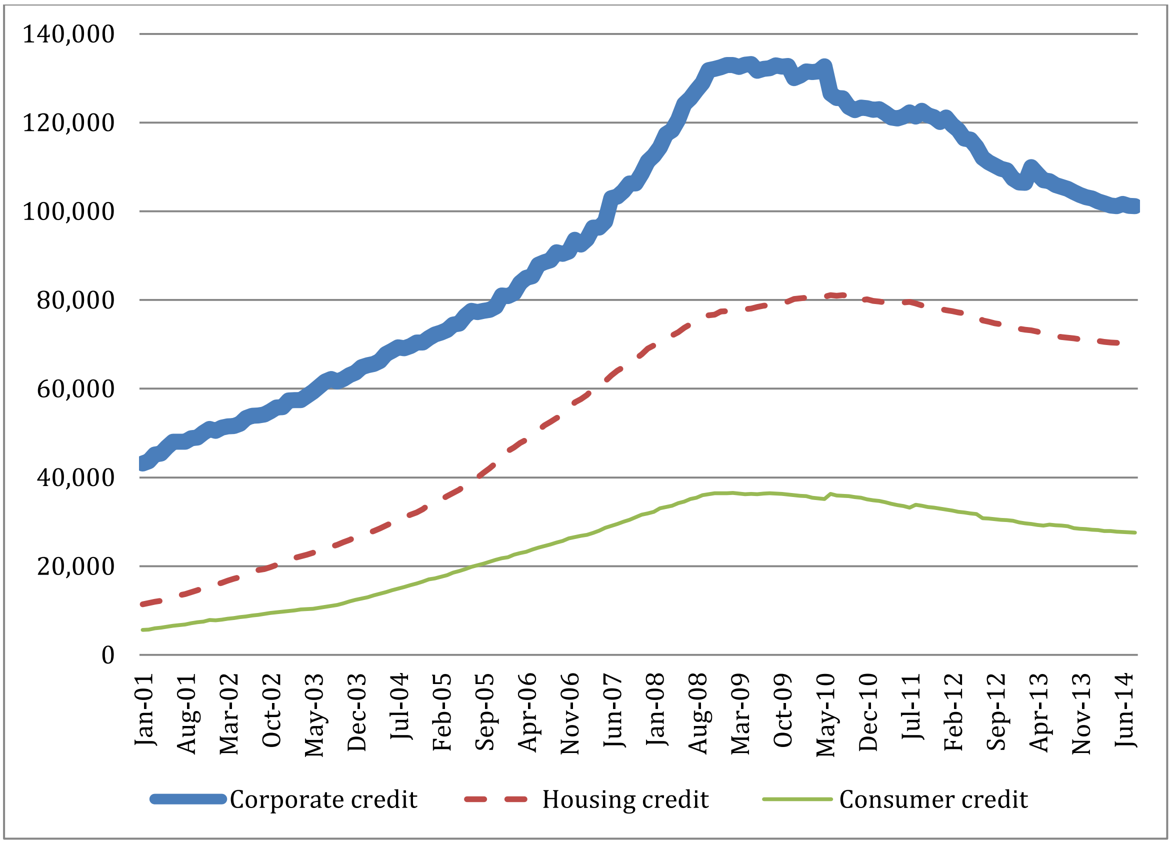

Figure 5. Credit to the private sector by domestic MFIs (excluding the Bank of Greece); unit: EUR millions, source: Bank of Greece