Sudden Stops in the eurozone; The Greek case

Vasiliki-Eirini Dimakopoulou, PhD Candidate
Department of Economics, Athens University of Economics and Business
dimakopv@aueb.gr

Supervisor: Pr. Nicos Christodoulakis
Athens University of Economics and Business
nchris@aueb.gr

Abstract

We pursue the assumption that the cross-border capital flows generated a credit bubble in the euro area, driving the peripheral economies to be confronted with a Sudden Stop event. We explicitly study and present the path as well as the destabilization effect that they had on the Greek economy. A panel data analysis of the five eurozone "crisis" countries, Greece, Ireland, Italy, Portugal and Spain, suggests that eurozone's economic cohesion, rather than countries' domestic fundamentals, were best able to explain the capital flows cycle in the recipient economies. Implicit guarantees and economic integration, inherent within an economic agreement, in conjunction with the abrupt degradation of members' perceived risk, seem to be a crucial driving factor of foreign capital flows.

Keywords: Capital flows, Sudden Stop, Sovereign Debt crisis, Greece

Giouli Giannadaki
University of Crete
Department of Economics

Abstract

The purpose of the present paper is to examine the relationship between culture and economy and the role of culture in the history of economic thought. In this sense, culture plays a privileged role in the economic activity and could contribute to the economic development under certain circumstances. The paper develops into the following parts:

The first part provides a literature review of the concept of cultural economics. Cultural Economics (as a separate field of research) studies the arts with the help of economic analysis. Although the concept of cultural economics is completely new, there are many suggestions regarding the economic dimensions of arts.

The second part of the paper focuses on the changing role of culture in the history of economic thought over the years. It defines the role of the arts in economic thought even before the 18th century. The analysis also presents the assumptions of the theorists of the 18th century political economy about the arts and continues with the economic literature especially of classical and neoclassical economists. It continues with the important role of Keynes and the role of Bloomsbury Group in cultural economics. This part also examines Cultural Economics theory under the prism of Institutional Economics and under a holistic theory of development. Special attention is given to the assumptions of John Kenneth Galbraith (1960), William Baumol and William Bowen (1966).

Culture and Economy: The role of culture in the history of economic thought

Introduction

In applying economics there are many fields such as health economics, environmental economics that are studied as a separate field of research. All these fields need to be studied separately because they all have special characteristics and restrictions.

Cultural Economics or the economics of Arts and Culture is a new separate field of research. Although many researchers believe that this field couldn't be studied separately, Cultural Economics started to develop in 1960.

Cultural Economics studies these (and other) questions using economic analysis. As a discipline, economics uses theory -economic principles- to analyse problems and it also uses empirical evidence-the use of statistical data- to try to answer them. Cultural economics uses this analysis and applies it to the cultural sector, it confronts theoretical hypotheses about the production and consumption of cultural goods and services with empirical research. (Rowth Towse, 2010, p 5)

As Throsby observes (1994) "Several reviewers of the progress of cultural economics over the years have observes that many writers, including themselves, have begun their books or papers with an apology for presuming that economics might have anything useful to say about art." (Throsby, 1994, p 26).

In this sense the development in the connection between culture and economics as a research area was limited. Most of the economists believe that culture and arts are not included in economics as it needs its own research tools.

However the research on arts under the scope of economic analysis could contribute to the retrospection of the goals of Economics in a more human perspective.

Wikipedia defines Cultural Economics as the" Economics of the arts and literature or cultural economics is a branch of economics that studies the economics of creation, distribution, and the consumption of works of art and literature. For a long time the arts were confined to visual and performing arts in the Anglo-Saxon tradition. Usage has widened since the beginning of the 1980s with the study of cultural industry (cinema and music publishing), and the economy of cultural institutions (museums, libraries, historic buildings)".

It was John Kenneth Galbraith who first analyzed the relationship between Economics and Culture in 1959 with a lecture for the connection of Economics and culture in his book "The Liberal Hour".

The development of Cultural Economics began later with William Baumol and William Bowen. In 1966 the "Performing Arts The Economic Dilemma" was an analysis and a theoretical review about Economics of the Arts. This study was really interesting for the researchers as a separate overview of the art market and the art goods.

In the modern era, the making of art has occupied a special position among human activities. Some might rank it as the highest of all callings; many probably think of it as above "mere commerce"; a few might wish that economist would keep their dirty hands off it.

Yet no matter how highly we may value them, art and culture are produced by individuals and institutions working within the general economy, and therefore cannot escape the constraints of that material world. (Heilbrun and Gray, 2010, p 3).

For example, the constraints of that material world in the Arts could be understood as an example of the labor market for artists (actors, painters e.t.c). Labor market operates as any other market and is influenced by the forces of demand and supply.

Over the last 30 or 40 years a substantial literature has grown in which the tools of economic theory and analysis have been applied to problems in arts and culture.

Cultural Economics-Main Questions

First of all, the field of cultural Economics should define the characteristics of arts. The field examines the characteristics of arts market, the size, the growth, the audience, the labor forces, the supply and the demand in cultural goods, elasticities etc. As it is stated in the study of the Center of Planning and Economic Research, the field of Cultural Economics has to reply to three main questions:

- Is Economics authorized to intervene in the activities associated with fine goods as Culture is"?
- Do the mechanisms of the market affect Culture
- Does the state have the authority to control and affect through subsidies the Art Market?

The academic research replies that cultural goods are subject to the economic activity and to the mechanisms of market because:

- their output is produced by resources which are restricted
- they have a specific utility
- they are exchanged in the market and are subject to market forces

The state can contribute to the production of cultural goods and can reinforce the cultural activity with direct or indirect subsidies to the Art Market in order to implement its redistribution policy and to empower the role of culture as a public good. The best way to implement these policies is to empower the production of artistic goods and to invest in education in order to produce a holistic artistic culture.

Culture in the history of the Economic Thought

Culture has a changing role in the history of economic thought over the years. Although cultural economics is a new field of research, there are many suggestions regarding the economic dimensions of Arts through the centuries. The dimensions of Arts in the Economic Science is as old as the economic science itself.

In every field where Economics has been applied, the first step was made a long time ago. Nowadays, the field has become more specific and a separate field of research.

Art and culture as luxury and waste

Initially, the economic philosophers prior to the 18th century suggested that Arts and Culture were either a luxury or a waste. The economists of the same period believed

that arts was a luxury only for the aristocracy because the main problem of the society was to find resources and choose production in a rational way.
Sometimes the norm prescribed or implied for allocation of resources was achievement of the good life, sometimes it was national power, and sometimes it was the smooth running of a fast developing market economy. For the most part of economic writers appreciated that resources when wisely used could feed the working class sustain the state in its various projects or adventures and permit the production of investment goods that would achieve growth in the future. Art and culture had little place in this picture, except in a few cases as means to some worthy end; they were at best an enigma and at worst an annoyance. (Ginsburgh Victor and Throsby David 2006, p 30).
Economic philosophers thought that people took their the economic based on their passions and sensations. Therefore they couldn't make a rational choice In 1732 Bernard Mandeville thought that the economic development could take place only if passions were controlled.
Bodin, Mandeville and Galiani were among the first to speculate about the determinants of the prices of art works. The general tenor of their comments was that all luxury goods, unlike subsistence goods which make up most of national product at the time and whose prices reflected their costs, were simply frivolous and their value was socially determined on the demand side. (Ginsburgh Victor and Throsby David, 2006 p 31).

Culture and Economics in the 18th Century

In the 18th century the meaning of culture in the economic thought changed a lot. Hume, Turgot and Adam Smith focused on arts.
Favorable attention was given from time to time to art and culture in the mercantilist literature when it could be shown that domestic production of art works would contribute to a more favorable balance of trade, or when it was noted that domestic expenditures on culture sustained employment during a recession. (Ginsburgh Victor and Throsby David, 2006 p 29).
Hume was the first who rejected the opinion that arts were only a luxury or a waste. He thought that arts could be either positive or negative and their meaning depended on their usage.
Like Hume Turgot suggested that progress in the arts, just as in other parts of the economy, required competition among as many aspirants as possible, a kind of evolutionary struggle that needed the presence of the unfit as well as the fit. For this there must be a sustained demand and "a market for pleasing objects and the employment of second-rate artists, among whom the great artists who shine out from them are formed" (p 103)(Ginsburgh Victor and Throsby David, 2006 p 36).
Adam Smith made his own analysis on art and culture. In the aesthetics that he set forth in the Theory of moral Sentiments (1759), he suggested that "the beauty of every object consist in that form and color, which is the most usual among things of that particular sort to which it belongs". He believed that utility, beauty and scarcity were the main characteristics that could increase the price of arts goods.
Adam Smith focused on the power of fashion, as a determinant for the demand side of the arts. For the supply side of art markets, he thought that the artists seemed to develop an "ideal perfection" in arts and that they pursued and used this ideal as a goal and standard, towards which they aspired even though they knew they would never achieve it.

19th Century: Bentham Ricardo Mill

The theorists of political economy didn't contribute to the study of Culture Economics because of the socioeconomic instability of that period and the different way of thinking over the scientific and the methodological problems and the new scientific field of political economy.
Bentham thought that arts are a privilege of the rich and the poor couldn't have any benefit from it. So the expenditure of Culture could be beneficial only for the rich.
They believed in the utilitarian philosophy considering the maximization of every choice as the ultimate goal.
Ricardo thought that the arts objects are rare so their value is determined by the demand side.
Mill introduced the problems of the artists in the market economy and the role of public support and education.

1870 Neoclassical Approach

The Neoclassical approach was more analytical than the Classical. They referred to the uniqueness and the scarcity of cultural goods. Their price depended on the demand side and not on the cost of production. They also suggested that there were externalities from the "consumption" of the arts.
In 1900 **Marshall** thought that the development of cities should go with the development of arts like music, painting that can help people's freedom.
Javons believed that fine arts could nourish the life of the working and they can produce externalities.

Institutional economics: John Kenneth Galbraith

It was John Kenneth Galbraith who first analyzed the relationship between Economics and Culture in 1959. John Kenneth Galbraith published a lecture for the connection between Economics and culture in his book "The Liberal Hour".

He looked at the economic situation of the artist and at the potential for good design to promote exports of American manufactures. At around the same time across the Atlantic, Lionel Robbins (1963) was the first British economist of modern times to analyze the economic role of the state in support for the arts and in financing public museums and galleries, followed soon after by Peacock's (1969) interpretation of arts subsidies within the framework of traditional welfare economics. (Throsby, 1994, p 2)

Keynes

Keynes was really a lover of arts. It is also well known that Keynes was an active and passionate devotee of painting, the theater, and ballet, and was centrally involved in establishing the Arts Council of Great Britain, the principal vehicle for public support for the arts in that country to this day. But although Keynes spoke and wrote often on the importance of the arts in society , he never produced a major work in the field [James Heilbrun. (1984) in Throsby 1994,p 2]

Keynes was also a member of Bloomsbury Group or Bloomsbury Set. According to Wikipedia "the Bloomsbury Group was an influential group of associated English writers, intellectuals, philosophers and artists....This loose collective of friends and relatives lived, worked or studied together near Bloomsbury, London, during the first half of the 20th century".

William Baumol and William Bowen

The development of the field of Cultural Economics started in 1966. This year Baumol and Bowen published their first major work in modern times dedicated specifically to the economics of arts.

Not only did the Baumol and Bowen book demonstrate that straightforward economic analysis could illuminate the supply of and demand for artistic services and the role of the arts sector in the economy, the work is also notable in retrospect for having put forward one of the most enduring theoretical propositions in cultural economics, namely the productivity lag or "cost disease" phenomenon which afflicts the live performing arts. (Ginsburgh Victor and Throsby David, 2006, p 4).

Conclusions

From the above it becomes obvious that although the role of culture in the economic thought was mysterious and problematic (before the 18th century the research of such hypotheses was even considered as unnecessary or a luxury), it was finally acknowledged as an important sector of the economic activity. In general, the interest in the economic meaning of culture is as old as the economic literature itself and the relationship between cultural and economic policy can lead to a holistic theory of development.

Bibliography

Bianchini, F & Parkinson, M. (1993). Cultural policy and urban regeneration: The West European experience. Manchester: Manchester University Press

Ginsburgh, V. and Throsby, D. (2006) Handbook of the Economics of Art and Culture. Elsevier B.V., 2006

Heilbrun, J. & M.Gray, C. (2001) The Economics of Art and Culture. Cambridge University Press, New York

Towse R, (2010) A Textbook of Cultural Economics. Cambridge University Press, New York,

Throsby D, (2011) The Economics of Cultural Policy. Cambridge University Press

Throsby D, (1999) "Cultural Capital?" Journal of Cultural Economics 23: 3–12

Ginsburg, V. (2000) The Economics of Art and Culture in N.Smelser & P. Baltes, eds, International Encyclopedia of the Social and Behavioural Sciences. Amsterdam: Elsevier

Centre of Planning and Economic Research (KEPE) (2000), Culture as a sector of economic activity. Athina : KEPE. [In Greek]

Keynes and the Eurozone's Crisis

Georgios Maris
Ph.D. Candidate
Dept. of Political Science & International Relations, University of Peloponnese,
Corinth, Greece
E-mail: gmaris@uop.gr
Tel.: +30271040040, fax: +30271040050

Abstract

The majority of the peripheral member states of the Eurozone Portugal, Italy, Spain, and Greece have experienced financial crises. Until now, the European leaders attempted to solve the crises mainly through austerity measures. For them, either it is an ideological or a political matter; the answers have identified with the free market beliefs. In this paper, we will argue that until now all the solutions that have been agreed on the European level do not help to solve the root causes of the Greek financial problem. The national governments of the European Union do not follow any of the Keynesian ideas to overcome the crisis. The European leaders seem to have forgotten their role to act as a policy makers. Under these conditions, even if the Greek financial problem can be moderated, it cannot be solved. The above observation is highly significant for the future of the European Union because every currency union in order to survive needs a mechanism of fiscal transfers. This mechanism does not exist in the Eurozone. Thus, this crisis will continue to affect the performance and function of the EU.

Key words: Political Economy, Greek Crisis, Eurozone, Keynes.

The European leaders attempted to solve the European crisis mainly through austerity measures. For them, either it is an ideological or a political matter; the answers have identified with the free market beliefs. This *laissez faire* approach has generated severe social, political, and economic phenomena within the member states. The effective demand in each peripheral economy shrunk, creating waves of pessimism, unemployment and misery. How has the European Union (EU) responded to the severe crisis? As the Greek case shows, the solutions to overcome the crisis have nothing to do with the most important problems that the member states confront.

This paper argues that even though the last four years many things have changed in the field of European economic governance, the most important flaws today remain unsolved. In this regard, the ideas of John Maynard Keynes are needed to be remembered. Almost all the efforts of European leaders to resolve the Eurozone's crisis are not related to the development of effective policies for the weak peripheral member states. The EU does not follow any of the Keynesian ideas in order to overcome the crisis. Thus, the political economy of austerity does not provide an adequate solution for the peripheral member states like Greece. A new approach for the European economic governance is needed.

This paper is organized as follows. In the first section, the main theoretical arguments of John Maynard Keynes will be presented. It will then proceed with the analysis of the main vulnerabilities and the main gaps that can be identified at the European level. The third section will examine the most important events of what we call Greek story. Finally, it will conclude with policy proposals according to Keynesian rationale.

2. The Keynesian rationale

The global financial crisis suggests that government intervention may be necessary as the market players cannot form correct perceptions about the direction of the economy. In this regard, Keynes has an unambiguous role to play. In his writings, Keynes has already provided the missing theoretical link that connects diagnosis and treatment (Skidelsky 2010). Keynes based his arguments on two important variables namely employment and economic growth. At the core of his theory one can make notice of the uncertainty about the future (Keynes 1921). Uncertainty is not only the main reason for the instability of the economies but also hinders the recovery from financial crises.

Keynes also believed that a great economic recession was always possible in a self-regulating market system. The states should take the role for implementing a concrete and deliberate management of the economy when the global demand shrinks. Many times during the financial crises, even if the interest rate (cost of borrowing money) is very low for various reasons this may not lead the economy to recovery and then the intervention of the state in financing new investments is necessary (Keynes 1982). The states should intervene through the expansion of fiscal policies in order to maintain the appropriate effective demand in the economy. This kind of 'socialization' of investments could stabilize the economy. The states should also take the role of investors by creating various compromises and cooperation mechanisms between public and private parties to ensure full employment (Keynes 2001). As he states

"It is the policy of an autonomous rate of interest, unimpeded by international preoccupations, and of a national investment programme directed to an optimum level of domestic employment which is twice blessed in the sense that it helps ourselves and our neighbours at the same time. And it is the simultaneous pursuit of these policies by all countries together which is capable of restoring economic health and strength internationally" (Keynes 2001: 366).

Based on this Keynesian perspective, the crisis is a result of the investment volatility. If the state does not take action to stabilize the total expenditure that it is needed to stabilize the economy then the market economy becomes unstable as investments are affected by the uncertain expectations about future developments. In good times, the states should maintain budget surpluses but during financial turmoil should intervene to market economy by creating deficits in order to give the necessary impetus for growth.

Speculation, the activity of forecasting the psychology of the market is growing as the organization of investment markets is improving. Keynes (2001: 187) believes that "Americans are apt to be unduly interested in discovering what average opinion believes average opinion to be; and this national weakness finds its nemesis in the stock market". The functioning of securities markets coincides with a "beauty contest" where the prize is awarded to that competent obtaining the most average preferences. In this way, Keynes (2001: 188) states

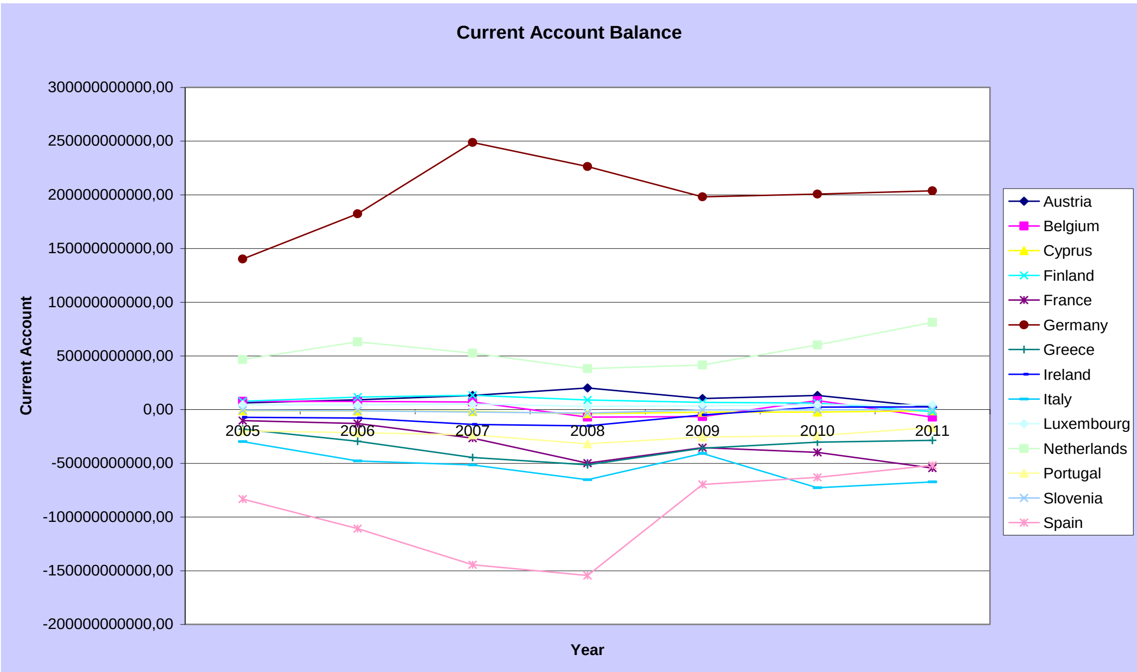
"Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done. The measure of success attained by Wall Street, regarded as an institution of which the proper social purpose is to direct new investment into the most profitable channels in terms of future yield, cannot be claimed as one of the outstanding triumphs of *laissez-faire* capitalism".

3. The main vulnerabilities at the European level

The European crisis is not like a 'Black Swan' which unexpectedly spread its negative consequences throughout the world. This means that the European storm did not erupt so unpredictably. In the Eurozone, as in any monetary union with fixed exchange rates and single currency, there are significant trade and capital imbalances among the member states. These imbalances may persist for many years, creating an explosive mixture of conditions in the absence of appropriate institutions that could mitigate their impact. Thus, the most significant vulnerability of the Eurozone is rather the lack of a European mechanism of fiscal transfers, in order to alleviate the huge trade and growth gaps for the majority of the peripheral countries. The EU's mechanism for managing the economic gaps through macroeconomic coordination is weak and ineffective and the peripheral indebted member states have fewer options for stocking growth (EUCE 2012). In Bretton Woods, Keynes tried to solve the same problem by making a proposal for the creation of a global currency, the creation of an international monetary union and all the necessary institutions.

Even though, the proposals for the establishment of such institutions have been done many years ago, in the Eurozone there is no a formal or informal mechanism for recycling imbalances yet. For example, Eichengreen (1991) proposed a system of budgetary transfers for a possible injection of liquidity from other countries. This calls for a system of redistributive policies which also requires a central fiscal authority (Dibooglu and Horvath 1997). In this regard, there is a need for an economic institution that could organise not only the monetary but also the budgetary and fiscal policies in the Eurozone (Verdun 2007). Varoufakis (2012) believes that, this kind of recycling of budget surpluses can take either the form of standard transfer of money or investments in production activities in the deficient areas. But how big is the problem today? As figure 1 demonstrates, within the Eurozone there are huge current account imbalances. In this way, Europe suffers from a kind of trade or capital disequilibrium which is similar to the disequilibrium between the US and China (Buzgalo 2011). The table 1 shows that, this policy has also created huge external debts for peripheral counties which they have limited their capacity to repay their debts. The conclusion is uncontested. Only the peripheral countries with large current account deficits were affected by the crisis (Gros 2013).

Figure 1. Current Account Imbalances within the Eurozone



Source: World Bank

The most disappointing of all is the fact that there is a strong political unwillingness from many European countries to prevent these imbalances and thus, the main problem within the Eurozone remains. Darvas *et al.* (2013: 2) state "Europe's pre-crisis growth performance was disappointing enough, but the performance since the onset of the crisis has been even more dismal".

Table 1. Gross External Debt and Exports Ratios (Billion real US$, 2005=100)

Year	Portugal			Ireland			Italy			Greece			Spain			Euro area		
	Gross external debt	Exports	External debt/ Exports	Gross external debt	Exports	External debt/ Exports	Gross external debt	Exports	External debt/ Exports	Gross external debt	Exports	External debt/ Exports	Gross external debt	Exports	External debt/ Exports	Gross external debt	Exports	External debt/ Exports
2003	287	48	5.9	780	139	5.6	1,543	393	3.9	217	39	5.6	1,041	247	4.2		3,198	
2004	321	55	5.8	1,087	158	6.9	1,703	451	3.8	262	50	5.2	1,277	280	4.6		3,703	
2005	302	54	5.6	1,336	163	8.2	1,676	462	3.6	263	52	5.1	1,350	291	4.6		3,861	
2006	369	61	6.0	1,708	171	10.0	2,042	501	4.1	319	54	5.9	1,748	317	5.5	11,081	4,210	2.6
2007	455	72	6.4	2,133	196	10.9	2,398	577	4.2	427	63	6.8	2,166	369	5.9	13,837	4,848	2.9
2008	446	77	5.8	2,169	202	10.8	2,205	609	3.6	465	73	6.3	2,142	395	5.4	13,984	5,261	2.7
2009	501	62	8.1	2,176	184	11.8	2,327	458	5.1	536	54	9.9	2,309	321	7.2	13,657	4,153	3.3
2010	478	65	7.3	2,082	188	11.1	2,201	494	4.5	491	54	9.0	2,087	340	6.1	13,303	4,487	3.0

Source: World Bank

4. The Greek story

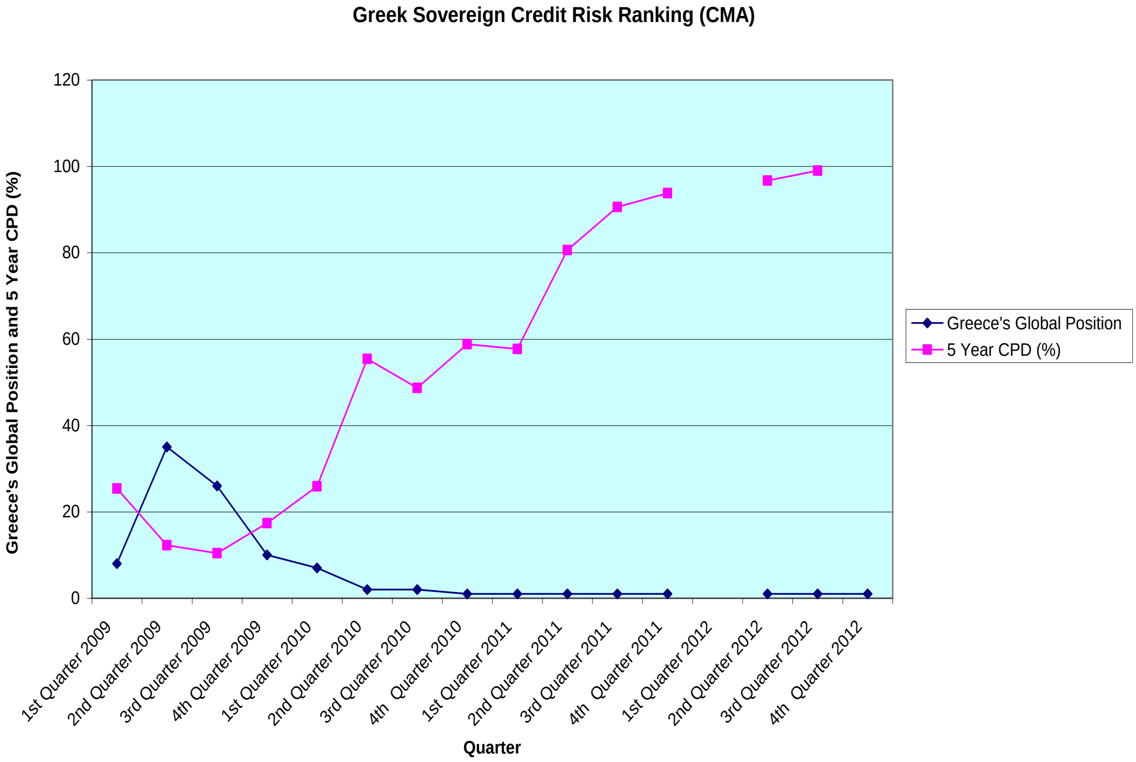
In 2007, the Commission decided to stop the excessive deficit procedure for Greece, a policy option that was in contrast to the current financial turmoil (European Commission 2007). Around the same time, many in Greece could not have predicted the impact of the global crisis. The Greek minister of economic affairs Alogoskoufis (2009) stated that Greece was fortunately not affected by the global economic crisis as other countries. The same argument was pointed out by the Greek Prime Minister Konstantinos Karamanlis, who at the end of 2008 was forced by the economic conditions to admit that the big problem for Greece is that the global crisis will have a negative impact on the level of government debt (Eleytherotipia 2008). For this end, in January 2009 ND published an "Updated Stability and Growth Programme 2008-2011" (Ministry of Economics 2009). However, the European Council warned Greece that the new stability program was unrealistic (Council of the EU 2009). But even then, no one could predict how the global financial crisis and the debt crisis in Greece were associated with the systemic European economic governance crisis.

Shortly before the October elections in Greece, the main dispute between the two political parties PASOK and ND had begun. However, the main arguments of the political campaign of the later Prime Minister George Papandreou had nothing to do with an organized exit strategy from the crisis. Instead, Papandreou's speeches mainly focused on the various political and economic scandals and the unreliability of the opponent party. During this period, PASOK's main arguments were based on the economic policy of populism. Papandreou was promising income support, market revitalization, employment boosting and fiscal discipline. All those were based on his populist slogan "there is money".

The new government appeared not to have been aware of the severity of the Greek financial problem. For this reason, it developed no exit strategy from the crisis and very quickly the financial markets closed for Greece. Only in early 2010 the new government began to take some budgetary measures. However, these attempts were rather spasmodic movements of the Greek political leadership which was paying very quickly for the error of populist announcements of the Greek Prime Minister. These inadequate and delayed measures clearly showed that the lack of an exit strategy from the crisis was the main problem of the leadership of PASOK. The substance of the measures taken revealed once again the negative role and influence of the various labour unions and interest groups in the modernization of the Greek economy. At the same time, the financial markets were fully aware of the structural problems of the Greek polity and did not believe that Greece could overcome the crisis easily. This also appears from the figure 2.

Under these conditions, a Memorandum of Understanding between the four parties ratified by Law 3845/2010 on 6 May 2010. This approach greatly differed from previous IMF reform programs because there was actual involvement of the European Commission and the ECB in writing the terms of agreement and in the supervision of the implementation of Greek commitments (Mitsopoulos and Pelagidis 2012). In return for the 110 billion euro package, the Greek side should go in hard austerity measures which in fact could have severe spatial and structural implications for Greece to be ignored (Monastiriotis 2011).

Figure 2. Greek Sovereign Credit Risk Ranking



Source: CMA Credit Risk Reports

The memorandum was ruinous for Greece and its outcome uncertain. First, the creators of the program did not consider the impact that would have the income reduction in effective demand as they miscalculated the fiscal multiplier (Standard & Poor's 2012). Second, the global financial markets affected the severity of austerity measures in Greece. As De Grauwe and Yuemei (2013: 4) believe "the timing and the intensity of the austerity programmes have been dictated too much by market sentiment instead of being the outcome of rational decision-making process". Third, the technocrats ignored the role of trade unions, syndicates and various interest groups in the implementation of reforms. Kaplanoglou and Rapanos (2012: 17) state that "more surprising is the degree to which these features seem to have persisted even after Greece was subjected to an ambitious fiscal adjustment programme by the three international organizations". Fourth, the Greek officials showed reluctance to comply with major institutional reforms (Mitsopoulos and Pelagidis 2012). Fifth, the current demands made by Eurozone officials for austerity and a smaller, more efficient state apparatus could be understandable but they amount to a demand that Greek political culture be dramatically changed in a very short time frame. This it is not an easy task for the Greek and European officials and it seems unlikely to be realized (Sklias and Maris 2013).

The Greek paradigm affirms that the political and institutional convergence within the Eurozone is much more difficult than the economic one. It seems that all the attempts for modernization and Europeanization not only failed to create a stable political and economic system in Greece but also solidified a mature clientelistic political system as the main characteristic of the Greek polity. Even though, the political parties acknowledged the necessity of reforms and real modernization of the Greek society, at the same time they undermined any effort for reforms and modernization.

5. The Keynesian critique

The European leaders, instead of creating effective policies seem to have forgotten their role as policy makers. This does not mean that the solutions proposed already are completely ineffective. Rather, we should ask for the creation of European fiscal transfer mechanisms that can spread the risks and imbalances across the region. The European crisis is identified with creating a European system of fiscal centralization in order to diffuse growth and wealth in a more effective and rational way.

The EU should seek immediate policy responses that can mitigate the destruction of the European periphery. First, the peripheral countries must propose the creation of a Common European System for Taxes by which the various regional risks and asymmetries can be diffused effectively across the regions. This is not to say that the national tax systems should be abolished but rather should have a complementary role in order to diffuse and redistribute the growth across the weakest regions. The EU should follow the American paradigm where taxes are imposed both from the federal state, the autonomous states and the local governments.

Second, they must also propose the creation of a European Unemployment Benefit. This potential mechanism could work as one of the main official mechanisms for growth redistribution of the European social policy. The American unemployment benefit is in fact a federal state program which is jointly financed through the federal and the autonomous states. Again this program could complement the unemployment insurance programs in each member states. In this respect, a European Revenue Service should be created, like the Internal Revenue Service in the United States, in order to collect a standard rate of taxes.

Third, the peripheral countries should also claim large European investment projects to be transferred to their periphery. In the United States, this mechanism works very well as the government intervenes in the deficit regions by creating huge military bases and weapon production factories. The common European investment projects not only can be diversified more efficiently across regions and sectors but can also create the essential mechanism for a balanced development within the Eurozone through the form of productive investments. This is not to say that the role of the European Investment Bank and the Social Cohesion Funds should be ignored.

Fourth, the EU must also ask for the decentralization of European institutions. The European Commission only employs 33.033 people by which the 21.684 work in Brussels, 3.929 in Luxembourg, 3.539 in other European countries and 3.881 in third countries. Is there any specific reason for this regional concentration of the EU's institutions? The decentralization of the European institutions can help the peripheral countries to overcome the growing asymmetries within the Eurozone as this decentralization can work as an unofficial mechanism for recycling the imbalances.

Fifth, they must also claim penalties for the intra-european trade particularly for countries with huge surpluses like Germany. This Keynesian argument is very simple in its rationale. If the surpluses of a member state exceed an agreed level of its trade transactions, this country should pay some penalties because these excessive surpluses affect the stability of the EU. Then the collected taxes can be invested in the deficit member states by creating a virtual mechanism of automatic stabilizers that can also spread the risks of asymmetries within the Eurozone.

6. Conclusion

The EU confronts several challenges that must be tackled. The last five years any proposals for fiscal policy options that could compensate overheating in the indebted peripheral countries failed. In this way, the solutions that have been agreed on the European level do not help to solve the causes of the Greek financial problem. The European leaders seem to have forgotten to act as a policy makers and do not follow any of the Keynesian ideas. Even if the Greek financial problem can be moderated, it cannot be solved. A new approach for the European economic governance is needed. Undoubtedly, Keynes has an unambiguous role to play. The above observation is highly significant for the future of the Eurozone because every currency union in order to survive needs a rational system of fiscal centralization. This mechanism does not exist in the Eurozone and in this way the crisis will continue to affect the performance of the EU.

References

Alogoskoufis, G. (2009). *Greece after the crisis*. Athens: Kastaniotis [in Greek].

Buzaglo, J. (2011). "The Eurozone Crisis: Looking through the Financial Fog with Keynesian Glasses", *Real-World Economics Review*, 58, 77-82.

Council of the EU, (2009). *Council Opinion on the Updated Stability Programme of Greece,* doc 7316/09 (10/03/2009).

Darvas, Z., Pisani-Ferry, J. and Wolff, G. (2013). *Europe's Growth Problem (and what to do about it)*, Bruegel Policy Brief, Issue 2013/03, April.

De Grauwe, P. and Yuemei, J. (2013). *More Evidence that Financial Markets Imposed Excessive Austerity in the Eurozone*, CEPS Commentary, February.

Dibooglu, S. and Horvath, J. (1997). "Optimum Currency Areas and the European Monetary Unification", *Contemporary Economic Policy*, 15:1, 37–49.

Eichengreen, B. (1991). "Is Europe an Optimum Currency Area?", *NBER Working Paper*, No. 3579, Cambridge.

Eleytherotipia, (2008). *Acknowledgment of Responsibilities Months Later*, Eleytherotipia, 16 December. [in Greek]. As accessed online 15 May 2013 http://www.enet.gr/?i=news.el.article&id=584

EUCE, (2012). *Macroeconomic Policy Coordination in the EU*, European Union Center of North Carolina, EU Briefings, May.

European Commission, (2007). *Recommendation for a Council Decision Abrogating Decision 2004/917/EC on the Existence of an Excessive Deficit in Greece*, SEC (2007) 620 Final.

Gros, D. (2013). *The Austerity Debate is Beside the Point for Europe*, CEPS Commentary, May.

Kaplanoglou, G. and Rapanos, V. T. (2012). "Tax and Trust: The Fiscal Crisis in Greece", *South European Society and Politics*, 1-22.

Keynes, J. M. (1921). *A Treatise on Probability*. New York: AMS Press.

Keynes, J. M. (1982). *Activities 1931-1939: World Crises and Policies in Britain and America*. London: MacMillan Cambridge University Press.

Keynes, J. M. (2001). *The General Theory of Employment Interest and Money*. Athens: Papazisi. [in Greek].

Ministry of Economics, (2009). *Updated Stability and Growth Programme 2008-2011*, Hellenic Republic, January.

Mitsopoulos, M. and Pelagidis, T. (2012). *Understanding the Crisis in Greece.* Athens: Psichogios. [in Greek].

Monastiriotis, V. (2011). "Making Geographical Sense of the Greek Austerity Measures: Compositional Effects and Long-run Implications", *Cambridge Journal of Regions, Economy and Society*, 4:3, 323-337.

Skidelsky, R. (2010). *Keynes: The Return of the Master.* New York: Public Affairs.

Sklias, P. and Maris, G. (2013). "The Political Dimension of the Greek Financial Crisis", *Perspectives on European Politics and Society*, 14:1, 144-164.

Standard & Poor's, (2012). *Economic Research: The Eurozone's New Recession-Confirmed*, Standard & Poor's Rating Services, September.

Varoufakis, J. (2012). *The Global Minotaur*. Athens: Livani. [in Greek].

Verdun, A. (2007). "Economic and Monetary Union", in M. Cini, (ed.), *European Union Politics*. Oxford: Oxford University Press, 324–339.

Financialisation and Greece: another Greek exceptionalism?

Cleo Politof, PhD cand. Panteion University, Greece.

The aim of this paper is a preliminary quantitative and comparative mapping of financialisation of Greece's financial and private (non-financial enterprises and households) sector, with an addition of a more specific characteristic that of financialisation of the state. We find that although commonly used quantitative characteristics could indicate a below average financialisation of Greece's economy, a closer look to the specificities of the trajectory and the structure of the economy could point to a different direction and new paths for research.

Financialisation and Greece: another Greek exceptionalism?

> "…What's happening in Greece is the dark side of the extreme globalization of finance … Their surprise is part of a more profound ignorance exposed by the crisis: as financial globalization has accelerated, our knowledge of the world and its interlocking parts—political, financial, economic—has failed to keep pace……."
>
> *(Mazower, 2013)*

Financialisation is about illusions of liquidity (Nesvetailova, 2008) and mirages of welfare in an interconnected, increasingly indebted and thus fragile world, where instead of financing productive investment, finance finances finance (Toporowski, 2008). Instead of managing genuine risk,[1] intentionally creates it in a frenzy search for yield. Instead of being the veil of real economy, it pervades every aspect of economic, political, social and everyday life, capitalizing almost everything (Leyshon & Thrift, 2007). All this resulted in the creation of an economic sphere outside supervision and regulation –even conceptualization- which triggered the world's worst crisis.

Thus the ways and degree of financialisation of a niche of the global economy, which nevertheless became the epicenter of fiercest political debates on the crisis, is crucial not only to our understanding of a specific trajectory –exceptional or not- but also of the dynamics and repercussions of the phenomenon. The aim of this paper is a preliminary quantitative and comparative mapping of financialisation of Greece's financial and private (non-financial enterprises and households) sector, because these sectors were the main locus where, according to the relevant literature, financialisation has taken place in Anglo-Saxon countries. Then we add a more specific feature of financialisation of Greece, that of the state.

The first section provides a cursory comparative outlook on indicators of financialisation of Greece mainly till the crisis,[2] as found in databases and secondary literature, and the second, a report on two incidents of financialisation, one of everyday life and one of the state Using the insights gained from this mapping, it finally concludes and poises questions for future research.

1. Financial Deepening.

From the 1970s, finance grew in paradoxical relation with real economy: irrespective to it, yet gradually pervading its every aspect. In US financial profits dominated economy's and non-financial corporations' total profits (Krippner 2011). Globally assets of banks tripled, loans doubled, when broad money relative to GDP remained

[1] Trinchet as quoted in Bibow 2010.
[2] Where available, we try referring to data for 2006 and 2007 which were the years just before the crisis and thus depict a clearer picture of the precrisis landscape.

almost flat, reflecting the rise of nonmonetary liabilities, such as wholesale funding, and interbank lending (Taylor, 2012: 10). FX activity, since 1992, has increased more than the underlying economic activity, whether measured by GDP, equity turnover or gross trade flows (King and Rime, 2010). Banks gradually lost their intermediation role and transformed into a fee generating business with off balance sheet items and high leverage, reoriented towards households (Lapavitsas, 2009). Futures and options were determining the prices of commodities (Newman, 2009). Credit, derivatives and securitization connected the globe into what proved a fragile arrangement. Deregulation, capital mobility coupled with financial innovation aided this virtual universe into existence.

In Greece, free capital flows were institutionalized in the context of European Union and later Eurozone, while deregulation and reregulation started in the 80s but was mainly advanced in the 90s and less so in 2000s. Before the system was heavily regulated and fragmented.

The first incident of the growing interconnection of finance to real economy, was the stock market bubble in 2000 and eventual crash which we will discuss later. This period aside, the size of the stock market was lower than EZ average. Yet, a qualitative feature to be mentioned is a strong presence of individual investors especially around the boom period.[3] Since then one can observe the increasingly participation of foreigners which now account for almost 50% of investors (FESE).

Non-financial firms, were not heavily indebted comparing to other EZ countries- their debt amounting to 73% of GDP, when the Euro Area average is 138%. (IMF, 2012) - nor did they gained more from their financial activities than their productive ones. Besides that corporate lending from 1994-2009, almost doubled: from 22,5% of GDP to 46,7% of GDP (Moschos and Chortareas, 2011:60), and private investment, besides its volatility, did not decline after mid 80s till mid 2000s, as did private savings after mid to late 90s.[4]

As far as the banking system is concerned, after deregulation banks expanded both domestically and abroad. It is noteworthy, that in 2006 Greek banks controlled 14,3% of banking assets in Romania, 16,3% in Serbia, 28,3% in Bulgaria, 32% in Albania and 3,5% in Turkey (Hardouvelis, 2006). Domestically, they increasingly expanded their product, service and consumer base, yet there was no disintermediation. Banks continued to profit from interest differential (OECD, 2010),[5] benefiting from a large deposit base, amounting to almost of 95% of GDP (EBF, 2012: 46) and covering around 86% of their funding till 2006, (Hardouvelis, 2006: 17), but declining to almost 50% in 2012 (ECB, 2009: 51). They were strongly capitalized, even in their core capital and not highly leveraged (Hardouvelis, 2006; OECD, 2010). They did not use securitization, but only to an extremely limited degree amounting to less than 2% of their funding (World Economic Forum, 2012:366), as was the case of EE as a whole where MBS amounted to 3% respectively (ECB, 2009:86).[6] They only recently

[3] At the end of the 90s, when stock market was at its peak, had the largest share ownership by individuals investors (31,1%), among the major 13 countries of Europe, data from FESE.

[4] We should note that after early 1970s investment and savings declined sharply, yet savings net private investment-savings gap was positive till mid to late 1990s, when it turned negative and remained so ever since (Bissimis et al, 2010: 7, 35)

[5] In 2000 net interest income was 55,48% of total and non-interest 444,52%, with fees amounting to around 25%,. In the course of the years this percentage has grown in favor of interest income, which amounted in 2005 75,31% of the total, and in 2008 83,12% of the total (OECD, 2010).

[6] ABS reached 5% in EZ (ECB, 2009: 51)

used interbank lending which reached 12% of their funding, still less than half from EZ average of 28% (Michalopoulos, 2011).

Banks' assets composed mostly of loans and increasingly less from government securities (OECD, Bank Profitability 1998, 2000, 2010) and besides the fact that they more than doubled[7] in the period 1996-2010, they did not acquire toxic assets and the size of the banking sector is one of the smallest in the EZ,[8] even after the crisis, when GDP fell: more particular banks' assets were around 150% of GDP in 1996, reaching 212% in 2009 and 231% in 2010 (BoG; Eurostat). Loan to deposits ratio in 2006 was 90%, when the EU loan/deposits ratio average was 113% (Hardouvelis, 2006).[9] Finally, households' mortgage loans to total loans rose from 16% in 1999 to 36% in 2007 (with EZ average to 26% and 32% respectively), one of the most pronounced changes in EZ (ECB, 2009: 42),[10] even though Greece had already a 80% ownership rate before the expansion of loans. This reorientation of banks has not been caused from the reduction of lending to enterprises,[11] as it was from the reduction of lending to central government (Dellas and Tavlas, 2012:21), since, after liberalization, government bonds have increasingly occupied a lesser degree in their portofolio (Gibson, 2005:1).[12]

More specifically, between 1994-2009 mortgage debt rose from 3,8% of GDP to 33,9% (EZ average 39,5%), consumer debt rose from 0,9% of GDP to 16,5% (EZ average 15,6) and business debt rose from 22,5% to 46,7% (EZ average 64,9%) (Moschos & Chortareas, 2011). In general, domestic credit as a percentage of GPD has grown from 35,5% in 1990 to 84,8% in 2005 (World Development Indicators, 2007). Even in 2008-2010 private credit to GDP reached just 97%, one of the lowest levels in Europe and Japan, and below EZ average of 120% (Davies, 2013; Moschos & Chortareas, 2011).

Besides this breathtaking rise, in 2007 only half of Greek households had a debt obligation of some sort, which is aligned with EZ average, and from those indebted, 60,8% held credit card debt, while only 40,1% had a mortgage debt (BoG, 2007).[13] That same year households' debt (total not only residential)-to-gross disposable income was around 60% rising to 90% in 2011, equaling then EE average (ESRB, 2013:12). Median ratio of the mortgage to disposable income is well above 100%, and while the distribution among age and income classes raises the ratio even to a 284% percent (for the younger-age quartile), the percentages are not at all extreme comparing to other Eurozone countries (ECB, 2009). The debt service ratio for households in the lowest income class was slightly more than one-third of their disposable income in the period from 2005 to 2007 (ECB, 2009). Outstanding mortgage to GDP has always remained below EZ average in the period 2000-2008 (Hardouvelis, 2009: 21). LTV ratios were 73%, less than the EU average of 79%

7 The Loan to Assets ratio of Greek banks rose in a much faster pace than EZ and US (Antzoulatos, 2011: 198,199)

8 Only eastern countries in EZ have smaller banking sectors (Hardouvelis, 2011: 17). Some databases place Italy as the bottom of the scale of banks' size in old Eurozone.

9 As the deposits declined due to the crisis, this ratio reached 119,9% in 2009, 132,3% in 2011, and 146,5% in 2012 (EBF, 2012: 46)

10 With the addition of consumer lending, total household loans to total loans amounted to 44,35% (BoG, 2012, Black Rock Report)

11 One of the main arguments of financialisation literature is that banks' lending to enterprises slowed down, giving its place to household lending, while in Greece it is central government lending that mainly gave its place to households.

12 Actually banks became net sellers of the bonds they were obliged to hold before liberalization (Dellas and Tavlas: 20,21).

13 ECB though reports that only 36,6% of households hold some type of debt and only 17% of the total population has mortgages (ECB, 2009)

(ECB, 2009:28). Lastly, even though the house prices, in nominal terms, were rising on average 11% per annum between 1995 and 2005 –when rents were increasing at around 4% and inflation at around 4,5% (Hardouvelis, 2009)- it is not considered to be a real estate bubble or an overexposure of households.

It is proposed though that the above indicators on households should be supplemented with the debt of SMEs, due to the structure of Greek economy, where SMEs have a share of 99.9%, of which 96,5% percent are micro enterprises (EC, 2010-11). Their debt is bound to burden the household balance sheet. Using data from Black Rock Report (BoG, 2012), we find that total household debt (residential, consumer and micro-enterprise and professionals' loan) in 2011 accounts for 69,99% of the total MFIs loans,[14] equivalent to 156,35 bl euros, which does indeed intensify "the use of household sector for financial deepening" (Sassen, 2008).

Finally, the supposed wealth effect that residential property bestows to households could be contested on two grounds. First, it has been argued that residential investment should be treated as consumption and not as investment, for national accounting purposes, because in an open economy increased residential investment may lack the corresponding increase in personal saving, and may have an increased current account deficit (foreign saving) as its accounting match instead (Bilbow, 2010); something that happened in USA but happened in Greece too through other channels. Second, a debt related acquisition of a home, is sensitive to changes in income and price levels, something that became dauntingly evident with the crisis. So any accounted wealth effect is annulled both in the economy as a whole and at household level, fuelling in Greece the already elevated consumption.
Summing the above it seems that pure arithmetics show first that Greece's banking system was not exposed to volatility of financial markets, not oversized, and remained quite traditional and conservative, besides its domestic and foreign expansion. Second, non-financial firms were not highly leveraged and continued to be funded mainly from banks. Third, Greeks have a mortgage debt below average and a consumer debt slightly above it, which nevertheless they can adequately service, and the value of their residences permits to fire-sell them without loss. Yet, due to the structure of the economy and the nature of acquisition of wealth, we propose to add SMEs' and professionals' debt to household balance sheet, and view debt-acquisition of a residence as consumption too, propositions that alter the picture towards more financialisation of everyday life.

[14] We should note that after liberalization, Greeks banks were mainly lending to the private sector, while public sector usually used markets.

2. Incidents of Financialisation

2.1. Stock Market Crash

A most illustrative example of financialisation of everyday life in Greece and which has been argued to have resulted in a massive redistribution of wealth in detriment of middle and lower income classes was the stock market bubble in 1998-2001. In 18 months 1.600.000 domestic investors entered the stock market, who accounted for 27% of economically active population: from those 700.000 were (probably are still) stuck in the market, since 67% of them reported loses –often of enormous scale-, 19% reported no losses or gains (in 2001), and only 14% of them reported profits (Kolmer, 2001). Market capitalization which at the mid 90s was 20% of GDP (OECD, 2001) rose at 145% of GDP (World Bank Global Financial Development Database and World Economic Forum, 2012) -179 bl drachma- and at the peak of the bubble in reached 185% GDP, which made it second in the world after Switzerland and well above US, UK and Japan, and this occurred without a respective increase in number of listed companies, which from 199 in 1996 went up to 262 in Dec 1999 (FESE). Market capitalization was to go down to 75% in 2000. Daily trading reached 350 billion in Sep 1999 only to plunge to 1/10 of that in 2001. In general, there was a tenfold increase of the stock market in just 3 years (Kolmer, 2001). The general index peaked at 6.355 in September 1999, only to reach 3.430 in August of 2000 (OECD, 2001). A particular characteristic though was this rise did not involve the 20 high capitalization stocks, since FTSE/ASE blue-chip index did not increase much, but lower capitalization firms pointing to underlying speculative demand (OECD, 2001).

In 1998 and 1999 many small stock-brokers' companies were established even in the smallest villages and people with no financial education or experience entered the stock market, investing all their savings, even taking consumer loans, or selling property and/or cars in order to invest in what looked an easy way to multiply their capital. Most of them lost their investments and/or were stuck in the market, which resulted to suicides and erosions of safety nets. Those who gained were mainly banks and large investors.

For the majority of Greeks stock market was something unknown, as the current Minister of Finance, Professor Stournaras has said (Vassilikos & Stournaras, 2011). Yet Greek government implemented a series of laws, with the view to restructure and synchronize the stock market, which included tax exemptions for capital traded and gained in the stock market, complicated and time consuming procedures for criminal investigations concerning stock market, and the creation of a public enterprise DEKA AE which was blamed of deliberately pumping up prices in the stock market in order to keep the general index above 5000 till the elections of 2000.

This quite favorable tax and legal environment was coupled with a very aggressive and explicit public discourse coming not only from (economic) newspapers, but also from the highest ranks of political leadership –domestic and sometimes foreign-[15]

[15] For an illustrative assortment of "declarations" see Melas 2013, 155-159

luring Greeks into easy profits from stock market in a remarkably short period of time. This resulted to a redistribution of wealth that went uphill, rather than downhill. Deposits, which were the saving net of a Greek household “against” a rather inadequate (welfare) state, were evaporated, debt for just “gambling in the market” rose and a sociopolitical turmoil was spurred with no economic gains for the economy as a whole or the majority of citizens.

2.2. Goldman-Greece: a sovereign in the loving arms of finance.

Another incident of financialisation, is what Christoforus Sardelis, former head of Greek Public Debt Management Agency described as “a sexy story between two sinners” (BBC, 2012). This “affair” was revealed in 2003 (Dunbar, 2003), but it is the EU accounting framework to which both Goldman Sachs and the Greek Government attributed their cooperation (Goldman Sachs). Because of this framework all unhedged foreign currency denominated debt was required to be translated into Euro using the year-end exchange rate (Dunbar, 2003). So Greece entered cross currency swaps with Goldman, but at a historical implied rate which diminished its debt by 2,367 bl Euros, or by 1,6 percentage points to GDP that is from 105,3% to 103,7% (Goldman Sachs).

But, because there was a simultaneously reduction in the value of its swap portfolio, Goldman Sachs enters into new interest rate swaps with Greece, paying the “coupon for the life of the trade and received the cash flows based on variable rates” (Goldman Sachs). This all took place after Greece entering the Eurozone, and more specifically December 2000 and June 2001. So Greece recorded an inflow of funds, reduced its deficit and deferred the problem sometime in the future. Both parties said that the deal was according to EU rules, and at the time legal (Bloomberg, 2010), yet a series of questions arise, about Goldman not-disclosing information to investors and EU, about off-balance sheet items, or borderline accounting practices, as well as vagueness on the cash flows which Goldman was promised. One should also add that because Greece could not eventually keep up with the interest payments, it had to restructure the loan, which Goldman Sachs in early 2005 agreed to, but this time it sold the swap eventually to National Bank of Greece, at a mark-to-market price which amounted to 5,1 billion Euros (Dunbar, 2012); in other words, the original benefit for Greece’s budget of 2.367 billion Euros was transformed to a liability of 5,1 billion in just 4 years.

Cross currency and interest rate swap deals were not a Greek originality. Many countries used those kinds of derivatives especially on their way to 2001. Yet two things could be of analytical interest in the financialisation debate:[16] 1) the fact that some sovereigns used these derivatives to window- dress their public accounts for the purpose of disguising public deficits, to use the words of Gustavo Piga (Piga, 2001), which means that governments used financial sophisticated tools to hide deficiencies and transfer crucial political issues to the future, and 2) the potential predatory, or

[16] It also informs the debates on the design of the Eurozone, and the legal repercussions for all parties involved.

even subprime-like (Dunbar, 2012) character of agreed deals, due to the information asymmetries involved in these complex products, the potential restrictions of competition they may involve and the opaque ramifications they might incur in medium and long term. Both features as well as their prerequisites and implications highlight the least researched, quite esoteric side[17] of financialisation, that of financialisation of the state.

3. Conclusion

The above quantitative report shows that what is exceptional about Greece is the fact that a country ranking low or average in financialisation indicators became the epicenter of at the least the European version of a financial crisis. A more nuanced examination though reveals a special trajectory, pointing at paths that need to be researched in order to understand the potential effects on the structure and stability of the economy, as well as on political, social and cultural transformations.

These are on one hand, the steep rise of indicators, especially the ones concerning household debt and its financial exposure, in a remarkably short period of time: a financially illiterate Greek was institutionally offered the opportunity and through public discourse encouraged to become an investor and a debtor in the context of interconnected global markets whose repercussions even insiders could not understand. On the other, the entanglement of the state with high circuits of finance, which rendered a sovereign simultaneously, a quasi-banker, a subprime borrower and an asset class for global markets. This special trajectory could be empirically informative, as well as provide analytical and methodological tools on how globalised processes are being assimilated in national states and how they play on weaknesses of both states and individuals (Dunbar, 2012), or in other words how they feed into and are fed from domestic institutional and cultural –or just human- pathologies, only to exacerbate and reproduce them.

[17] A term "inspired" from Kripnner's comment on another issue that of monetary policy.

BIBLIOGRAPHY

Antzoulatos A.(2011). Banking-trends (before) and Outlook (after the crisis), in Hardouvelis G. and Gortsos C. (eds), *The International Crisis, the Crisis in the Eurozone and the Greek Financial System*, Hellenic Banking Association, 193-206 [In Greek]

Bank of Greece. (2007). *Borrowing and financial pressure to households: Results from Representative Research of 2007*

Bank of Greece. (2012). *Report on Recapitalization and Restructuring of Greek Banking System*

BBC News night by Dunbar Nick, broadcasted on 20 Feb. 2012

Bibow J. (2010). Financialization of the U.S. household sector: The “subprime mortgage crisis” in U.S. and global perspective, *Study IMK* 3

Bissimis S, Hondroyiannis G., Papazoglou C., Tsaveas N., and Vasardani M. (2010). Current Account Determinants and External Sustainability in Periods of Structural Change, *BoG Working Papers*

Bloomberg Business week Magazine. (2010). *Goldman Stars in the Greek Tragedy*, posted in the site on Feb. 18, 2010

Davies G. (2013). The Eurozone After Cyprus, *FT*., 24.03.2013

Dellas H. and Tavlas G. (2012). The road to Ithaca: The Gold Standard, The Euro, and the Origins of the Greek Sovereign Debt Crisis, *BoG Working Papers*, 149

Dunbar N. (2003). Revealed: Goldman Sachs’ mega-deal for Greece, *Risk Magazine*, 01.07.2003

Dunbar N. (2012). Goldman swap shows Greece was Europe’s subprime nation, published in *Dunbar’s blog* in 24.01.2012, available at http://www.nickdunbar.net/articles/goldman-swap-shows-greece-was-europes-subprime-nation

EBF. (2012). European Banking sector, Facts and Figures 2012

European Commission. (2011). SBA Factsheet on Greece 2010-2011, available at http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/files/countries-sheets/2010-2011/greece_en.pdf

ECB. (2009). Housing Finance in the Euro Area, *Occasional Papers Series* 101.

ESRB. (2013). European System under supervision, issue, 21.03.2013

FESE database

FESE, Share Ownership Structure in Europe, 2007.

Gibson H. (2005). “The profits of Greek Banks: latest developments” in Bank of Greece, *Economic Bulletin 2005*, 24, 7-28. p. 13

Goldman Sachs, “Goldman Sachs Transactions with Greece”, Media Release available at http://www.goldmansachs.com/media-relations/in-the-news/archive/greece.htm

Hardouvelis G. (2006). The Greek Banking System in 2006: a comparative perspective, *Greek Banking Review,* Annual Report on the Greek Banking Sector, 1

Hardouvelis G. (2009). The Importance of Housing Market in the Economy, in Bank of Greece, *Housing Market, Developments and Prospects,* 29.04.2009

Hardouvelis G. (2011). Financial Sector and the Uncertain Future of Greek Economy, in Hardouvelis G. and Gortsos C. (eds), *The International Crisis, the Crisis in the Eurozone and the Greek Financial System*, Hellenic Banking Association, 3-51 [In Greek]

IMF. (2012). *Global Stability Report*, Oct 2012

King M and Rime D. (2010). The $4 trillion question what explains FX growth since the 2007 survey?, *BIS Quarterly Review,* December 2010, 27-42

Kolmer K. (2001). *The Big Robbery of … Stock Market*, Paravaseis, Kaktos [In Greek]

Krippner G. (2011). *Capitalizing on crisis, The Political Origins of the Rise of Finance,* Harvard University Press

Lapavitsas C. (2009). Financilised Capitalism: Crisis and Financial Expropriation, *RMF Discussion Papers*, 1

Leyshon A., and Thrift N. (2007). The Capitalization of Almost Everything, The Future of Finance and Capitalism, *Theory, Culture & Society,* 24:7-8, 97-115

Mazower M. (2013). No Exit, Greece’s Ongoing Crisis, *The Nation,* April 1 2013.

Melas K.(2013). *Small Lessons for Greek Economy, Specific Features, The Road to Memorandum, The Hybris and the Nemesis*, Patakis Publications [In Greek]

Michalopoulos G. (2011). “Funding of Greek Banking System during the crisis” in Hardouvelis G. and Gortsos C. (eds), *The International Crisis, the Crisis in the Eurozone and the Greek Financial System*, Hellenic Banking Association, 229-245 [In Greek]

Moschos D., & Chortareas G. (2011). “Financial System and Economic Activity” in Hardouvelis G., and Gortsos C. (eds)*, The International Crisis, the Crisis in the Eurozone and the Greek Financial System*, Hellenic Banking Association, 55-65 [In Greek]

Nesvetailova A. (2008). “Liquidity Illusions in the Global Financial Architecture” *IPEG papers in Global Political Economy,* 35

Newman S. (2009). Financialisation and Changes in Commodity Chains: the case of coffee, *Review of Radical Political Economics*, 41: 539 – 559

OECD, *Economic Survey of Greece 2001*

OECD. (2010). *Bank Profitability Database, Financial Statements of Banks.*

Piga G. (2001). "Do Governments Use Financial Derivatives Appropriately? Evidence from Sovereign Borrowers" *Developed Economies, International Finance* 4:2

Sassen S. (2008). "Mortgage Capital and its particularities: a new frontier for global finance" *Journal of International Affairs,* 62:1, 187-212

Taylor A. (2012). The Great Leveraging, *BIS Working Papers,* 398.

Toporowski J. (2008). "The Economics and Culture of Financialization" *SOAS Department of Economics Working Papers*, 158, 12

Vassilikos V., & Stournaras G. (2011). *The Deep Greek Crisis, With the eyes of a poet and an economist,* Odos Panos [In Greek]

World Bank (2013). Data from Global Financial Development database

World Bank. (2012) World Economic Forum, The Financial Development Report.