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Goldsmiths, University of London**

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**Monetary Disunion: Greek Crisis and Ordoliberal
Assemblages**

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Abstract

This thesis elucidates the Greek financial crisis and contextualizes it in a broader crisis of the European Economic and Monetary Union (EMU). Instead of analysing the Greek turmoil as an endogenous economic phenomenon generated by uncontrolled public debt, this thesis conceptualizes it as a manifestation of the broader balance-of-payment crisis within the EMU. Only after contextualizing it within the EMU can we understand how the internal imperfections of the monetary union have created the macroeconomic vulnerabilities of the smaller and weaker economies, in particular Greece. In addition, only after broadening the object of the analysis do we understand how internal power constellations within the EMU have enabled misrepresentation of the flaws of the monetary union as flaws of national economies, and consequently transferred the financial and moral responsibility for the crisis from the private sector to the Greek public sector. This thesis has identified the following four most important mechanisms for transferring responsibility for the crisis. The first is the conservative and independent shared central bank the ECB (European Central Bank), which is not institutionally conceptualized to support governments. The second mechanism is speculative attacks on the sovereign bonds, which were enabled by the fact that country members share the same central bank but have individual sovereign bonds. The third is Ordoliberalism, which has defined hegemonic German neo-mercantilism but also influenced the ECB institutional objectives and the EMU policies. The fourth is the policy of austerity and internal devaluation of labour, which is presented as the only way for addressing the crisis. These four interrelated mechanisms – *ECB, attacks on sovereign bonds, Ordoliberalism and austerity* – are analysed as assemblages within the integral assemblage (EMU). I revitalise Deleuze and Guattari's concept of assemblage in a sense which substantially differs from the concept and practice developed in economic performativity.

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Declaration:

I can certify that the thesis I have presented for examination for the PhD degree at the Centre for Cultural Studies at Goldsmiths, is solely my own work. All quotations and diagrams are clearly indicated and sources stated.

I warrant that the authorisation, to the best of my knowledge, does not include any plagiarism nor infringe copyrights of any third party.

I had support in terms of proofreading of the thesis from John Bedwell and Conrad Moriarty-Cole

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**This thesis is dedicated to Ivana and Teodor, for all
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List of Abbreviations

BaFIN – Federal Financial Supervisory Authority (in Germany)

IMF – International Monetary Fund

ISDO – International Swaps and Derivatives Organization

ECB – European Central Bank

EFSF – European Financial Stability Facility

EFSM – European Financial Stability Mechanism

ELA – Emergency Liquidity Assistance (ECB)

EMU – European Economic and Monetary Union

EU – European Union

EZ – Eurozone

GDP – gross domestic product

LTRO – Long Term Refinancing Operations (ECB)

OMR – Outright Monetary Transactions (ECB)

OTC – Over the Counter (financial derivatives)

SEC – Security and Exchange Commission

SGP – Stability and Growth Pact (EU)

SMP – Securities Market Program (ECB)

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Chapter One

Introduction

The Conjuror

...and the conjuror appeared

and said,

'Ladies and Gentlemen, the art of conjuring

is to make things change before your very eyes

without you knowing how or why.

We show you things and in a flash

they disappear and reappear somewhere else

or reappear as something else altogether different.

Ladies and Gentlemen, watch closely, see

the fingers never leave the hand,

I want you to tell me what I have here:

Yes, it's a banking crisis, a full-blooded

international banking crisis, thank you.

Now, watch closely, don't take your eyes off it

and with no more than a moment of patter

look again and what do I have?

A crisis in government spending.

That, Ladies and Gentlemen

is what conjuring is all about".

Michael Rosen

1.1. The Aim of This Thesis

This thesis elucidates the Greek financial crisis started in 2009 and contextualizes it in a broader crisis of the European Economic and Monetary Union (EMU). The crisis of the monetary union began as a banking turmoil in the wake of the American subprime credit crunch and then has transformed into a public debt crisis. While it has now been broadly accepted that the Eurozone turmoil originated in the banking sector and then deterritorialized—in terms of

form and space—towards the sovereign sphere of the peripheral EMU countries, the very mechanisms used for that transformation remain under-theorised. This thesis aims at filling the gap by identifying and analysing mechanisms used in Greece and in the EMU for transferring the financial and moral responsibility for the crisis from the private towards the Greek public sector.

In order to understand the transformation—in terms of form and space—of the central European banking crisis into the peripheral sovereign debt implosion with Greece at its centre, one has first to understand the infrastructure of the EMU and its internal imperfections unmasked in the wake of the turmoil. As Piketty points out: “the specific problem we face, and the main explanation for our troubles, is simply the fact that the Eurozone and the European Central Bank (ECB) were badly designed from the start: so it is difficult—though not impossible—to rewrite the rules in the midst of the crisis” (2016:20). There is, therefore, an interrelation between my starting epistemology of the crisis and the changing object of my analysis: I am exploring the Greek financial implosion but my epistemology is broadening the very object from Greece towards imperfections of the EMU. That is to say, while politicians, policy makers and even numerous academics have mostly discussed the Greek crisis as an endogenous phenomenon, I would rather define it as a symptom of the broader and more complex crisis of the Eurozone. In addition, only after broadening the object of the analysis do we understand how internal power constellations within the EMU have enabled misrepresentation of the flaws of the monetary union as flaws of national economies, and consequently transferred the financial and moral responsibility for the crisis from the private sector to the Greek public sector. Also, the Greek financial implosion will not be predominantly analysed as a sovereign debt crisis—although this has undoubtedly been its final manifestation—but will rather be explored as a balance-of-payment crisis, which has also manifested in several other countries at the EMU periphery (see Baldwin et al., 2015). The Greek turmoil has been generated through internal discrepancies of the EMU, which were most recently unmasked in the wake of the global financial crisis in 2009, when cost of borrowing for sovereigns increased due to the widespread uncertainty and tax revenues dropped because of the recession. This will be discussed in depth in Chapter Three.

Against the widespread opinion that membership in the EMU strengthens an economy, this thesis aims at demonstrating the opposite: that existing structure of the EMU has made peripheral and smaller economies more vulnerable. In order to understand how the EMU imperfections have produced the crisis, we also have to understand how the country members

of the EMU have had to weave their economic sovereignty when entering the monetary union in the following four most important aspects. These four aspects have also crucially determined macroeconomic vulnerability of their public sectors in the time of crisis, in particular in the small economies such Greece. The first aspect is, of course, to abandon their national currencies and adopt the euro, but also to accept that the *European Central Bank* will be their central bank despite the fact that national banks will keep existing with limited roles and capacities, and will stay focused mostly on supervisory and controlling roles. Contrary to Keynes' conceptualisation of the central bank aimed at supporting the government (see Bibow, 2012), the crisis of the EMU has unmasked that governments were unsupported by their joint central bank in terms of monetary policies and liquidity provision.

The second aspect is that country members of the EMU issue sovereign bonds in a currency they cannot control and therefore without a lender of last resort, given the ECB is issuing the euro but is forbidden from monetisation of sovereign debt on the primary market (de Grauwe and Ji 2011, 2012; Bibow, 2012). While it was broadly accepted in the 2000s among experts and academics that the sovereign and currency risks in the EMU were eliminated (see IMF, 2016), the Eurozone crisis has demonstrated the opposite: that the attacks on *sovereign bonds* and internal devaluation take the place of currency speculation (Cafruny, 2015). This vulnerability was exposed and exploited at the beginning of the crisis when the Greek sovereign bond, as well as the bonds of the other peripheral Eurozone members, were attacked.

The third aspect is that the EMU has been developed to suit the geo-economic interests of Germany (see Cafruny, 2015; Negri, 2015; Flassbeck and Lapavitsas, 2015; Lazzarato, 2015), and the weaker economies in the monetary union have had to adjust to the hegemony. This has manifested itself in the overall infrastructural composition of the monetary union, including *Ordoliberal premises* embedded in the institutional design and objectives of the ECB, discussed in great detail below. The German hegemony has been particularly destabilising for the Eurozone through intensification of the Ordoliberal neo-mercantilist policies, which have created discrepancies in the current accounts of members of the EMU. Given German private banks had significant exposure to the periphery at the beginning of the crisis, the Troika (European Central Bank, European Commission and the IMF) strategies for addressing the turmoil have always prioritised private creditors over the Greek sovereign borrower.

The fourth aspect is that any improvement of the balance of payment and competitiveness of national economies in the EMU cannot be managed through monetary devaluation, through instruments of the national monetary or fiscal policies. As a consequence, the neoliberal strategy of internal devaluation—fiscal retrenchment and squeezing of labour—through policies of *austerity* is broadly and fatally accepted as the only way for addressing the imbalances. The policies of austerity have been intensified in the wake of the EMU crisis and will be analysed in this thesis as a disciplinary mechanism for de-pathologising the economic and non-economic domains in Greek society. These four macroeconomic and interrelated vulnerabilities of the country members in the EMU explained above—*ECB, attacks on sovereign bonds, Ordoliberalism and austerity*—are at the very centre of my research because it was around them that the mechanisms for transferring the financial and moral responsibility for the crisis towards the Greek public sector were structured.

Nevertheless, interrogation of these mechanisms is a challenging theoretical task because of their ontological heterogeneity: they operate both through representational and non-representational registers, are national and international, material and immaterial, and operate both economically and biopolitically. Put differently, they operate in the economic infrastructure as well as the social superstructure. For example, some of the mechanisms operate through economic and moral representation of the crisis produced by the creditors' media and political powers, exclusively associating the Greek economic implosion with its bloated budget deficit and uncontrolled public debt. On the other hand, some of the ECB's financial instruments supporting the private sector at the expense of sovereign borrowers operate through non-representational registers such as index or interest rate. While some of the infrastructural imperfections of the EMU and vulnerabilities of the country members have already been elaborated through neo-Marxist (Flassbeck and Lapavitsas, 2013, 2015; Varoufakis, 2015; Fumagalli and Lucarelli, 2015) or neo-Keynesian (Krugman, 2012; Stiglitz, 2016; Boyer, 2012; de Grauwe and Ji, 2012) macroeconomic analyses, they have never been interrogated integrally, meaning their interrelation has stayed unanalysed. In addition, they have never been explored as assemblages in Deleuze and Guattari's sense, whereas my theoretical approach integrates these economic analyses with some non-economic ontological registers. That is say, I integrate the economic infrastructural analyses with the specific forms of European governmentality and production of subjectivities. In order to do so, I have drawn on Deleuze and Guattari's concept of assemblage, because it enables an exploration of different ontological registers and their integration, which is why the Eurozone is conceptualised and

explored as a gigantic assemblage. The four mechanisms for transferring the financial and moral responsibility for the crisis—ECB, attacks on sovereign bonds, Ordoliberalism and austerity—are defined as constitutive assemblages within the EMU assemblage. They will be interrogated in separate chapters, but their intersection and interconnectedness will be discussed throughout this thesis. In this introduction a condensed conceptualization of the EMU, as well as the four individual assemblages, will be presented below.

1.2. Eurozone as Assemblage

Before the four concrete assemblages are explored in more detail, I want to elaborate further why I deem Deleuze and Guattari's theoretical concept of the assemblage adequate for analysing the monetary union and its constitutive interrelated assemblages. I also wish to demonstrate how my understanding differs from the understanding of the assemblage developed in the social studies of finance and performativity (Callon, 1998; Callon and Muniesa, 2005; Callon, Millo and Muniesa, 2007; MacKenzie, 2010). Furthermore, I will elaborate how the euro as a currency, but also a system of power, has created the centre-periphery constellation within the EMU.

As hinted above, these four assemblages are different in terms of the elements they consist of and their ontological status, but they are intertwined and influence each other, so will be interrogated as rhizomatic parts of the gigantic EMU assemblage. This means that the assemblages operating within the EMU are not hierarchically or mechanically interconnected elements with definable boundaries, because the assemblage—in Deleuze and Guattari's understanding of the stratagem—is not hierarchical, and the totality of the EMU is more than just an integral composition of individual assemblages. This approach crucially enables us to analyse the commensurability of their different ontological registers—representational and non-representational, linguistic and non-linguistic, economic and political, moral and governmental—and to interrogate their interrelation and interdependence.

It should also be added that the individual assemblages are not organismically interrelated entities that cannot be transferred elsewhere (see DeLanda, 2006); they are actually multidimensionally intertwined to the extent that traits of one can be found in the other, so they

operate in conjunction, and intensify one another. Put simply, I am interested in identifying and elucidating these four individual assemblages, but also in exploring their functioning, interrelation and intensification within the integral EMU assemblage.

Nevertheless, it must be underlined that this thesis will not be using the concept of assemblage predominantly as a theory of the part-whole constellation, as DeLanda (2006) does for example, but rather as an approach which focuses on the ontological integration of different forms of expression (collective assemblages of enunciation) and non-representational forms of content (machinic assemblages) (Deleuze and Guattari, 1987). While Callon, Millo and Muniesa (2007:2) and MacKenzie (2010:19) also explicitly rely on Deleuze's (and Guattari's) diagram of assemblage in their conceptualisation of performativity in the social studies of finance, I would argue that their reading of Deleuze's *agencement* (assemblage) is reductive. The "performative" understanding of the assemblage therefore misses the following three important aspects: the first is that the assemblage should not be used for the affirmation of market principles as Callon, Millo and Muniesa (2007:10) argue by considering markets as "collective calculative assemblages", or when Callon and Muniesa (2005) underline their trust in the market as a place where things are settled. Deleuze, on the other hand, does not believe in the market and holds "that an economy has never functioned as a market economy" (see Lazzarato, 2012:83). Such a position is important in the context of the Greek crisis because it demonstrates the fallacies of the neoliberal trust in the harmonising capacities of the market inside the monetary union. The second imperfection is related to the consideration of macro-structures as irrelevant, such as when Callon, for example, explicitly states: "I would say that we no longer have macro-structures" (Callon in Berry and Slater, 2005:110). I am of the opposed opinion that Deleuze and Guattari's assemblage always refers to the macro-structures and that the *Urstaat*—the internal model of everything the state wants to be and desires (see Deleuze and Guattari, 1987)—is always already present. This is exceptionally relevant in the post-credit crunch epoch characterised by the further hardening and empowering of sovereign structures, and the state's surveillance and policing techniques, as the Eurozone crisis has demonstrated (Gane, 2012; Peck, 2010; Negri, 2015; Lazzarato, 2015). Finally, and most importantly, the assemblage discussed by proponents of performativity does not offer a possibility for thinking power, as opposed to the assemblage discussed in the book *A Thousand Plateaus* (see also Buchanan, 2015). This is crucial because it enables us to think the EMU assemblages not as neutral socio-technological constellations, but rather as manifestations of particular political-economic powers. In addition, analysing the EMU in this way enables us to

ask, in the context of the Eurozone, the question Mirowski (2013) asked in the context of the USA credit crunch: how is it possible that neoliberal forces have managed to get out of the crisis stronger than before? The theoretical analysis of the concept of assemblage will be explained in detail in Chapter Two.

1.3. Deterritorialization in the EMU

Deleuze and Guattari's concept of deterritorialization which is used in this thesis for analysing the transformation of the Eurozone crisis, has the following threefold meaning: the first refers to the mutation of form, that is, how the banking crisis mutated into the public debt crisis. The second is related to the geographical shift in which the central European economies have managed, through internal EMU power relations, to transpose the crisis of their banks towards Greece and the EMU periphery. The third is related to processes in which an assemblage—the EMU—operates through internal transformation which Deleuze and Guattari term decoding and deterritorialization, as opposed to further stabilization and territorialization. As they underline: “for in many cases, a territorialized assembled function acquires enough independence to constitute a new assemblage, one that is more or less deterritorialized, *en route* to deterritorialization” (1987:324).

The centre-periphery constellation in the EMU is mostly interrogated through the balance of payments discrepancies, rather than the division structured around public debt. This will be discussed in Chapter Three. As Baldwin et al. note, “it was widely believed that the periphery Eurozone members, which had abundant investment opportunities were attracting investors from richer nations where capital faced diminishing returns” (2015:4). Although this thesis predominantly discusses the Greek crisis, it should be emphasised that all the countries affected by the Eurozone crisis—Greece, Portugal, Spain and Ireland—had been running a huge current account deficit, and none of the countries running a current account surplus have been affected (see Baldwin et al., 2015). Therefore, contrary to the neoliberal trust expressed at the beginning of the EMU in the 2000s that the supremacy of the market will internally harmonise different national imbalances including trade and current accounts, the EMU has in fact increased the imbalances. In the context of the Eurozone, the centre-periphery constellation also manifested the dual-dynamic (Noys, 2014) of capitalism: meaning that the countries at the

periphery not only experienced increased current account deficits but also economic acceleration through a credit-led illusion of GDP growth. In 2003, for example, when Germany experienced economic deceleration and recession, Greece was the second fastest growing economy in the Eurozone.

The immanent capitalist tendency to create the centre-periphery constellations is well noted by neo-Marxist authors such as Harvey (2003) or in the context of the Eurozone crisis, for example, by Flassbeck and Lapavistas (2013, 2015) and Varoufakis (2013). They explore the dynamic between constant and financial capital in the monetary union, and demonstrate how financial capital outperforms traditional forms of production, and therefore has a command over the formation of constant capital. Magone, Laffan and Schweiger (2016:38) also emphasize that the centre-periphery in Europe is integral to those who perceive the Europe as operating as a neo-empire in both internal and external power projections. However, it should be also pointed out that Deleuze and Guattari (1983), in the chapter “The Civilised Capitalist Machine” in *Anti-Oedipus*, discuss the same constellation and develop a stratagem for interrogating the inescapable capitalist centre-periphery constellation. This internal Eurozone dynamic that led to the crisis will be analysed in detail in Chapter Three.

1.4. Framing the Problem

There are, therefore, these three strategic questions this thesis aims at addressing: the first is what mechanisms have been used for transferring the financial and moral responsibility for the crisis from the EMU private sectors to the Greek public sector; the second is how the mechanisms have been interrelated within the EMU; the third is how the mechanisms could be interrogated theoretically, given their heterogeneity. The research has identified the following four most important and interconnected mechanisms—which will be discussed as assemblages in Deleuze and Guattari’ sense of the concept—operating within Greece and the Eurozone. The first is the European Central Bank (ECB), including its policies, financial instruments and reports; the second is the attacks on sovereign bonds, enabled by the particular composition of the EMU in which sovereigns issue individual bonds and have a shared central bank; the third is the Ordoliberal legacy operating in different forms within the EMU; the fourth is austerity

imposed on Greece and the EMU by the ECB, European Commission (EC) and the IMF (the Troika). This thesis will also develop a map for exploring interconnections between all of the mentioned assemblages, in order to demonstrate how they interact and intensify each other. Finally, Deleuze and Guattari's concept of the assemblage will be affirmed in a non-performative sense, because it enables us to think the mechanisms of such heterogeneity as well as their interconnectedness within the EMU.

While certain aspects of the intersection of the public and the private finance in the Greek crisis—including the transfer of cost for the crisis—have been already critically discussed in the context of the Eurozone (see, for example, Lapavitsas, 2012; Flassbeck and Lapavitsas, 2013; Mazzucato, 2015; Varoufakis, 2013, 2014, 2015; Bibow, 2012; Stiglitz, 2016), my contribution is based on the fact that these aspects have not been explored integrally as elements in the assemblage. I develop an overarching analysis of the intersection which covers the whole period from 2009–2016 and also explores the four above mentioned assemblages in great detail. That is to say, interrelation of the mentioned four assemblages and the forms of their mutual intensification within the EMU have not been interrogated. For example, the Ordoliberal legacy will be unmasked as an underlying power determining institutional objectives of the ECB but also defining austerity policies. Moreover, certain macroeconomic vulnerabilities of the country members in the EMU have already been discussed (Streeck, 2016; de Grauwe and Ji, 2012; Bibow, 2012; Flassbeck and Lapavitsas, 2015), but not in their totality nor in the context of the transfer of financial and moral responsibility in the Greek crisis.

It should be clarified that this thesis does not argue that the transfer of responsibility has been realised in accordance with an abstract and pre-conceptualised plan. On the contrary, the thesis maps out the diagram of the abstract machine behind the EMU, which operates both in the actual and in the virtual. That is, the diagram behind functioning and changes within the existing formations in the monetary union, but also behind creation of some new formations within the union. Some of the above mentioned four assemblages, such as the speculative attacks on sovereign bonds or the apparatus of austerity imposed on Greece, had existed before the crisis in the EMU just as a potential. The ECB did, of course, exist, but numerous measures it has imposed—which will be elaborated below—had never before been put into practice. In a similar fashion, the Ordoliberal legacy within the EMU had been one of the founding principles of the EMU since its beginning in 1999, but these principles have been intensified in the course of the crisis. As Deleuze and Guattari underline: “what just a minute ago was a

constituted function in the territorial assemblage has become the constituting element of another assemblage, the element passage to another assemblage” (1987:324). Therefore, this thesis is not just identifying the assemblages, but also mapping out their creation, transformation and interaction in order to understand how they have provided a condition of possibility for the transfer of financial and moral responsibility for the crisis.

However, one can still ask why, for example, other relevant EU institutions such as the EU Commission or the Eurogroup are not assemblages at the centre of the analysis. The Eurogroup is a political body consisting of finance ministers from all member countries of the Eurozone, and since the sovereign debt crisis started it has in many aspects taken over the EU Commission’s roles. I would argue that despite the unchallengeable importance of the EU Commission and the Eurogroup, a particular focus on their decisions and interventions could be misleading. Firstly, there is a formal reason given that the Eurogroup is in charge of the economic policies within the Eurozone, but is not formally a member of the Troika which has governed bail-out programs for Greece and the other troubled EMU economies since 2010. The EU Commission is, on the other hand, a member of the Troika but is politically and economically responsible for the whole EU, including countries that do not use the euro, are not members of the EMU, and have no direct experience of the crisis. Secondly, my analysis of the Ordoliberal legacy has unpacked a broader and older horizon which, in many respects, constitutes the Eurozone and the EU, and consequently determines policies of the EU Commission and the Eurogroup. Finally, my designation of the European Central Bank as one of the four assemblages—instead of the EU Commission or the Eurogroup—demonstrates that this thesis analyses the crisis not only through the institutions in the traditional sense of political sovereignty and international politics, but opts for interrogations of new dimensions of power in this epoch of financialised capitalism, where the role of a central bank cannot be overstated. Having said that, it should be also pointed out that analysis of the Troika’s political fallacies related to the apparatus of austerity discussed particularly in Chapter Seven always refers to all three constituents (the ECB, EU Commission and the IMF). Also, the Ordoliberal legacy in relation to the EU Commission is specifically elucidated in Chapter Six. Therefore, while it could be said that the Eurogroup and the EU Commission are not at the centre of this research, their policies, principles and instruments have been indirectly interrogated.

This thesis does not analyse the Greek crisis in a strict chronological order, but rather focuses on the question how and when the mentioned four assemblages have substantially determined the course of the crisis and the transfer of financial and moral responsibility towards

the public sphere. Despite the fact that the assemblages are intertwined—as are the timelines of their activities—I have focused on the periods of the Greek crisis when particular assemblages have had the most relevant influence. For example, the role of the ECB is discussed chiefly in the period when activities of the central bank defined the turmoil, that is from 2009–2012. However, the quantitative easing as a measure introduced by the ECB is also elaborated although it started later. The attacks on sovereign bonds are analysed in the period when they were active, from 2009 to 2012, because after that period the premium on sovereign bonds of the Eurozone countries started decreasing. The relevance of the Ordoliberal legacy for the EMU is analysed in its totality, since the inception of the euro in 1999. However, it will be also demonstrated how the crisis has dramatically intensified the existing Ordoliberal features in the monetary union through strengthening of the sovereign surveillance mechanisms and the Ordoliberal policies of austerity (Biebricher and Vogelmann, 2017). In order to understand the current Ordoliberal policies, a particular genealogy of Ordoliberalism will be developed, which goes back to the 1930s and draws on Foucault's (2008) reading elaborated in his book *The Birth of Biopolitics*. Finally, the policies of austerity will be mostly analysed in the period 2012–2016 given that only the second bail-out program in 2012 contained a strategy for recapitalisation of the Greek private banks with state-owned funds—one of the central subjects of the chapter. Nevertheless, the period of austerity policies before 2012 are also briefly interrogated.

1.5. Crisis of the EMU

While I am in agreement that internal Greek political and economic flaws—which are consequence of the long historical fault lines—have also contributed to the crisis (see Fouskas and Dimoulas 2013; Mouzelis, 2012; Diamandouros in Triandafyllidou, Gropas and Kouki, 2013), I would nevertheless argue that the Greek economic implosion should be contextualized within the broader crisis of the EMU, as explained above. For example, Fouskas and Dimoulas (2013) offer particularly relevant historic and political analysis and demonstrate how Greece has occupied a perennial subaltern position in the global division of labour. In addition, they discuss how the global position has correlated to internal political flaws engendered through a bi-partisan political dynamic, established after the end of military junta in 1974. Nevertheless,

the approach is insufficient for analysing the overall temporal and spatial extensity of the Eurozone crisis.

The analyses which are mostly focused on the Greek public sector and its expenditure—a narrative that had particularly gained public and academic popularity in the first phase of the implosion—cannot adequately explore the mentioned deterritorialization of the crisis, nor they can explain how it has engulfed economies of the other countries at the Eurozone periphery such as Spain, Portugal, Ireland and recently Italy, with different political and cultural histories. So, instead of focusing on the Greek public sector, I take an opposite perspective and argue that we should instead develop a detailed analysis of the EMU imperfections unmasked in the wake of the global financial crisis.

Authors such Flassbeck and Lapavitsas, (2013, 2015), Cafruny (2015), Wren-Lewis (2014) or Stiglitz (2016) present a pivotal theoretical avenue for analysing the critical German position within the EMU. This is particularly the case with Flassbeck and Lapavitsas (2013, 2015) because they analyse divergence of unit labour costs in the Eurozone, reflected also in discrepancies in national inflations. The “squeezing of labour” through the Hartz reforms in Germany in 2003 created a condition of possibility for the German neo-mercantile miracle within the EMU and globally. This is, however, the main destabilising factor in the Eurozone: “it is undeniable that the real depreciation that has occurred in Germany has had an enormous impact on trade flows. With German Unit labour costs undercutting those in the other countries by a rising margin, German export flourished, while imports slowed down. Countries in Southern Europe, but also France and Italy, began to register widening trade and current account deficits and suffered huge losses of their international market shares” (Flassbeck and Lapavitsas, 2015:24). This will be discussed in detail in Chapter Three.

In Chapter Six it will be analysed in depth how the capital gained through the mentioned German neo-mercantile policies—recorded as enormous current account surpluses—had been reinvested in the time preceding the crisis in the Eurozone periphery through the capital accounts and the banking credits. The huge current account deficits of the peripheral countries are not only a manifestation of the discrepancies within the monetary union but also the mirror image of the current account surpluses of the Eurozone centre, particularly Germany. Moreover, the export of goods and capital from the Eurozone centre to the periphery (including Greece) is crucial for understanding the exposure of German (and French) private banks at the beginning of the turmoil, and consequently why the three bail-out programs for the Greek state

were actually mechanisms for transferring cost for the crisis towards the Greek public sector and protection of central European creditors. These bail-out programs will be explored in detail in Chapter Four in context of the ECB, and in Chapter Seven in relation to austerity policies. While Flassbeck and Lapavitsas' theoretical contribution precisely identifies macroeconomic causes and consequences of the sovereign debt turmoil in relation to the obsession with low inflation and the neo-mercantile policies in Germany, it does not analyse in detail the mentioned mechanism for transferring the financial and moral responsibility for the crisis towards the public sphere. Crucially, they have not demonstrated what additionally binds these economic elements—low inflation and neo-mercantilism—together because they have not opened the metaphysical horizon of sovereignty (Davies, 2014). Flassbeck and Lapavitsas therefore demonstrate the power and limits of the neo-Marxist approach, because their analysis of the divergences of national unit labour costs shows how the centripetal forces in the Eurozone were engendered through economy. This thesis adds to their approach a genealogy of the particular German neo-mercantile policies and connects it to the Ordoliberal legacy.

1.6. European Central Bank

The European Central Bank has been exerting its strategic power in the Greek crisis in the following three domains: institutional monetary policies of the lender of last resort, political power managed through the Troika, and the knowledge production regarding the crisis. My contribution is based on the fact that I interrogate these three domains integrally: the Deleuzian approach enables thinking of the signifying registers such as production of knowledge about the crisis through reports and analysis, on the one hand, with a-signifying interventions through instruments such as Long-Term Refinancing Operations (LTRO), on the other (see Selmic, 2016). In addition, as will be demonstrated in detail below, the institutional objectives and design of the ECB have been significantly influenced by the Ordoliberal legacy, and this is reflected in the fact that it is a conservative central bank completely based on the German model as opposed to the Anglo-French model (see de Grauwe, 2005). As de Grauwe points out, “one may conclude that the Bundesbank has been the role model for the ECB. In fact, the language

used by the drafters of the statutes of the ECB is tougher on inflation and political independence than the statutes of the Bundesbank” (2005:165). The ECB’s rigid and exclusive focus on inflation, instead of growth, employment and even financial stability as the American Federal Reserve Bank (FED) does, has been one of the mechanisms which significantly deteriorated the position of public sectors in the Eurozone, in particular the Greek public sector. This is well noted by Piketty when he points out that “even a small increase in inflation could significantly reduce the public debt” (2016:12). In addition, the policies which were prioritising inflation targets instead of economic growth and recovery have in fact strategically prioritised interest of capital at the expense of labour.

As it will be discussed in detail in Chapter Four, the ECB provided at the beginning of the crisis the Long Term Refinancing Operations (LTRO) which enabled banks to switch their long-term position for short ones when some of the sovereign borrowers, including Greece, had to re-finance their public debt but struggled to find investors. In addition, my in-depth analysis of the ECB’s documents also uncovers a substantial hermeneutical shift in its approach to the crisis: from an objective and balanced one at the beginning of the turmoil which was blamed on the international banking crisis for deterioration of public balance sheets, towards the biased explanation blaming exclusively public finance in the second phase of the crisis. Finally, the ECB has been an influential agent of the crisis because it has not only been a central bank but has also exerted significant political and economic power through the Troika (with the EU Commission and the IMF) that has governed Greece since 2010.

The intersection of the ECB assemblage with the Ordoliberal legacy will be analysed through specific policies imposed by the central bank. For example, the deflation-prone policies in the context of the ECB was confirmed when, for example, “Otmar Issing, the ECB’s first chief economist (1998–2006) who had previously held the same position at the Bundesbank (1990–98), offers his thoughts on the matter in a speech titled ‘On primacy of price stability’ in which he suggests that claims of parenthood for the euro would be quite in order in the case of Walter Eucken” (Bibow, 2013:613).

1.7. Attacks on Sovereign Bonds

My contention is that the speculative attacks on sovereign bonds significantly contributed to the Greek and the Eurozone crisis and transformed the liquidity problem of sovereign borrowers into a solvency crisis (Boyer, 2012; Fumagalli and Lucarelli, 2015; de Grauwe and Ji, 2011, 2012). Chapter Five elaborates in detail how the particular composition of the EMU (in which country members share a joint currency but still have individual sovereign bonds) has created macroeconomic vulnerability for the smaller economies in the EMU. The composition of the EMU has actually degraded macroeconomic fragility of the sovereign borrowers to the level of some countries in the Global South who experienced the so-called ‘sudden stop crisis’ (see, de Grauwe and Ji, 2013; Flassback and Lapavistas, 2015).

This thesis also elucidates the technical execution of the speculative attacks through particular financial derivatives: sovereign credit default swaps. As Fumagalli and Lucarelli point out, “the highest capital gains made by institutional investors have originated from the exchange of CDS (credit default swaps) derivatives, and, in particular, from those derivatives related to the risk of public default” (2015:55). The analysis of the principles behind the attacks through sovereign credit default swaps will start with a genealogy of the tailor-made currency-swaps which Goldman Sachs designed in 2001 for the Greek government in order to enable it to hide the real proportion of the budget deficit. However, things became more complicated when in 2009 Goldman Sachs, together with some other major banks, created a special market index for buying sovereign credit default swaps of the Eurozone countries, precisely because the investment bank had known the real proportion of the Greek debt and could orchestrate the speculative attacks on bonds. By so doing, powerful investors in the derivative markets started capitalising on the fact that Goldman Sachs had known that the Greek governments were fiddling their figures. The German government was the first to address the speculative attacks by forbidding the sovereign credit default swaps in 2010 and the EU followed this step when, in 2012, it prohibited the buying of sovereign default swaps without buying the underlying assets, i.e. sovereign bonds.

Finally, the uncontrollable rise of spreads for sovereign bonds triggered the first bail-out program in Greece in 2010, including the recessionary and punitive austerity measures, and the same happened with other troubled economies in the EMU. It will be demonstrated that there is a direct interrelation between the assemblage of austerity and the assemblage of

speculative attacks on sovereign bonds: financial markets dictated the severity of austerity in particular countries through the pressure on sovereign bonds (see de Grauwe and Ji, 2013, Lapavitsas, 2012). As de Grauwe and Ji point out: “Financial markets exerted different degrees of pressure on countries. By raising the spreads they forced some countries to engage in severe austerity programs. Other countries did not experience increases in spreads and as a result did not feel much urge to apply the austerity medicine” (2013). That is to say, in order to address the dictate of the international financial markets exerted through the sovereign bonds, the Troika intensified austerity measures.

1.8. Ordoliberal Legacy in the Eurozone

The Ordoliberal legacy has substantially influenced infrastructural composition of the EMU as well as governing policies in the aftermath of the crisis (Negri, 2015; Lazzarato, 2015; Bofinger, 2016). Namely, Germany projected its own founding principles onto the Eurozone, through the integrated Ordoliberal economic premises of *low inflation, flexibility of labour, and fiscal conservatism* (see Bofinger, 2016), on the one hand, but also through integration of *economy, sovereignty and judiciary in the “economic constitution”*, on the other. This has become particularly relevant in the wake of the crisis, and I will demonstrate how the Ordoliberal legacy has influenced the ECB institutional design and its policies, but also determined the normalisation of austerity in the Eurozone (see Biebricher and Vogelmann, 2017).

While Foucault’s (2008) reading of German Ordoliberals has proved to be prophetic in many ways, including the on-going hegemony of German economic and political principles in the EU, it certainly should be additionally extended in the context of the Eurozone crisis. Foucault was first to diagnose how Ordoliberals aimed, after WWII, at producing political sovereignty and the state through the economy, and he recognised that Germany was a “radically economic state” (2008:86). Nevertheless, there are certain important and interrelated problems in Foucault’s analysis of the Ordoliberal tradition, and my theoretical contribution in Chapter Six is related to addressing these issues, with the development of the Eurozone crisis in mind. Firstly, Foucault does not discuss macroeconomic premises established by Ordoliberals and correlate them with the neoliberal rationality that he develops in great detail. The Ordoliberal obsession with low inflation (see, for example, Eucken, 1952:69), as I have

demonstrated above, is still a guiding principle for ECB policies and have continued to affect the Greek public sector. In addition, Foucault does not discuss the perennial neo-mercantile traits of the German economy, which are strongly interrelated with the Ordoliberal legacy, and which started showing a hegemonic face already at the time when Foucault gave his lectures at the College de France (1978-1979). Foucault's third deficiency is related to the fact that he underestimates the role of the strong state immanent to the Ordoliberal theory and practices, as well as forms and intensities of state interventions. In the wake of the Eurozone crisis there is a necessity for re-thinking the role and character of the neoliberal state because Foucault's analysis cannot adequately address the hardening and empowering of the technocratic sovereign structures dictated by the interests of capital. That is to say, we should be theorising the vertical, hierarchical forms of governmentality more closely related to sovereignty, in addition to the Foucauldian de-centralised, capillary practices of governmentality understood as a conduct of conduct (see Lazzarato, 2015). Also, as Bonefeld points out in the context of the Eurozone crisis and the Ordoliberal understanding of the state: "the study of Ordoliberalism brings to the fore a tradition of a state-centric neoliberalism, one that says that economic freedom is ordered freedom, one that argues that the strong state is the political form of free markets, and one that conceives of competition and enterprise as a political task" (2012:634). This is also relevant for our understanding of the peculiarities of the austerity imposed on Greece, where the establishing of economic order—through technocratic sovereignty—should allegedly precede the reconstituting of political stability.

1.9. Austerity

The austerity imposed on Greece—analysed in Chapter Seven—is an assemblage developed and imposed for the economic and political disciplining of society through the new forms of "sovereign governmentality" (see Lazzarato, 2015). The austerity assemblage aims at intervening in the economic infrastructure through fiscal adjustment and enhancing competitiveness, but also in the social superstructure through re-invented techniques of governmentality targeting education, everyday life or the national health system.

I am particularly interested in the following four aspects of the austerity policies which will be discussed in Chapter Seven: fiscal retrenchment, privatisation of public assets, recapitalisation of private banks through state funds, and education reforms. This thesis also

contextualises the Greek austerity assemblage within the EMU assemblage and analyses their interrelation: the rapid fiscal adjustment as a strategy for repayment of public debt to central European creditors; privatisation of public assets as a compensation for the central European investors for their losses at the beginning of the crisis (see Lapavistas, 2012:81); and recapitalisation of Greek private banks by state owned funds as a transfer of state capital to private investors and hedge funds. Education reform is useful not just as a demonstration of the Troika's governmentality, but also as an indicator of the idiosyncratic neoliberal intention to conquer and show governable the fields which are not immediately susceptible to quantifiable cost-to-benefit analysis (see Davies, 2014).

My contribution to the literature in this domain is based on the fact that mechanisms for the transfer of cost for the crisis operating inside Greek austerity—including state recapitalisation of private banks and privatisation of public assets—have so far not been thoroughly interrogated in the context of the Greek crisis for the whole period of 2009-2016. In addition, my contribution is related to the approach in which the ongoing policies of austerity in Greece are addressed not only as a dysfunctional, pro-cyclical economic strategy, but also as a biopolitical assemblage governed by the supranational forces of the Troika which have aimed at “de-pathologizing” the nation. That is to say, policing of different forms of collective and individual life in Greece, reclusion of deviation (working hours, holidays, age of retirement), and controlling the modes of reproduction (biological, social), and the reproduction of capital (see Parisi, 2004:93).

Chapter Seven will also discuss the interrelation of governmentality and sovereignty, and demonstrate how they have integrated over the course of the crisis. The austerity in Greece is an extended undemocratic Schmittian state of exception, which has enabled a legal framework for the privatisation of public assets at fire-sale prices and against any economic logic. From the perspective of the original proponents of the *Ordnungspolitik* from the Freiburg school, social liberty should be created through the establishment of economic order, not the economic prosperity developed from political democracy and social freedom (see Tribe, 1995); and this is precisely what we have experienced since Ordoliberal austerity (see Biebricher and Vogelmann, 2017) has been imposed on the Eurozone. Moreover, some authoritarian features of the current austerity policies could, for example, be traced back to one of the most prominent Ordoliberals, Wilhelm Röpke, because he legitimised suspension of democracy in times of economic crisis.

1.10. Methodology

The pluralist methodology developed in this thesis aims at integrating research about Greece and the EMU. In addition, it aims at integrating theoretical approaches which are usually developed and discussed separately in the disciplines of economics, political economy and cultural economy. In order to do so, the methodology has to address the following two strategic challenges. The first is how to define the object of this analysis, that is, whether this thesis analyses Greece or the EMU and whether the crisis should be determined as a public debt crisis or not. The second crucial challenge is how to integrally think phenomena usually discussed separately within cultural economy and economics. For example, is it possible to think together governmentality and production of subjectivity, on the one hand, and macroeconomic analyses of Greece and the EMU, on the other. The former are usually objects of analysis of cultural economy, while the latter are interrogated within the domain of neo-Marxist or neo-Keynesian economics.

The first problem is whether the object of the analysis is Greece or the EMU and what type of crisis it is. We should keep in mind that the epistemological approach is interrelated with the constitution of the object of analysis and they dialectically determine each other. As a general methodological issue in political economy this problem was well noted by Montgomerie: “refining the object of the analysis involves a particular method, the use of which may demonstrate the necessity or virtue of reconceptualising the object of analysis itself” (2017:107). This is what I have experienced in my research: I have started with the Greek public debt crisis, but then the very definition of the isolated Greek turmoil and its problematic public sector has been challenged, necessitating the broadening of the object of analysis to encompass the problematic infrastructural composition of the EMU. But with the shift from Greece towards the EMU, the very definition of the public debt crisis has also been challenged. Instead of public debt, the opening of the horizon of analysis towards the monetary union has also clarified that the turmoil should be defined as a balance-of-payment crisis in the EMU. Put differently, I aim at demonstrating how epistemology is interrelated with the construction of the object, and only a critical methodological approach can challenge both the epistemology and the object of the analysis. By taking for granted that it is a public debt crisis—without even thinking about the definition and its consequences—we usually accept a broader conceptualisation and name the problem *a priori*, as a problem of the public sector. On the

contrary, I would argue that the Eurozone crisis should be epistemologically determined as a balance-of-payment crisis (see Baldwin et al., 2015), not only because it much more precisely describes the problems that the affected countries have faced, but also prevents the simplistic ‘blame game’ which tacitly operates through economic language.

As Roitman (2013) astutely demonstrates, every crisis, either historical or financial, opens a space for epistemological confrontations precisely because existing scientific paradigms are discredited, given they hadn’t manage to predict the implosion. This is exactly what we’ve faced in the context of Greece, and Roitman is right to underline that crisis and critique are always cognate in each context, and also that the ontology of the crisis (where the crisis is stemming from) is interrelated with the epistemological horizon (how the crisis should be contextualised and analysed). Roitman (2013) also emphasizes that the standard explanation for any crisis usually involves the miscalculation or misrepresentation of a substantial value, and this is the case in Greece with misrepresentation of the budget deficit. But she insists that one must go beyond this approach and ask how the infrastructure operates and how the value is *produced* rather than just represented. I would argue that in the Greek case we have to analyse the infrastructure of the monetary union, rather than draw upon the simplistic connection of the crisis with the misrepresentation of budget deficit. Roitman, however, does not offer an avenue for thinking the changed ontology of the crisis outside of language and representational registers (see also, Selmic, 2015).

Only after analysing how membership in the EMU creates and intensifies particular macroeconomic vulnerabilities of smaller economies, can we grasp what has happened in Greece and challenge the alleged uniqueness of the turmoil. Also, only after focusing on the macroeconomic vulnerabilities that the monetary union produces, can we understand the role of the four assemblages—ECB, attacks on sovereign bonds, Ordoliberalism and austerity—in transferring financial and moral responsibility for the crisis towards the public sector. Therefore, this thesis analyses Greece within the EMU and focuses on the infrastructural imperfections within the monetary union.

The second strategic challenge this thesis aims at addressing is the bridging of the gap between domains usually analysed separately in cultural economy, political economy and economics. This is an ambitious theoretical endeavour, and I will carefully explain how it has been undertaken. While I certainly do not aim at integrating methodologies immanent to these separate disciplines, I reflect on the necessity to think their objects integrally. For example, imposing the austerity assemblage on Greece and the rest of the Eurozone would not be

possible with only a macroeconomic explanation related to budget deficit and reduction of public debt. This was instead realised through the ethical and moral explanations and interventions which go beyond economy. These narratives and disciplinary techniques targeting education or health systems are usually interrogated through cultural economy, but we need an integral analysis of these registers. As Konings, for example, underlines in relation to Eurozone austerity: “The turn to austerity policies in the post-crisis Eurozone could never have been effective and consequential if it had not been for the remarkable speed and flexibility with which the focus of at least Western European public opinion was redirected from almost visceral disgust with financial elites to a general acceptance of key tenets of austerity policy—that budgets need balancing and debts need to be paid. The neoliberal promise of purification through austerity has always commanded significant moral appeal and rhetorical resonance” (2016:95).

I would argue that taking a post-structuralist theoretical approach which draws on Deleuze and Guattari, as well as Foucault, offers the incomparable advantage of bridging an ontological and epistemological gap, and enables thinking infrastructural and superstructural elements integrally, rather than separating objects of the analysis in economics and cultural economy. As Deleuze famously said: “it is economy itself that is political economy and desiring economy” (1991: 275). Therefore, production of subjectivities and forms of European governmentality will not be analysed independently, but in conjunction with economic analyses. This is crucial for understanding the totality of the four individual assemblages.

Deleuze and Guattari’s concept of assemblage understood and implied in a non-performative sense (as will be discussed thoroughly in the theoretical chapter (Chapter Two)) also offers a possibility for moving between different scales, and thinking characteristics of the EMU through infra-assemblage, intra-assemblage and inter-assemblage (Deleuze and Guattari, 1987:325). Infra-assemblage would be in the context of the EMU: the “invisible” flows determining different elements such as, for example, low inflation. This will be discussed further, but low inflation is one of the fundamental EMU features stemming from the Ordoliberal legacy, which also determines national economies, policies of the ECB and austerity programs. Intra-assemblage would be in the context the interconnectedness of the four mentioned mechanisms within the EMU assemblage, such as interrelation between the ECB and the sovereign bonds, or interrelation between austerity and ordoliberalism. Finally, inter-assemblage would be the connectedness between the EMU and some external institutions and organisation, such as the EU or the IMF.

Foucault's analysis of Ordoliberalism, which I also draw on in this thesis, offers a similar theoretical possibility for thinking forms of governmentality together with macroeconomic elements, and disciplinary mechanisms operating in economy and society. The archaeology of Ordoliberalism in this thesis has aimed at excavating forms of its existence in the Eurozone economic infrastructure, without considering it as an ideology stemming from the means of production, but rather as a tripartite Foucauldian constellation consisting of knowledge, truth and power. Austerity was first imposed in Germany in the mid-2000s and enabled Ordoliberal principles to conquer economics and economy in the rest of the Eurozone. In parallel, new forms of European governmentality were accompanied with fiscal austerity. The austerity assemblage in the Eurozone cannot, therefore, be understood without elucidating its geographical and philosophical origins. This thesis develops a trans-historical analysis of Ordoliberalism which explores the hidden but powerful legacy, existing informally outside the institutions of the EMU as well as inside them, in the domain of political economy as well as in the domain of biopolitics.

Also, thinking of the EMU in a time of crisis as an assemblage does not presuppose the primacy of the whole (of the monetary union) over the four above mentioned assemblages: the ECB, attacks on sovereign bonds, the Ordoliberal legacy and austerity. The monetary union exists only through the integration of these assemblages and cannot be thought separately, but the EMU has also transformed internally. The process of internal transformation of the EMU assemblage—which Deleuze and Guattari term “deterritorialization”—is discussed thoroughly in this thesis.

However, my approach is not genealogical *sensu stricto*, because it does not intend to identify a central mechanism for the transfer of financial and moral responsibility, nor an institution. While the analysis is developed retrospectively in terms of time, and is genealogical in terms of the causes of the crisis, the methodology takes as a presumption that the mechanisms within the EMU used for the transformation of economic reality and responsible for the crisis are rhizomatic. In contrast to the arborescent systems that are “hierarchical systems with centres of significance and subjectification, central automata like organized memories” (Deleuze and Guattari, 1987:16), the rhizome is “an anti-genealogy” (1987:12). To put it differently, these mechanisms are intertwined in a way in which every element contains and reflects the infrastructure of the whole. Thus, there is not a central agency, “the rhizome is altogether different, a map not a tracing” (Deleuze and Guattari, 1987:12), and I am not aiming at finding the most powerful mechanism. On the contrary, I analyse their operational intersections, their relational externality (see Srnicek, 2007) and their multilateral

intensification. Therefore, the methodology in the thesis focuses on mapping the EMU as an assemblage and, crucially, on analysing the abstract machine behind the transformation of the EMU, including changes in the existing assemblages (ECB and Ordoliberal legacy) as well as the creation of the new interrelated assemblages: the apparatus of austerity and the attacks on Eurozone sovereign bonds.

The European Central Bank is the first mechanism elucidated in Chapter Four, but the analysis of the EMU could have started with an interrogation of any other of the four above-mentioned mechanisms. The power of the ECB is crucially intertwined and emanating from the Ordoliberal legacy that is embedded in the institutional design and institutional objectives of the central bank, as demonstrated in Chapter Four. This is precisely why I have refused to claim the centrality of any of the mechanisms, but have instead tried to interrogate their interconnectedness and interdependence. While the Ordoliberal legacy has strongly influenced the institutional configuration of the ECB, the ECB itself is a member of the Troika in charge of imposing the apparatus of austerity in Greece. Therefore, the apparatus of austerity is directly interrelated with the ECB, but there is also a connection between austerity and the Ordoliberal legacy established through the technocratic suspension of democracy. Namely, the legacy provided a governing rationale for the suspension of democracy in times of economic crisis (see Bonefeld, 2012), as will be demonstrated in depth in Chapter Seven. Finally, the speculative attacks on sovereign bonds were directly related to the EMU, the ECB as well as austerity: they were enabled by the particular composition of the EMU, in which member countries share the same currency but have individual sovereign bonds. The ECB's institutional objectives and statute had prevented it from intervening in the sovereign debt market and calming the speculative attacks down.

Chapter Four's focus on the ECB includes an in-depth analysis of numerous primary sources produced by the central bank: policy papers, press releases, and macroeconomic reports and projections. My interrogation of the evolution of the ECB's institutional knowledge production concerning the crisis is developed through a close reading of these materials. They are analysed chronologically for the period of 2009-2016, but of course interrelated with the development of the crisis. In addition, these materials produced by the ECB staff are interrelated with changes in the central bank's policies.

Also, in Chapter Seven numerous of the European Commission's (EC) and the IMF's primary sources are analysed—"Adjustment Economic Programmes for Greece", "Staff reports" and "Ex post evaluations of access and the stand-by arrangement" in particular—in order to unmask mistakes of the Troika policies and miscalculation of the Greek recession. In

analysing the EC's and the IMF's documents, specific attention was paid to education reforms in Greece, discussed thoroughly in Chapter Seven. Finally, IMF quantitative data related to projected macroeconomic analysis in Greece is compared with real data collected after the defined period of time, in order to demonstrate the proportion of IMF miscalculation and the severity of Greek GDP contraction. In other chapters, the research mostly draws on quantitative and qualitative data from secondary sources, where I have found the "Truth Committee on Public Debt Report", produced by the Syriza government, particularly useful. This thesis contains numerous diagrams which enable a better understanding of particular macroeconomic trends over a certain period of time, such as increases (or decreases) in GDP, or changes in the current account.

1.11. Plan of the Thesis

The first chapter is the introduction where the thesis is sketched out, including a summary of all chapters as well as the research as a whole. In addition, the research question and the argument are developed and the methodology elaborated. In the introduction, a definition has been provided for the four central mechanisms for the transfer of financial and moral responsibility for the Greek crisis from the private to the public sector, which are interrogated throughout the thesis: the ECB, attacks on sovereign bonds, the Ordoliberal legacy and austerity.

The second chapter is the theoretical framing of the research, which discusses Deleuze and Guattari's understanding of finance and economy including their central concept of assemblage. The concept is then used as a theoretical framework for interrogation of all four of the above-mentioned mechanisms. The theoretical chapter aims at showing that performativity lacks capacity to interrogate the Eurozone crisis. This is related to the reductive reading of the notion of *agencement* (assemblage) by the most influential proponents of performativity. The post-structuralist understanding—Deleuze and Guattari's as well as Foucault's—of political economy in the epoch of sovereign debt are also analysed through Lazzarato's approach, which accentuates the production of indebted subjectivities and sovereign governmentality.

Chapter Three presents a brief history of the EMU and development of the crisis. In addition, it analyses how is the division between the Eurozone centre and the periphery created. Finally, the existing academic approaches to the Greek crisis are elaborated, and my contribution contextualised. The literature review first of all discusses the theoretical analyses which focus on the endogenous factors and perennial flaws of Greek society and the Greek economy. While these contributions are relevant they are at the same time limited for analysing the overall crisis in the Eurozone. The literature review also demonstrates that the more the crisis has progressed, the more it has become obvious that it is a crisis of the infrastructural composition of the EMU and a process of financialisation, rather than a crisis of a national economy.

Chapter Four discusses the role of the ECB in the Eurozone crisis in general and in the Greek turmoil more specifically. The role played by the ECB, in terms of transferring the financial and moral responsibility for the crisis, is interrogated in the following three domains: policy measures imposed on the Eurozone and Greece, production of knowledge through analysis, reports and press releases, and finally, participation in the Troika. In this chapter, the ECB's policy measures will be unpacked in order to show how the central bank exclusively supported the private sector, and how it has consequently managed to transfer the liabilities and risks onto sovereign borrowers and, particularly, the Greek state. Finally, I will analyse why the ECB is built upon the German model for a central bank with the Ordoliberal obsession with low inflation as the central institutional objective.

Chapter Five discusses speculative attacks on sovereign bonds at the beginning of the crisis executed through sovereign credit default swaps. These attacks were possible because of a particular composition of the Eurozone in which countries share the same currency but keep individual sovereign bonds. This chapter critically interrogates the role of the sovereign credit default swaps in generating and exacerbating the crisis, and argues that these financial derivatives played a significant role in the Greek crisis (see Mahmud, 2010; Dellate, Gex and Lopez-Villavicencio, 2012). However, in order to understand how financial derivatives played an important role, a genealogy of the interventions of Goldman Sachs must be developed. Therefore, I aim to prove that Goldman Sachs' 2001 tailor-made financial derivatives for the Greek government actually provided the condition for the Greek budget deficit deception. Also, because of that deal, Goldman Sachs had insiders' information related to the potential attacks on sovereign bonds and was orchestrated them by creating an index at the London stock market for trading with sovereign credit default swaps. Finally, this part of the thesis analyses how the role of financial derivatives has been reflected in IMF research, that is, how production of

knowledge regarding financial derivatives intervened in the crisis *post festum* and justified interventions from speculative capital at an earlier stage.

Chapter Six interrogates the Ordoliberal legacy and its relevance for the composition of the Eurozone and progression of the crisis related to German neo-mercantilism. It will be argued that this tradition still substantially shapes the economic and political character of the Eurozone, and, in order to prove this is so, the Freiburg economic school will be analysed. The production of political sovereignty through economy—as Foucault (2008) first recognised in the context of post-war Germany—has now been imposed on the whole Eurozone. In addition, Eucken’s principles of economic stability are the most important features of the austerity policies imposed across the Eurozone. Finally, Ordoliberal principles have provided the condition of possibility for the German neo-mercantile “miracle” within the EMU, which is one of the most threatening and powerfully destabilising factors behind the crisis.

Chapter Seven analyses austerity as an assemblage for compensating the rich for their losses at the beginning of the crisis, and also an apparatus of governmentality aimed at the disciplining of the poor. Austerity will be analysed through the following four aspects: fiscal consolidation, recapitalisation of the Greek private banks, privatisation of public assets and education reforms. The recapitalisation of private banks as well as the privatisation of public assets will be interrogated within the public-private constellation. Education reforms will be analysed not only as a paradigmatic example of the privatisation of public assets—in terms of state universities—but also as a case of Foucauldian governmentality imposed for disciplining, controlling and de-pathologising the population. All these measures in education were explicitly designed to address the “nation at risk”, in addition to the national economy in crisis.

Chapter Eight is an overarching conclusion of my thesis, in which I sum up my findings regarding the analysis of the EMU as an assemblage and the four mechanisms within it. In addition, a necessity for the internal transformation of the EMU will be discussed, with the proposal of abandoning its Ordoliberal pillars. Some suggestions for the transformation are presented regarding the investment in innovation in the domain of green technology, which would potentially boost the green sector and implement a de-financialisation of the crisis.

Chapter 2

Post-Structuralist Critical Political Economy in the Epoch of Sovereign Debt

This chapter develops a theoretical framework for the whole thesis. It draws on Deleuze and Guattari's understanding of economy and finance as well as their central concept of assemblage. A different understanding of the concept is elaborated in comparison to that immanent to performativity. Consequently, a critique of performativity is discussed in relation to the lack of political ontology and its capacity to interrogate sovereign power. Finally, Lazzarato's reading of Foucault, and Deleuze and Guattari in the context of the sovereign debt crisis is analysed.

2.1. Financial Capitalism in the Theoretical Apparatus of Deleuze and Guattari

In order to elucidate the mechanisms used for deterritorialization of the international banking crisis in the Eurozone sovereign debt crisis, I have developed a coherent theoretical apparatus mostly based on Deleuze and Guattari's (1987, 1983) understanding of finance and economy as well as their concept of assemblage (*agencement*). In addition, I draw on Lazzarato's (2012, 2014, 2015) post credit-crunch conceptualization of the "production of indebted subjectivities" and "sovereign governmentality", and as such this chapter sketches out a theoretical horizon used throughout the thesis. Given the heterogeneity of the aforementioned central four assemblages – ECB, attacks on sovereign bonds, Ordoliberalism and austerity - for transferring responsibility for the crisis, outlining a theoretical apparatus has immediately revealed the following two problems: the first is how to think the ontologically different assemblages integrally; the second how to integrate some neo-Marxist elements of my economic analysis of the EMU with the post-structuralist economic and financial theoretical framework of Deleuze and Guattari.

As hinted in the introduction, drawing on Deleuze and Guattari's concept of assemblage enables elucidation of ontologically heterogeneous political-economic mechanisms and their interaction, without establishing strict boundaries between them. A more detailed analysis of "assemblage" will be elaborated in the second part of this theoretical chapter, where a non-performative understanding of the concept is developed. However, before doing so it is important to note that such an exceptionally complex and heterogeneous concept opens an avenue for thinking together signifying and a-signifying registers, narratives and structures, political economy and moral economy, social machines as well as technological machines. In order to understand this complexity properly we have to understand the ontological foundation of the assemblage within the realm of immanency.

As Deleuze and Guattari point out, assemblages, as well as the abstract machines which are behind their existing and immanent transformation, do not have a dualistic ontological character, but are virtual and actual simultaneously (1987:143). Thus, there are not actual assemblages in the domain of immanence and then their abstract conceptualisation or representation in the domain of transcendence. On the contrary, abstract machines are already in the realm of immanency, they are at once material and immaterial, representational and non-representational, with one leg in the actual and the other in the virtual (which is also real). As Deleuze and Guattari point out: "we cannot, however, content ourselves with a dualism between the plane of consistency and its diagrams and abstract machines, on the one hand, and the strata and their programs and concrete assemblages on the other. Abstract machines do not exist only on the plane of consistency, upon which they develop diagrams; they are already present enveloped or "encasted" in the strata in general, or even erected on particular strata upon which they simultaneously organize a form of expression and a form of content" (1987:144).

This brings us to the next invaluable advantage of the concept of assemblage in the domain of political economy, which enables interrogating the linguistic and non-linguistic registers at the same time. Furthermore, it enables – to put it in Marx's terms – interrogation of the material base of production (infrastructure) and the social superstructure integrally. This is possible because for Deleuze and Guattari expression is not related to signs and signification, but is rather an encounter of different forces operating in multiple directions, which they term the collective assemblages of enunciation. As Massumi explains in his guide to *Capitalism and Schizophrenia*: "content is not the sign and it is not a referent or signified. It is what the sign envelops, a whole world of forces" (1992:12). In addition, Deleuze and Guattari dismantle the traditional dualism of content and expression, and point out that a form of expression and a

form of content are commensurable. Thus, the form of expression is related to the social context and regime of signs rather than just as a linguistic form: “the form of expression is reducible not to words but to a set of statements arising in the social field considered as a stratum (that is what a regime of signs is)” (Deleuze and Guattari, 1987:65). In a similar manner, formations of social power determine through the “form of content” social bodies, no matter if the social bodies are human, political, economic or artistic: “the form of content is reducible not to a thing but to a complex state of things as a formation of power” (1987: 66; see also Parisi, 2004). The particular ontological operation in which the form of expression and the form of content are interrelated enables Deleuze and Guattari to bridge the gap between expression and content, and to think them integrally. Therefore, in their realm of immanency there is not an ideological horizon stemming from the means of production, as Marxists would argue, but ideology—as well as desire—are already operating in the field of economic infrastructure. As they explicitly point out in *A Thousand Plateaus*: “there is no ideology and never has been. All we talk about are multiplicities, lines, strata and segmentarities, lines of flight and intensities, machinic assemblages and their various types, bodies without organs and their construction and selection, the plane of consistency, and in each case the units of measure” (1987:4). This is exceptionally useful for analysing, for example, the power of the ECB operating in completely different ontological registers, or for analysing the not less heterogeneous Ordoliberal legacy or austerity policies.

2.2. Deleuze and Marx

Deleuze and Guattari’s relation to the Marx’s legacy must be discussed further because it is necessary to underline that their theoretical project in many aspects goes beyond Marx’s theoretical framework. They, for example, aim at suspending Marx’s division between the base and the superstructure, and define production in a much broader sense. In their understanding, it does not only refer to the means of production, manufacturing or trading, but also to the production of desire. Deleuze and Guattari frequently criticise the emancipatory potential of Marxism and psychoanalysis, precisely because they are developed within hierarchical structures and pre-coding of the state, in case of Marxism, and pre-coding of the family in psychoanalysis. That is to say, every neo-Marxist social liberation takes formation of state as its starting point, and every psychoanalytical emancipation arises from the Oedipal structure of a family. Therefore, one could argue that Deleuze and Guattari develop their theory of

economy and finance in opposition to the Marxist approach. My intention to integrate certain neo-Marxist elements in the analysis of the Eurozone, based on the differences in the unit labour costs, would thus face an impasse. Deleuze explicitly said during a lecture in 1971 that in his theory of money there are two predominant forms—the first related to the money exchanged for commodity, the second being credit money—and that these two flows are separated and explicitly defined by him as “inconvertible”. This is a surprising comment which has confused economists, as Lazzarato (2012) notes, given that these forms of money are sometimes intertwined. In my analysis of the Eurozone, for example, the capital gained from the export of commodities has been converted and reinvested as banking credit. Nevertheless, a careful reading of the monetary theory developed by Marxist Suzanne de Brunhoff, which Deleuze and Guattari drew upon to develop their own economic and financial theory for their two volumes of *Capitalism and Schizophrenia*, shows that they rely on a neo-Marxist approach to economy and finance, and also that these two flows – “commodity money” and “finance money” - are actually intertwined and convertible. That is to say, I will demonstrate that while Deleuze and Guattari’s overall theory does indeed go beyond Marxism in several important aspects, their theory of money retains some Marxist features.

Deleuze and Guattari, therefore, theorise these two forms of money: “the importance in the capitalist system of the dualism that exists in banking between the formation of means of payment and the structure of financing, between the management of money and financing of capitalist accumulation, between exchange money and credit” (1983:229). They develop a dualistic understanding of money, where at one side is money as an exchangeable means of payment or unit of account, and on the other is money understood as a capitalist and financial flow and, more importantly, a constellation of power determining and dominating the former. Put simply, the other flow – money as credit – is integrated with political power, and it determines investments and distribution of capital within society. At the beginning of his 1971 seminar in Vincennes, Deleuze underlined that “money plays as if on two tables”, and it is “the coexistence of the two tables which will be the most general basis of the mechanisms of capitalism” (1971).

However, he also emphasized that his understanding is mostly drawing on two contemporary economists: Suzanne de Brunhoff (2016, 1971), author of the books *La Monnaie chez Marx* (Marx on Money) and *L’Offre de Monnaie* (The Money Supply), and a “neo-capitalist” economist Bernard Schmitt (see Kerslake, 2015). It is interesting that Deleuze put them within the same horizon: “Suzanne de Brunhoff, a Marxist, and he (Schmitt), not at all Marxist, say exactly the same thing: that there are two forms of money acting on two different

sets of consequences, the one concerning the level of finance, the other the level of wages” (1971). De Brunhoff is the author of Marxist orientation and she is interested in analysing several dissimulations by which money operates and hides its own character as a social relation. She argues that the dualistic character of money can already be found in *Das Kapital*, where Marx presented credit as modification of the standard M-C-M exchange. Namely, the latter is characterised by its simultaneous mode, whereas credit introduces the dimension of time. As she underlines, “what we have here is institutional constraint depicted as an inherent aspect of any credit relationship, the reason being that it constitutes the monetary relationship’s temporal manifestation. Marx extended this to other monetary settlements “beyond the sphere of the circulation of commodities” (140), i.e., to all contracts replacing “payments in kind with money payments”: rents, taxes, etc.” (de Brunhoff, 1991:3). Put differently, Deleuze argues for a dualistic understanding of money by taking the initial presumption from de Brunhoff’s reading of Marx.

Although she considers money a form of commodity, de Brunhoff develops her own Marxist dualistic approach in order to demonstrate domination of financial capital and monetary policies. She makes two important remarks: the first is that money does not dissimulate its own character as a general equivalent, but it does dissimulate its character as a social relation; the second is that money supply does not operate on the general principles of the law of demand, but is based on specific conjunctures related to monetary policies (see Kerslake, 2015). In order to elaborate more concretely she identifies several crucial conjunctions at which money dissimulates its own character: the first conjunction is when financial capital is loaned to enterprises and money loses its value as an instrument of exchange. Therefore, the money by which workers are remunerated for their labour and which they can use for buying other commodities looks to them to be an instrument of exchange, but the money is stemming from another level, that of banks and credit. The second dissimulation is related to the interconnectedness of the financial reflux and the condition of the labour market. That is to say, the amount of money integrated in the reflux from enterprises towards banks for repayment of corporate credit depends on the conditions on the labour market (see Kerslake, 2015:4). Finally, there is a dissimulation of the relation between the state and private money, which is particularly relevant in the context of the Eurozone crisis and, I dare to argue, substantially defined Deleuze and Guattari’s understanding of capitalism as a state formation.

Nevertheless, and as mentioned above, Deleuze holds that the convertibility of these two flows of money—“financial” and “commodity” money—is “completely fictive” (1971). However, as Kerslake (2015) demonstrates, that cannot be concluded from the original de

Brunhoff position. While she holds that money constantly dissimulates its own dualistic character, she does not hold that these two forms of money are inconvertible. Thus, in order to interrogate why Deleuze defined these two flows and forms of money as inconvertible, given it cannot be concluded from de Brunhoff's work, we must take into account Lazzarato's discussion of these two flows. Namely, Lazzarato points out that Deleuze actually "focuses on the power differentials money manifests, differentials economists have had a hard time perceiving" (Lazzarato, 2012:73). Therefore, while these two flows are incommensurable and inconvertible as power differentials, these two forms of money are intertwined within financial networks. It could be said that the power of credit money (power to invest, finance and command society) is the counterpart of the powerlessness of commodity money (commodity money is the money of the governed) (see Terranova, 2015:13). I will reiterate this idea throughout the thesis: power differentials will always be interrogated in such a way that the credit money is predominant, but flows of commodity money and credit money will be analysed integrally (interrelation of capital and current accounts in the Eurozone).

Thus, the theoretical apparatus I am using still pays attention to the relevance of the labour theory of value for capitalist exploitation and considers higher unemployment a "labour disciplining strategy" (see Stiglitz, 2001), but also combines these elements with the Deleuzian understanding of the dominance of "credit money" and biopolitical production of subjectivities. In conclusion, it could therefore be argued that finance should not be understood as a speculative antipode to material production—as certain Marxists do—nor as decoupled (from materiality) circulation of fictitious capital, but rather as capital accumulation symmetrical with new processes of value production (see Marazzi, 2012; Martin, 2012, 2013). The problem with financial powers is consequently neither (de)regulation nor the decoupling of material and immaterial worlds of production; finance is, rather, a coherent and complex, tripartite system of social, political and economic powers.

2.3. Different Theories of the Assemblage

The aim of this part of the theoretical chapter is to revitalise the potential of Deleuze and Guattari's concept of assemblage in the domain of critical political economy, as opposed to the reading of assemblage developed by proponents of performativity in the domain of social studies of finance. Namely, I argue that assemblage, and consequently performativity, as it is conceptualised by its most influential proponents (Callon, 1998; Callon, Millo, Muniesa, 2007;

MacKenzie, Muniesa, Siu, 2007, Callon, Muniesa, 2005; MacKenzie, Millo, 2003; MacKenzie, 2010), is inadequate for analysing financial crises, such as the Eurozone crisis with Greece at its centre. In addition, I demonstrate that Callon's and MacKenzie's reading of Deleuze's *agencement* (assemblage) is reductive, and develops the Actor-Network-Theory trajectory that accentuates important aspects of complexity, undecidability and dispersed agency, but completely under-theorises the following three more important aspects. The first underestimated aspect is that Deleuze does not believe in the market economy, whereas proponents of performativity express their unreserved trust in the market (see, for example, Callon and Muniesa, 2005), and conceptualize the market as "collective calculative assemblage" (Callon, Millo, Muniesa, 2007). The second aspect is that authors within the performative paradigm do not hold that macro-structures are relevant anymore. Finally, and most importantly, performativity does not discuss power in relation to the assemblage, whereas for Deleuze and Guattari it is the central element of the assemblage. I aim at developing a critique which goes to the very heart of the ontological foundation of performativity, and through this critique several other capillary misunderstandings with the practice will be more comprehensible. However, before I develop my critique of the paradigm, I want to elaborate what performativity is in economics and economy.

2.4. Performativity in Economics and Economy

Despite my critique of performativity developed below, it must be underlined first that performativity in economics in general and in the social studies of finance in particular, has broadened and sharpened our understanding of the economic infrastructure, financial networks, materiality of markets and principles of financial derivatives. Michel Callon (1998) initially developed the concept of performativity in relation to economics and economy by pointing out that economy is predominantly embedded in economics, rather than either in culture or in society (Polanyi, 1995). That is to say, economics is not (just) a scientific and technical formation developed for analysing, describing and anticipating phenomena in the allegedly independent economic reality. On the contrary, economics is directly connected to material and immaterial economic reality, and performatively influences and changes it. So there is not, according to Callon, an independent economic reality which is epistemologically defined

almost as a thing-in-itself, as many neoclassicals were holding, but the economic “theory” does constantly interact and change reality. Callon (1998) also suspends a traditional division between an independent analytic subject (market analyst, economist or, for example, academic), on the one hand, and the “objective” economic reality, on the other. Performativity thus contextualises both subject and object in a collective calculative *agencement* which, once put in practice, produces the final outcome through a series of internal and external interactions with other participants and through the market.

The interactions and processes cannot be identified from outside, which is an ontological horizon of immanency that Callon takes from Actor-Network Theory (Latour, 1987) and applies to economics and economy. As Callon and Muniesa outline: “calculating does not necessarily mean performing mathematical or even numerical operations (Lave, 1988). Calculation starts by establishing distinctions between things or states of the world, and by imagining and estimating courses of action associated with things or with those states as well as their consequences. By starting with this type of definition (wide, but usual) of the notion of calculation, we try to avoid the distinction (also conventional, but too sharp) between judgement and calculation” (2005:1231). That is to say, it is impossible to locate the agent of calculation given the agent is distributed and non-localisable. It is also impossible to say where the human calculation and contribution stops and where the non-human starts, or where there is a boundary between the discursive and non-discursive, technological and non-technological, because the “collective” explicitly means that calculation is diverse and dispersed along the socio-technological composition. In addition, it is important to point out that calculation also includes quantitative and qualitative elements, so it is not just a numerical calculation in a narrow sense. For proponents of performativity, markets are places where calculative assemblages interact, and consequently where exchange and compromise is possible. As Callon and Muniesa explicitly emphasise, for them “markets are collective devices” and markets “allow compromises to be reached” (2005:1229).

It is also important to emphasise that although the initial idea of economic performativity has come from language, it is not a discursive formation and does not predominantly operate through symbols, signification and meaning. As MacKenzie points out: “I called this ‘Austinian performativity’, but that invocation of the philosopher J.L. Austin had the disadvantage of seeming to imply that it was a purely linguistic process” (2007:56). It is more an econometrically oriented constellation in which discourses could play a certain part, but only as element in complex socio-technological compositions. It is also relevant for performativity to be distinguished from the self-fulfilling prophecy in economy. This is because

the self-fulfilling prophecy mostly operates through human irrational beliefs and affects such as fear or greed, rather than material infrastructure. As Callon underlines “one of the main benefits of the notion of performativity is that it rids us of what Pickering (1995) calls the representational idiom, in terms of which the purpose of science is to create representations of reality. But we have to go further...whereas the notion of self-fulfilling prophecy explains success or failure in terms of beliefs only, that of performativity goes beyond human minds and deploys all the materialities comprising the sociotechnological *agencements* that constitute the world in which these agents are plunged: performativity leaves open the possibility of events that might refute, or even happen independently of, what humans believe or think” (2007:323).

Nevertheless, the neo-classical idea that *homo economicus* exists and is market centred, as Callon explicitly states (1998), is very problematic from a perspective of the post-structuralist political economy. Taking into account Callon’s scepticism towards the relevance of macro-practices as well as his neo-classical conceptualisation of the *homo economicus*, I argue that this approach is crucially missing an opportunity to challenge the neoliberal paradigm, and that it de-politicises both economics and economy. This is relevant because it opens the question of how powerful the practice of performativity is in understanding causes and consequences of the credit-crunch and the Eurozone crisis. It could be argued that several of the most influential proponents of performativity stayed either silent or offered a technically-oriented explanation for the crisis (MacKenzie, 2011), which detached financial system from political contextualisation and reduced the credit-crunch to flaws in risk management.

2.5. Materiality of Market

Michel Callon has insisted ever since his early book *The Laws of the Markets*, on the importance of the material composition of markets. At the very beginning of the book, Callon defines, by drawing on Guesnerie (1996), what is necessary for a definition of the market:

- “A market implies a peculiar anthropology, one which assumes a calculative agent or more precisely what we might call ‘calculative agencies’.
- The market implies an organization, so that one has to talk of an organized market (and of the possible multiplicity of forms and organization) in order to take into account the variety of calculative agencies and of their distribution.
- The market is a process in which calculative agencies oppose one another, without resorting to physical violence, to reach an acceptable compromise in the form of a

contract and/or a price”. (1998:21)

In the book an example of a strawberry market in the Sologne region of France (Marie-France Garcia in Callon, 1998) is analysed in depth, in order to show how materiality of the market does influence form and volume of trade. In his introduction to the volume, Callon underlines the importance of materiality in the forms of equipment and devices: “the crucial point is not that of the intrinsic competencies of the agent but that of the equipment and devices (material: the ware-house, the batches displayed side by side; metrological: the meter; and procedural: digressive bidding) which give his or her actions a shape” (1998:12).

Callon is right to point out the importance of the materiality of markets, and both Callon and MacKenzie must be credited for drawing attention to this often neglected aspect (see also Toscano, 2013). This is also one of the most important legacies of Actor-Network Theory which discusses the dispersed agency embedded in the materiality of the network, not only in human agency. However, this is not the most essential feature of assemblage. As Buchanan points out: “one of the great insights of assemblage theory, particularly in its more materialist permutations in the hands of Bruno Latour, is that it shows that material objects can and frequently do have agential power. This idea is far from being incompatible with Deleuze and Guattari’s thinking, but one should be wary of making it the central point of analysis as ANT does” (2015:385).

The material aspects of markets were later analysed further within the performative economic paradigm by Donald MacKenzie. He elucidates materiality of financial markets in different forms and geographical zones: from fibre-optic connections between stock exchange and data centres (MacKenzie, Munieas, Millo, Pardo-Guerra:2012), enabling trade at the speed of light in the context of high frequency trading, to the configuration of trade rooms; from the physical use of screens to shouting-and-shovelling masculinity of traders at the trade pits (MacKenzie, 2010). In all fairness, MacKenzie does not unreservedly prioritise the materiality of markets to human actors because he makes the following point: “much of the sometimes fierce debate around actor-network theory that has taken place within the social studies of science and technology has concerned the attribution of agency to non-human entities (see, especially, Collins and Yearley, 1992). At least equally interesting from the viewpoint of markets, however, is how the attribution of agency distributes it across human beings” (2010:21). Nevertheless, both Callon and MacKenzie, time and again, actually reduce Deleuze and Guattari’s *agencement* to the apolitical socio-technological assemblage, deprived of political powers, as I will demonstrate below.

One could say that the concept of performativity has been developed in many different and sometimes contradictory directions. As Esposito points out, “several ‘modes’ of performativity are distinguished, from the explicit performativity of theories, to those ‘embedded’ in tools and formulas, in institutions and technology, generic performativity (which maintains the appearance of constativity) and ‘effective’ performativity (which makes a difference in the markets) (MacKenzie, 2007b, p.60)” (Esposito, 2012:113). My point is that we cannot understand how the incredibly complex world of social and political powers (re)invests itself in economics and consequently economy if we make a stark division between the economics, on the one hand, and the social and political, on the other. Let me point out that there is a more material and considerably apolitical financial performativity established by Callon (1998, 2007) and MacKenzie (2007, 2010), but there is also a *socially mediated* financial performativity understood and discussed by the authors such as de Goede (2005, 2010), Langley (2008, 2010), Lee and LiPuma (2004, 2013), Randy Martin (2002, 2007, 2013), Atkin (2007, 2009), Arjun Appadurai (2012), Cochoy, Giraudeau, McFall (2014). It is also important to be emphasised that authors who are using performativity in the context of transformation of identities, such as Atkin (2007), do so somehow incautiously and do not distinguish precisely their practice from Callon and MacKenzie who outline very precisely why it should not be combined with representational practices. Nevertheless, I will be mostly critically discussing performativity as it is conceptualised and elaborated by Michel Callon and Donald MacKenzie as well as their collaborators and proponents. Several other authors mentioned above are also using the concept but their usage is less strict and more socially and politically mediated, so they are not a direct object of my critique.

2.6. Against the Market

I would now elaborate how Deleuze and Guattari’s understanding of the market is not compatible with the conceptualization of the market as an assemblage, developed by the proponents of performativity. Namely, in the introduction for their book *Market Devices*, Callon, Millo and Muniesa (2007) elaborate on their central notion of *agencement*—dispersed collective calculative device—and explicitly claim that performativity, as they understand, conceptualise and practice it, has a strong relation with Deleuze. In their own words:

Close to notions of ordinary language that foster a similar intuition (display, assemblage, arrangement), the notion of *agencement* is also a philosophical concept whose proponents, Gilles Deleuze and Félix Guattari, can be considered as part of a French pragmatist tradition (Deleuze and Guattari, 1980). In his discussion of Foucault's notion of 'device' (*dispositif* in French), Deleuze (1989) develops an account that is closer to the idea of *agencement*. For Deleuze, the subject is not external to the device. In other words, subjectivity is enacted in a device—an aspect, we think, that is better rendered through the notion of *agencement*. In Deleuze's phrasing, a device 'is a tangle, a multi-linear ensemble. It is composed of different sorts of lines. And these lines do not frame systems that would be homogeneous as such (e.g., the object, the subject, the language). Instead, they follow directions, they trace processes that are always at disequilibrium, sometimes coming close to each other and sometimes getting distant from each other. Each line is broken, is subjected to variations in direction, bifurcating and splitting, subjected to derivations' (Deleuze, 1989: p. 185, our translation, emphasis in original). (Callon, Millo and Muniesa, 2007:2)

Taking into account the importance of the crucial concept of *agencement* for the discussion, I will first also briefly elaborate what Callon says about the concept elsewhere:

The term *agencement* is a French word that has no exact English counterpart. In French its meaning is very close to 'arrangement' (or 'assemblage'). It conveys the idea of a combination of heterogeneous elements that have been carefully adjusted to one another. But arrangements (as well as assemblages) could imply a sort of divide between human agents (those who arrange or assemble) and things that have been arranged. This is why Deleuze and Guattari (1998) proposed the notion of *agencement*. *Agencement* has the same root as agency: *agencements* are arrangements endowed with the capacity of acting in different ways depending on their configuration. This means that there is nothing left outside *agencements*: there is no need for further explanation, because the construction of its meaning is part of the *agencement*. A sociotechnical *agencement* includes the statement(s) pointing to it, and it is because the former includes the latter that the *agencement* acts in line with the statement, just as the operating instructions are part of the device and participate in making it work. Context cannot be reduced, as in semiotics, to a pure world of words and interlocutors; they are better conceived as textual and material assemblages (Latour, 2005)" (2007:320).

Callon, Millo and Muniesa (2007) thus hold that *agencements* are collective calculative devices, dispersed and diverse, which encounter each other through the market (the market itself is a collective calculative device). But before I demonstrate how these understandings of the market diverge, I want to start with some elements of performativity which could be described and analysed as Deleuzian. For example, the fact that the collective *agencement* as a calculative agent is dispersed and unidentifiable, and that it suspends boundaries between discursive and non-discursive as well as between technological and human, bears similarities with the Deleuzian *agencement* described in the passage above. In the performative realm of immanency, there is not the subject-object constellation anymore, but rather the quantitative and qualitative collective assemblages. Similarly, Donald MacKenzie in his book “Material Markets” also explicitly claims that “although the notion of *agencement* is drawn from Deleuze (for example, Deleuze and Guattari 2004, see Wise 2005), the sense in which I use the term is more directly that in which it has been used by Michel Callon whose work on markets has been a major resource for the social studies of finance” (2010:19). But a paradox arises instantly here, because MacKenzie wants to somehow distance himself from Deleuze by saying that “sense in which” he uses the term is more Callonian, yet Callon’s understanding of *agencement* is explicitly founded on Deleuze’s premises, as I have shown above. Nevertheless, substantial differences become obvious, as hinted above, if we start comparing how Deleuze and Guattari, on the one hand, and proponents of performativity, on the other, conceptualise and understand *the market*.

The question of *the market* will be now analysed in depth, with a presentation of the unbridgeable differences between proponents of performativity, on the one hand, and Deleuze and Guattari, on the other. Callon and Muniesa explicitly confirm their trust in markets, and even more importantly in the effectiveness of the market:

“Markets are collective devices that allow compromises to be reached, not only on the nature of goods to produce and distribute but also on the value to be given to them. The result is remarkable, considering that the original situations are often ambiguous, frequently involving a large number of agents with contradictory conceptions and interests, and that the quality and characteristics of the goods are often extremely uncertain (Stark 1999; Thévenot 2001). The effectiveness of markets stems from the fact that they make complicated calculations possible, and that these produce practical solutions to problems that could not otherwise be solved by purely theoretical

modelling” (2005:1229).

In contrast to Callon and Muniesa (2005), Deleuze and Guattari do not express their trust in *the market* in general, let alone the above-mentioned market effectiveness or efficiency. For Deleuze and Guattari the market—and here we find the unsurmountable difference—is predominantly not a place for economic-centred calculation and exchange of entities with equal value, such as goods, money, financial instruments, or even exchange of symbolic values; nor is the market a place that is able to “allow compromises to be reached” (Callon, Muniesa, 2005). According to Deleuze and Guattari markets are predominantly *systems of power*, places for domination and subjection where asymmetric, unequal power constellations encounter each other and operate through different forms and intensities. Consequently systems of power continue existing wars or produce new ones (monetary, economic, political, military) rather than enabling interrelations to “settle”. As Lazzarato meticulously points out: “Deleuze insists on the point: an economy has never functioned as a market economy. Regardless of the social structure, an economy includes exchange and makes exchange networks work on the basis of money as purchasing power solely as a function of another flow. “Exchange obviously comes second relative to something of a completely different nature...[A] different nature has a very strict sense, meaning a flow of a different power”” (2012:83).

The proponents of performativity thus take Deleuze and Guattari’s central concept of assemblage (*agencement*) in order to bolster their trust in the market, despite the fact that Deleuze and Guattari understand interrelation between assemblage and the market differently. That is to say, the proponents of performativity take Deleuze and Guattari’s understanding of the market for granted in context of *agencements*, and completely lose sight of the other flow. Yet the other flow is the defining interrelation as encounters between *systems of power*: it comes first and actually subject all the other flows inside the market. This is also why markets are never in equilibrium but in a constant disequilibrium and war. Even in Deleuze’s passage which is quoted above by Callon and his co-authors, there is the point about the constant disequilibrium, which proponents of performativity somehow missed: “Instead, they follow directions, they trace processes that are always at *disequilibrium*, sometimes coming close to each other and sometimes getting distant from each other. Each line is broken, is subjected to variations in direction, bifurcating and splitting, subjected to derivations” (Deleuze, 1989: p. 185, our translation, emphasis in original)”. (Callon, Millo and Muniesa, 2007:2, *italic mine*).

Lazzarato uses a quote from Foucault to bolster the Deleuzian argument that forms of calculation stem from constellations of powers, not the other way around: “measure,

evaluation, and appraisal all arise from the question of power, before there is any question of economics. The origin of valuation and measure is both religious and political: ‘whether a tyrant or lawmaker, he who holds the power is the surveyor of the city; the measurer of the land, of things, wealth, rights, powers and men’” (Foucault in Lazzarato, 2012:81). If we now reconsider the market in light of the numbers and measurement perceived as an expression of power rather than an objective and universal system of appraisal and measurement, we can also better understand the following Lazzarato passage in which he draws on Deleuze’s lecture from 1973 in order to explain why the market is not a place of exchange of different entities of equal value, but rather of a clash between systems of different power potentials: “a circuit of exchange never structures or forms a society, a completely different kind of circuit does, one that has nothing to do with arithmetic. Equal or unequal quantities do not enter into an exchange relation, quantities of different power do, ‘quantities of power, in the mathematical sense of the word “power”, different potentialities’” (Deleuze, 1973 in Lazzarato, 2012:75) To summarise the discussion about measurement and market, I would draw upon the example presented by de Goede (2005). One of the most powerful market indexes is Nasdaq, yet what the companies listed have in common is that none of them are publicly owned. Thus, before the daily market calculation of the share values of the companies is listed by the Index, there is a question of discrimination of ownership in terms of which companies can and cannot be listed.

MacKenzie (2010) also analyses how “assembling an economic actor” functions, that is to say, he explores internal operational infrastructure of trade rooms or hedge funds, as well as their technological interconnections with the external world. And MacKenzie emphasises that this aspect is usually neglected: “here we encounter an aspect of *agencement* that the social studies of finance (with the exception of Lepinay, 2004) has so far largely ignored: the ‘back-office’ infrastructure of trading. When the trader has struck a deal, he writes down its parameters on paper on a ‘trade-blotter’ in a folder that lies on the desk between him and partner D. On one of her screens is the electronic ‘blotter’ of a trade-capture and portfolio-management system the fund leases” (2010:45). MacKenzie meticulously unfolds the workings of infrastructure, but actually never opens up the horizons of the socio-economic background, and does not re-socialise and re-politicise financial derivatives, as for example Lee and LiPuma do (2004). As Deleuze and Guattari have brilliantly argued, “there where the flows are decoded, the specific flows of code that have taken a technical and scientific form are subjected to a properly social axiomatic that is much severer than all the scientific axiomatics, much severer too than all the codes and overcodes that have disappeared: the axiomatic of the world capitalist market. In brief, the flows of code that are ‘liberated’ in science and technics by the capitalist

regime engender a machinic surplus value that is added to human surplus value and that comes to correct the relative diminution of the latter, both of them constituting the whole of the surplus value of flux that characterizes the system” (1987: 245). And when MacKenzie discusses politics of markets, he is mostly focused precisely on the technical and technological aspects of infrastructure, rather than the Deleuzian machinic assemblage of bodies. That is to say, organisation, design, infrastructural functioning, material capacities of the market are all the manifestation of a political power immanent to *agencement*, which is why Deleuze and Guattari state that there is a primacy of the political machinic assemblage of bodies over tools and goods. The market is not a democratic and neutral form aimed at improving prospects of wellbeing for a vast majority of the population, and its democratisation is impossible through a simple recombination of material elements in the assemblage, as Callon and MacKenzie often assert.

2.7. The Missing Element: State

The impossibility of performativity to critically analyse markets in general and financial markets in particular as predominantly systems of powers with significant role of the state, rather than just apolitical socio-technological assemblages, has become obvious in the aftermath of the credit crunch in 2008. It could be argued that the more the sovereign structures have become important in the aftermath of the credit crunch and in the Eurozone crisis, the more performativity has stayed silent. This was well noted, for example, by Mirowski (2013) who openly criticises performativity and its proponents due to its incapacity to open a broader political perspective into causes and consequences of the credit crunch. It must also be emphasised that Mirowski was cautious regarding performativity and the missing macroeconomic elements, even before the credit crunch. In their contribution to the book *Do Economists Make Markets* (Mackenzie, Muniesa, Siu: 2007), Mirowski and Nik-Khah underlined that “overattention to performativity misses the way in which outcomes are shaped by big socioeconomic and political interests” (2007:12). After the credit crunch Mirowski has just intensified his critique and underlined that performativity to a certain extent perpetuates illusions of orthodox economics, including the uncritical trust in the market as the most powerful processor of information, values and exchange: “one conflation soon spawned another: denizens of ‘science studies’, accustomed as they were to description of technological

artefacts, conceived of the notion that they could just as readily apply their expertise to these financial phenomena, since, after all, they were just another species of technological innovation. Thus appeared a whole series of monographs on the 'social studies of finance' most of which tended to recapitulate the accounts of finance already current among the orthodox economists and practitioners" (2013:352).

Callon explicitly said that performativity intends to distance itself from the question of the state: "we no longer have macro-structures. The idea of the existence of macro-structures is very far from the description we are trying to give" (Callon in Barry and Slater, 2005:110). The missing element of the state, was also perspicaciously noted in some other forms and with other arguments by Butler (2010) in her dialogue with Callon as well as by Chakrabarty (2012) who initiated the long debate in the Guardian regarding the way sociologists in the UK addressed the financial crisis. Butler, for example, underlines the lack of political ontology in performativity and, although her critique is coming from a different perspective, I am in agreement with her that "Callon suggests that we no longer have macro-structures" (2010:149). However, Callon's statement must then be related to strong conclusion of Butler's that: "the present recession in some ways highlights this failure at the heart of financial performativity" (2010:151; see also du Gay, 2010). Butler has astutely diagnosed imperfection at the very centre of performativity which was just unmasked in the aftermath of the credit crunch.

When a question is raised regarding the connection of the materiality of markets with some other forces operating inside and outside the market including the state, Callon has not offered a consistent and persuasive answer. For example, Andrew Barry emphasised in his explicit question to Michel Callon: "neoliberalism involved both deregulation and depoliticisation, but has also brought re-regulation as well" (Barry and Slater, 2005:111). Callon's answer, however, was too vague and general, because he said that "the organization of markets depends on the nature of technologies, the nature of professional activities that are involved in the markets and so on" (2005:112). Moreover, this kind of answer confirms the (de)politicising practice of performativity because it accentuates the technological aspects rather than state regulatory interventions. And this is precisely why my understanding of assemblage diverges from performativity, given Callon considers materiality of markets as somehow detached from the aspect of power stemming through that materiality, and underestimates Deleuze and Guattari's standpoint that markets are external manifestation of the more substantial though hidden forms of power: "there is a primacy of the machinic assemblage of bodies over tools and goods, a primacy of the collective assemblage of

enunciation over language and words” (1987:90). The primacy “of the machinic assemblage of bodies” needs be further discussed: Deleuze and Guattari actually point out that behind the selection of tools, there is a social machine, and that social machine operates on a level more fundamental than simple materiality (1987:84). The social machine can include forms of law or governmental intervention or policy measures, but also military expansion or global trade domination. These social machines are, of course, forms of expression of the sovereign power. As I have mentioned in the introduction of the thesis, for Deleuze and Guattari the state—the Urstaat as they call it—is always already interrelated with assemblage, the state operates “fully armed” and constitutes its powerful intentions through material constructions, not the other way around. As Buchanan, quoting Deleuze and Guattari, points out: “‘The State was not formed in progressive stages; it appears fully armed, a master stroke executed all at once; the primordial Urstaat, the eternal model of everything the State wants to be and desires’ (Deleuze and Guattari 1983: 217). History is in the Urstaat, in its head, not the other way around: primitive society knew about the terrors of the state, Deleuze and Guattari argue (following Pierre Clastres), long before any actual states existed” (2015:389). For Callon and MacKenzie thinking of the macrosocial and macroeconomic composition is always problematic and, for Callon, also misleading. In the context of the Eurozone crisis, Lazzarato (2015) underlines that we should draw on Deleuze and Guattari’s understanding of capitalism – more than on Foucault’s conceptualization of the neoliberal state from *The Birth of Biopolitics* – precisely because they emphasize relevance of the state formation and argue that “every capitalism is state capitalism”.

Finally, I would like to underline that when Callon discusses the interrelation between the public and the private, or between capitalism and anti-capitalism, he expresses opinion that these distinctions and differences are not relevant any more (Callon in Barry and Slater, 2005:114). What is more important, according to Callon, is to discover the diversity of market (2005:112). In context of the Eurozone crisis, I would argue something similar to what Callon said, but from a completely opposite direction: while it is unfortunately true that the public and the private forms of capital have integrated, it is not because different forms of market operate commensurably. On the contrary, it is because the public and the private have integrated under the command of capital due to the inefficiency of the financial markets. Therefore the dualism between the state and the private has been mostly suspended in order to mask the substantial market imperfection.

It could be stated without any doubt that performativity lacks a theoretical apparatus for

thinking the constellation between the market and the state. While this went unnoticed when performativity rose to prominence at the beginning of the 2000s in the epoch of the Great Moderation (Bernanke, 2004), after the credit crunch and the Eurozone crisis when discussion about the role of the state became unavoidable this also became an unavoidable question. Last but not least, the role of state is important because it has intervened in the market in order to bolster the private actors, and new modes of state surveillance and policing have produced indebted subjectivities (Lazzarato, 2012).

2.8. The Missing Element: Power

The performative paradigm in economics and economy has not developed an adequate analysis of the question of power. By focusing on the forms of market and its functioning, the question of power(s) behind the formation of the market has somehow been marginalized. This is even more a begging issue given that the “glorification” of the market has been constructed by using the Deleuze and Guattari’s concept of assemblage, but the fact that for Deleuze and Guattari power is the central aspect of the concept, has been mostly ignored.

The performative “insensitivity to the question of power” is also lucidly diagnosed by Toscano (2016:305), in his recent review of Muniesa’s (2016) recapitulation of the ten years since the performative turn in economics and economy. Muniesa (2016) determines performativity as practice which operates through the following four mechanisms within the horizon of immanency: description, simulacrum, explicitness and provocation. He therefore delineates performativity as experimental practice that allows researchers to explore the reality of business interrelation which is not possible through any traditional form of economics. However, Toscano rightly asks who and what is included as well as excluded in the experimentation, and also points out that within the practice of performativity there is a process of “naturalization of distribution of power in the guise of experimentation” (Toscano, 2016:305).

The question of power in relation to the assemblage would be clearer if get back to the ontological foundation of the *agencement*. As Buchanan would underline, although he refers to a general and not to the economic context: “assemblage at its origin in the work of Deleuze and Guattari, was always concerned about questions of power. This aspect of assemblage

theory is all too often forgotten, making the assemblage seem as though it is merely another way of saying something is complicated” (2015:382). That is to say, assemblage is never neutral, it operates with an immanent will to power, as Nietzsche would say, or with an immanent desiring machine, as Deleuze and Guattari would argue.

In the context of the Greek and the Eurozone crisis these three questions - the trust in the market, the role of state and power - have become central: how is political and economic power used for reconfiguring the interrelation between the public and the private sectors, and the transfer of financial and moral responsibility for the crisis. Therefore, instead of focusing on the trust in the harmonizing effects of the market in the monetary union, which eventually led to the crisis, I rather focus on the market imperfection which have been unmasked in the aftermath of the crisis. In addition, the internal power constellation within the Eurozone has enabled financial compensation for the most powerful actors for their initial losses, as I will demonstrate in Chapter Seven in relation to austerity assemblage. The power constellation within the monetary union is substantially characterised by the centre – periphery division and the German economic and political hegemony.

2.9. What is *Agencement*?

The assemblage (*agencement*) is the central concept in Deleuze and Guattari’s seminal book *A Thousand Plateaus: Capitalism and Schizophrenia*, although they never offer any definition of it. The following will be a detailed elaboration of my understanding of the concept, not only to delineate it from the aforementioned practice of performativity, but also to explain how it will be used throughout the thesis. Through the concept of *agencement* Deleuze and Guattari develop their whole theoretical apparatus and address the broadest possible spectrum of socio-political issues, from psychoanalysis to economy, and from politics to revolution.

In order to understand the totality of the concept of assemblage we have to understand the collective assemblage of enunciation, machinic assemblage and the abstract machines. Deleuze and Guattari use the collective assemblage of enunciation to broaden their understanding of expression and communication beyond linguistic horizons. We also have to understand machinic assemblages as Deleuze and Guattari’s way to discuss and elaborate the material forms of assemblages—which could be physical but also social bodies—and to interrelate the material forms with the regimes of signs and the collective assemblage of

enunciation. I argue that one of the potentially confusing aspects of the machinic assemblage—transposed to Actor Network Theory and performativity—is an interpretation of the concept which focuses on the material aspects of the word machinic, without taking into account that Deleuze and Guattari explicitly point out it could also mean social machines and social bodies, including law, governmental decisions and reforms, and so on (1987:89-90). Finally, abstract machines are the forces and power behind assemblages, operating in the abstract plain of consistency, they are both virtual and actual, and they coordinate, intensify or transform assemblage. However, the abstract in this context, of course, does not refer to any transcendentalisation in the metaphysical sense of the word, but rather to the horizon of immanence.

At the beginning of the book “A Thousand Plateaus” Deleuze and Guattari offer a short explanation about the exceptionally complex notion of *agencement* (translated in English as assemblage). In doing so, they point out that assemblage is not a static configuration, but rather a dynamic and interactive composition which also changes inside: “an assemblage is precisely this increase in the dimensions of a multiplicity that necessarily changes in nature as it expands its connections” (1987:5) In order to understand properly language we have to go behind it and elucidate the social milieu as well as the corporeal transformation that is produced through the allegedly non-material forms of expression. Deleuze and Guattari point out that the linguistic understating of language and communication is too abstract and not abstract enough; it is too abstract because it has decontextualised language from other social forms and regimes of signs, and it is not abstract enough because it cannot take us to the plane of consistency in the abstract machines where the form of expression and the form of content are integrated. As Deleuze and Guattari point out: “the social character of enunciation is intrinsically founded only if one succeeds in demonstrating how enunciation in itself implies collective assemblages. It then becomes clear that the statement is individuated, and enunciation subjectified, only to the extent that an impersonal collective assemblage requires it and determines it to be so” (1987:80). Thus, in this chapter of the book, Deleuze and Guattari actually contextualise, socialise and politicise every statement. The statement should be here considered in its broadest possible sense, not just as a linguistic expression, but also as scientific or economic formula or analysis. This is also why the assemblage is a multiplicity, being one and a multitude simultaneously. Political fluxes of power are flowing through communication and every act of communication is also a confrontation of forces. Thus Chapter Four, *November 20, 1923: Postulates of Linguistics*, begins with a photo under which is the text: “The Order–word Assemblage”. For Deleuze and Guattari the “order word” is the “elementary unit of language—the statement”

(1987:75).

They are therefore actually unfolding an original and impressive understanding of language and communication, including Austin's performativity, by arguing that every use of language in accordance with grammatical rules, or every act of communication either through language or information, actually presupposes an older constellation of powers and is therefore an "order word". It means that behind every linguistic form, behind every language chain, there is a regime of signs and the "collective assemblage of enunciation", which aims at exerting its own will through language, communication, information or enunciation. Deleuze and Guattari are explicit in the following: "the language-function is the transmission of order-words, and order-words relate to assemblages, just as assemblages relate to the incorporeal transformations constituting the variables of the function" (1987:85).

However, the forms of significance and interpretation, which are themselves states or modes of the abstract machine, are interrelated and coexist with the forms of machinic assemblage (1987:144). That is to say, the assemblage is an integrated form of coexistence of different ontological formations, the expressive discussed above, and the machinic assemblage of content, which refers to the material aspect of the constellation. However, as I have mentioned above, the machinic assemblage could also refer to forms of social machines and bodies, including governments and states and, therefore, is not limited to materiality in the strict and narrow sense. As Buchanan points out: "in practice, the assemblage is the productive intersection of a form of content (action, bodies and things) and a form of expression (affects, words and ideas)" (2015:390).

In order to elucidate agencement further, the aspect of affects needs to be particularly carefully elaborated on. The notion was mentioned for the first time in their book *Kafka: Toward a Minor Literature* (1975). There, the notion is explicitly connected to power and desire, and we can also see how Deleuze and Guattari started thinking desire not as a lack—which was immanent to the Lacanian tradition—but as a plenitude and function. In addition, we should pay attention to the fact that desire, or more precisely intensity of desire, is a driving force of *agencement*, in contrast to Callon and MacKenzie's understanding of *agencement* where desire does not exist at all: "there is not a desire for power; it is power itself that is desire. Not a desire-lack, but desire as a plenitude, exercise, and functioning, even in the most subaltern of workers. Being an assemblage (*agencement*), desire is precisely one with the gears and the components of the machine, one with the power of the machine. And the desire that someone has for power is only his fascination with these gears, his desire to make certain of these gears go into operation, to be himself one of these gears—or, for want of anything better,

to be the material treated by these gears, a material that is a gear in its own way” (Deleuze and Guattari, 1987:56). Thus, once again, it is crucial to note that *agencement* is not a neutral socio-technical composition, as proponents of performativity maintain, but is inextricably connected to desire which operates within these power constellations. The following is what Buchanan also underlines in terms of the non-neutrality of the assemblage: “this is how the assemblage works. It always benefits someone or something outside of the assemblage itself (the body without organs); along the same lines, the assemblage is purposeful, it is not simply a happenstance collocation of people, materials and actions, but the deliberate realisation of a distinctive plan (abstract machine); lastly, the assemblage is a multiplicity, which means its components are both known and integral to its existence, not unknown and undecided” (2015:385). Notwithstanding Buchanan’s use of the term “distinctive plan”, for explanatory purposes we should be careful not to think about assemblage as an embodiment of a pre-existing plan developed in the abstract machine. The “plan” is developed in the plane of immanence in the immediate interaction of the actual and the virtual. If the assemblage would be just an instrument for the realisation of a pre-existing plan, then Deleuze and Guattari’s famous “everything is possible” would actually be impossible.

The concept of *agencement* in *A Thousand Plateaus* is actually a further development or substitution for the concept of desiring machines from *Anti-Oedipus*, as Deleuze explicitly points out in his interview in “Two Regimes of Madness” (2007: 176-179). In the same interview, asked if “assemblages...have value judgments attached to them”, Deleuze answers: “assemblages exist, but they indeed have component parts that serve as criteria and allow the various assemblages to be qualified” (2007:179). Therefore, judgement is not something which is produced through *agencement* once the human and non-human assemblage is put into practice, as proponents of performativity maintain. On the contrary, judgement is already immanent to the assemblages, meaning they are bringing their own, “older” judgement into market outcomes, which are usually and wrongly considered results of objective calculations. Let me note in passing that I have found the concept of assemblage particularly adequate for interrogating the mechanisms within the EMU (which consists of different ontological registers), because “analysis of assemblages, broken down into their component parts, opens up the way to a general logic: In assemblages you find states of things, bodies, various combinations of bodies, hodgepodes; but you also find utterances, modes of expression, and whole regimes of signs” (Deleuze, 2007:182)

2.10. Production of Indebted Subjectivities

Production of subjectivities is a constitutive element of Deleuze and Guattari's understanding of economics and economy, but also an important part of Foucault's conceptualisation of power. In the ongoing financial crisis, Lazzarato (2012, 2014, 2015) develops his valuable conceptualisation of the production of indebted subjectivities by further extending two social diagrams of Deleuze and Guattari. The first is Nietzsche's thesis related to credit as a universal constellation of interrelations and power as opposed to the symmetrical principles of exchange that dominating neoclassical and neo-Marxist approaches. This also means that credit determines not only economic but also political and social realities. This is why the morality of the debtor is always at stake in any credit-structured constellation, as Nietzsche (1994:39) argues in his book *On the Genealogy of Morality*, when he connects *Schuld* (guilt) and *Schulden* (debts) (see also de Goede, 2005: 156; Lazzarato, 2012: 30). The "monetization of morality" in the context of subjectivities, as Toscano (2014) terms it, in the sovereign debt crisis operates in parallel with the recessionary monetary and fiscal policies imposed on Greece. The second interrelated diagram of Deleuze and Guattari upon which Lazzarato draws is the so-called non-economistic understanding of economy in which economic production—as well as its immanent destruction—is intertwined with other forms of production: cultural, social, sexual. As Lazzarato underlines: "economic production involves the production and control of subjectivity and forms of life" (2012:42). The interrelation of these two forms of production also opens a space for thinking the political economy of affects, because as O'Sullivan underlines, "this is crucial: following Guattari (himself a reader of Simondon), subjectivity is predominantly, and primarily, a question of affects that exist alongside any signifying regimes and economies" (2012:115).

Production of subjectivities is a complex stratagem in which subjects are understood as decentralised entities entwined with social practices and forms of existence, rather than traditional, independent Cartesian subjects. To put it differently, it is impossible to draw a boundary between a human and its social practices, or, as Deleuze (1988) put it in his reading of Foucault, subjectivity is in-folded externality. Foucault also develops his understanding of society and economy through the concept of de-centralised subjectivities, which are constituted

through commensurable disciplinary social mechanisms—schools, hospitals, barracks, prisons—and which are also, in the epoch of neoliberalism, permanent objects of social surveillance, quantification, and evaluation. Foucault does not reject Marxism but sees subjection through the capital-labour dialectic as just one among other modes of domination. To put it differently, before the capital-labour formations of subjections in factories or offices, there were older formations already operating on workers’ souls and bodies: “this new functionalism or functional analysis certainly does not deny the existence of class and class-struggle but illustrates it in a totally different way, with landscapes, characters and behaviour that are different from those to which traditional history, even of the Marxist variety, has made us accustomed” (Deleuze, 1988:25).

The concept has proved exceptionally useful for analysing how austerity measures are aiming at re-producing indebted subjectivities, because we could equally analyse economic restructuring through the perspective of the hospital or the perspective of the school. This is clearly anticipated in Deleuze’s book on Foucault, in which he points out that if indexes of commensurability are low, then we can see the intersection of the same disciplinary practices across social registers. As a Greek MP unintentionally but succinctly summed up the biopolitical goals of the reform of education: “according to Mr Kremastinos, a member of the Committee for Educational Affairs, the goal of the new higher education law should be to ‘shape new human beings of better quality’” (2012:312). Furthermore, analyses expressed in Troika documents (discussed more thoroughly in the Chapter Seven) assert that the Greek healthcare system must be a driving force of fiscal adjustment and that education must be a main driver for economic growth.

Let me note in passing that Toscano (2014) critiques Lazzarato’s conceptualisation of the production of indebted subjectivities in the book *The Making of the Indebted Man*, despite the fact that he defines it as Lazzarato’s most trenchant and timely political piece to date. He points out that Lazzarato actually exaggerates when he ultimately couples the debt structured economy with the production of subjectivity. As Toscano points out: “to think that we must identify *a* figure of subjectivity in the debt-economy—which, as we forget at our peril, ranges across variegated social formations, geographies and class positions—is to underestimate the opportunism of capital, its capacity to be *relatively* indifferent to our mentalities and desires” (2014). Such a critique certainly has some merit, but it ascribes to *The Making of the Indebted Man* an endeavour to universalise the diagram of the production of indebted subjectivities,

which seems to me unfounded. However, Toscano later ameliorates his critique by emphasising that Lazzarato's analysis is more precise when focusing on "the way in which the debt-economy, following Deleuze's post-Foucauldian partition of discipline and control, operates through the disparate channels of subjectivising mechanisms (aspiration, guilt, shame) and the impersonal apparatuses of control of 'dividuals'" (2014). Toscano's analysis is a significant contribution, because he rightly recognises the two complementary horizons of Lazzarato's analysis of the production of indebted subjectivities: on the one side, what he terms "subjectivising mechanisms" operating on the level of affects and aspirations, and on the other, the machinic subjection operating on the level of the infra-subjectivity through algorithmic formations. Lazzarato sees the apparatus of capturing and subjugating affects as immanent to the production of subjectivities, and integrates it with the forms of "machinic enslavement" in his book *Signs and machines* (published after the Toscano's critique). In Chapter Four I will demonstrate how these distinguished but complementary forms operate, through analysis of the ECB and its strategies of "machinic enslavement".

As hinted above, the biopolitical analysis of the sovereign debtor in the Eurozone crisis offers a possibility for interrogating how austerity measures—as a system for controlling and de-pathologising society—produced indebted subjectivities. That is to say, how the measures ignited fear and shame in Greek citizens through a biased distribution of moral and financial responsibility for the crisis. The interconnectedness between austerity measures and "bear life" (Agamben, 1998) should be followed through several registers, but one of the most direct and brutal connections is what Mark Fisher (2012) terms "privatization of stress", reflected in the fact that "every 1% fall in government spending in Greece led to a 0.43% rise in suicides among men" (Mazzucato, 2015:4).

It is interesting that Lazzarato (2014) juxtaposes the Foucauldian production of subjectivity to performativity; not the economic performativity discussed above, but rather the "existential" performativity developed by Judith Butler. Lazzarato's argument is that Butler's performativity does not open space for changes, but states that performative acts actually enact existing forms of life, constellations, or subjections. He highlights that "Butler seeks to oppose the performative command with the possibility for unforeseeable and uncodified response and reaction. This can only come short since the problem of the 'response', that is, the possibility of acting differently when addressed concerns all enunciation and not solely performatives (which is the same conclusion Austin comes to while neglecting some of its consequences). On the other hand, the command cannot be countered by a different type of performative act

but only through a dialogic relation that exceeds all linguistic categories, whether performative or not” (2014:179). Finally, Lazzarato also re-thinks production of subjectivities in the context of social machines and a-signifying processes of subjectivation. As I have hinted above, I will be drawing on this particular mode of production in analysing ECB policies in the Eurozone crisis through so called “machinic enslavement” in Chapter Four.

Chapter Three

EMU, Crisis and Different Explanatory Narratives

This chapter elucidates the internal imperfections of the EMU which led to the crisis. These are related to macroeconomic vulnerabilities of smaller economies which resulted in discrepancies in the balance of payments. When the global financial crisis struck the Eurozone, all these imperfections were unmasked and intensified. This chapter explains the centre-periphery division within the monetary union and also discusses the evolution of different viewpoints concerning the Greek crisis. At the beginning of the crisis, theoretical approaches were mostly focused on endogenous social, economic and political causes. However, with the geographical and temporal extension of the Eurozone turmoil, analyses which interrogated the EMU instead of just Greece started gaining attention.

3.1. EMU in the Time of Great Moderation

The aim of this chapter is to sketch out a brief history of the EMU and to elucidate its internal imperfections and disbalances which eventually led to the Greek and the Eurozone crisis. These disbalances have been a manifestation of the internal EMU centre-periphery power constellation: before the crisis they were expressed through an economic domination, whereas after the crisis the power constellation has determined official explanations for the turmoil and policies for addressing it. In addition, this chapter explains why the Eurozone turmoil should be considered as a balance-of-payment crisis which mutated into the sovereign debt explosion, and how misdiagnosis of the crisis exacerbated the economic catastrophe. In the second part, a literature review of different approaches to the Greek and the Eurozone crisis will be presented.

The European Economic and Monetary Union was established in January 1999 with eleven country members, and Greece joined the monetary union in 2001. The EMU infrastructure, as specified by the Maastricht Treaty of 1992, included an independent central bank – the European Central Bank (ECB) - focused on price stability and a set of rules designed to promote fiscal discipline in individual member states (see IMF, 2016:8). However, as Cafruny (2015:163) points out, the Maastricht Treaty was not formulated by politicians, as was the case with some other founding documents of the European Union, but by central bankers expressing the vision of European transnational capital. This is clearly reflected in policies that favour monetary stability over government instruments for achieving macroeconomic goals including full employment. Authors of the Treaty also projected a completely independent central bank without adequate democratic control and accountability; and the bank is legally focused exclusively on protecting the power of the euro (Stiglitz, 2016) not supporting the governments. These imperfections related to the ECB and its policies are discussed in detail in Chapter Four.

In the 1990s the Eurozone project attracted a significant critique and academic scepticism regarding its feasibility, both from the left and the right of the academic spectrum. For example, left-wing economists in the UK were focused on the fact that membership of the EMU was going to annul macroeconomic Keynesian policy instruments available to country members. Godley, for example, underlined that monetary union based on the Maastricht treaty represented “a crude and extreme version of the view that government are unable, and therefore should not try, to achieve any of the traditional goals of economic policy, such as growth and full employment and that “subsidiarity” masked the extreme centralization of monetary policy” (Godley, 1992 in Kafruny, 2015:167).

On the other hand, influential American economists both from the neo-Keynesian and the neoliberal camp were also very sceptical regarding the feasibility of the EMU. One of the reasons for that is because they were strongly influenced by the Canadian economist Mundell’s (1961) theory of the optimum currency area, which, according to Mundell, should be characterised by the following four features. The first is capital mobility and price and wage flexibility across the monetary union. The second is currency-risk sharing, in terms of readiness for fiscal transfer to the areas experiencing problems. The third is similar business cycles among members of the monetary union, and the fourth, and the most important, is mobility of labour inside the area. So, the impossibility of currency devaluation could be compensated by the possibility of free labour movements in times of crisis. It is clear that from the very

beginning the EMU lacked most of the presumption for an optimal currency union defined by Mundell (1961). Krugman (1993) compared the USA and the EMU, and used the example of the financial crisis in the American state Massachusetts at the beginning of the nineties as a warning, given it was alleviated through interventions from the federal funds enabled by the joint fiscal union (in the USA) accompanied also by movement of labour to other states unaffected by the economic turmoil. However, absence of the common fiscal union in the EMU and the lack of the mobility of labour in comparison to the USA, according to Krugman, creates a macroeconomic instability. As he emphasised, it is more likely “that 1992/EMU will combine to make American-style regional crises more common and more severe within the European Community” (1993). Even Milton Friedman (1997) expressed deep concerns about the EMU and pointed out the danger of asymmetric economic shocks in which one country is affected by a crisis and the monetary union does not have mechanisms for dealing with the asymmetric shocks. As he explained regarding the EMU, it “would exacerbate political tensions by converting divergent shocks that could have been readily accommodated by exchange rate changes into divisive political issues. Political unity can pave the way for monetary unity. Monetary unity imposed under unfavourable conditions will prove a barrier to the achievement of political unity” (Friedman, 1997). Unfortunately, some of the concerns expressed at that time were confirmed, and Krugman (2012) in his article written in the wake of the Eurozone crisis, particularly singles out the lack of fiscal transfer and the lack of labour mobility.

Streeck has wisely reminded us that euphoria had engulfed the country members of the new monetary block in the 2000s, leading, for example, to the Prime Minister of Luxemburg declaring that “once citizens held the new notes and coins in their hands at the start of 2002, a new we-feeling would develop: we Europeans” (Juncker in Streeck, 2015:3). Moreover, as Streeck underlines, the same year Helmut Kohl, “by then already an ex-German Chancellor, predicted that the euro would create a “European identity” and that it would take “at most five years before Britain also joined the currency, followed directly by Switzerland”” (2015:3). Before the subprime crisis in the USA and the sovereign debt crisis in the Eurozone, the EMU was broadly considered as an unchallengeable success. The EU Commission published a report in 2008 resolutely stating the triumph of the project.

The main publicly-presented rationale behind monetary integration was the so called reduction of transactional costs—calculated to be around 13–20 billion euros per year by the EU Commission (de Grauwe, 2005:65)—and a reduction of exchange rate uncertainty as well as the development of a strong economic block capable of absorbing global turbulences. The

EMU also managed to achieve convergence between member countries around the premium for sovereign bonds, because in the time preceding the crisis spreads for sovereign bonds of the peripheral countries were very close to German bund. In the 2000s it was broadly accepted that exchange and country risk in the EMU were eliminated (see IMF, 2016:1). However, the crisis has demonstrated this was an illusion, and the weak peripheral economies in the EMU are particularly susceptible to sovereign risk, as I will elaborate in detail in Chapter Five. Nevertheless, in the 2000s membership in the EMU, of course, reduced cost of borrowing both for public and private debtors on the international financial markets, but it also stimulated uncontrolled accumulation of debt (both public and private).

What is, however, less often discussed in public concerning the monetary union, is that the euro is far from being just a unit of account, or a monetary sign, or just a currency. It has represented a system of power which is organized, developed and coordinated in accordance with the national and supranational forces of the EMU, where German hegemony is uncontested. The euro has subjected all countries which have accepted it to certain macroeconomic and political rules and standards. The analysis of a currency as a system of power is elaborated by Foucault. Namely, in his “Lectures on the Will to Know” he elucidates Corinthian money as an integration of economic, political, religious and social layers: “whereas the sign represents, the simulacrum replaces one substitution for another. It is its reality as simulacrum that has enabled money to remain for a long time not only an economic instrument but a thing issuing from and returning to power, by a sort of inner intensity of force: a religiously protected object it would be impious, sacrilegious to adulterate” (2013:141). I will discuss power of Ordoliberalism in detail in Chapter Six, and will define its defending of the principles of sound money as “religious” (see Burda, 2016). In addition, it is usually underestimated in public that the Eurozone is also a manifestation of a particular desire of the European financial elites to enhance their positions on the global markets in the processes of financialization, and compete with America, UK and Japan who have had their own currencies. This is noted by Flassbeck and Lapavitsas: “from a global perspective, the measures that followed towards monetary union supported by strong political will gave Europe an enormous degree of independence vis-à-vis the rest of the world, the international financial markets and international financial organisations” (2013:7). At the moment, the euro is the second largest reserve currency after the dollar and the second most traded currency in the world.

In 2017, nineteen countries share the same currency and the same central bank (ECB), but have also had to adjust their macroeconomic figures in line with the mentioned Maastricht

standards which required they should not have their public debt higher than 60% of GDP and their budget deficit no higher than 3% of GDP. In addition, the requirements are also focused on inflation, exchange rate (forbidding devaluation for two years prior to accession) and long term rates. Nevertheless, it should be pointed out that the criteria of 60% for public debt and 3% for budget deficit are arbitrary because, as Hall points out, they “were not mathematically deduced from universally accepted economic laws and truths—indeed, the relationship between public deficit, debt, and economic growth continues to be a hotly contested issue—but simply the result of political negotiation as part of the Maastricht treaty revisions in 1993” (2015:15, see also de Grauwe, 2012:128). All the countries members were also obliged to accept controlling macroeconomic mechanisms as part of the Stability and Growth Pact – initially adopted in 1997 as a corrective instrument for the EMU - which are further developed and tightened in the wake of the Eurozone crisis through so called Six-pack and Two-pack policies as well as the Macroeconomic Imbalance Procedure. Development of these sovereign structures and controlling mechanisms during the crisis provides a prompt to challenge Foucault’s (2008) understanding of forms and intensities of the Ordoliberal legal interventions in the markets, because they go beyond the regulatory framework just aimed at enhancing competition. These controlling mechanisms, as well as the logic of European sovereign governmentality, will be discussed in depth in Chapter Six in relation to Ordoliberal structure of the EMU.

3.2. Centre – Periphery Constellation in the EMU

Proponents of the monetary union – and efficiency of the EMU market - argued there would be a convergence of prices across the Eurozone in the 2000s, as well as a reduction of macroeconomic imbalances, including trade related figures and current accounts. While transactional costs and exchange rate uncertainty have indeed decreased, all the other presumptions have turned out to be unfounded, as I will demonstrate in this thesis. The reduced transactional costs and exchange rates certainty have intensified intra-union trade, but the acceleration has not reduced trade and current account deficits of the peripheral countries of the Eurozone, as the proponents of the neoliberal and uncritical trust in the market stated at the beginning of the EMU. On the contrary, the periphery started importing more goods and capital

from the EMU centre and this was manifested in the increased divergence of the current account balances between the centre and the periphery of the monetary union. The internal division of the EMU assemblage can be understood only if the analysis is centred around the power constellations operating both in economic infrastructure and social superstructure. The Eurozone crisis has intensified and worsened the internal division because it has additionally empowered creditor countries. Crucially, the theoretical approach which considers the EMU as an assemblage, centres analysis around the issue of power relations instead of the efficient internal market, and sees any credit constellation as predominantly system of power (Lazzarato, 2012) rather than just a financial contract.

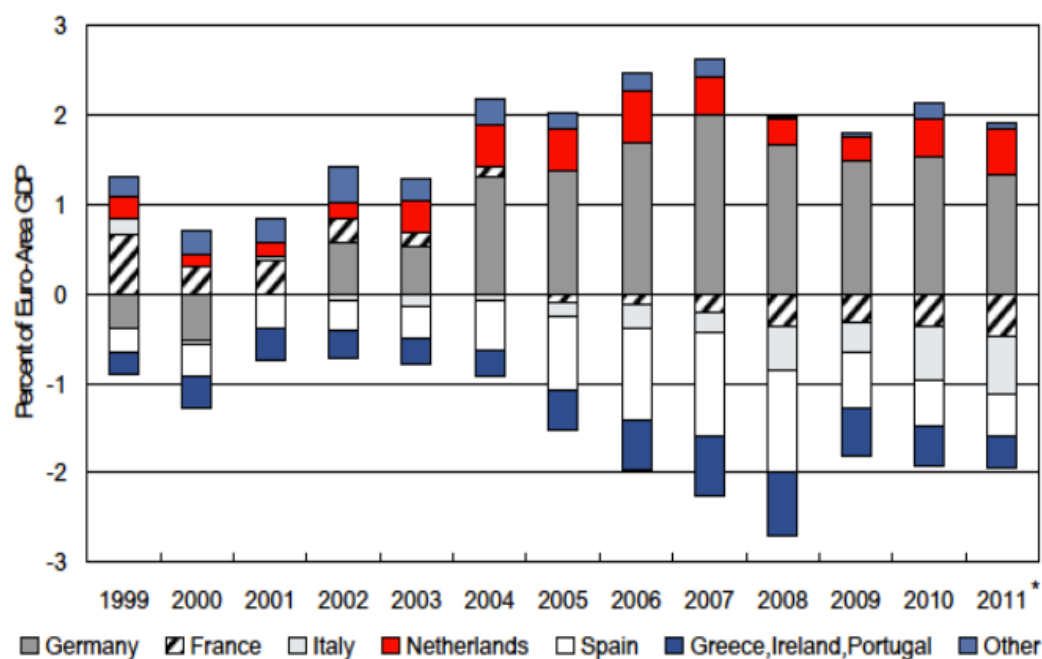
It should also be pointed out that just a small portion of the capital imported by the periphery were FDI (Foreign direct investment) supporting sustainable growth and enabling transfer of knowledge and technology. The majority of the capital imported were banking credits and portfolio investments that ended up in non-productive or non-tradable sectors such as construction and real estate, or in private consumption. This problem of investment in real-estate was particularly intense in Spain, Ireland and to some extent in Greece. During the first decade of the EMU current account balance for Greece widened from 5.1% of GDP in 1999 to nearly 15% of GDP in 2008, and Portugal's current account deficit averaged nearly 10% of GDP in the first decade of the euro. Ireland's position was slightly different, because it grew significantly on the eve of the global financial crisis, and reached 5.7% in 2007. At the same time, German's current account position changed radically from negative balance of 1.49% of GDP in 1999 to the highest current account surplus in the world in 2016 of almost 9% of GDP. The reasons behind the dramatic changes in Germany's balance of payments are related to the intra-monetary flow of goods and capital and the fact that Germany was constantly undershooting the set inflation in the EMU (Flassbeck and Lapavitsas, 2013). This will be discussed in detail below.

Current account of Greece, Spain, Portugal, Ireland and Germany

	2002	2003	2004	2005	2006	2007	2008	2009
Greece	-6.8	-8.5	-7.7	-8.9	-11.5	-15.2	-15.1	-12.3
Spain	-3.7	-3.9	-5.6	-7.5	-9.0	-9.6	-9.3	-4.3
Portugal	-8.5	-7.2	-8.3	-9.9	-10.7	-9.7	-12.1	-10.4
Ireland	0.2	0.5	-0.1	-3.5	-5.4	-6.5	-6.9	-5.6
Germany	-1.9	1.4	4.5	4.6	5.7	6.7	5.6	5.7

Source: Eurostat

Figure 2: Euro-Area Current Accounts



Source: Citigroup, Empirical and Thematic Perspectives, 27 January, 2012

De Grauwe (2013:8)

In a review of its own policies, the IMF (2016) confirms that in the 2000s its staff had been ignorant of the growing problem of current account disbalances in the EMU. This ignorance had to do with the fact that a balance of payment crisis was deemed impossible in the monetary union. As the document asserts: “staff typically approached divergent current account balances from the perspectives of trade and competitiveness. The financing aspect—that is to say, the idea that the current account deficit was a counterpart of the large inflows of portfolio capital and wholesale bank funding—was downplayed. Part of the reason is that the possibility of a balance of payments crisis in a monetary union was thought to be all but nonexistent—a view widely shared in the policy and academic communities” (2016:4).

This thesis also challenges a wide-spread opinion that borrowing in the public sector in the EMU was problematic in the time preceding the crisis, because two of the four most affected countries—Spain and Ireland—had exceptionally low public debt.

Public debt / GDP for Greece, Spain, Portugal, Ireland and Germany

	2005	2006	2007	2008	2009	2010	2011	2012
Greece	107.4	103.6	103.1	109.4	126.7	146.2	172.1	159.6
Spain	42.3	38.9	35.6	39.5	52.8	60.1	69.5	85.7
Portugal	67.4	69.2	68.4	71.7	83.6	96.2	111.4	126.2
Ireland	26.1	23.6	23.9	42.4	61.5	86.1	110.3	119.4
Germany	67.0	66.5	63.7	65.1	72.6	80.9	78.6	79.8

Source: Eurostat

In addition, as the two diagrams below demonstrate, in 2007 public debt for the EMU economies on aggregate was actually decreasing, but the private banking debt of the Eurozone peripheral countries was increasing. Importantly, it also means that the centre-periphery constellation in the Eurozone has not been created around the issue of public debt, given that

in the time preceding the crisis, for example, Belgium and Italy also had public debt of around 100% of its GDP and Spain and Ireland had much lower than Germany. Also, the budget deficit was not the main reason for the turmoil because Spain had surplus (see table below). The centre-periphery constellation was structured, as mentioned already, around current account surpluses and deficits.

Figure 4 Government debt ratios improved for most EZ nations (especially Ireland and Spain) but Portugal's debt burden soared

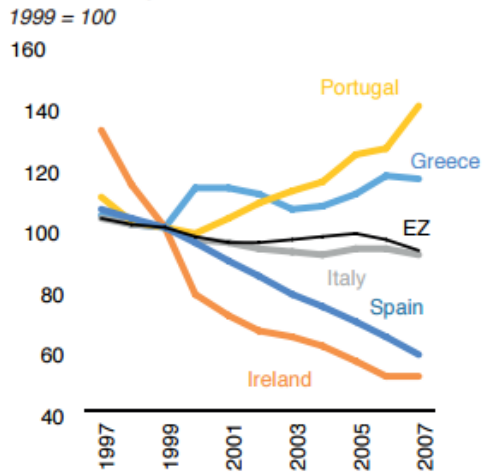
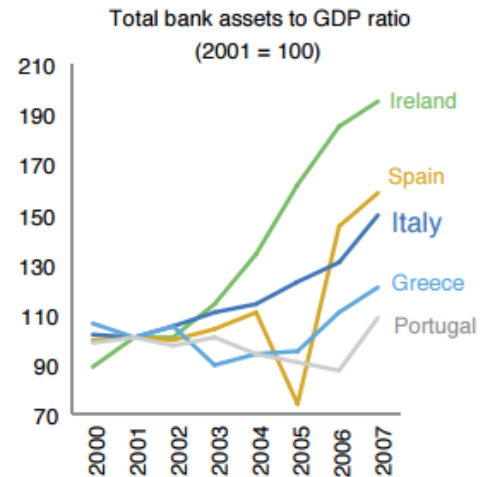


Figure 5 Rapid accumulation of bank debt was a problem, especially in Ireland, Spain, Italy and France



Diagrams from Balwin et al. (2015:6)

In the 2000s, the small and weak Greek economy – as well as other countries at the periphery such as Spain, Portugal and Ireland - could not endure the strong competitive game dictated by the Eurozone core, and lack of competitiveness was compensated by massive borrowing and increase in public and private consumption, as I have already emphasised. With Greek inflation slightly higher than what the ECB stipulated (1.9%), and German inflation consistently lower than targeted inflation, German products became cheaper for Greek (and other Southern European) consumers. That is how the Eurozone centre-periphery division was constructed: peripheral countries were supplied with banking credits – these credits were the centre’s net income on investments abroad plus trade surpluses - and the centre was selling more of its goods in the trade disbalance. As Sepos underlines, “through this exchange the centre enriched itself at the expense of the periphery by collecting interest (in form of assets and income) from the peripheral countries thanks to their ever-expanding debt and by further profit resulting from the expansion of consumption in the peripheral countries (which was made

possible by loans from centre) and subsequent increase in purchases of centre manufactured goods by the periphery” (Sepos, 2016:14). The Ordoliberal neo-mercantilism in Germany, which is discussed in depth in Chapter Six, is the most relevant factor behind the huge discrepancies in terms of the current account balances in the Eurozone.

Budget deficit of Greece, Spain, Portugal, Ireland and Germany

	2005	2006	2007	2008	2009	2010	2011	2012
Greece	6.2	-5.9	-6.7	-10.2	-15.1	-11.3	-10.3	-8.9
Spain	1.2	2.2	1.9	-4.4	-11	-9.4	-9.6	-10.5
Portugal	-6.2	-4.3	-3.0	-3.8	-9.8	-11.2	-7.4	-5.7
Ireland	1.6	2.8	0.3	-7.0	-13.8	-32.1	-12.7	-8.0
Germany	-3.4	-1.7	0.2	-0.2	-3.2	-4.2	-1.0	0.0

Source: Eurostat

It is important to underline that inflation in Germany was lower because both German and the ECB elites were implementing the Friedman-inspired monetarist policy in which inflation is determined by the amount of money circulating, whereas an increase in wages are considered irrelevant (Flassbeck and Lapavitsas, 2013; Stiglitz, 2016). The main contribution from Flassbeck and Lapavitsas (2013; 2015) is that they revealed how national inflation rates correspond to unit labour costs, instead to amount of money in circulation. That is to say, the infamous Ordoliberal fear of high inflation has been the most important feature of the EMU’s policies, but it did not take into account that different unit labour costs (level of wages) across the Eurozone will produce different rates of inflation and consequently destabilize the system as a whole. In addition, we can see how acceleration of inflation was the main concern of the ruling economic elites, whereas acceleration of financialization and indebtedness (private and public) at the periphery of the monetary union were deemed irrelevant. This is understandable when we note the structure of lending at the European periphery and see that the European core

was the main lender to Southern European countries. This is discussed in detail in Chapter Four.

However, Flassbeck and Lapavitsas (2013, 2015) challenge the widespread prejudice that only higher-than-set inflation generates imbalances in a monetary union, as was the case in several Southern European countries, whereas lower-than-set inflation does not cause disbalances, as German financial elites have stated. Lower-than-set inflation has made the German economy more competitive, but at the expense of the less competitive European periphery and particularly the deteriorated national economies in the Southern Eurozone. Or to put it another way, the German beggar-thy-neighbour policies - as Keynes termed it - aimed at making its economy more competitive globally and within the EU at the direct expense of its partners inside the monetary union. This entrenched policy was focused on competition between nations in the Eurozone rather than their cooperation. Therefore, rather than sticking to the set inflation rate of 2%, and adequately remunerating German labour, the policies focused on enhancing the German exporting machine accompanied with pauperization of German labour. For example, Flassbeck and Lapavitsas (2013) assert that a given good bought ten years ago for same price in Germany and in the EU south could now be bought 25% cheaper in Germany. In addition, the system's flaw has resulted in the following paradox: because of the higher-than-set inflation rate Greeks and other southern Europeans could buy more products and goods made in Germany, whereas Germans gradually bought less from their southern European neighbours because their salaries were stagnant. Finally, export of goods was accompanied by an export of capital, and so the Southern Europeans were inundated with affordable and attractive banking credit from German and French banks, as will be explored in detail in Chapter Four.

3.3. Credit Driven Consumption and Acceleration of Growth

When Greece entered the European Economic and Monetary Union in 2001, it opened a perspective for increased and financialized private consumption. Namely, it was only after pressure from the EU that Greece in 2003 suspended its own limit of 10.000 euro for consumption credits. As Placas points out: “a rapid, “healthy” expansion of the market for consumer credit in Greece was predicted on the idea that consumer debt there would grow to

equal the “E.U. average,” bringing a harmonization both structural and symbolic, as Greeks could buy, and owe, like Europeans” (2011). Placas makes two exceptionally important observations: firstly, she notices that the pressure to consume more was externally imposed on Greeks from Brussels through de-regulation related to the consumption credits. Secondly, at that time the Greek public sector was considered the safest in terms of job-related-risks, and stable in terms of perspective. Therefore many recipients of consumption credits actually came from the public sector.

I would like here to make a digression, by drawing on Bryan, Martin and Rafferty (2009) in relation to the credit-driven consumption in the epoch of financialization. They develop a neo-Marxist analysis of financialized household consumption and compare it with the famous Marx’s analysis of circuit of the individual capitalist enterprise:

$$M - C \dots P \dots C' - M'$$

Where M stands for capitalist money from saving or credit which is invested in production and transformed through labour power and added value into extended capital C’ which is sold for the value M’ higher than initial input. Bryan, Martin and Rafferty make an important point that through credit driven household consumption, there is a similar principle at stake, where reproduction of labour power starts not with commodities but with credit. As they emphasize: “Credit is used to buy commodity inputs for the household (M-C at the “beginning” of the circuit). Then, leaving aside the issue of how we conceive of production within the household, somewhere before the circuit begins again, some part of the wages paid to labor power (C-M at the “end” of the circuit) must accrue as interest payments on money capital advanced to households. Moreover, because this interest commitment occurs independent of the receipt of wages, the household’s standard of living is determined by the extent of the wage residual.” (2009:463). Finally, from the perspective of capital, the money which is left over to labour after the payment of interest can be considered labour’s surplus, and is therefore targeted again. This Bryan, Martin and Raferty (2009) perspicacious analysis of how household consumption is captured by the forms of credit capital, is even more appropriate for analysing the Greek situation in the 2000s, precisely because an increase in household consumption was accompanied with a credit-driven growth of total outcome.

Increased borrowing and consumption created conditions for an illusionary acceleration of economic growth of the periphery in the 2000s. Greece was among the fastest growing economies in the Eurozone in the 2000s, so, for example, in 2003 it had annual growth of GDP

of 5.9%, and was the second fastest growing economy in the monetary union, after Estonia. It is relevant in the context of the capitalist immanent “dual dynamic” (Noys, 2014) to emphasise that in 2003 Germany’s GDP contracted 0.4%. From 1999 – 2008, “Ireland grew by more than 5% per year and Greece by 3.5%, whereas the Eurozone grew on average 2.1%” (IMF, 2016:4). In addition, there is a widespread illusion that Germany experienced significant growth during the 2000s, and that growth was generated through rises in productivity. Growth of German GDP was always at the bottom of the EMU list before the crisis, and growth of German labour productivity was way below growth of Greek productivity. Similarly, after the 2007, German growth was sluggish, as Stiglitz emphasises: “Germany holds itself as a success, providing an example of what other countries should do. Its economy has grown by 6.8% since 2007, implying on average growth rate of just 0.8%, a number which, under normal circumstances, would be considered close to failing” (2016:24).

Annual GDP growth for Greece, Spain, Portugal, Ireland and Germany

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Greece	3.6	3.5	5.5	4.8	0.3	5.3	3.0	-0.6	-4.6	-5.6
Spain	3.5	1.2	1.3	1.6	1.8	2.5	1.8	-0.5	-4.4	-0.4
Portugal	1.2	0.2	-1.3	1.6	0.6	1.4	2.3	0.1	-3.1	1.9
Ireland	4.2	4.5	1.4	4.8	3.6	2.8	2.1	-6.0	-5.5	1.3
Germany	1.6	-0.1	-0.7	1.3	0.9	3.9	3.5	1.4	-5.3	4.3

(Source: Eurostat)

These internal differentiations in the EMU confirm that the process of financialization intensifies the capitalist dual-dynamic, noted by Benjamin Noys as a general capitalist dialectic: "What accelerationism registers in particular are two contradictory trend-lines: the first is that of real deceleration of capitalism, in terms of declining rate of return on capital investment, which has led to a massive switching to debt. The second is the acceleration of financialization, driven by the new computing and cybernetic technologies, which themselves create an image of dynamism. Of course, this "contradiction" of deceleration and acceleration speaks to a dual dynamic as capitalism tries to restart processes of accumulation by acceleration" (2014: 36). In the EMU, this dynamic is clearly developed through the different growth rates, where the process of accumulation in the core was boosted through internal geoeconomic differentializing of power. The dual character of the EMU is now an unchallengeable fact, although at the beginning of the crisis the main explanation for the turmoil was the idea of a profligate periphery incapable of managing public finance. For example, in January 2011 President of the ECB told the German newspaper *Das Bild* that this is not a euro crisis: "what we have is a crisis related to the public finances of a number of euro countries" (2011).

In the context of acceleration of capitalism at the periphery Deleuze and Guattari express their ambiguous attitude towards acceleration and further deterritorialization as a way of addressing capitalism: "But which is the revolutionary path? Is there one? – To withdraw from the world market, as Samir Amin advises Third World Countries to do, in a curious revival of the fascist "economic solution"? Or might it be to go in the opposite direction? To go further still, that is, in the movement of the market, of decoding and deterritorialization? For perhaps the flows are not yet deterritorialized enough, not decoded enough, from the viewpoint of a theory and practice of a highly schizophrenic character. Not to withdraw from the process, but to go further, to "accelerate the process", as Nietzsche put it: in this matter, the truth is that we haven't seen anything yet." (1983, 239 - 240). However, while authors contributing to the heterogeneous theoretical practice of accelerationism prefer to take Deleuze and Guattari's quotation as their fundamental starting point, they nevertheless usually underestimate an important elaboration at the beginning of the same chapter, "The Civilised Capitalist Machine", and do not develop a capitalist cartography of the dynamic explained there. In these passages Deleuze and Guattari (1983) develop a stratagem for interrogating the inescapable capitalist centre-periphery constellation, a stratagem at the very heart of this chapter, where financialized acceleration is connected to capitalist deceleration in the centres: "capitalism schizophrenizes

more and more on the periphery” (1983: 43). Put simply, in the context of Greece it means changes in economic forms of production - real estate booms, abandoning traditional forms of industries, rapid financialization - is always associated with a specific crisis of accumulation and decoding in the metropolitan centres.

However, this dynamic in the Eurozone is also noted by neo-Marxist authors such as Flassbeck and Lapavistas (2013, 2015) and Varoufakis (2013). As Varoufakis explains the dual dynamic within the EMU:

“My argument is that, given the deficit economies’ lack of high concentration of networked, globalising conglomerates (which can automatically convert capital inflows into productivity-enhancing investments), monetary union occasioned large capital flows (from the surplus to the deficit countries) which, in turn, caused rampant asset value inflation (e.g. real estate bubbles) in the deficit economies and a growth rate that far exceeded the rate of accumulation in their exportables’ sector. In contrast, the surplus economies (whose manufacturing is by definition more highly oligopolised) in fact lack competitors in the deficit nations (e.g. countries like Greece produce no cars) and, naturally, experienced simultaneously (a) high investment rates into productivity-enhancing capital and (b) a considerably lower concomitant growth rate. This combination of growth rates that exceed (trail) fixed capital formation rates in the deficit (surplus) countries gave rise to a tension between:

- the underlying economic reality of a slow burning recession in crucial sectors across the surplus-deficit nation divide, and
- the epiphenomenal growth that seems to typify the whole common currency or fixed exchange rates bloc and is underpinned by a new form of financial exploitation of working and middle classes”. (Varoufakis, 2013)

Finally, an exclusive focus on acceleration/deceleration of financialized capitalism usually fails to consider how capitalism operates not only through the abstract forms of molar deterritorialization, networks and platforms, but also through molecular interventions in the domain of affects and subjectivities. This imperfection is emphasized by O’Sullivan: “it does seem to me that Accelerationism’s (or indeed Badiou’s) non-engagement with the affective complexity of subjectivity means it offers only a partial picture of the issues and problems at hand – and, indeed, of their possible solutions. For capitalism is not just an abstract inhuman agency “out there”, instantiated in forms of technology, and so forth (that is a supra-molar entity). It is also “in here” producing our very subjectivity on what we might call a molecular level” (2013). Therefore the division between the centre of the Eurozone and the periphery – termed by Terranova (2015) “division of debt” - also started being created in non-economic domains: the periphery in general and Greece in particular were accused of living beyond their means and at the expense of the diligent centre, and a particular mechanism for production of subjectivities started operating in conjunction with the economic machinery. Lazzarato’s

(2012) analysis of the Greek and the Eurozone crisis underlines that economic production and the controlling and production of indebted subjectivities are always intertwined. The production of subjectivities in the epoch of finance and debt is theoretically discussed in Chapter Two and practically analysed in Chapter Four and Chapter Seven.

We see how the internal power differentiation in the EMU assemblage operates not only in the domain of financial infrastructure but also in the domain of superstructure: it delineates supposedly reliable and functional capitalism and peoples at the centre from the corrupt and dysfunctional capitalism and peoples at the peripheries. Crucially, the internal EMU power constellation – with German Ordoliberalism as the dominant force – has also reshaped discussions about the crisis and policies for addressing it. As Matthijs and McNamara underline, that particular “co-production of knowledge led to the legitimation and the adoption of particular ways of diagnosing the crisis. Those policies have put Europe on a path that pushes the Southern European states towards a German model of economic institutions. This in turn creates a politically combustible set of economic hardships and a contentious rhetoric of saints and sinners, both of which are fraying the European integration project” (2015:7). It comes as no surprise that predominant moral and economic narratives were produced and controlled by the central European powers, featuring diligent and saving-prone human-capital formation, on one hand, and lazy and profligate formation, on the other. For example, Olli Rhen, EU Commissioner for Economic and Monetary Affairs held that this was exclusively a Greek crisis, and the main concern in relation to the EMU should be prevention of a contagion effect: “it is absolutely essential to contain the bush fire in Greece so that it will not become a forest fire and a threat to financial stability for the European Union and its economy as a whole” (Rhen, 2010; see also Laffan, 2014). These narratives have shifted public discourse and analysis from the infrastructural imperfections of the EMU assemblage and the perils of acceleration led through financialization, towards the alleged social and economic delinquency of particular nations explained by their irresponsible habits and character. These explanatory narratives – which will be discussed in more details in the second part of the Chapter - were at the same time an official macroeconomic and political diagnosis about the Eurozone crisis as a public debt crisis, rather than a balance-of-payment problem. The wrong diagnosis has led to the wrong therapy in terms of intense fiscal adjustment, reduction of public cuts and the detrimental policies of austerity which will be discussed in Chapter Seven.

3.4. Development of the Crisis

When the American subprime mortgage crisis transformed into the global financial crisis in 2008, spreads for sovereign bonds in the Eurozone started growing for the first time since the beginning of the monetary union. This was particularly the case with Ireland due to the high level of leveraging among the Irish private banks. Note that first signs of instability were clear before the Greek Prime Minister Papandreou announced in November 2009 that the Greek budget deficit is around 12.5 and therefore higher than previously presented, because this point is usually considered a trigger of the Eurozone crisis. However, we have to take into consideration the fact that the above mentioned current account deficits of certain countries in the EMU meant that these countries (both governments and private banks) had to significantly refinance their obligation on the global financial markets. Current account deficit is, generally speaking, a difference between national saving and investment. On average, an EMU country refinance around 10% of its outstanding debt annually, whereas a private bank in the EMU refinance around 10% of its outstanding obligations daily (Baldwin et. al., 2015). This can give us a picture why and how a significant turbulence in the financial markets caused problem both for sovereign and private debtors, and how an increase in interest rates caused a liquidity problem. In the time of intensified uncertainty in 2009 when lenders became increasingly suspicious, the interest rates grew significantly for private borrowers in the Eurozone periphery as well as spreads for sovereign bonds. As consequence the huge current account deficit had grown further as well as necessity for its further refinancing. As Baldwin et. al. underline in relation to the causes of the Eurozone crisis:

“All the nations stricken by the Crisis were running current account deficits. None of those running current account surpluses were hit. When the Eurozone crisis started, there was a ‘sudden stop’ in cross-border lending. Investors became reluctant to lend – especially to banks and governments in other nations. The special features of a monetary union meant that the ‘sudden stop’ was not precipitous (as it was, for example, in Iceland). Rather this ‘sudden stop with monetary-union characteristics’ showed up in rising risk premiums. The abrupt end of capital flows raised concerns about the viability of banks and governments in nations dependent on foreign lending, i.e. those running current account deficits. Slowing growth produced big deficits and rapidly increasing public debt ratios” (2015:2).

We see how the balance of payment crisis in the EMU has been transformed into a sovereign debt crisis and that fears and pressure from the international financial markets was not exerted

on the euro but on the sovereign bonds. That pressure was deteriorated by the fact that country members issue individual sovereign bonds and do not have support from the central bank as a lender of last resort. These imperfection related to sovereign bonds will be discussed in detail in Chapter Five.

In addition, the crisis started as a liquidity crisis - both for the sovereign and the private borrowers - but given the global panic on the international financial market and level of uncertainty the liquidity problem had progressed into a solvency problem. Of course, the fact that the ECB could not intervene as a lender of last resort at the beginning of the turmoil to support sovereigns in a similar manner it had supported private banks, and that countries members issued their individual sovereign bonds, actually provided a condition of possibility for progression of the turmoil and speculative attacks on the bonds. This will be discussed in depth in Chapter Four in relation to the ECB assemblage and in Chapter Five in relation to the speculative attacks on sovereign bonds. In addition, governments across the world – the EMU included - had their balances affected due to the global recession which significantly reduced tax revenues. The second reason was that private banks were struggling to refinance their capital on a daily basis, and governments had to step in and support them. This activated the sovereign-bank loop, in which the instability of the private banks is spilled over towards the public sector. This will be discussed in depth in context of Greece in Chapter Four concerning the ECB and in Chapter Seven regarding fiscal restructuring and recapitalization of Greek private banks.

In spring 2010 the spread of Greek bonds over German bund reached the level 586 basis points, in comparison to 135 basis points in November 2009, and it was clear that the country needed an external support. As the IMF document testifies, “on April 11, the euro area member states issued a statement specifying the modality of support to Greece, namely bilateral loans centrally pooled by the EC with non-concessional interest rates as incentives for Greece to return to market financing. The statement also noted that the EC, in liaison with the ECB and the IMF (the Troika), would begin to prepare a joint program with the Greek authorities, starting on April 12” (IMF, 2016:11). The first bailout program was formally agreed in May 2010 and was accompanied with a tough austerity policies imposed on Greece. They will be discussed in depth in Chapter Seven. The Ordoliberal hegemony in the Eurozone, is manifested not only in the domain of institutional design of the monetary union, but also in the domain of policies for addressing the crisis. As German Minister of Finance Wolfgang Schauble said in 2011 “austerity is the only solution”, and the detrimental policies were imposed across the

Eurozone periphery. However, the program did not manage to persuade investors that the Eurozone crisis is under control and the contagious effect actually intensified. While in Greece the crisis converged towards the issue of Greek public debt, it was also clear that other countries are strongly affected. In Ireland private banks were insufficiently capitalized and highly leveraged and their investment in property-related business started back-firing. Irish government had to issue a blanket state guarantee to cover most of the private banks liabilities (see IMF, 2016). With the Ireland's sovereign bonds also rising quickly, Irish government decided to approach the Troika for assistance in December 2010. Ireland received 22.5 billion euros from the IMF and 45 billion euros from the euro funds. Unfortunately, that was just a beginning of the Eurozone crisis, because Portugal who was running a huge current account deficit of around 10% for almost a decade, was the next to ask for assistance. It happened in May 2011, and Portugal received 26 billion euros from the IMF and 52 billion euros from the euro funds. In the meantime, the international financial markets were not assured that Greek public finance are sustainable despite the first bail-out program, and premium for Greek sovereign bonds kept growing, prompting a second bailout in March 2012. The second bail-out was a massive bond swap and was associated with a conditionality – austerity assemblage. This is discussed thoroughly in Chapter Four and Chapter Seven. However, the huge exposure of Cyprus banks to the Greek sovereign bonds exposed them to huge losses and eventually Cyprus asked for a bail-out in June 2012, which was granted in March 2013. Finally, Spain received a support in 2012 from the euro funds worth 100 billion euros to recapitalize its own private banks, but the program was not considered a bail-out despite the fact that the IMF had a non-lending supervisory role.

3.5. Greek Financial Crisis – Prologue

This part of the chapter discusses different approaches and explanatory narratives for the Greek and the Eurozone crisis. At the beginning of the Greek crisis the economic phenomenon was usually explained, conceptualized and imagined exclusively through national economic and political causes, and particularly co-related to the allegedly bloated, dysfunctional and flawed public sector. Although the public sector does indeed have numerous flaws as consequence of long and deep historic and political fault lines (see Fouskas and

Dimoulas, 2013; Triandafyllidou, Gropas, and Kouki, 2013) which have contributed to the economic implosion, the public debt and budget deficit are not the most important - let alone the only reason - for the crisis. The enormous increase in overall Greek indebtedness in the 2000s as a percentage of GDP came mostly from the rise of debt in the private sector. As Lapavitsas precisely points out: “Greek public debt had declined significantly as a proportion of total debt, though it has remained considerably higher than in Spain and Portugal...The sectors whose debt has risen significantly in proportionate terms were banks and households. For Greece, joining the EMU has brought rapid financialization, more opportunities for Greek banks to engage in lending, and growing household indebtedness to support consumption” (2012:95). In addition, it must be pointed out that the Greek financial system had been substantially de-localized before the crisis - as will be demonstrated in Chapters Four and Five - through investments from the central European countries, operations of financial derivatives, and international ownership of the biggest Greek banks and companies. Therefore, in the first phase of the Greek crisis the strategic blame game was played out in a constellation which confuses practices and metaphors about the public-private sector, and which are best contextualised as another iteration of Gary Becker’s claim that the only way to reduce inefficiency and corruption in the public sector is to cut it (see also Mirowski, 2013). This is the argument for austerity enforced in Greece and reiterated through moralizing public discourses in the corporate media, certain academic papers and books, think-tanks, and financial ‘commentariat’ analyses of the causes and proposed solutions to the ‘Greek’ crisis.

Nevertheless, catchy stories about the bloated and inefficient Greek public sector sucking financial blood from healthy Eurozone economies and societies had already been launched as an important explanatory element in the newly established European disciplinary theatre of cruelty (Mirowski, 2013). Mylonas, for example, stated that the causes of the national economic catastrophe were, “the Ottoman legacy, Greece’s geographic location, populism and patronage politics, repeated electoral cycles, and finally, endemic corruption” (2010:78). In addition, Mylonas pointed out alleged “Greek uniqueness” in terms of the crisis, but also that austerity is necessary and should be coupled with changes in mentality: “Austerity is needed in multiple corners of the EU to balance public spending and tax revenues. All in all, Greece may be a unique case in that it is experiencing the crisis of a failed public sector, with the root causes of its failings being different from Ireland’s crisis, which primarily involves the private banking sector. Yet if Greece undertakes the right measures and the mentality of the people is altered, Greece may not become a failed developed state after all” (2010:86). A

similar approach was taken by Jean Claude Juncker (2012), current President of the European Commission, who said in 2012 that the Ottoman legacy and lack of trade history in Greece should be blamed for the crisis.

Let me note in passing that the orientalisng approach to the Greek crisis resembles explanatory narratives about the East Asian crisis in the nineties focused exclusively on crony capitalism, as noted by Krugman (2012) and Stiglitz (2015). In January and February of 1998, as Hamilton (1999) points out, Alan Greenspan, the Chairman of American FED at that time, was frequently visiting American Congress to offer his explanation for the Asian financial crisis, as well as to get Congress' support for aid packages for Thailand, Korea and Indonesia. His statements at that time summarised not only a general mood among American economic and political elites, but also demonstrated broad understanding of the crisis circulating in the media which tended to focus on the local pathologies of Asian societies. As Hamilton emphasises: "The economic reasoning that Greenspan and other writers used to interpret the first year of Asia's financial crisis draws on a set of images of how capitalist world economy works and of how Asian countries got themselves into such an awful fix" (1999, 45). As Hamilton explains further in the context of the Asian crisis: "In asking the US Congress for money to support the IMF, Greenspan predicted that the Asian business crisis would have two positive long – term consequences. The successful resolution of the crisis would first bring an end to crony capitalism and, second, hasten the convergence of capitalism into one global pattern, or what Greenspan (1988a) referred to as "the Western form of free market capitalism". Both predictions hinge on what he means by two crucial terms, "crony capitalism" and "free market capitalism" (1999, 46). The lapidary juxtaposition of the unmistakable Western model of capitalism on the one hand, and the "dirty" and faulty forms of other capitalisms developed at the peripheries on the other, are at the root of the paradigms. Meanwhile, it should not pass unnoticed that Greenspan believed in deep transformation of the Asian social and political fabric through neoliberal economization of societies and their further exposition to the global market processor. Greenspan actually believed that curing whole societies of the pathologies of crony-capitalism must come from within the economy itself; that is from further marketization and neoliberalization. And further neoliberalization, public cuts and labour flexibilization is exactly what the Troika has been prescribing and implementing to address the pathologies of the Greek public sector.

That cluster of understanding structured around the Greek public sector, mostly attributes causes for the Greek economic tragedy to the dysfunctional political system and

corrupt state apparatuses, which are uniquely and negatively determined by Greek historical and social development. As Diamandouros puts it: “some analyses tell the story of a predictable crisis that was a long time coming, one that was to be expected from a country that did not quite modernize, in spite of its EU membership, and with strong legacies of a backward political culture impregnated with clientelism and institutionalized corruption that can be traced back to the formation of the Greek nation state” (Diamandouros in Triandafyllidou, Gropas and Kouki, 2013:2). Diamandouros is one of the authors who predominantly locates the rationale for the crisis in the specific, historically complex development of Greece. According to this blend of critique, the Ottoman and Byzantine legacy and its alleged incapacity for industrialization, substantial political democratization and political progress are responsible for the turmoil. In many of these analyses, a stark division was made between the “underdog” political culture and practices, and the weak modernizing and reforming forces in the society, usually very fragmented. Hence Mouzelis, in his early works, located Greece along with the Balkans and Latin America in a “cluster of belatedly modernized countries, in which clientelism was transformed from a personal system to a bureaucratic one without putting an end to the state’s despotism or creating a robust civil society” (Mouzelis, 1986). The explanatory narratives which draw on the Mouzelis analysis intensified in the aftermath of the financial turmoil and actually intended to produce the Greek economic uniqueness: to de-contextualize it from the broader processes of financialization in the EMU. Triandafyllidou, Gropas and Kouki explain the main tendency: “It is said that clientelistic features of the patrimonial Greek state have prevailed, leading to the poor performance of the public sector, populism, lack of meritocracy, and free-rider economic behaviour, at the expense of the labour ethos and the development of the law-abiding culture. The “underdog” culture aspect has been presented and is understood as being at the root of the country’s debt crisis, and of the Greek society’s inability to address its structural shortcomings” (2013:32).

A corner stone of this cluster of analyses was set by the early Mouzelis’ (1978) book, “Facets of Underdevelopment”, in which he shows why the Greek state and society had not been substantially determined by organization and representation based on a class structure, but rather on personal clientelistic networks. What is, however, usually underestimated, is that Mouzelis (1978) in parallel explains the facets of underdevelopment through the neo-colonial relationship between the European colonial powers at that time and Greece, including credit conditions offered in the 19th century to the Greek state. Nevertheless, any possibility for transformation of the society, according to the standpoint which focuses on the Greek patrimonial and clientelistic social fabric, could not come from the class struggle but rather

from an overarching restructuring of society as a whole. For many of the authors within the paradigm, Greece joining the EU in 1981 and European Monetary Union in 2001 are political marking points which merely symbolise missed opportunities and mask deep and unresolved problems in the society. However, an additional problem with the paradigm related to the crisis is that it draws on a relatively restrictive, simplistic and linear understanding of modernity and modernization. In that understanding the modernizing boundary crosses the non-industrial and undemocratic past, frequently related to the Orient and the Balkans, dividing this realm from industrialization, modernization and democratization, exclusively associated with the West. As Tziovas points out: “Tradition vs. modernity schema, like all dualist representation, is too rigid and simplified. Such dichotomies, it is contended, form part of colonial politics by maintaining that there are some deeply embedded cultural traits that fly in the face of modernization as defined by most Americans and Europeans” ((Tziovas in Triandafyllidou, Gropas and Kouki (2013:13). To summarize, the dualistic understanding of the Greek financial crisis focuses on some collective cultural-political imperfections which need, according to the approach, external disciplining and policing.

However, development of the crisis has challenged the explanatory register in several crucial aspects. Firstly, this narrative does not take into account that the crisis did not occur out of blue, but began progressing on the destabilising wave of the US credit crunch in 2008. Secondly, and more importantly, it cannot reasonably account for the spread of the financial crisis within other EU countries of incomparably different political and cultural histories, not to mention robust democratic frameworks. Varoufakis (2011) and Jessop (2013; 2014) assert that the Eurozone crisis must be analysed as an interrelated consequence of the credit crunch in the USA. Varoufakis, for example, points out that the historic change the credit crunch brought about is the US incapacity to further finance its budget and trade deficit, which triggered the sovereign debt crisis. He compares the USA with a Minotaur capable of absorbing capital and goods from the rest of the world, while at the same time was capable of delivering the world new forms of Wall Street credits and other financial instruments. That is to say, the USA was absorbing EU and Japan trade surpluses through its own extensive consumption financed by a galloping American budget deficit, while New York investments banks were pumping out attractive credits to the rest of the world as well as selling other financial instruments. This is how the rest of the world has become heavily financialized and dependant on America’s investments banks. As Varoufakis clearly emphasises: “The sudden disappearance of these funds was bound to wreak havoc in the markets where It had sought refuge during the years of unbounded exuberance. Sadly, many of these markets were located

in Europe. Indeed, mountains of private money had found their way into lean economy of Irish tiger, had settled on the plains of Spain's real estate, had given Greek politicians access to dirt – cheap finance with which to build overpriced infrastructure. This influx of private money contaminated continental's Europe's inane banking system, turning Europe's banks into a cesspool of toxic derivatives" (Varoufakis in Triandafyllidou, Gropas and Kouki (2013:49). In addition, Varoufakis makes a point that "now we are all Greeks", in other words, we are all entangled in the sovereign debt crisis either directly or indirectly. The EU, on the other hand, has been in complete denial of its systemic failures. Jessop (2013) is also explicit that approaches which juxtapose different "national" versions of capitalisms, without taking into account the overarching capitalist architecture and highly deterritorializing capacity of capitalism, could be misleading. They are usually focused on territorial logic and are limited by state boundaries, whereas contemporary capitalism is heterogeneous, complex and able to operate from distance (credit instruments and financial derivatives). Consequently, the Eurozone crisis should not be interrogated as a crisis of different national models of capitalism and, importantly, economic conflicts and structural discrepancies must be framed in a global context. While in his early book on the global crisis, "Global Minotaur", Varoufakis focuses on the role of America in destabilizing the architecture of global finance, in his more recent books, "And the Weak Suffer What They Must" and, "Adults in the Room: My Battle With Europe's Deep Establishment", he focuses on the unsustainable infrastructure of the Eurozone, faulty policies of austerity, and the EU political systems of power which supervise these policies. Therefore, the increase in public debt across the Eurozone was a result of the global recession caused by the subprime mortgage crisis in the USA, as well as activation of the so-called 'automatic national stabilizers' in the Eurozone countries. The automatic stabilizers are state-facilitated provisions for unemployed individuals and troubled companies in time of recession. The increase cost for refinancing the private rather than public debt in the post-credit crunch epoch was a trigger for the Eurozone crisis, as demonstrated by a group of more than 20 influential authors who in 2015 explained the causes for the Eurozone crisis in a joint article, 'Rebooting the Eurozone: Agreeing a Crisis Narrative'. As the article explains: "The real culprits were the large intra-Eurozone capital flows that emerged in the decade before the Crisis. These imbalances baked problems into the Eurozone 'cake' that would explode in the 2010s" (2015:12). The motivation of prominent economists to jointly draft the paper was due to belief that consensual agreement about the causes of the crisis could provide fresh perspectives and policies for addressing it.

If one takes a careful look at the countries affected by the Eurozone crisis (Greece, Portugal, Spain and Ireland), it is impossible to blame budget deficit and public debt before the credit crunch for their economic turmoil. Spain, for example, had a budget surplus in 2007 of 1.9% and GDP/public debt of just 36.3% and, in both categories, was at that time performing much better than Germany. In 2012 at least three influential analyses about the Eurozone crisis managed to dethrone the explanatory hegemony focused on the perennial flaws of Greek society and economy; furthermore, the analyses repositioned discussion towards the intra-Eurozone flow of capital and goods and the current account deficits of the affected nations. The first analysis is an influential article published by Paul Krugman in the NY Times; the second, Lapavistas' book, "The Crisis in the Eurozone"; and third, an article published by Robert Boyer in the Cambridge Journal of Economics under the title, "The four fallacies of contemporary austerity policies: the lost Keynesian legacy". While Lapavistas' (2012) explanation is elaborated already, Boyer brilliantly sums up the illusions related to the wrong diagnoses and ineffective therapy: "The first fallacy derives from the false diagnosis that the present crisis is the outcome of lax public spending policy, when it is actually the outcome of a private credit-led speculative boom. The second fallacy assumes the possibility or even the generality of the so-called 'expansionary fiscal contractions': this neglects the short-term negative effects on domestic demand and overestimates the generality of Ricardian equivalence, the importance of 'crowd in' effects related to lower interest rates and the positive impact on trade balances. The third fallacy 'one size fits all' is problematic since Greece and Portugal cannot replicate the hard-won German success. Their productive, institutional and political configurations differ drastically and, thus, they require different policies. The fourth fallacy states that the spill over from one country to another may resuscitate the inefficient and politically risky 'beggar my neighbour' policies from the interwar period" (2013:283). Let me underline that one of my contributions in this thesis is related to a thorough unpacking of the above mentioned fallacies of the assemblage of austerity, in particular in the domain of different techniques for recapitalization of private banks with public funds and privatization of public assets. However, the analysis of austerity unravelled here – as hinted above - is not only focused on the domain of macroeconomy and the dysfunctional pro-cyclical measures that exacerbated the Eurozone crisis and pushed Greece into such a detrimental recession. In addition to these economic aspects, my study also analyses the assemblage of austerity as a mechanism for controlling and disciplining people, and allegedly de-pathologizing the Greek nation through further neoliberalization and governing of its freedom. This is why reform of education in Greece – which the IMF stipulated be a driving force of the Greek economic

recovery – is analysed in parallel with economic reforms, given the importance for neoliberal forces to subject non-economic domains to the same techniques of governmentality (Davies, 2014).

With the progression of the crisis, and notably other Eurozone countries becoming engulfed, analyses focused exclusively on Greece and its public sector begun losing momentum. For example, Pogatsa (2015) demonstrates persuasively that the Greek public sector in terms of number of employees (as a percentage of those employed in a economy), as well as volume of public expenditure (as a percentage of GDP), was far lower than the OECD average. Furthermore, on average Greek workers spend more time in their jobs than German workers, and far more than Dutch workers, according to official OECD statistics (Pogatsa, 2015; Chang, 2013). In terms of corruption, at the beginning of the crisis Greece was on a par with the Czech Republic or South Korea, confirmed u Transparency International (Pogatsa, 2015). Incidentally, the correlation between corruption in a society, on the one hand, and economic development and growth, on the other, is not simply linear but far more complex, as Chang (2007) has persuasively shown. For example, according to Transparency International, “Japan (per capita income \$37,180 in 2004) was jointly ranked 21st with Chile (\$4,910), a country barely 13% of its income. Italy (\$26,120) ranked joint with Korea (\$13,980), with half its income level, and Hungary (\$8,270), with one third its income level” (Chang, 2007: 153). In addition, in the simplistic division between the public and the private it is usually underestimated that massive corruption exists in the private sector; and that an increased number of sub-contractors complicates the constellation for production and opens space for the grey economic zone.

A further important step in dismantling the predominant narrative about the Eurozone crisis was made when conclusions asserting that every public debt above 60% severely impends economic growth published by two influential Harvard professors, Reinhart and Rogoff (2010) were challenged in 2013. As Mazzucato points out: “The recent controversy over the work of Reinhart and Rogoff shows just how heated the debate is. What was most shocking, however, from that recent debate was not only finding that their statistical work (published in what is deemed the top economic journal) was done incorrectly (and recklessly), but how quickly people had believed the core results” (2015:5). However, before the article was criticised it had already influenced numerous politicians in the EU, for example, the UK Chancellor George Osborne cited it three times in a speech, while it was also referenced by several other EU politicians.

Therefore, in order to understand totality of the crisis, one has to focus on uncontrolled financialization along with the export of capital and goods from the Eurozone centre towards the periphery (Fouskas and Dimoulas, 2013; Flassback and Lapavitsas, 2015; Jessop 2013, Marazzi, 2010; Lazzarato, 2012). As Jessop asserts: “a focus on internal coherence ignores the extent to which comparatively successful performance in certain spaces depends on external as well as internal conditions and – crucially – on a given model’s ability to offload its negative externalities. This includes the ability to displace or defer contradictions, conflicts and crisis – tendencies to other places and times” (2013:12). In addition, many of the prominent authors in the theoretical camp focused on endogenous causes as described above, began mitigating or changing their approach to the crisis (see Mouzelis 2012, Tsoulkas, 2012). It has since become obvious that the Greek crisis is a symptom of the complex mutation of the international banking crisis into the Eurozone sovereign debt crisis, in which the particular centre-periphery constellation of power within the Eurozone has been suddenly unmasked. As Triandafyllidou, Gropas and Kouki precisely state in terms of the evolution of the explanatory registers: “ At the beginning of the current crisis, the dominant narrative blamed the “underdog” culture for the problems of the country, and equated the European Union – ECB – IMF driven rescue mechanism and austerity plans with a modernization project that would eventually bring salvation. Gradually, the unfolding of the crisis beyond Greek national borders shifted the debate and the criticism to also include the modernization paradigm as put by the EU. Mouzelis, for instance, refers to the inequality ingrained within the Eurozone system and the “dictatorship” of the markets, while Tsoulkas, 30 years after the publication of his seminal work, notes that clientelism as an interpretative term may serve as a moralistic narrative attributes wrongs to a perversion of behaviours, rather than actually contributing to a better understanding of the situation” (2013:42).

3.6. Let’s Bring Finance Back

The numerous flaws of the European Economic and Monetary Union, which have deepened and worsened the crisis, are at the centre of examination by the following authors: Lapavitsas (2012), Flassbeck and Lapavitsas (2013, 2015), Katrougalos (2012), Stiglitz (2016),

de Grauwe and Ji (2012, 2013). To begin with, each author understands and emphasises to what extent the EU has abandon its social-democratic character, and how every relevant institution is now immersed in the neoliberal paradigm. Therefore, instead of attributing the causes of the crisis to any national economy and its embedded flaws, they interrogate inefficiencies and structural imbalances within the EMU itself. At the very heart of the neoliberal machinery is uncontrolled 'progress' of the financial sector - deregulation, financialization and globalization. Moreover, the aforementioned authors discuss uneven economic development between the EMU periphery, where the crisis finally broke out, and the EMU centre, which has continuously benefitted from such uneven development. Katraougalos, for example, is clear in asserting that the neoliberal economic structure of the EU eventually generated a crisis of these proportions: "Despite the pathology of the (Greek) political system, the Greek crisis should be more widely seen as part of the general crisis of European capitalism. This crisis has surfaced with different facets in various countries, reflecting specific national structural weakness such as banking overexposure in Ireland, the real estate bubble in Spain, or excessive public debt in Greece. It has been produced by the confluence of two parallel trends: the general deregulation policies of globalization, combined with the gradual abandonment of European social model by the EU and its transition towards a neoliberal system of social regulation" (Katraougalos, 2013: 100). In addition, Katraougalos must also be credited with decomposing the simplistic but frequently used explanation for the crisis – alleged immanent Greek profligacy and licentiousness, that is, the growth of Greek households' indebtedness in conjunction with uncontrollable generosity of the Greek social state. He meticulously shows how unfounded are statements in which Greek citizens "have been linked to the frivolous grasshoppers of the south wanting to live at the expense of the northern, protestant ants. Not only is the private debt of Greek household considerably smaller than the European average (Viliardos, 2010), but average working hours are higher in Greece than in any other European Union member country. More importantly, the social salary (social transfer minus the corresponding paid taxes) that the Greek working class received in the period 1995-2009 (Maniatis and Gousiou 2012, p 149) was consistently negative" (Katraougalos in Triandafyllidou, Gropas and Kouki (2013:100). Finally, Katraougalos aims at decomposing the idea of a gigantic and expensive Greek state and its welfare system, which was circulating in Western media. As he points out: "The European media (and in unofficial or semi-official statements, even International Monetary Fund or the EU representatives) presented the licentiousness and profligacy of the Greek people as the real root of the problem. Both these narratives are ideologically incorrect and misleading as the OECD data clearly show, total

public spending in Greece (as a percentage of GDP) has been constantly lower than the EU average, and remained so both in the 1990s, and in the 2000s. Moreover, public employment as a percentage of the labour force is lower than not only the EU average but also the OECD average” (Kastraugalos in Triandafyllidou, Gropas and Kouki (2013): 101). He concludes the analysis by attributing the obvious manipulation to neoliberal and anti-state fundamentalists.

de Grauwe and Ji have offered numerous invaluable analyses regarding composition of the EMU as well as the detrimental effects of austerity, and consequently have dismantled the illusionary character of some EMU pillars. Even Paul Krugman at one point credited de Grauwe, proclaiming that nobody has taught him more about the Eurozone crisis. For example, in their essay, “Panic Driven Austerity in Eurozone and Its Implications”, they show how the fear-led and self-defeating austerity produced a disaster in the Eurozone South and failed to induce an offsetting stimulus in the Eurozone North. As they point out: “The resulting deflation bias produced the double-dip recession and perhaps more dire consequences. As it becomes obvious that austerity produces unnecessary suffering, millions may seek liberation from ‘euro shackles’” (2013). And de Grauwe and Ji (2013) in their essay, “More evidence that financial markets imposed excessive austerity in the Eurozone”, analyse how the international financial markets, through pressure on sovereign bonds, have actually dictated the severity of the austerity in particular parts of the monetary union. This analysis is of exceptional relevance for this thesis, and I will be drawing on it in Chapter Five where I discuss speculative attacks on sovereign bonds and the correlation between the attacks and austerity measures.

In a similar manner, Stiglitz (2016) offers an in depth account of the Eurozone crisis in his book “The Euro”; explaining how the institutional design of the ECB along with the political incapacity of European elites to control and adjust flows of goods and capital within the Eurozone provided ripe conditions for the crisis. Stiglitz conclusions are very stark: “Three messages emerge clearly from my analysis. A common currency is threatening the future of Europe. Meddling through will not work. And the European project is too important to be sacrificed on the cross of the euro” (2016:326).

The ECB has recently attracted significant academic attention, including contributions from Bibow (2012), de Grauwe (2012, 2013), Stiglitz, (2016), Flassbeck and Lapavitsas (2013, 2015), Piketty (2016). As mentioned in the introduction (and will be elaborated in more detail in Chapter Four) these analyses have critically reflected the institutional design of the central bank and its institutional objectives. Imperfections in both domains have been obvious in determining policy of the central bank and also a completely inadequate use of its power in attempting to stem the crisis. Nevertheless, my original contribution is based on the fact that

here I connect a theoretical approach to the central bank based on the concept of assemblage, on the one hand, with the Ordoliberal legacy embedded in the Eurozone, on the other.

I am of the opinion that Lapavitsas (2012) has offered the most detailed analysis of the discrepancies embedded in the monetary union which led to the crisis in his book, “Eurozone crisis”, as well as through his collaborative work with Flassbeck (2013; 2015). Their analyses of the intra-union imbalances in terms of export of goods and capital from the Eurozone centre to the periphery are crucial for understanding relevance of the German neo-mercantilism for our perceiving of the internal functioning and distribution of power within the EMU. They (2013, 2015) show how the economic policies implemented by the EU and the ECB in the last decade have always been firmly determined by anti-inflationary fears and monetarist premises immanent to German political and economic elites. This approach, including the deflationary bias in the EMU, will be complemented by my contribution on the Ordoliberal legacy in Chapter Six. The fiscal crisis is not a cause, but rather a consequence of structural problems within the EMU – a lack of competitiveness of the periphery which has been exacerbated by the hegemonic economic and monetary policies defined and controlled by a neoliberal European core.

While Flassbeck’s and Lapavitsas’ (2013; 2015) macroeconomic interrogations cannot be overestimated, my contribution in this thesis is, as hinted above, that their neo-Marxist analysis is interrelated with the Ordoliberal genealogy of the EMU and German policies. The genealogy includes not only macroeconomic elements and policies manifested clearly in the crisis, but significantly, techniques of governing and production of a rationale for human freedom as demonstrated by Foucault (2008). As a result, this thesis offers a post-structuralist view of the macroeconomic policies within the Eurozone and interrogates state-empowering strategies, including sovereign governmentality (see Lazzarato, 2015). This is particularly the case with the aforementioned neo-mercantilism as a strategy for strengthening the state and economy at the expense of neighbouring nations - what Keynes called beggar-thy-neighbour - and that which is defining German policy today (see Flassbeck and Lapavitsas, 2015).

It is worth mentioning that Lazzarato (2012) in, “The Making of the Indebted Man”, presents similar conclusions, although less centred round the issues of labour unit cost and inflation. But his point is almost indistinguishable from Flassbeck and Lapavitsas’ presented above in terms of the permanent and persistent underpayment of German labour. Lazzarato (2012) identifies that 20% of the population in Germany is not only heavily underpaid, but live on the edge of poverty. At the centre of his analysis is the reform of the labour market, undertaken by the Red-Green government at the beginning of the 2000s: ““The German

miracle” is a regressive and authoritarian response to the impasses already manifested before 2007. This is why Germany and Europe have been so harsh and inflexible with Greece. Not only because “I want my money back” (creditor’s money) but also and above all because the financial crisis has ushered in a new political phase in which capital can no longer count on the “promise of future wealth” for everyone as in the 1980s” (2012: 183). The mastermind behind the structural reform of German labour laws and practices was Peter Hartz, former head of the Human Resource Department of Volkswagen, who had previously faced a two year suspended sentence and 576.000 euro fine because of corruption. Hartz, in cooperation with the Red-Green government in power at that time, designed the massive labour reform implemented over four phases and aimed at limiting salary increases, introducing different forms of part-time jobs, making labour legislation more flexible, and increasing labour market uncertainty. All of that, of course, has been accompanied with an increase in the existential uncertainty of German citizens, uncontrolled and massive pauperization, and making work and general life of a large portion of the population precarious. Lazzarato precisely underlines:

“It is estimated that up to 6.6 million people among whom 1.7 million children – receive Hartz IV welfare benefits. 4.9 million adults are in reality poor workers employed less than 15 hours per week. In May 2011, the official statistics showed upwards of five million mini-jobs, an increase of 47.7% exceeded only by the boom in intermittent work (+134%). These types of jobs are also very common among retirees, 660 000 of whom supplement their pensions with a mini-job. A large partition of the population, 21.7%, was employed part-time in 2010. The German Federal Statistics Office (Destatis) has measured the rise in precarity in its various forms: between 1999 and 2009, all atypical kinds of work increased by at least 20%. The most affected are single-parent families (mostly women) and seniors. In conditions of precarious full-employment, the official unemployment rate, hailed as proof of the “German economic miracle” doesn’t amount to much” (2012:175).

Therefore the countries at the European peripheries, Greece in particular, started losing the battle of competitiveness with the European core. However, the battle was not lost due to lower growth in productivity of the periphery, but because of tougher squeezing of labour in the European core, with Germany squeezing hardest. This trend has actually consisted of two intertwined circles: a comparative rise in competitiveness of the European core, and re-investment of the current account surpluses in the European periphery in the form of consumer and corporate credits through private banks from the European core. This is how the debt machine within the EMU set a double trap, clearly manifested in the growing current account deficits within the periphery: trade deficits were growing while investment income (recording revenues on investments abroad) were negative.

Chapter Four

The ECB and the Greek Public Sector

The aim of the chapter is to present an account of the Greek crisis which places the interrelation of the public sector and the ECB at the centre. In contrast to the predominant accounts of the sovereign debt crisis, I show through a documents-and-data analysis how the crisis was generated in the private sector and then transferred onto the public sector. The ECB's Ordoliberal character will be discussed, and I will demonstrate how the legacy has shaped the central bank's interventions. The production of knowledge concerning the crisis within the ECB will also be elucidated, as well as the concept of "machinic enslavement" implemented for the interrogation of non-representational measures. The enormous exposure of central European banks to Greece in relation to public and private debt is crucial for understanding the intention behind designing and implementing bail-out programs, as well as their timing. I trace back the flow of money in order to unmask the real aims of the Troika.

4.1. Plan of the Chapter

The aim of this chapter is to explore the role of the European Central Bank in transferring responsibility from the private to the public sector. This transfer happened programmatically, not only within the hermeneutics of the crisis, but more importantly through specific ECB policy measures which intervened in the financial infrastructure. The ECB's influence will be analysed in the following three domains: policy measures, knowledge production, and institutional interventions (through the Troika). The plan of the chapter is as follows: It begins by analysing institutional design and institutional objectives of the ECB, arguing that they are strongly influenced by the Ordoliberal legacy. The chapter then discusses the perilous economic situation Greece experienced in the wake of the global recession in 2009, when its GDP decreased and tax revenues dropped as a direct consequence of the American credit crunch. At the centre of the chapter is the question of how the ECB contributed to the transfer of the economic and moral burden of the crisis from the private to the public sector.

In order to elucidate the effects of the ECB's policy measures, which operated in conjunction with the production of knowledge (reports, analyses), my analysis draws upon Deleuze and Guattari's concept of assemblage. However, the a-signifying policy measures will be analysed as "machinic enslavement" (Deleuze and Guattari, 1987; Lazzarato, 2014). Machinic enslavement is an understanding of how the control of indebted subjectivities (both individuals and nations) is also realised through a repertoire of machinic and a-signifying strategies operating without language, which in this case includes: interest rates, redefinition of bank collaterals, long term refinancing operations, intervention in markets, market indexes, and prices of sovereign bonds. In the context of non-linguistic and non-representational interventions, Lazzarato perspicaciously points out that "the unemployed, the worker, the television viewer, the saver, and so on, are subject not only to 'pastoral' techniques of individualization (Foucault) but to veritable machines of subjectivation and desubjectivation. Under capitalism, the processes of subjectivation and desubjectivation are just as machinic as the production of any other kind of industrial commodity" (2014:48). The ECB and its measures towards Greece will be therefore elucidated as a paradigmatic case of the assemblage—a polyvalent system of power capable of intervention in representational registers, including knowledge, as well as a generator of the mentioned a-signifying (non-representational) machinic enslavement. In the final part of the chapter, the institutional role of the ECB exerted through the Troika will be explored. But before I analyse the forms of the ECB influence, I want to elaborate institutional design and objectives of the ECB which have determined a framework for the central bank policies in the time of crisis.

4.2. Ordoliberal Design of the European Central Bank

The ECB was created by following the Bundesbank model almost to the letter, particularly in terms of the inflation-centred policies, but also in terms of the marginalisation of the capacities of a central bank to deal with employment or economic growth. As, for example, De Grauwe points out: "the German authorities faced the risk of having to accept higher inflation when they entered the monetary union. In order to reduce the risk, they insisted on creating a central bank that would be even more "hard-nosed" about inflation than they were themselves" (2005:168). While de Grauwe notes that the institutional objectives of the ECB

originate from the Bundesbank, he does not connect the objectives with the Ordoliberal legacies. This could be done, for example, through an analysis of the Walter Eucken's "Foundations of Economics" or Wilhelm Ropke's attacks on the inflationary tendencies of the welfare state, because both of them pointed out the importance of so-called "sound money" (see Biebricher, 2014). Neoliberals in general tend to set inflation low—with Milton Friedman famously arguing that it should be at 0%—but in the context of the Bundesbank and the ECB there is a clear traditional link identifiable in the statutory documents. The link could also be found in the explicit statement by the ECB President Mario Draghi about the Ordoliberal character of the institution he leads, or in statements expressed by Jurgen Stark, ex-chief economist of the ECB (see Biebricher, 2016). These institutional objectives have had the following twofold consequences affecting the public sector: the first is that they significantly limited the possibility of adequate interventions by the ECB at the beginning of the sovereign debt crisis, as Piketty (2016) notes, when a slightly higher inflation would have burned a significant proportion of the public debt. The second is that targeting inflation was a narrow policy which did not take into account consequences in terms of employment and overall economic growth. de Grauwe clearly shows that the exclusively narrow statutory focus could be dangerous in terms of macroeconomic stability: "When the ECB targets the price level, it will tend to reduce aggregate demand, thereby lowering the price level again at the expense of an even lower output level. In this case there is a trade-off between inflation and output stabilization" (2005:208). This is precisely what happened in the EMU in the aftermath of the credit crunch, and was the reason why the recessionary spiral was accelerated by inadequate monetary policies in the wake of the Eurozone crisis. He also pointed out that the set inflation of 2% is too low for the monetary union, and that the target inflation of the ECB should be something between 2% and 3%.

Haan and Eijffinger (2000) have offered an extended analysis of the issue of accountability and transparency of the ECB. They note how the ECB enjoys a high degree of independence both in defining its goals as well as instruments for achieving the goal – "Anglo-Saxon central banks, like the Bank of England and the Federal Reserve system, are more inclined to be accountable and transparent with the danger of revealing some of their tactics. On the other hand, continental European Central Banks, such as the Bundesbank before January 1999, and the ECB after January 1999 are more reluctant to be accountable and transparent with the danger of hiding some of their strategies" (2000:406). Haan and Eijffinger (2000) are also comparing the ECB with other central banks in the major economies of the world, to

bolster their thesis that the ECB is the most politically independent central bank. In a similar fashion, Bibow (2012) terms it the most unconstrained central bank, and he explains that by a particular culture of Bundesbank transposed now in the ECB, in which questioning the Bundesbank's independence had become a "national taboo". In addition, as Bibow underlines, "an important argument used by the Bundesbank (and later by the ECB) concerning accountability is that no accountability vis-à-vis any government body would be required since the bank is directly accountable to general public" (2012:12). However, this unconstrained and uncontrolled independency was one of the catalyst for the crisis, precisely because the apolitically-political technocrats who designed the monetary policies underestimated their macroeconomic and distributive consequences such as slow growth. I aim in this chapter to re-socialize and re-politicize the discussion about finance (see de Goede, 2005), and to demonstrate politics behind the allegedly technocratic and apolitical ECB policies. In Chapter Seven, I will discuss further the particular lack of accountability as an element in a broader phenomenon manifested in the Eurozone crisis and defined as a "rise of the unelected" (see Vibert, 2007 in Biebricher, 2014). Biebricher (2014) relates the semi-authoritarian practices to the ECB policies and practices, but also to the newly acquired role of the Troika. In the wake of the EMU crisis the ECB strongly prioritized interests of the financial and political elites over the interest of people.

Finally, one of the most important macro-economic findings in the twentieth century is that a central bank could provide stability in turbulent times when pressure on sovereign bonds rises, because the bank can step in and counteract speculative attacks on the bonds (see de Grauwe, 2013). However, within the EMU, with the ECB as the central bank the constellation has been turned on its head because the role of the ECB is conceptualized differently and it cannot intervene on the sovereign bonds market, nor can national banks in the monetary union. As Bibow underlines: "Keynes viewed the central bank as an instrument of the state, leading and controlling the financial system and wider economy but ultimately an integral part of, and controlled by the state. By contrast, the 'Maastricht (EMU) regime' (of German design) positions the central bank as controlling the state (and disciplining labor unions, too)" (2013:609). Thus, the ECB is explicitly forbidden from intervening directly in the primary sovereign debt market by its statute. This has had severe consequences in terms of the development of the crisis and speculative attacks on sovereign bonds, as I will elaborate detail in Chapter Five, because the ECB indirectly allowed an enormous increase of spreads of the sovereign bonds.

4.3. The ECB During the First Phase of the Crisis

The interrelation of the public and the private debt within the EMU has to be elucidated in order for the ECB policies to be understood. Before I proceed with my analysis of Greek public debt and its interconnection with private financial institutions (both Greek and banks from central European countries) and present some figures related to the exposure of central European banks to Greek finance (both public and private), I first want to elaborate on how the ECB addressed the global challenge to the European banking system beginning in 2008. After the subprime crisis in the USA, the global economy slowed down and tax revenues consequently decreased in the rest of the world, including in the Eurozone. In the aftermath of the credit crunch, deteriorating positions of public debts as a proportion of GDPs were not, of course, just a Greek phenomenon: “According to the IMF, general government debt between 2008 and 2014 increased from 65% of GDP to 79.8% globally, from 78.8% to 105.3% in advanced economies and from 68.6% to 94% of GDP in the Euro area” (TCPD, 2015: 20-21). In addition, welfare states were under pressure due to increased unemployment in the wake of the recession. Finally, states experienced unprecedented burden on their balance sheets because of the massive bailouts of private finance. At the same time, crediting conditions for sovereign borrowers had started to worsen because most private lenders were experiencing solvency and liquidity problems. These issues produced higher interbank rates and higher rates for all kinds of debtors. As Hein points out: “In the course of the crisis, government deficits increased in order to stabilize the private economic and financial sectors and government gross debt-GDP ratios jumped up. These empirical developments seem to be among the reasons why the euro crisis is considered as a crisis of government deficits and debts by many observers – above all by the dominating economic policymakers in Germany, the European Commission and the European Council. Superficially, this view seems to have some merit” (2015: 125).

The chain of events that came to be known as the ‘Greek crisis’ began to unfold in 2010, in the wake of a global recession caused by the credit crunch in the US. While the discussion of the emerging phenomenon was strongly directed toward the responsibilities and flaws of the Greek state, ECB and IMF policy measures ‘on the ground’ were almost exclusively directed towards supporting private sectors (in the Eurozone). In contrast to US

policies in the aftermath of the credit crunch, which focused on slow consumer deleveraging and fiscal support, “the ECB in 2008-2012 did not embark on a similar monetary stimulus; rather, its efforts were devoted to counteracting the effects of impairments to the banking system” (Pisani-Ferry, 2014: 112). In addition, in the wake of growing uncertainty spilling over from America, European commercial banks were undertaking massive restructuring of their securities: they intended to swap their long term positions for short ones.

The scramble for liquidity as well as deleveraging was intensive, and the ECB addressed the banks’ concerns by offering long-term refinancing operations (LTROs), initially for one year, which is considered very long for a central bank operation (see Lapavitsas, 2012). These new securities (LTROs) offered by the ECB enabled banks to switch their long term positions to short ones – which is always the main strategy in the time of uncertainty – but at the same time made position of sovereign borrowers more difficult, because investors preferred the securities guaranteed by the ECB over the sovereign bonds. While any support by the ECB to sovereign debtors at the beginning of the crisis was prevented because of the institutional design and the alleged risk of moral hazard, there was not a similar issue of risk of moral hazard when the ECB provided 1.4 trillion euros of these long term refinancing operations (LTRO) for banks (see de Grauwe, 2013). Let me note in passing that the decision also demonstrates why conceptualization of the morality of debtor – both public and private - should not be discussed just in cultural economy, given it has substantially defined macroeconomic ECB policies in the Eurozone. Put simply, it concretely shows that the moral economy is already part of the infrastructure, as explained in relation to Deleuze and Guattari in Chapter Two.

In May 2009 the ECB announced the following: “The Governing Council of the European Central Bank has decided to conduct liquidity-providing longer-term refinancing operations (LTROs) with a maturity of one year. ... Moreover, the Governing Council of the European Central Bank has decided to prolong until the end of 2010 the temporary expansion of the list of eligible assets, announced on 15 October 2008” (ECB, 2009a: Paragraph 1, 5). We see here how the ECB initiated its strategy of supporting banks at any cost, not only through the provision of short term securities, which enabled banks to swap their long-term positions, but also through the extension of eligible assets as collateral. Although Lapavitsas (2012) does not mention this, since December 2011 the ECB has offered even longer LTROs with a maturity of two and three years – exceptionally long for a central bank operation – with options for exit after every year. In addition the ECB, in cooperation with the US Federal Reserve,

started providing different liquidity programmes for US dollars as well as currency swap arrangements. Given that European banks at the time wanted to reduce their exposure in US dollars and American banks wanted to reduce their exposure in euros, the central financial institutions provided conditions for liquidity intervention and currency risk reduction.

During the early phase of the global crisis (2009 and early 2010), one finds ECB analyses that emphasise the importance of public sector interventions, the transfer of risk from private to public domains, and liabilities that the state has taken on its own balance sheets in order to protect private banks. Consider the following statement, from a 2010 ECB *Financial Stability Review*: “An important lesson from economic history is that governments and, therefore, ultimately taxpayers have largely borne the direct costs of banking system crises. ... In many cases, governments also bore direct costs and expanded their balance sheets through injections of capital into banks, the extension of loans and the setting up of bad bank schemes. These far-reaching measures, which led to a substantial transfer of risk from financial sectors to the fiscal authorities, also had adverse impacts on the public debt positions of a number of euro area countries” (ECB, 2010a: 10).

As the crisis progressed, however, the narrative in ECB reports changed and the strategic blame game, with respect to economic and moral responsibility for the crisis, shifted from private to public finance, from bank balance sheets to ‘sovereign sinners’, ‘budget deficits’, and ‘public debts’. The ethical implications of the shift are evident, because discussions were no longer structured around the speculation-prone, unregulated and destructive dynamics of private banking, but rather around the alleged profligacy of the bloated, inefficient, and lazy public sector. This change provided a background for legitimising austerity measures as well as massive control and disciplinary mechanisms aimed at addressing ‘public profligacy’ and ‘improving the work ethic’.

This change in narratives was accompanied by modifications to policies ‘on the ground’ that were favourable to creditors in the EU financial sector, on the one hand, and detrimental to Greek public finance, on the other. The ECB’s narratives and policy measures, therefore, were not just affecting public understandings of the Greek crisis, but were also *creating a new financial and economic reality in the Eurozone*. In other words, the ECB’s influential reports, risk analyses, policy proposals, and press releases were running hand-in-hand with a-signifying policy measures such as the decrease (or increase on two occasions) of interest rates, the introduction of LTROs, and currency swaps. The crisis unmasked substantial flaws related to

the ECB. The supposedly apolitical and technocratic ECB, as Stiglitz points out, has been making deeply political decisions, and “in making their decisions, policymakers in the ECB have to make judgements with distributional consequences” (2016: 161).

In May 2009, the ECB published a thorough analysis that underscored the role of the public sector in protecting the banking systems of the Eurozone. The report also revealed how high levels of risk were being transferred onto public balances: “Banks merged with government support, or received capital injections, while in other cases banks had to undergo wholesale nationalisation. The scope and magnitude of the bank rescue packages also meant that significant risks were transferred onto government balance sheets” (ECB, 2009b: 14). At that time the Greek government contributed €28 billion to the Greek financial system in order to stabilise it (€5 billion in capital and the rest in guarantees), even though Greek banks were relatively well capitalised according to the Eurostat standards and reports. I would emphasise that this amount of €28 billion, which has since been shown as a liability on the public balances, was transferred a year before Prime Minister Andreas Papandreou announced in December 2009 that the Greek budget deficit was higher than had been publicly presented (see also TCPD, 2015). Note also that in 2008 and early 2009, well before the announcement in December 2009 that the Greek budget deficit was higher than expected, the Greek government bonds had already become exceptionally high in terms of spreads. This shows that there was a more complex correlation between the progression of the crisis and the rise of government bonds, which is not related solely to the budget deficit. This is discussed in depth in Chapter Five.

In December 2009, the ECB officially discussed the potential risks should states withdraw their intervention and support (of private banks) too early: “All in all, the challenges facing the euro area banking sector in the period ahead call for caution in avoiding timing errors in disengaging from public support. In particular, exit decisions by governments will need to carefully balance the risks of exiting too early against those of exiting too late. Exiting before the underlying strength of key financial institutions is sufficiently well established runs the risk of leaving some of them vulnerable to adverse disturbances, possibly even triggering renewed financial system stresses” (ECB, 2009c: 17). At a time of uncertainty in global financial markets, banks preferred to stay in short positions and improve their cash balances by keeping deposits in central banks, rather than lending to corporate and retail customers. Banks choose short term securities over sovereign bonds with longer maturity, and the swap mechanisms provided by the ECB looked like a safe option for that. The fact that banks were reducing

lending also contributed to the liquidity and solvency crisis in both the private and public sectors (see Lapavitsas, 2012).

4.4. Machinic enslavement

Having sketched out the general conditions of Greece's financial system at the beginning of the crisis, I turn now to the discussion of 'machinic enslavement'. The concept was originally developed in Deleuze and Guattari, but has been elaborated on by Lazzarato in his recent book *Signs and Machines*: "In machinic enslavement the individual is no longer instituted as an "individual subject", "economic subject" (human capital, entrepreneur of the self), or "citizen". He is instead considered a gear, a cog, a component part in the "business" and "financial system" assemblages, in the media assemblage, and the "welfare-state" assemblage and its collective institutions (schools, hospitals, museums, theatres, television, Internet, etc.). Enslavement is a concept Deleuze and Guattari borrowed explicitly from cybernetics and the science of automation" (Lazzarato, 2014: 25).

The seminal Foucauldian concept of 'governmentality', therefore, could and should be further discussed through the concept of machinic enslavement, in which individuals are not (only) defined on the basis of their social positions or representational roles – as social subjects – but also through "the governmentality of individuals managed by flows, networks, and machines ..." (Lazzarato, 2014: 37). This is not Callon's (1998; 2007) nor MacKenzie's (2010) calculative, usually apolitical and mostly rational analysis of technological assemblages in economy and their performative production, but rather a Deleuzian analysis of different social semiotics in which individuals are de-centralised, intertwined with networks, and produced through flows and systems of power. This produces subjectivities not only through representational registers and conscious behaviour, but also in "... the desires, beliefs, and sub-representational reality of subjectivity. Governmentality is practiced at the junction of the individual and the dividual, the individual as the dividual's subjectivation" (Lazzarato, 2014: 37-38). One has to understand that material and immaterial networks are intertwined and that they intensify each other, as well as human and non-human assemblages. Reducing the influence of the multiple semiotics to just ideology, representation, discourse, language, or

media would be a substantial mistake, for: “Stock market indices, unemployment statistics, scientific diagrams and functions, and computer languages produce neither discourses nor narratives (these obviously have their places but among enslavements). ... The European Central Bank raises the discount rate by one percent and tens of thousands of “plans” go up in smoke for lack of credit. Social Security posts a deficit and measures to reduce “social spending” are put in place” (Lazzarato, 2014: 40).

Lazzarato mentions the ECB only once, but his point is clear: it is a machine, capable of affecting the economic and political realities of entire countries. It operates through a set of non-representational, mostly abstract, quantitative decisions such as the extension of acceptable collateral for sovereign borrowers; or the redefinition of bank collateral coming from a particular country; or through a suspension of liquidity, as we saw when the far-left political party Syriza won elections in Greece. For example, on 4 February 2015 the ECB announced that beginning 11 February 2015 it would cease to accept Greek government bonds as collateral, stating that “it is currently not possible to assume a successful conclusion of the programme review” (quoted in TCPD, 2015: 53).

The political economy of affect has been an integral part of Deleuze and Guattari’s social assemblage since their early work, as it was mentioned in the Chapter Two. This is an additional advantage of their theoretical approach for analysing the financial crisis in context of the ECB as a machinic enslaver, because all epistemological forms have been produced in conjunction with a moral analysis of power relations and the production of the immoral debtor. As Lazzarato underscores, “machinic enslavement activates pre-personal, pre-cognitive, and pre-verbal forces (perception, sense, affects, desire) as well as supra-personal forces (machinic, linguistic, social, media, economic systems, etc.) which, beyond the subject and individuated relations (intersubjectivity), multiply possibilities” (2014: 31). The forms of ECB enunciation in the ‘superstructure’ (reports, analyses, press releases) and the forms of financial production in the infrastructure (interventions through interest rates or redefinition of collaterals, currency swaps or Troika measures) are expressions of the same power, and should therefore be analysed together.

Lazzarato does not mention this, but the ECB also operates through representational registers (see Holmes, 2014). It publishes influential press releases, annual reports, and so-called stability research. Thus, I would argue that only a thorough analysis of the ECB capacities on both levels – as the generator of a-signifying machinic enslavement, on the one

hand, and as a producer of signifying economic knowledge about the crisis, on the other – can we better understand its role in the Greek and Eurozone crises and see it as an unprecedented system of power. Finally, and most importantly, we must keep in mind that the a-signifying and signifying practices create economic reality by controlling the *political economy of affects*, which should be distinguished from emotions because affects constitute a broader and more complex reality (see Marenko, 2010).

In Greece individual and collective fear, uncertainty, feelings of guilt and responsibility were purposely spread through biased press and expert analyses, on the one hand, and the ECB's non-representational policies and measures such as the suspension of collateral or reduction of liquidity, on the other. The manner in which responsibility and ethics vis-à-vis Greek public debt were discussed and structured in public and subsequently perceived and internalised by Greek citizens was one of the crucial elements in imposing and executing austerity measures, which will be discussed in depth in Chapter Seven. With the acceptance of austerity measures, Greek citizens were publicly shamed because of their public debt and budget deficit, in order to experience a deep sense of responsibility and fear. Lazzarato (2014: 41) argues that “in the economic crisis, asignifying financial ratings and stock market indices have dominated, deciding the life and death of governments, imposing economic and social programs that oppress the government”. With respect to human actors, he continues: “The signifying semiotics of the media, politicians and experts are mobilized in order to legitimize support, and justify in the eyes of individuated subjects, their consciousness and representations, the fact that ‘there is no alternative’” (ibid.). A disjunction exists between these a-signifying measures and the ‘signifying semiotics’ that accompany them, and I would argue that this asymmetry applies fittingly to the ECB.

4.5. Localising responsibility

I would now analyse how the central European governments and the ECB were doing their best to improve the liquidity and solvency of the banking sector. Central European commercial banks were getting cheap liquidity through the mentioned channels (governments and ECB support), and were then buying lucrative sovereign bonds from peripheral Eurozone

countries which started to grow slowly. As Pisani-Ferry notes, several German *Landesbanken* exemplify how, “in a desperate attempt to shore up their financial positions, [they] had bought large amounts of high-yielding sovereign bonds issued by peripheral euro-area countries. Hypo Real Estate in particular, a Munich-based institution to which the German government eventually provided more than €100 billion in support, had invested €8 billion in Greek government bonds after taken large losses on subprime derivatives in 2007 and 2008” (2014: 88).

In 2011, during an official meeting between the then French President Nicolas Sarkozy and German Chancellor Angela Merkel, this was established as official strategy. Consolidation of the private banks was a top priority, so that the consolidated banks would be able to intervene in the sovereign bonds market and push their price down (Pisani-Ferry, 2014: 109). It was termed the ‘Sarkozy carry trade’ because the French President formally proposed it. This process further extended the exposure of central European banks to peripheral countries, and I will now discuss the case of Greece. It is worth noting that sovereign bonds from the Eurozone periphery at the beginning of the crisis, Greece included, were not considered risky. The aggregate debt of Greece (public plus private) in 2009 was around €703 billion, of which €293 billion was public debt. The total exposure of all Eurozone banks to Greece (not only French and German) at that time was around €206 billion, according to the Bank for International Settlements (Lapavitsas, 2012: 103). The structure of the exposure is as follows: exposure to the Greek public sector was 45%, to the banking sector 16%, and to the non-financial private sector 39% (TCPD, 2015: 15). Direct exposure of French banks to Greece in 2009 was around €60 billion and exposure of German banks was around €35 billion (TCPD, 2015: 19). Direct exposure to Greek public debt was around €31 billion by French banks and €23 billion by German banks (Lapavitsas, 2012:103). The massive exposure of German and French banks to Greek public and private debt demonstrates not only that they were deeply responsible for the crisis, but also that they were facing a serious risk. That is why the ECB was rushing to assist them at all cost.

The general market conditions in the Eurozone at the end of the 2009 and at the beginning of 2010 help us understand the ECB’s strategies for addressing the crisis. Even before the Greek Prime Minister Papandreou announced in December 2009 that the budget deficit was much higher than had been publicly presented, politicians and policymakers had shifted attention from any relaxation of fiscal policies towards their tightening. One can argue

that the Greek crisis was actually an unexpected gift for the proponents of ‘deficit-cut fetishism’ (Stiglitz, 2010) and helped them bolster and spread their rationale for crisis management and impose austerity policies across the Eurozone. Greece had become a laboratory for threatening other economies: if you do not impose tough austerity you will share the same destiny. Recall, too, the timing of the strategies used for fiscal control and discipline of the Eurozone nations. They started before the Greek crisis exploded because, as Pisani-Ferry notes, “already in the autumn of 2009, barely a year after they had embarked on a coordinated stimulus, ministers of finance started to prepare an ‘exit strategy’ from it” (2014: 110).

In 2010 one still finds in the ECB’s June *Financial Stability Review* an unexpectedly nuanced genealogy of the sovereign debt crisis and the burden imposed on public finances, despite its neoliberal conclusions. The report singled out a decrease in tax revenues, albeit without mentioning the direct causes of the global recession in this context – financialisation and the credit crunch – and also blamed pre-crisis fiscal problems, as well as the Keynesian counter-cyclical policies that some countries across the Eurozone had begun to implement in 2008 before shifting to more neoliberal, pro-cyclical measures. Moreover, “the main reason for the severe deterioration of public finances was the activation of automatic stabilisers – that is the loss of tax revenue and higher government expenditure outlays that ordinarily results from weaker economic activity – as a consequence of the marked contraction of economic activity that followed the collapse of Lehman Brothers. Because the structural fiscal imbalances of a number of euro area countries were sizeable before the financial crisis erupted, fiscal deficits in those countries expanded to very high levels. Added to this were the discretionary fiscal measures taken by many countries to stimulate their economies following the agreement in December 2008 of the European Economic Recovery Plan” (ECB, 2010a: 10).

ECB analyses at the beginning of the Greek crisis defined the intersection of public and private sectors but expressed concern about the potentially catastrophic spill-over effect only from public to private finance, not the other way around. For example, the ECB reports draw attention to the risk of crowding-out private investment in the case of progressive public-finance interventions by government; the risk of an uncontrollable rise in interest rates for banks’ refinancing as a consequence of the sovereign debt crisis; the dangerous effects of the rise of sovereign bonds on corporate bonds; and the incapability of banks to issue bonds in the time of crisis. By the December 2012 *Financial Stability Review*, the asymmetry of the risk of spill-over effects between banks and sovereigns is openly acknowledged and discussed in

depth: “Similarly, several other key policy interventions over the period from July 2011 to March 2012 helped to contain spillovers as captured by this index. In the last quarter, spillovers *from banks to sovereigns* increased considerably, while the potential for spillovers *from sovereigns to banks* remained subdued” (ECB, 2012b: 75, emphasis added). A similar point is made with respect to LTROs: “following the announcement of the three-year LTROs, the potential for spillover both across banking sectors and between banks and sovereigns decreased remarkably further. While those policy measures seem to have helped to tame funding pressures for banks, they nevertheless induced slightly higher potential spillover effects across sovereigns” (ECB, 2012b: 76). Taking this into account, it comes as no surprise that while public balance sheets were deteriorating across the Eurozone area, particularly in Greece since 2009, the profitability of banks was revived as early as 2010: “For the first quarter of 2010, those LCBGs (Large and Complex Banking Groups) that report on their financial performances on a quarterly basis showed a considerable improvement in their median ROE (Return on Equity), to above 11%. ... Indeed, for the first time since 2007, no euro area LCBG reported a net loss for the first quarter of 2010” (ECB, 2010a: 14).

4.6. The First Bail-out Programme – a Prologue to Catastrophe

From the end of 2009 Greece faced a series of internally and externally imposed austerity measures and they will be discussed in great detail in Chapter Seven. As the *Preliminary Report* produced by the Greek Truth Committee on Public Debt (TCPD) points out, “[t]his paved the way for the deterioration of the fiscal situation that allowed, under an ‘emergency situation’, to approve further injection of public resources to re-capitalize Greek banks. These measures quelled the expansion of the crisis to other European banks, effectively transferring the burden of the crisis to the Greek taxpayers” (TCPD, 2015: 19). There are also, however, several crucial and ominous details – not well known to the public – that should be added regarding the revision of the Greek budget deficit at the beginning of 2010. While it is absolutely clear that earlier Greek governments had been manipulating budget figures through their derivative arrangement with Goldman Sachs (this will be discussed in Chapter Five), it is unclear how the figures should have been precisely corrected and revised. The authors of the above report describe further manipulation by the Papandreou government, this time in the

opposite direction – that is, a deliberate increasing of the budget deficit. This was done through a biased reconsideration of certain non-validated liabilities that Greek hospitals possessed from 2005-2009. The derivative arrangement with Goldman Sachs was also retrospectively overestimated in terms of value related to the percentage of the budget deficit. The authors of the 2015 *Preliminary Report* estimate that through biased retroactive accounting, the Greek budget deficit was purposely misrepresented as 6-8% higher than it actually was. The authors consider the falsification of statistical data as “directly related to the dramatization of the budget and public debt situation. This was done in order to convince public opinion in Greece and Europe to support the bail-out of the Greek economy in 2010 with all its catastrophic conditionalities for the Greek population” (TCPD, 2015: 18). “The banking crisis”, they conclude, “was underestimated by an overestimation of the public sector economic problems” (ibid.).

As sovereign Greek bond yields under speculative attacks – as I will elaborate in Chapter Five - reached a new high in April 2010 and central European private banks, the main lenders to Greek banks and holders of said bonds, faced uncontrollable risk, it was obvious that unprecedented measures had to be taken. The Troika thus formed. It consisted of the ECB, the EU Commission and the IMF. The predominant aim of the Troika was, as I will show below, to stem the progression of the crisis into the private sector and create additional time for the private banks from central Europe to reduce their exposure to both public and private Greek debt. In May 2010 the Troika’s first package, worth €110 billion, was formally accepted by the Greek parliament. May 2010 saw an increase in ECB activities and measures, demonstrating the full capacity of this system of power. My analysis reveals deep political layers throughout the allegedly apolitical and independent economic institution, because all of the financial measures were accompanied by political decisions made by either the Greek government or the Parliament. Let me note in passing that at this time, when rapid and risky fiscal adjustments were imposed on Greece and many other peripheral countries, the US was running a very Keynesian and counter-cyclical policy with a budget deficit of 9.8% in 2009, 8.7% in 2010, and 8.4% in 2011. This provided the US with the possibility of getting out of recession in a quicker and much stronger way than the EU.

It must also be pointed out that just one day after the Greek Parliament confirmed the Memoranda of 3 May 2010, the ECB implemented its first measure directly related to Greek sovereign bonds, which suspended a minimum credit rating for collateral issued or guaranteed

by the Greek government. However, the measure actually supported the holders of the debt instruments, who were predominantly central European banks. This is an example of the as-signifying, non-representative policy measures that supported the private financial sector. Finally, the ECB decided on 10 May 2010 to create the Securities Market Programme (SMP) for buying securities including sovereign bonds on the secondary market but only with limited central bank sources. Time and again, we see that while the ECB was hesitant to support sovereign debtors, it rushed to assist private banks holding the sovereign bonds of peripheral countries in the Eurozone. In addition, the economic decisions to intervene on the secondary market of sovereign bonds at that time were accompanied by a political ultimatum, evident in the following statement: “The scope of the interventions will be determined by the Governing Council. In making this decision we have taken note of the statement of the euro area governments that they ‘will take all measures needed to meet [their] fiscal targets this year and the years ahead in line with excessive deficit procedures’ and of the precise additional commitments taken by some euro area governments to accelerate fiscal consolidation and ensure the sustainability of their public finances” (ECB, 2010b: para. 3).

From 2010 to 2012, the ECB bought on the secondary market around €210 billion in sovereign bonds issued by Greece, but also by other troubled economies: Italy, Portugal, Spain, and Ireland. This temporarily reduced the pressure on central European creditors, but towards the end of 2011 and in 2012 the attacks on the sovereign bonds intensified. In Summer 2012 the crisis threatened a full-blown dissolution of the monetary union. At that point the ECB realised that the limited interventions are not enough, and the ECB President Mario Draghi announced: “Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough” (ECB, 2012c: para. 19). The statement significantly helped sovereign borrowers by reducing the price of sovereign bonds. Formally, the Outright Monetary Transaction as a new ECB Programme started in September 2012, and its purpose was potential buying of sovereign bonds but exclusively in secondary markets. As de Grauwe explains: “On September 6, 2012 the ECB finally recognized this point and announced its “Outright Monetary Transactions” (OMT) program, which promises to buy unlimited amounts of sovereign bonds during crises. It is interesting to quote Mario Draghi who justified the OMT program as follows: “you have large parts of the euro area in a bad equilibrium in which you may have self-fulfilling expectations that feed on themselves” (2013:16). However, de Grauwe also underlines that the OMT program has had two important imperfections: the first is related to the fact that it aimed at buying sovereign bonds with maturity just up to three years, and the

second was that in case that a country asked for assistance within the program, then the country concerned must also apply to ESM (European Stabilization Mechanism) which will expose it to further austerity. It could be said that obviously the ECB has a particular neoliberal design which has aimed at reducing any interaction between governments and the bank, and consequently that it has been opposing the Keynes' conceptualization in which a central bank is an instrument of the state.

4.7. The ECB During the Second Phase of the Crisis

The conditions of the measures jointly proposed by the ECB, the IMF and the European Commission require further analysis. Greece has to date received three financial packages. The first - already mentioned above – was in May 2010. The second was a sovereign bond swap worth €130 billion in March 2012, and in June 2015 there was another of approximately €86 billion. My larger contention is that the first two aid packages were meant to implement a radical model of economic, political, and moral control on the Greek economy and society. Correspondingly, this provided additional financial support and time for central European and Greek private banks to reduce their exposure to Greek debt, both public and private. The IMF openly acknowledged this in a document from 2013: “A delayed debt restructuring also provided a window for private creditors to reduce exposures and shift debt into official hands” (quoted in TCPD, 2015: 26). Although the amount of €240 billion in total for the two bail-out packages was repeatedly presented in public discourse as representing unprecedented support for the insatiable Greek state, this was not the case. An analysis produced for the Jubilee Debt Campaign shows that only 10% of the €240 billion paid through the financial packages ended up in the Greek public sector, while “€34.5 billion of the bailout money was used to pay for various ‘sweeteners’ to get the private sector to accept the 2012 debt restructuring. €48.2 billion was used to bailout Greek banks following the restructuring, which did not discriminate between Greek and foreign private lenders. €149.2 billion has been spent on paying the original debts and interest from reckless lenders. This means less than 10% of the money has reached the people of Greece” (Jones, 2015: para. 2).

The Troika anticipated a drop in Greek GDP in 2010 and 2011, but was adamant that in 2012 Greece would resume growth. Let me note in passing that the predictions, however, have proved to be wrong, mostly because the Troika did not take into consideration the specific constellation of the Eurozone, rigidly implemented an anti-Keynesian understanding that underestimates demand coming from the public sector and, last but not least, because they used the wrong formula to calculate how quickly and how deeply the public cuts could go. This will be discussed in great detail in Chapter Seven in relation to the austerity assemblage. In 2010, however, the President of the ECB, Jean-Claude Trichet, was still decisive about the positive combination of austerity and prospects for growth: “It is an error to think that fiscal austerity is a threat to growth and job creation” (ECB, 2010c: para. 28). Obviously the President of the ECB believed in the unmanageable neoliberal construct which Boyer (2012) defines as ‘expansionary fiscal contractions’. That is to say, an idea that expansive growth is compatible with fiscal retrenchment. In addition, asked in an interview with *Das Bild* in January 2011, Jean-Claud Trichet was adamant that this was not a crisis of the euro rather “what we have is a crisis related to the public finances of a number of euro area countries” (see Laffan, 2016). These statements lapidary describe the ECB propensity to misdiagnose the crisis and misaddress it with completely wrong policies. During the two years between 2010 and 2012, the Greek economy in general and its public sector in particular were completely devastated. The macroeconomic fallacies related to the austerity assemblage will be discussed in depth in Chapter Seven, but let me mention here that The Truth Committee on Public Debt’s *Preliminary Report* persuasively documents the effects of the measures: “Successive wage cuts and tax hikes brought massive lay-offs, erosion of labour standards, increased job insecurity, and widespread precariousness, with over-flexible, lowly-paid jobs where women and young predominate. The minimum wage was pushed below poverty thresholds. Unemployment exploded from 7.3% to 27.9% (2008-2013). Public sector employment decreased from 942,625 to 675,530 between 2009-2013, with pay shrinking by over 25%. Private sector wages fell at least 15% till 2013. Youth unemployment reached 64.9% in 2013, decimating prospects of accessing the job market” (TCPD, 2015: 38).

The second bailout programme was worth a total of €130 billion and contained so-called ‘private sector involvement’. It was actually a massive bond swap, in which private investors agreed to a ‘haircut’ of around 53%, but also received an immediate award worth €34.5 billion for it, in the form of securities with a maturity of one or two years. The new bonds were guaranteed not by the Greek state but by the European Financial Stabilisation Fund

(EFSF). In addition, €48 billion of the €130 billion was allocated to recapitalise Greek banks. This recapitalisation of the Greek private banking sector was transferred onto government balance sheets and included in public debt figures, as it will be demonstrated in depth in Chapter Seven. Regarding the time of repayment for the Greek public debt, the second package – contrary to general perception – did not provide any significant advantage. This is because the ‘sweeteners’ for private investors (€34.5 billion) had to be repaid within a year or two. Coupled with financial obligations towards the ECB and the IMF that were not part of the deal, this actually made Greek financial obligations during the period from 2012 to 2014 worse than they had been before. It was only later that the public debt was restructured and the repayment period extended. During the most intense part of the recession, when relief was most needed, financial obligations were not reduced.

The ECB’s role in the production of knowledge regarding the crisis shifted over time. I have shown how at the beginning of the financial turmoil in 2009 and 2010 one can distinguish a nuanced genealogy of the crisis in ECB materials, which demonstrates a transfer of the burden from the private to the public sector. As the crisis progressed, however, the tone changed substantially and focused instead on fiscal and structural discipline as well as risks associated with the profligacy of sovereign borrowers. In June 2012, for example, the ECB published the following statement: “The first – and arguably most concerning – key risk to euro area financial stability relates to sovereign vulnerabilities at the heart of this stage of the financial crisis, the origins of which lie half a decade in the past. A resurgence in sovereign market tensions within some euro area countries has implied renewed increases in bond yields, along with signs of tension in bond markets. The containment and reversal of such trends rests upon action to address vulnerabilities that persist amongst several sovereigns. It is clear that several euro area countries need to repair both their fiscal positions and prospects, as do other major advanced economies” (ECB, 2012a: 8).

Regarding the ECB hermeneutic shift related to the Greek crisis, it should be underlined that Lazzarato (2012) emphasises how the making of an indebted subject always entails two interconnected registers: the production of indebtedness through financial instruments, on the one hand, and the production of subjectivity, on the other. He argues that a credit relation is always accompanied by assessment of life, habitus, the morality of the debtor, and practical changes in the subject’s form of existence. As ECB reports show (and the political interventions in Greece demonstrate), average working hours, time available for holiday, salaries and state

privileges, national health insurance, maternity leave, and appropriate age for retirement are all at stake in 'structural reforms'. Lazzarato affirms such connections between economic knowledge and elements of everyday life. He also identifies the tendency to explain economic struggle and poverty as a lack of adequate self-management, including work ethic and uncontrolled (or 'immoral') spending habits, rather than the manifestation of capitalism's inherent destructiveness: "To make an enterprise of oneself (Foucault) – that means taking responsibility for poverty, unemployment, precariousness, welfare benefits, low wages, reduced pensions, etc., as if these were the individual's 'resources' and 'investments' to manage as capital, as 'his' capital" (Lazzarato, 2012: 51).

The causes of the crisis are thus attributed to sovereign borrower. Moreover, fiscal positions are placed at the centre of economic prospects, not counter cyclical and state-mediated investments in innovation and strategic industries, which are only capable of generating growth for the troubled economies (see Mazzucato, 2015). It should be also pointed out that since March 2015 the ECB started implementing a new program: Quantitative easing. The measure is consisting of buying every month sovereign bonds of Eurozone countries in secondary market, but also since March 2016 the ECB started buying corporate bonds in primary market. The quantitative easing in general aims at reducing price of securities, lowering interest rate, enabling cheaper borrowing and more spending and therefore boosting growth and inflation. Initially it aimed at spending around 1.1 trillion of euros for buying securities, more than 60 billion of euros every month. However, it must be pointed out that results of the measure were not successful in terms of increasing inflation and boosting demand, despite the enormous amount of money pumped in the EMU economy. Namely, most of the money went into shares rather than consumption, and benefited privileged population who have income from capital rather than income from labour (wages). Despite the quantitative easing and slightly higher growth of GDP in the Eurozone on aggregate, inflation is still far from targeted of 2%. These illusions related to the QE reminds the famous debate in *The Times* in 1931 between the Hayek's camp, on the one side, and the Keynes' camp, on the other. While Hayek and his followers asserted that buying securities would boost production, demand and investment, Keynes and his followers believed that buying securities would be a very limited economic intervention as long as it is not able to intensify the propensity to consume.

4.8. Conclusion

In closing, I want to emphasise that the progression of the so called ‘sovereign debt’ crisis in the Eurozone, with Greece at its centre, illustrates two parallel processes. The first relates to the global recession caused by private banks and the bolstering of the private financial sector by state(s) and international institutions such as the ECB and the IMF. The second relates to the production of specific knowledge regarding the supposed moral and economic dysfunctionality of the public sector. What these two processes have in common is their transfer of financial and moral burden from private financial institutions and their shareholders to the public sector and ordinary tax payers. Within economic and political constellations, sovereign creditors – with the ECB at the centre – used their systems of power to discredit sovereign borrowers, and attributed the causes of the crisis almost exclusively to the Greek public sector. This rationale was the main instrument for legitimising and intensifying austerity measures, which ostensibly aimed at improving the Greek economic and moral infrastructure, but in reality were destroying the economy and society.

The goal of the strategic blame game can now be clearly elaborated. While the vast majority of private banks in the central areas of the Eurozone, those highly exposed to sovereign bonds of the peripheral countries as well as subprime toxic assets from the US, managed to quickly consolidate their positions and regain profitability in 2010 (albeit with ECB support), countries at the periphery and Greece in particular have gone through a prolonged and detrimental period of recession and austerity. The private sector experienced a one-off loss in 2012 in terms of bond swaps as part of the second bailout, but this is incomparable with the overall losses transferred onto the Greek state. I have shown that this complex manoeuvre resulted in financial costs for the crisis and for private bank consolidation being paid for mostly by the public sectors of the proscribed Eurozone periphery, especially Greece. But in order for this manoeuvre to operate smoothly and remain disguised, with the ECB as the main operator, the Eurozone “morality play” (Krugman, 2016: par. 13) had to be publicly performed. Moreover, in the rest of Europe there is occasionally a perverse satisfaction in watching the Greek theatre of cruelty, as Mirowski (2013) notes in the American context, related perhaps to the fact that people elsewhere, no matter how gloomy their austerity is, still enjoy relative stability in comparison to Greece, where youth unemployment reached 50%,

public debt to GDP reached 180%, a third of GDP was wiped out, and massive brain drain occurred, all of which led to a suffocation of alternative futures.

Chapter Five

Attacks on the Eurozone Sovereign Bonds

This chapter demonstrates how the speculative attacks on Eurozone sovereign bonds were designed and executed, and consequently worsened the crisis. They were possible because of the particular composition of the EMU as well as the institutional design of the ECB. Goldman Sachs designed financial derivatives for the Greek government in order to enable it to hide the real size of the Greek public debt. The deal also enabled the investment bank to anticipate the sovereign debt crisis, orchestrate attacks on Eurozone sovereign bonds, and profit from the crisis. The rise of spreads on sovereign bonds triggered austerity, while there is a direct correlation between intensity of the austerity measures and the intensity of attacks on sovereign bonds.

5.1. Plan of the Chapter

The aim of this chapter is twofold: to discuss the particular macroeconomic vulnerability of the economies in the EMU related to their sovereign bonds; to concretely elucidate how the vulnerability has been exposed and exploited in the wake of the Greek and Eurozone crisis. It will be argued that the composition of the Eurozone, with countries sharing the same currency but keeping individual sovereign bonds, provided the necessary conditions for financial attacks on Greek sovereign bonds. This could also be said for the institutional design of the ECB, which strictly forbids intervening in the primary sovereign debt market. In addition, this chapter demonstrates that a particular kind of financial derivative—sovereign credit default swaps—played an important role in the attacks on sovereign bonds (Dellate, Gex and Lopez-Villavicencio, 2011; Boyer, 2012; Fumagalli and Lucarelli, 2015).

When the EMU was constituted a predominant expectation was that risk premium (spreads) on sovereign bonds – among several other economic indicators – would converge and therefore enable favourable prices for the EMU sovereign and private debtors when they borrow on international financial markets. This indeed happened in the monetary union before the Eurozone crisis, in the epoch of Great Moderation (Bernanke, 2004), when spreads on sovereign bonds of the peripheral countries almost equalled spreads on the bund (German sovereign bond). As a consequence, in the 2000s it was broadly accepted among financial experts that sovereign risk had been eliminated in the EMU (see IMF, 2016), as elaborated in Chapter Three. The convergence of spreads for sovereign bonds reduced the cost of borrowing but also accelerated financialization across the monetary union. As Achary and Steffen underline: “correlations between the bond yields of Germany (and France) and peripheral sovereign bond yields were above 95% in 2005 but became negative in 2010 when markets were more reluctant to finance bank’s investments in risky sovereign debt” (2011:6). Obviously, when the credit crunch in the USA destabilized the whole architecture of global finance, it became apparent how unfounded was the belief that sovereign risk in the EMU had been eliminated.

In addition, it has since become evident that the architects of the EMU underestimated the threat of so-called asymmetric shocks, and consequently vulnerability of the sovereign borrowers in the monetary union, in particular the weaker economies. The main problem and immanent macroeconomic fragility of a country member in the EMU is related to the fact that it issues sovereign debt in a currency over which it has no control (see de Grauwe, 2011; de Grauwe and Ji, 2013). It means that EMU members are issuing their sovereign debt in euros, but do not have any control over the ECB and cannot expect that the central bank will step in and support them in time of crisis through buying sovereign debt on the primary market. Therefore, there is no a final guarantee that sovereign debt will be paid to investors holding the bonds as there is no lender of last resort. Indeed, when the Eurozone crisis struck investors quickly became aware of the fact; and this is the main difference between countries in the monetary union and standalone countries with full monetary sovereignty, including support from their central banks. This substantial difference is demonstrated below. In this context it should be noted that although premiums for sovereign bonds of the standalone countries – both in the Global North and the Global South - have also increased in the aftermath of the credit crunch, it was only in the Eurozone that the premiums on bonds reached unsustainable levels and triggered financial turmoil.

Given that member countries of the EMU do not have control over currency – in relation to issuing their government bonds – their macroeconomic vulnerability actually equals sovereign borrowers in the emerging markets, because they issue debt in foreign currency and are susceptible to liquidity movements and crises (de Grauwe, 2011; de Grauwe and Ji, 2012). This problem in relation to the emerging economies that issue sovereign debt in foreign currency – usually dollars - has already been recognized and discussed in economics (see, for example, Eichengreen et. al, 2005), and it has been proved that international financial markets have significant power in these economies and can force them into default. However, similar problems with the EMU countries who issue bonds in a currency they have no control over has only recently attracted academic attention.

With the Greek crisis in mind, many weaker peripheral economies in the EMU appear susceptible to volatilities and the power of international financial markets. The only difference between the emerging market economies and weaker economies in the EMU is that the liquidity crisis in the emerging economies is produced through speculation on the currency market, while in the EMU is done through speculation on the sovereign bond market. Sovereign bonds are – generally speaking– highly illiquid securities, given their maturity is up to ten years; so, in times of uncertainty investors usually tend to sell illiquid assets and invest in liquid ones. This also means that if a liquidity crisis occurs in turbulent times and without support of the ECB, in a monetary union it can easily degenerate into a sovereign solvency crisis, as the Greek case confirms.

Varoufakis makes a similar point regarding the macroeconomic vulnerability of EMU countries, but also underlines potential for the contagious effect between the sovereign borrowers: “The Eurozone was founded on two principles: First, that its central bank would be explicitly banned from acting as a lender of last resort (for states and/or banks facing insolvency). Secondly, an unbending principle of Perfectly Separable Sovereign Debts. Thus the scene was set for contagion following a financial crisis that could readily cause pairs of national banking systems and states sequentially to titter on the verge of bankruptcy” (2013:18). Defensive strategies employed by the Eurozone for addressing the attacks were limited due to the above mentioned infrastructural composition of the EMU and the institutional design of the ECB, which prohibits any acquisition of sovereign bonds by the central banks on the primary market and the monetisation of debt. Article 21 of the ECB statute explicitly states that the central bank is not allowed to provide “overdrafts or any other type of credit facilities” to public entities, nor can the ECB purchase directly “debt instruments” from

these public entities (see de Grauwe, 2013:528). While Varoufakis and de Grauwe precisely elaborate macroeconomic fragility in relation to what I have termed the EMU assemblage, they do not interrogate the technical realisation of the attacks on sovereign bonds. The rest of the chapter aims at filling that gap: connecting the theoretical analysis of the macroeconomic vulnerability of the weak economies in the Eurozone with a technical analysis describing how the infrastructural weakness was exposed and exploited at the beginning of the Greek crisis.

5.2. Theoretical Appendix: Ontology of Synthetic Finance

Before I explain the technical details of the financial derivatives related to the Greek crisis, a broader description of financial derivatives should be sketched out. In last fifteen years, and particularly since the credit crunch, financial derivatives have attracted significant academic attention, with important contributions from authors in the domain of critical finance. Bryan and Rafferty (2006), for example, define derivatives as a global reserved currency and also discuss their role in converting monetary processes into commodity relations (see also Bryan, Martin and Rafferty, 2009). I would argue that sovereign credit default swaps have significantly contributed to speculative attacks on sovereign bonds in the Eurozone crisis, but I follow Bryan and Rafferty's suggestion for carefully unravelling the "inside story about states, markets and speculations" (2006:7). Therefore, I am cautious not to determine financial derivatives exclusively through technical explanations nor through narratives of greed and speculation, because the former leads to a simplistic search for a regulatory fix, while the latter naively aims for a political economy free from financial derivatives and speculation (see Lee and Martin, 2016:6). Financial derivatives are a manifestation of a deeper and more complex ontology termed derivative sociality (see Martin, 2012; Lee and Martin, 2016), and as such a simple regulatory fix for addressing the derivative challenge is not possible. Having said that, I emphasize that I am not against a different regulatory framework, so long as it is informed by an adequate understanding of the principles of financial derivatives. Finally, it will be demonstrated in the concrete example in the Eurozone crisis that regulatory interventions without a rich understanding of the problem of derivative embeddedness' in the logic of capitalism could even exacerbate the problem, as Bryan and Rafferty (2006) state.

In their more recent work Bryan and Rafferty (2016) focus on distinctions between derivatives as a class of economic goods, and derivative as a process. Wigan (2012) also offers an interesting contribution concerning financial derivatives and determines them to be a mechanism to harness and navigate market volatility. Li Puma and Lee (2005) focus on an anthropological analysis of the global asymmetries of economic and political powers, which financial derivatives have intensified. They have shown how a narrow focus on stochastic and calculative elements in relation to the instruments actually masks their social character and the many socio-political layers embedded in their production and circulation. In addition, they emphasize how financial derivatives have enabled easier and faster circulation of capital, and speculation orchestrated by the metropolitan centres at the global peripheries. The operational asymmetry between the metropolitan centres and the peripheries is particularly relevant in the analysis of relations between Greece and Goldman Sachs, developed below.

Randy Martin (2012) emphasizes that financial derivatives are not only complex instruments in the financial realm, but also an expression of an overarching derivative social practice in which different entities from different fields and temporalities could be interrelated and valued. This social practice started flourishing in the early seventies in the West, and its manifestation can be traced back, according to Martin, through different domains such as politics, art, dance, or social movements. He underlines that, “when taken as a broader social logic, and not just as an activity that takes place within one sector or domain called the economy, the dynamics of the derivative can be seen across all manner of human activity in ways that engender mutual indebtedness, interdependencies across different times and places, and a swelling socialization of what people take to be and expect from life, history, and their future. Rather than a moral compromise to be avoided, the social entailments of indebtedness are the basis of political engagement” (2012: 67). We should also keep in mind that the Black-Scholes-Merton formula for pricing financial derivatives, which enabled the enormous expansion of the whole sector, was first published in 1973, and later started performatively inscribing itself into market reality (MacKenzie and Millo, 2003).

Benjamin Lozzano (2013; 2015) offers an original account of synthetic finance, which is – together with the aforementioned work of Bryan and Rafferty – most relevant for this thesis. His inspiring ontological platform for understanding synthetic finance in general and financial derivatives in particular, is based on his specific reading of Deleuze’s *Difference and Repetition* as a handbook of heterodox political economy. To begin with, Lozzano clearly underlines where he diverges from classical political economy, Marxist approaches and

“generic finance”：“...if, following Marx’s classic introduction to the commodity in Volume I of *Capital*, we understand ‘exchange’ as the simple repetition of the object for its image of value as money, then Deleuze is simply reminding us that new and different economic properties constantly ‘swarm in the fracture’ of this repetition: and if such properties are ‘constantly emerging on its edges, ceaselessly coming and going, being composed in a thousand different manners’, then to speak of any given economic object as having an ‘essence’ is symptomatic of a bad ontology, a kind of ‘asset-fetishism’. To avoid such reification, the first thing we must do is to cease believing the asset *must* have some kind of fixed, inherent, or internalized essence. The essence of any asset, as Deleuze puts it, ‘is nothing but an empty generality’, which means the asset is nothing apart from its many different economic properties, but which pledge no final allegiance to it”. (Lozzano, 2013). By following Deleuze’s theoretical path, Lozzano intends to move away from the representational political economy based on identities, equal commodities, and exchange of identical values. This is a very close theoretical avenue, I would argue, to Lash’s (2010) concept of intensive capitalism. If the neoclassical economy was determined by the market exchange of extensive goods and defined values, then the intensive capitalism (Lash, 2010) and financialization at its heart could be explored through the ontology of difference. While classical political economy, from Adam Smith to Marx, operates under presumptions of equality of values exchanged through market transaction, then “synthetic finance” as well as “intensive capitalism” have reflected substantial changes in the world economy since the 1970s.

Therefore, Lozzano’s (2013, 2015) ontology of synthetic finance can help us to understand the Deleuzian transformation which financial derivatives have brought about in the Greek crisis: how changes in degree of a particular financial derivative (currency swaps) have become a completely new instrument – credit (elaborated in detail below). Also, it can help us to understand that sovereign credit default swaps are more than an instrument for representation of sovereign risk, as has been broadly presented, but have actually been used as an instrument for generating risk. Lozzano points out that financial derivatives have one leg in Deleuze’s virtual and one leg in actual, so their capacities and functioning cannot be elucidated through representational registers.

5.3. Financial Derivatives in the Greek Crisis: Technical Aspects

The following three “technical” aspects of financial derivatives in the Greek crisis will be discussed: the first is the role of over-the-counter currency swaps designed by Goldman Sachs for the Greek government in 2001; the second is the role of the sovereign credit default swaps in attacks on the sovereign bonds of the Eurozone countries; the third is the role of sovereign structures—German state in 2010 and the EU in 2012—in halting the attacks by imposing a ban on trading with sovereign credit default swaps. As it will be explained in detail below, what Goldman Sachs designed for the Greek government in 2001 was a combination of a classical credit and a currency swap, integrated in an unrecognisable new product. The second type of derivatives elucidated thoroughly in the chapter are the sovereign credit default swaps, including their role in exacerbating the Greek crisis. In the wake of the Eurozone crisis the SCDS (sovereign credit default swaps) played an important role because they were incentives for speculative attacks on fragile Eurozone sovereign bonds (see Dellate, Gex and Lopez-Villavicencio, 2011). Finally, it must be pointed out that Germany and the EU banned trading with “naked” sovereign credit default swaps in 2010 and 2012 respectively, that is to say, banned buying or selling these instruments without trading simultaneously with their referenced asset (sovereign bonds). But before I explain the role of these derivatives in the Greek crisis, I want to explain the basic types of financial derivatives.

As LiPuma and Lee underline, “a derivative is a species of transactable contract in which (1) there is no movement of capital until its settlement, (2) the change in the price of the underlying asset determines the value of the contract, and (3) the contract has some specified expiration date in the future; there is no movement of capital or exchange of principal in the sense that neither party to the transaction makes a commitment to lend or accept deposits” (2004:34). Fundamental financial derivatives are forwards, futures, stock options and swaps. Forwards are financial agreements between two parties in which the first party agrees to buy particular goods (underlying asset) from the second party at a future date and at a price established at the start of the agreement. The second party takes over an obligation to buy the goods (underlying asset) at the agreed price in the future. As Chance points out, futures and forwards are very similar, because “like a forward contract, a futures is an agreement between

two parties in which the buyer, agrees to buy from the other party, the seller, an underlying asset or other derivative. Unlike a forward contract, however, a futures contract is not a private and customized transaction but rather a public transaction that takes place on an organized futures exchange” (2010:63). In addition, unlike forwards, futures are standardized and tradable on the secondary market, because they are operating within set models. Futures trading is, in contrast to forward trading, also guaranteed against losses because the third party—a clearing house—is involved in the transaction. Options are financial instruments which provide their holders with the right but not obligation to buy a certain portion of stocks under conditions specified in advance. Finally, swaps are instruments which regulate defined exchange among counterparties in terms of particular credits or currencies. Two parties decide to swap, for example, a fixed interest rate of credit for credit with flexible interest rate, or to exchange their financial obligations in one currency for obligations denominated in other currency. These are just basic categories of derivatives, known as vanilla derivatives. However, most derivatives are highly complex and sophisticated, synthetic and so-called “exotic derivatives”, including, in particular, tailor-made derivatives: ‘over-the-counter’. Moreover, all the above-mentioned groups of financial derivatives have many subcategories: equity forwards, bond and interest rate forwards, currency forwards, short-term interest rate futures, intermediate and long-term interest rate futures, stock index futures, financial options, options on futures, commodity options, currency swaps, interest rates swaps, equity swaps, commodity and other types of swaps (see Chance, 2010).

In the early nineties, a new type of financial derivative was devised: the credit default swap. Credit default swaps were initially designed by the J.P. Morgan bank in order to provide insurance for growing credit arrangements. That is to say, in the uncontrollable expansion of the credit market and different credit related products, a need for insurance for the credit products had intensified. As Augustin puts it: “technically speaking, a credit default swap is a fixed income derivative instrument, which allows a protection buyer to purchase insurance against a contingent credit event on an underlying reference entity by paying an annuity premium to the protection seller, generally referred to as the Credit Default Swap spread. The premium is usually defined as percentage of notional amount insured and can be paid in quarterly or bi-annual installments” (2014:4). Thus, a counterpart—the issuer (seller) of the credit default swap—obliges to reimburse the nominal value of the credit that was initially insured in case of the credit event. The credit event is strictly defined and refers to a situation characterized by the incapacity of a debtor to repay their credit. Credit default swaps are traded

as OTC (over-the-counter) derivatives, which means that their market is neither precisely nor universally regulated. In addition, there are no centralised institutional places for trading with the credit default swaps. However, a legal framework and practical guidance for trading financial instruments is provided by the International Swaps and Derivative Organization.

Sovereign credit default swaps are, following the analogy of credit default swaps, insurance for traders with sovereign bonds. The “credit event” in this context is, of course, a sovereign default or restructuring of government bonds, as was the case in Greece in the Spring of 2012. As Portes underlines, “CDS contracts written on sovereign names accounted for half the size of the CDS market in 1997, in the early 2000s this ratio declined to 7 per cent. The market share of sovereign CDS dropped to 5 per cent at the end of 2007, with contracts written on emerging economies accounting for over 90 per cent of the global volume of trade. Since the Eurozone debt crisis began, however, the share of sovereign CDS has risen sharply.” (2010: 6). In contrast to the sovereign bonds which are issued occasionally, the SCDS could be bought at any time at the global market and with different maturity. Before the credit crunch in 2008 the sovereign credit default swaps were almost exclusively referencing sovereign bonds of emerging markets. However, a global perception of developed economies (in particular Eurozone countries) has changed since the beginning of the Eurozone crisis. This has even been acknowledged in analysis by the IMF: “Since end-2009, the deterioration in the perceived safety of the sovereign debt of advanced economies and rising hedging demands have boosted activity in SCDS referencing those economies. Such activity rose first for SCDS referencing the euro area periphery countries, then the core (particularly Germany), and then Japan and the United Kingdom, with some of the countries serving as proxy hedges or as safe haven trades” (2013:4).

Sovereign credit default swaps are also over-the-counter derivatives, which means there is neither a centralized nor strictly regulated market for them. Finally, it is still unclear what is generating rise in spreads in the SCDS, or, in simple terms, what kind of economic factors critically influence price of premium for insurance of sovereign bonds. The IMF still believes in the applied Efficient market hypothesis in the case of SCDS, and states in the above-mentioned research published in 2013 that the spread of SCDS is mostly correlated with the state of economic fundamentals of a particular country. This will be critically discussed further below. However, as several other authors emphasize (Augustino, 2014; Portes, 2012; Dellate, Gex and Lopez-Villavicencio, 2012), it is far from clear that SCDS are exclusively dependent on so-called “economic fundamentals”.

5.4. Greek Government and Goldman Sachs

The love story between two co-sinners—Goldman Sachs and the Greek Government—as it was described by Dunbar (2010), started in 2001. At that time, the Greek government was struggling to harmonise its public finances with the EU Maastricht requirements (budget deficit below 3% and public debt-to-GDP ratio below 60%) and was also looking for a solution to convert money gained through regular issuing of their government bonds into euros. Goldman Sachs offered a solution for both issues in one stroke (Mahmud, 2010), and created an over-the-counter derivative for the purpose. By engaging in the deal with Goldman Sachs, the Greek government undertook a currency swap under unrealistically “favourable” conditions, and through the swap received a loan to cover its budget deficit. To put it simply, Goldman Sachs offered an unrealistically high exchange rate for transferring value denominated in one currency into euros that was actually a form of loan. The loan has had, of course, to be repaid over the period of 20 years, until 2019 and the conditions for repayment are, generally speaking, extremely unfavourable for Greece. Although the derivative is a combination of a loan and a currency swap, it was neither of them in the traditional sense of the products. This is how Dunbar explains the transaction between Goldman Sachs and Greece: “suppose that you had borrowed \$10 billion in U.S. dollars at a time when the dollar and euro were at parity. Now imagine a swap that did not use the prevailing market exchange rate, but instead assumed your home currency was stronger than it really was—say two dollars to one euro. That would shrink your \$10 billion debt to \$5 billion. In essence, that was how Goldman’s customised swap deal for Greece worked. The derivative, hatched in 2001, reduced Greece’s public debt by almost 3 billion euros. The balancing of this paper gain would come later—in a further series of swap payments to Goldman. The economic reality of the transaction was that Goldman was lending to the Greek government and getting paid back over 20 years” (2011:31). Let me note in passing that Greece was not the only country who used the currency swaps to improve its government balances. As Lagna (2013) demonstrates, numerous Italian municipalities as well as the central government were having similar deals with J.P.Morgan in the late nineties, and used the currency swaps to get a credit off the official books.

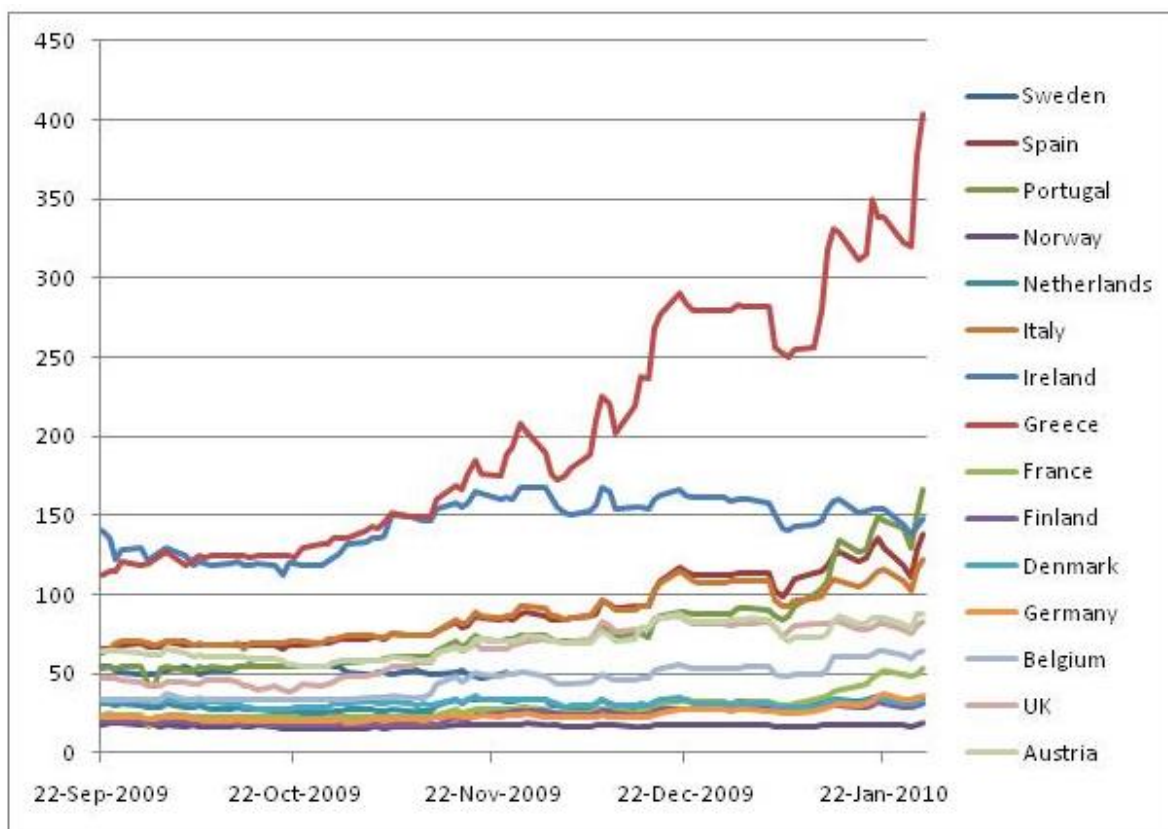
It should be also pointed out that Bloomberg News filed a lawsuit in order to get information from the ECB concerning the use of derivatives as hidden loans in the context of Greece. But the release of the information was denied with the explanation that it could “hurt banks and markets, and undermine the economic policy of Greece and the EU” (see Dunbar

and Martinuzzi, 2012). Although some Greek authorities as well as independent analysts have argued that the 3 billion euros which were at stake in the deal represented a minor proportion of Greece's public debt (around 300 billion euros in total in 2010), one must keep in mind that Goldman's related debt has in the meantime almost doubled, and also that the investment bank used the deal to redirect market sentiment at the beginning of the crisis, as explained in detail below.

Given that Goldman Sachs had direct insight in the Greek impending fiscal problem – because of the above explained deal - its experts were able to take specific measures on the global financial market on the eve of the Eurozone crisis, and also to gain additional profit based on spreading anxiety among financial actors about the Eurozone. In addition, they were able to influence the price of particular products on the market. It was discovered in 2010 by NY Times journalists that “Goldman Sachs had a bright idea for its clients: buy credit-default swaps—those controversial instruments that helped trip up the American International Group—in case certain nations ran into financial trouble. That advice, contained in a confidential report prepared by the bank last August, turned out to be prescient. It arrived months before Greece and its staggering debts became the big story in the financial markets. The report, a copy of which was obtained by The New York Times, warned that the risks posed by spiralling government debts might be graver than people realized” (Browning and Saltmarsh, 2010). Although Goldman Sachs did not explicitly mention Greece and its problems, it is obvious that the investment bank started preparing its own clients as well as the whole market for a new crisis in the Eurozone. The report was sent to the investment bank's clients in August 2009 and the infamous announcement about the budget figures – considered to be a trigger for the Greek and the Eurozone crisis - were made by the Prime Minister Papandreou in December 2009. At the centre of the new crisis that started looming were not mortgage backed securities and real estate business as it was the case in the USA, but this time the crisis mutated towards sovereign bonds of developed countries—Eurozone government bonds. Analysts inside Goldman Sachs also knew that once the crisis exploded it would spill over to other Eurozone countries because of the contagion effect described by Varoufakis (2013), which is why they did not actually need to mention Greece in the report.

Parallel to the spreading of warnings concerning the stability of sovereign bonds of developed countries, Goldman Sachs offered a solution: purchase of insurance or sovereign credit default swaps. All the institutional investors, such as other investment banks or hedge funds who possessed sovereign bonds at the time, started thinking of buying insurance for the

bonds in the form of SCDS. In addition, given the purchase of sovereign default swaps was available for buyers who did not hold the referenced underlying assets (that is, those who did not possess government bonds), the stage was open for even broader spectrum of participants and more intensive speculation. Crucially, in order to facilitate and intensify the purchase of the sovereign credit default swaps of Eurozone countries, a little known company Markit Group of London was established in September 2009 (before the announcement by the Greek Prime Minister Papandreou about the budget deficit bigger than expected), backed by Goldman Sachs and several other banks. The company created an index that consisted of the sovereign default swaps of Eurozone countries, and acted as an infrastructural vehicle for trading with SCDS: iTraxx SovX Western Europe. As Schwartz and Dash explain: “last September, the company—the Markit Group of London—introduced the iTraxx SovX Western Europe index, which is based on such swaps and let traders gamble on Greece shortly before the crisis. Such derivatives have assumed an outsize role in Europe’s debt crisis, as traders focus on their daily gyrations” (2010). Thus, Goldman Sachs, in cooperation with several other investment banks including J.P. Morgan Chase, created a financial basket consisting of insurance for sovereign bonds of Eurozone countries. Buyers of the basket were actually buying a package of sovereign credit default swaps for Eurozone countries, and by so doing were indirectly spreading fears of sovereign defaults. Here is a diagram of the evolution of the CDS spreads of the iTraxx SovX Western Europe index’s constituent members since its launch on 22 September:



iTraxx SovX index

ETF.COM Staff, 29.01.2010

We can see the significant increase of spreads since October 2009. Note that I do not argue that the index iTraxx SovX Western Europe was the only one route for influencing sovereign credit default swaps and consequently sovereign bonds. Investors could buy SCDS separately, without buying the index. However, I do argue that the index was an important mechanism built up on the presumption of the macroeconomic vulnerability of sovereign borrowers in the EMU and in particular Greece, which significantly contributed to the speculation with the EMU sovereign bonds and deteriorated positions of sovereign borrowers.

The financial tool gained momentum in 2010 because, in “February, demand for such index contracts hit \$109.3 billion, up from \$52.9 billion in January” (Schwartz and Dash, 2010). This was just a sophisticated technical execution of the previously described anticipation by Goldman Sachs that the Eurozone countries would be severely hit by the crisis. The principle behind it was as follows: if the crisis was looming then the spread of sovereign

bonds would rise and the whole area would be perceived as unstable. In that case, general interest for buying insurance for the Eurozone sovereign bonds would also dramatically rise, and the premium for the insurance as well—the premium was the sovereign default swap. Once the scenario unfolded, holders of the insurance would benefit significantly.

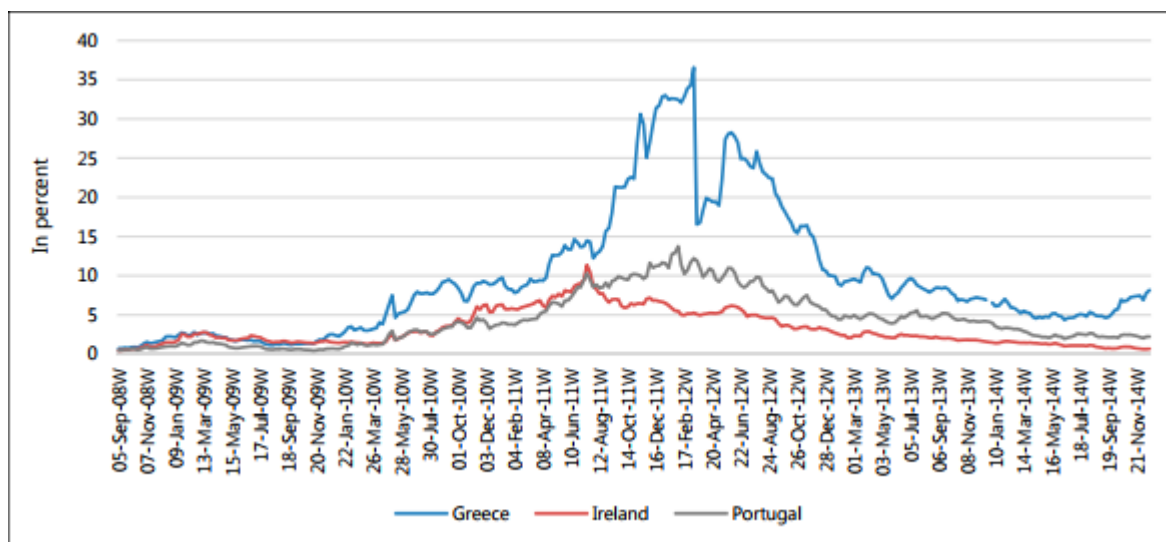
Concerning the beginning of the Eurozone crisis, the following crucial question arises: what is the reversal damaging effect of the speculative game with sovereign insurance (SCDS) on those same sovereign bonds of the Eurozone countries and what policies the EU considered as an answer? Given that the influence of the SCDS on the bond spreads was apparent, and that the increase of spreads on sovereign bonds at that time was rapid and threatening, the EU authorities started considering the following two solutions. The first was a change in macroprudential regulation concerning SCDS and short selling of sovereign bonds. The second was a proposal for creating a joint Eurozone bond as a long-term strategic policy for addressing the attacks on sovereign bonds. Let me first briefly analyse the second solution which did not materialize. The creation of joint Eurobonds was proposed in 2010 and 2011 by several think-tanks. Moreover, in 2011 the EU Commission presented an official proposal of the idea. The EU Commission came up with several concepts of the Eurobonds (they termed it Stability bonds): the full or partial substitution by Stability bond issuance of national bonds, with joint and several guarantees. The proposal claimed that introduction of the Eurobonds would stabilize the Eurozone peripheral countries who struggled to refinance their public debt and would also make the whole monetary union more stable. In addition, it would improve the global position of the Eurozone. However, as Matthijs and McNamara (2015) have shown, the dogmatic Ordoliberal framing of the public debate in Germany about the Eurozone crisis favoured the policies of austerity and structural reforms in Greece and elsewhere as the only adequate strategic policy for the crisis. As they underlined: “Early support for austerity and structural reform in Germany as a solution to the Greek crisis, and later to the Eurozone debt crisis overall after contagion set in to the rest of the periphery, spread across the public sphere and the German establishment’s steadfast and enduring rejection of Eurobonds as a ‘quick fix’ to the debt crisis held firm” (2015:7). When Chancellor Angela Merkel said in 2012 in Bundestag “as long as I live there will be no Eurobonds”, the debate about creating the joint Eurozone bonds to counteract the speculative attacks on sovereign bonds was actually over. Therefore, the first solution for addressing the speculative attacks was implemented: the change in the macroprudential regulation regarding the sovereign credit default swaps.

Therefore, German authorities were quick to change regulation in order to protect their sovereign bond and the banks from speculation. Because of the strong indication that SCDS were objects of speculative trading and therefore were pushing the price of spreads for sovereign bonds for Eurozone countries higher, the German regulatory institution BaFin banned trading with so called “naked SCDS” in 2010 and the EU Commission followed the decision in November 2012. As Lapavitsas points out: “in March 2010 BaFin had argued against the notion that the root of the crisis lay in speculative transactions in the market for Greek CDS. But under pressure from the German government, BaFin reversed its position and banned the short-selling of key German financial stocks, European bonds and CDS. The action appeared hostile to financial markets and coincided with a broader discussion on adopting tougher European regulation of hedge funds. In practice, the clumsy intervention by the BaFin aimed at protecting German banks, which had been at the receiving end of some CDS speculation” (2012:111). So, Germany predominantly reacted to the attacks because German banks had found themselves on the receiving end of the spreading risk, that is, they were holders of the sovereign bonds under the attacks. The EU reacted to the speculative attacks only when the spreads on sovereign bonds of the central European countries were also rising uncontrollably.

Crucially, the ECB could not intervene and calm the sovereign bond market because of its limited statutory possibilities, and the anti-Keynesian design of keeping the ECB completely independent from the EU Commission. As de Grauwe notes: “What was not understood when the Eurozone was designed is that this lack of guarantee provided by Eurozone governments in turn could trigger self-fulfilling liquidity crises (a sudden stop) that would degenerate into solvency problems... When investors lost confidence in these countries, they massively sold the government bonds of these countries, pushing interest rates to unsustainably high levels. In addition, the euros obtained from these sales were invested in ‘safe countries’ like Germany. As a result, there was a massive outflow of liquidity from the problem countries, making it impossible for the governments of these countries to fund the rollover of their debt at reasonable interest rates” (2013:13). Two years later, the ban that was initially implemented by the German financial authorities (BaFin) was also implemented by the EU at the European level. On that occasion, Commissioner Barnier said in a press release: “We cannot tolerate speculation on uncovered sovereign credit default swaps. The ban on such credit default swaps is a key provision of the Short Selling Regulation, to ensure that these instruments are used for legitimate hedging purposes only. The delegated act adopted by the Commission will ensure

this ban is applied by market participants and enforced by regulators in a uniform way" (EC, 2012). It should be added that a similar ban proposal was debated in the US in 2009 but finally abandoned (see Delatte, 2012).

However, a problem with the ban is that it aimed to exclude the biggest players, so called market makers. As Delatte underlines, "a market participant is considered a market maker when her volume of transactions is sufficiently large and she commits to price any transactions an end-user may ask" (2012). And according to the Security and Exchange commission (2012) around 87,2% of the CDS activities are coming from the top 15 dealers, which means that the most influential market players were actually excluded from the ban. The fact that investors in sovereign default swaps were actually a centralised and relatively small group is additional proof that financial capital frequently operates through a coordinated mimetic choices of investors (see Orlan, 2009), that is, through copying each other and intensifying or redirecting trends on the market. The ban on buying "naked sovereign bonds" was formally introduced in November 2012, but at that time premiums on sovereign bonds already started decreasing after ECB President Mario Draghi promised in July to do "whatever it takes" to calm the sovereign bond markets. Therefore, while it is possible to argue that the SCDS have significantly contributed to the Eurozone crisis and increased spreads on sovereign bonds, it is difficult to judge effectiveness of the ban. Also, the role of the Draghi's statement in addressing the speculative attacks cannot be overestimated. This is clear from the diagram showing yields of Greece's, Portugal's and Ireland's sovereign bonds, presented below.



(IMF, 2016: 10)

5.5. Production of Knowledge About Sovereign Credit Default Swaps

This section of the chapter elaborates on the battle in the domain of knowledge production in relation to the crucial question of whether Sovereign Credit Default Swaps contributed to speculative attacks on sovereign bonds or not. While several authors have discussed their speculative role in the crisis (Dellate, Gex and Lopez-Villavicencio, 2012); Portes, 2010), the IMF (2013) has denied any negative role in their official research. The IMF research, for example, found that “the empirical results presented (*in the research*) do not support many of the negative perceptions about SCDS. In particular, spreads of both SCDS and sovereign bonds reflect economic fundamentals, and other relevant market factors, in a similar fashion” (2013:1).

In the context of the SCDS we see that the IMF combines its own institutional power in terms of direct financial interventions, with the power of knowledge production and influence over public debates on particular issues. Thus, the IMF’s research aims at intervening in the crisis *post festum* and enabling the theoretical bolstering for unrestrained market forces. That is to say, it operates not from a broad ideological platform, but through a very sophisticated,

precise, and detailed production of knowledge concerning elements of the financial machine. These elements are relevant for a broader understanding of the crisis, and the distribution of responsibility for its unfolding. Instead of criticising the ‘ideological neoliberal platform’ of the IMF, I instead focus on the ‘narrow’ discussion concerning controversial financial instruments. This is relevant because if the SCDS were indicators for speculative attacks on sovereign bonds (Portes, 2010; Dellate, Gex and Lopez-Villavicencio, 2012)), then the Eurozone crisis in general—and Greece in particular—has been inflated and exacerbated as result of speculative interventions.

To begin with, the IMF (2013) analysis shows that their authors are still firmly theoretically entrenched in Eugen Fama’s Efficient Market Hypothesis. This hypothesis asserts that under normal distribution of information, market prices inevitably reflect economic fundamentals. Therefore, according to the hypothesis, the world of economic fundamentals and the world of its representation in the form of prices are correlated and, sooner or later, reach an equilibrium. Obviously the tectonic experience of the credit crunch has not changed the overarching belief in the Fama’s paradigm amongst the experts of the IMF. In the IMF research, for example, one can find the following statement: “spreads of both SCDS and sovereign bonds reflect economic fundamentals, and other relevant market factors” (IMF, 2013:1). Starting from the fundamental trust in the Efficient market hypothesis, or from analyses that allegedly prove its validity in the context of the SCDS, the IMF concludes that it is not probable that there were speculations with sovereign credit default swaps. Also, the IMF denies the possibility that speculation occurred, although it has some reservations regarding the price of sovereign bonds during periods of stress: “In sum, the empirical results do not support many of the negative perceptions about SCDS relative to their underlying sovereign bond markets, although there is some evidence of overshooting for euro area countries during periods of stress.” (2013:22)

The issue of interrelation between the sovereign credit default swaps and sovereign bonds, and therefore of speculative attacks, is directly related with price discovery process. The price discovery process is the “speed of absorbing information” between two interrelated entities. For example, if two economic entities are interrelated, then a question arises about which entity affects the other, or to put it differently, which entity leads the game in terms of the interrelation of their prices and which just follows. The IMF thus sticks to belief in the linear and causal model for exploring the price discovery process, and that that process allegedly goes from the sovereign bonds towards the SCDS. The IMF remained reserved in its analysis in terms of the correlation between economic fundamentals and their indicators, as evidenced by the following

paragraph: “During the height of the European debt crisis, SCDS (and government bond) spreads in more vulnerable European countries rose above the level that can be explained by the changes in the fundamentals and market drivers considered in our model. Some of the reason for the overshooting behaviour in SCDS and government bond markets may also reflect illiquidity in these markets test asserts” (IMF, 2013:19). It should be noted that, in the IMF research, several elements relating to a period of intensive market activities in the peak of the crisis remain unexplained. Whereas, in fact, these periods of intense activities are the real manifestation of the possibility of speculative attacks Finally, a striking detail in the IMF’s research is that Greece was somehow one of the countries left unanalysed.

Dellate, Gex and Lopez-Villavicencio’s (2012) findings are the complete opposite of the IMF’s conclusions concerning the role of SCDS in inflating the Eurozone crisis and speculatively influencing prices of sovereign bonds. They use a non-linear, non-causal and non-continuous approach in exploring financial derivatives, which correlates with the Deleuzian understanding elaborated by Lozzano (2013). Dellate, Gex and Lopez-Villavicencio assert the following:

- “linearity tests clearly reject the null hypothesis of a linear transmission mechanism between the bond and the CDS markets” – that is to say their findings deny that the price discovery process always goes linearly from sovereign bonds to CSDS
- “market distress alters the mutual influence” – that is to say, in a time of intensive activities in the market, the direction of influence changes from bonds towards SCDS, that is, SCDS start to lead the game (price discovery process)
- “the higher the distress the more the CDS market dominates the information transmission between CDS and bond markets” (Dellate, Gex and Lopez-Villavicencio, 2012:)

The fundamental novelty in the approach of these three authors is that they do not take the initial premise of the linear effect sovereign bonds to SCDS for granted. On the contrary, they start their research by leaving a possibility of change in direction open in terms of the causal direction between sovereign bonds and SCDS, or, to put it more precisely, which of these financial instruments leads the “price discovery process”. We can now get back to the substantial question: whether the changes in prices of SCDS are indicators for market

participants to speculatively attack sovereign bonds and consequently put both instruments into a panic spiral, or whether they were just a representation of fundamentals in a national economy. Dellate, Gex and Lopez-Villavicencio (2012) have found that bonds play a dominant role in the price discovery process only for countries with stable sovereign bonds, and only during calm periods for countries with generally instable sovereign bonds. However, the higher the distress the more the SCDS market dominates the information transmission between CDS and bond markets. The authors point out that: “In the high-yield economies, we found that the CDS market has a dominant role over all regimes” (Dellate, Gex and Lopez-Villavicencio: 2012). Their paper complies with Lozzano (2013) ontological presumptions discussed at the beginning of this chapter concerning financial derivatives and the way they operate. Instead of a linear correlation, we experience a non-linear influence, instead of causality, we see the principle of interrelation and mutual intensification. The result gained, “is very important because it highlights the nonlinear dynamics in the price formation in the CDS and bond markets” (Dellate, Gex and Lopez-Villavicencio, 2012). The crucial element in the change of the price discovery regime is speed of change in the SCDS values. The SCDS take their leading role in the financial assemblage when the intensity of their change is exceptional. This was exactly the case during speculative attacks when the premium for insurance grew rapidly in a short period of time.

In contrast to the findings of the IMF, we could say that if the sovereign default swaps lead the price discovery game, then speculations were completely manageable by those that wished to undertake them. Crucially, speculation with sovereign credit default swaps affected the underlying sovereign bonds’ spreads. In contrast to the IMF’s analysis, Dellate, Gex and Lopez-Villavicencio (2012) use the data available on Greek government bonds and SCDS to shed an adequate light on Greece’s crisis. Their findings are relevant for our understanding of the overall causes and nature of Greece’s financial crisis: “this result suggests that the CDS market has influenced the sovereign bond spread conditions during the Greek crisis. CDS became a bear-market instrument to speculate against the deteriorating conditions of Greece. The transmission direction from the CDS to the bond market detected by our model suggests that the shorting of bonds and buying CDS mutually amplified and reinforced each other.” (Dellate, Gex and Lopez-Villavicencio, 2012:40)

5.6. Markets Dictated Policies

Although a relatively small and highly technical detail in the overall crisis of the monetary union, importance of the sovereign credit default swaps for unravelling of the Eurozone turmoil cannot be overestimated. They were one of the most important channels through which the international financial markets gained power over the sovereign borrowers at the Eurozone periphery. In addition, the analysis of the speculative attacks on the sovereign borrowers executed through the sovereign default swaps demonstrates vulnerability of the weak economies in the monetary union. So, the sovereign credit default swaps were influencing premiums for sovereign bonds, and transforming the liquidity crisis into a crisis of sovereigns' solvency. In addition, the unsustainably high level of premiums for sovereign bonds was a trigger for the countries at the Eurozone periphery to ask for financial assistance, but the financial support from the Euro funds was conditioned on a strict austerity measures and internal devaluation. These austerity measures are discussed in depth in Chapter Seven.

It must be noted that despite the fact that price of sovereign bonds was disconnected from the state of macroeconomic fundamentals, as explained persuasively by de Grauwe and Ji (2012), the Troika insisted that improvement of the fundamentals would calm the price of the bonds. That is to say, the Troika ignored the fact that the spreads for bonds were mostly increased speculatively and were not reflection of the underlying macroeconomic conditions. Therefore instead of intensifying support from the ECB to the sovereign bonds under attack, the Troika opted for the austerity measures as a method for addressing the attacks. Fumagalli and Lucarelli recognise this chain of events and point out: "starting from 2008, the highest capital gains made by institutional investors have originated from exchange of CDS (credit default swaps) derivatives, and, in particular, from those derivatives related to the risk of public default" (2015:55). They also emphasize the tendency of creating a panic was actually feeding on itself. In a similar fashion, Boyer underlines the correlation between the rise in the price of the SCDS and the political decision related to measures for addressing it: "via a brutal rise in the price of credit default swaps (CDS) over sovereign debt default and a necessary hike in the interest rate in order to refinance public debt, national authorities have been strongly induced and sometimes constrained to adopt rather drastic austerity plans" (2012:4).

These attacks on the Eurozone sovereign bonds dictated by the international financial markets, also dictated the intensity of austerity in Greece and Portugal, as de Grauwe and Ji (2013) have shown. At the time when the ECB was reluctant to step in and protect sovereign bonds of its country members—that is, before the famous statement by Mario Draghi in July 2012—there was a direct correlation between the irrational rise of spreads for sovereign bonds driven by speculation, panic and fear, on the one hand, and the intensity of public cuts and other measures within the apparatus of austerity, on the other. In terms of the main argument developed in this thesis about the interrelation between assemblages, it must be pointed out that there was a strong interrelation between the assemblage of the attacks on sovereign bonds and the austerity assemblage. As de Grauwe and Ji explicitly point out: “the main channel of influence of the spreads was through policy reactions. As the spreads increased due to market panic, these increases also gripped policy-makers. Panic in the financial markets led to panic in the world of policy-makers in Europe. As a result of this panic, rapid and intense austerity measures were imposed on countries experiencing these increases in spreads. Yet measures were also forced by the fact that countries with high spreads were pushed into a liquidity crisis by the same market forces that produced the high spreads (de Grauwe, 2011). This forced these countries to beg ‘hat in hand’ for funding from the creditor countries” (2013:3). Therefore, it was not only that the speculative forces discussed in this chapter contributed to the imbalances in terms of spreads of sovereign bonds, but they also directly intensified austerity in Greece, discussed in depth in Chapter Seven.

5.8. Conclusion

In this chapter I have analysed the role of financial derivatives in the Greek crisis and have shown that two sorts of financial derivatives—a synthetic one designed by Goldman Sachs in 2001, and Sovereign Credit Default Swaps—played an important part in generating, inflating and exacerbating the Greek financial crisis. In order to understand operational principles of the financial derivatives in depth, an ontological platform for their interrogation was sketched out. Lozzano (2013) and Lash (2010) argue that the ontological turn can be traced back as a new economy substantially characterised by difference and intensity.

My initial goal was to illuminate how the financial deal between the Greek government and Goldman Sachs in 2001 provided the conditions for the crisis. Although I am clearly against any idea of a ‘financial conspiracy’ of ‘centralised responsibility’ in terms of Goldman

Sachs, I nevertheless deem it crucial that the facts concerning the cooperation are elucidated and interrogated properly. In addition, this chapter has shown how two important phases of the crisis are interrelated and also how information about the real proportion of Greek indebtedness helped several actors to crucially redirect the sovereign bond market and benefit from it. At the very centre of the manipulation of the sovereign bond market was the iTraxx SovX Western Europe index, created by Goldman Sachs as well as several other investment banks, and established in London on the eve of the Greek crisis. The index consisted of the SCDS for Eurozone nations and provided investors with a possibility to bet against Eurozone sovereign bonds more effectively. The index was, it could be argued, a sophisticated market driver for the crisis, before the EU banned trading with so called “naked SCDS”.

The attacks were also enabled by the particular composition of the Eurozone, in which countries members share the same central bank but keep individual sovereign bonds. In order to calm the bond market, the ECB’s interventions were limited by its institutional design and statutory limits because the bank could not intervene on the primary market of sovereign bonds. The increase of spreads for sovereign bonds, driven by fear and panic generated by international financial markets, has also determined the intensity of austerity measures in the affected Eurozone countries.

Finally, the chapter has analysed how the ban on trading with “naked sovereign credit default swaps”, implemented by the German authorities and the EU, triggered a debate between different market actors including the IMF. The discussion in this chapter draws upon the work of Dellate, Gex and Lopez-Villavicencio (2012), which illuminates the role of the sovereign credit default swaps differently, without implementing linear and continuous models. Their findings are, in accord with Lozzano (2013), ontological presumptions, on the one hand, while also showing the way in which SCDS have played an important role in the Greek crisis by affecting sovereign bonds.

Chapter 6

Ordoliberal Legacies in the Eurozone: Sovereignty and Governmentality

Ordoliberalism has substantially defined the character of the EMU. This chapter elaborates the interrelated German traditions of Ordoliberalism and neo-mercantilism. Foucault was first to recognise the relevance of the Ordoliberal tradition. However, the strategies of governmentality should be re-analysed in the wake of the Eurozone crisis. Ordoliberals were proponents of a strong state, and not political liberals as Foucault held. Their macroeconomic pillars are discussed. German neo-mercantilism is perennial but has progressed significantly since the start of the Eurozone, while German current account surplus was the highest in the world in 2016 and has been a destabilising factor for the Eurozone as well as an impediment for growth for the rest of the union.

6.1. Introduction to Ordoliberalism

In order to understand the dynamics and discrepancies within the European Monetary Union one has also to understand principles of the German hegemonic neo-mercantilist policies, given that Germany is a powerhouse of the EMU and its policies substantially shape the reality of the whole union. This chapter elucidates how Ordoliberalism has become entrenched in German policies, and consequently influenced the Greek and the EMU crisis. I develop a genealogy of Ordoliberalism which focuses on the following three elements: the first is the Ordoliberal understanding and conceptualization of the state; the second element is the Ordoliberal macroeconomic theory which has normalized austerity across the Eurozone and in particular in Greece; and the third is Ordoliberal neo-mercantilism manifested in German current-account surpluses, the most powerful deflationary factor in the EMU.

In the analysis of the genealogy of Ordoliberal tradition, I would also challenge some of the imperfections of Foucault's (2008) reading of Ordoliberal principles expressed in his book *The Birth of Biopolitics*, because these aspects are exceptionally relevant for our understanding of the on-going crisis in the Eurozone. Namely, I am re-reading Foucault in terms of missing macroeconomic Ordoliberal principles, particularly neo-mercantilism, but also re-thinking techniques of "sovereign governmentality" (see Lazzarato, 2015) in a time when sovereign technocratic structures have been strengthened. These new forms of governmentality will be analysed through development of the Stability and Growth Pact policies in the wake of the EMU turmoil, which could be identified as techniques of macroeconomic surveillance; all of which will be elucidated in the second part of the chapter.

In his book *The Birth of Biopolitics*, Foucault explicitly states that Germany is a "radically economic state" (2008:86) in which, "what is involved in fact is a new programming of liberal governmentality" (2008:94), and, moreover, that sovereignty of the Federal Republic of Germany had been produced through economy. While I am of the opinion that Foucault's reading of Ordoliberals cannot be overestimated in terms of its historic relevance in the Eurozone crisis, it must also be modified in the post-credit crunch epoch, as mentioned above.

In recent years the Ordoliberal legacy has come under intensified academic scrutiny precisely because of numerous reflections on the current Eurozone crisis (Bonefeld, 2012; Biebricher, 2014, 2016; Bofinger, 2016, Fled, 2016; Bulmer, 2014; Bulmer and Peterson, 2013). For example, Bofinger (2016) offers a particularly persuasive and rich analysis of the three fundamental macroeconomic Ordoliberal pillars, which he attributes to Walter Eucken: low inflation, flexible labour and fiscal conservatism. While the German low inflation was discussed in Chapter Three as a destabilizing factor of the EMU which led to the crisis, and in Chapter Four is demonstrated how it affected public sectors in the aftermath of the crisis, in this chapter will be explained how the issue has achieved an almost metaphysical status in Germany. In a similar fashion, the unchallengeable status of the policies of flexibilization of labour and fiscal conservatism in Germany will be elaborated, and their relevance for understanding the austerity assemblage in Greece and the EMU. Bofinger argues that behind "formal theoretical apparatus stands a specific paradigm of macroeconomics which was developed by Walter Eucken and which is diametrically opposed to Keynesian economics" (2016:12). The question of neo-mercantilism is, however, mostly missing, even in the academic contribution focusing on Ordoliberalism.

6.2. Conceptualization of the State in the Freiburg School

I would start with the Ordoliberal conceptualization of the state in capitalism and how that conceptualization influenced the Eurozone. In order to do that, the Freiburg School should be historically contextualised. Walter Eucken was the most prominent figure in the Freiburg economic school, established in the 1930s, and his influence on the current economic German policies is exceptionally strong. The influence was recognised not only by economists both in Germany and elsewhere, but also acknowledged by politicians such as Chancellor Angela Merkel who, at the recent celebration in January 2016 of 125 years since Eucken's birth, pointed out that the '*Freiburger Schule*' had lost nothing in relevance and importance (see Bofinger, 2016). Walter Eucken had been teaching at the Freiburg University from 1927 until the unexpected and early end of his life in 1950, and it was at the university that he met his collaborators in the Ordoliberal intellectual circle. Initially the collaborators were two lawyers, a Husserl disciple Franz Bohm—who later became a vice-President of Bundestag—and Hans Grossman. Both contributed to the development of the strong legal character of the political-economic circle through conceptualisation of the so-called “economic constitution”. Later, two prominent economists also joined the school, Wilhelm Röpke and Alexander Rüstow, before the circle became recognised in Germany and globally, attracting other influential figures of different political orientations such as Müller-Armack, Leonhard Miksch, von Stackelberg, as well as Hayek. Eucken was an influential figure ever since the 1930s, despite the fact that during the war he had not expressed any vocal opposition to the regime.

Foucault (2008) held that Ordoliberals were political liberals who had conceptualised and opted for a weak liberal state—as opposed to the Nazi state and the Soviet state—that would intervene in economy just occasionally through legal instruments in order to maintain competition through the institutional legal framework. This understanding could be easily identified: for example, at the beginning of his fourth lecture, in January 1979, Foucault talks about the phobia of the state as a complex background against which Ordoliberals developed their concepts. He intends to define the horizon in which Ordoliberals were conceptualising economy and society by emphasising a distance from the overarching state, motivated by their alleged state-phobia. Also, at the beginning of his lecture on 7th of February he underlines “its problem: how economic freedom both found and limit the state at the same time?” (2008:103). Finally, Foucault, when discussing the German Scientific Council and its objectives, points

out: “this is a principle according to which interventions by the state should generally be limited. The borders and limits of state control should be precisely fixed and relations between individuals and the state determined” (2008:81).

I describe Foucault’s reading as inexact because Ordoliberals did not express opposition to the strong state, let alone were they prone to state-phobia, although they certainly intended to reconceptualise the role of the state after the experience of Nazi Germany. However, it is exceptionally important to first point out that my analysis of the Ordoliberal position *vis-à-vis* the Nazi state is not aimed at igniting any populist hauntology of Nazism in the contemporary EU guise—an imaginary occasionally popular in the debt-stricken Eurozone countries—but rather to critically discuss the question of role of the state in the neoliberalism of the Eurozone by elucidating its theoretical origins.

Analysing Walter Eucken’s theoretical and political position at that time is a good starting point for shedding new light on Foucault’s interpretative imperfections as well as necessity for re-positioning Ordoliberals in the context of the Eurozone crisis. Foucault, for example, points out that Eucken, “remained silent during the Nazi period. In 1936 he founded a journal with the name *Ordo* and in 1940 published a book with the somewhat paradoxical title *Grundlagen der Nationalökonomie*, which in reality is not about national economy but precisely something which doctrinally and politically is fundamentally opposed to national economy. He, then, was one of the scientific advisors, no doubt the main one, brought together by Erhard” (2008:103). This passage by Foucault must be discussed further because it does lapidary subsume his inaccurate representation of the Ordoliberal economic concept as incompatible with the strong state, Eucken as a political adversary of the Nazi regime, and even the content and reception of his book. To begin with, the book *Grundlagen der Nationalökonomie* discusses the possibility of the co-existence of a centralised managed economy, on the one hand, and private property, free movement of labour, and consumer choice based on previous interrogation of consumers, on the other (see Tribe, 1995: 216). The book was exceptionally successful and reprinted several times during the war, and this was possible precisely because it did not challenge the fundamental premises of the existing National Socialist political economy, but combined it with market initiatives and private property. As Pack emphasises: “What certainly can be rejected as a mere cover-up is the claim that the Ordoliberals who did not emigrate from Germany opposed, or even persistently resisted, the Nationalist socialist regime” (2013:117).

In addition, in 1943 Eucken published a paper which came out of discussion within the Beckerath Circle, named after its Chairman Erwin von Beckerath (see Tribe, 1995:226). The circle discussed the question of the post-war economy and strategies for addressing possibility of inflation, including controlling excess purchasing power. In that paper, Eucken opted for a post-war transition to a market economy only after the problem of excess of purchasing power is addressed through the balanced budget and reduction in the quantity of money, as well as emphasising the importance of limited inflation. We see that even at that point, due to very specific reasons, a balanced budget and inflation were becoming central to Eucken's political economy.

Walter Eucken also expressed a lot of appreciation for Schmitt's 'Total State' before WWII. As Tribe points out: "another name for this was of course the Total State, and in a footnote Eucken refers to his authority: Carl Schmitt's *Hüter der Verfassung*, published the year before....Both Schmitt and Eucken were supporters of the Papen government, both advocated the strong, conservative rule which, they hoped would restore political stability in Germany. Liberty would result from a consistently firm Ordnungspolitik; which reverses the classical conception of liberalism, where order is supposed to be the consequence of liberty, not its presupposition. His problem was the question of how the program of Ordoliberalism might be realised under National Socialist rule. This puts rather a different perspective upon the work of Eucken and his associates" (1995:212). In addition, Biebricher underlines that Eucken used the term "strong state" and the founding father of the Freiburg school signalled its meaning in the following passage: "a vision of the state as a monolithic structure, insulated from societal influence, and willing and powerful enough to force other actors into compliance with its decision" (see Biebricher, 2013:340). Thus, one should rather think about Ordoliberals in the context of the strong not the minimal state, which becomes more interesting and relevant in the context of the Eurozone crisis with the hardening of sovereign powers, as it will be discussed below.

Walter Eucken's economic views were substantially determined by the negative experience of the Great Depression which, once it had spilled over from the USA, significantly contributed to the German economic woes—predominantly through huge unemployment and high deflation, followed by inflation. In addition to the transformation of state-controlled economic management, one of the most important premises of his economic concept was the state-maintained competition that would enable economic growth and prevent high unemployment. That is to say, a rule-structured legal framework for what he termed "complete

competition” (see, Ahlborn and Grave, 2006) which would be “an instrument for the deprivation of power (*Entmachtungsinstrument*), the most magnificent and most ingenious instrument of deprivation in history” (Eucken, 1949 in Ahlborn and Grave, 2006). “Complete competition” should be distinguished from the neoclassical “perfect competition”, given that “complete competition” was precisely developed as a critique of the idea of *laissez-faire*. As Eucken pointed out: “The policy of competitive order does not leave the choice of market forms and monetary systems to the economy itself because the experience of the era of *laissez-faire* policy speaks for itself. The development of the framework in which businesses and households can plan and act freely is governed by the economic policy under which the framework is supervised. Businesses are free to choose what they produce, what technology they use, what raw materials they purchase and what markets they wish to sell on. . . .Freedom of the consumer exists, but not the freedom to choose how to define the rules of the game or the forms which the economic process takes. This particularly falls within the field of *Ordnungspolitik* (order-based policy)” (Eucken in Ahlborn and Grave, 2006:20). Foucault wisely recognises the influence of Husserl’s phenomenology in the way that the condition for complete competition must be carefully constructed, just as in Husserl’s phenomenology “a formal structure is only given to intuition under certain conditions” (Foucault, 2008:120). It means, that competition is not natural but should be constructed by the state, and also that the state could occasionally intervene by changing the legal framework of the market, boosting competition and preventing cartelisation, instead of intervening constantly or supporting a particular participant in the market. In addition, Eucken witnessed the monopolisation and cartelisation of the German economy during the Weimar Republic (see Feld, 2016), and dedicated his intellectual efforts to addressing the issue of de-monopolisation through market competition.

Lazzarato also develops a critique of Foucault’s reading of Ordoliberalism, which is mostly structured around the underestimated role of the state in neoliberalism and consequently the sovereignty–governmentality constellation, manifested in the EMU turmoil. Although Lazzarato develops his critique with the Eurozone crisis in mind—rather than by close reading of the Ordoliberals’ original documents and standpoints as I do—his conclusions are similar to mine. Lazzarato points out that “analysis of governmentality must focus not on the ‘suspicion that there is the risk of governing too much’, but rather on the alliance between the state and capital, and therefore, on state capitalism” (2015:93). Hence, I am in agreement with Lazzarato that we would have been much less surprised by the intensity of the Troika interventions in the Eurozone crisis had we relied on Deleuze and Guattari’s understanding of the state-capital

constellation, rather than on Foucault's understanding of Ordoliberal 'liberalism'. However, I would argue that one would have come to the same conclusion if they had read Ordoliberals closely and discovered their propensity—rather than animosity—towards the strong state.

Nevertheless, at the same time Lazzarato, of course, credits Foucault because of his in-depth reading of Ordoliberal principles, positioning them at the centre of European neoliberalism: “Ordoliberalism constitutes the major political innovation on which the construction of European institution is founded. The logic of European governmentality follows the Ordoliberal model whose method of generating the ‘state’ through the ‘economy’ is applied nearly to the letter. This is why we can say that the euro is a German currency. The euro is the emblem of a new state capitalism in which is impossible to separate the ‘economy’ from ‘politics’” (Lazzarato, 2015:112). The exceptional character of the German state—and I argue of the Eurozone as a whole—was brilliantly diagnosed by Foucault early on, so we ought to keep the following words in mind: “We should not think that economic activity in contemporary Germany, that is to say, for thirty years, from 1948 until today, has been only one branch of the nation's activity. We should not think that good economic management has had no other effect and no other foreseen and calculated end than that of securing the prosperity of all and each. In fact, in contemporary Germany the economy, economic development and economic growth, produces sovereignty: it produces political sovereignty through the institution and institutional game that, precisely, makes the economy work, in other words, the economy creates public law, and this is an absolutely important phenomenon, which is not entirely unique in history to be sure, but is nonetheless a quite singular phenomenon in our time” (2010:84). Intensification of the German economic principles in the wake of the crisis at the level of the EMU through modifications of the Stability and Growth Pact will be elaborated in more details in the second part of the chapter.

6.3. Macroeconomics: Eucken vs Keynes

After elucidating in depth the role of the state in Ordoliberalism, I would now get back to Walter Eucken's macroeconomic theory to demonstrate its relevance for understanding rigidity of the policies implemented in the Eurozone. It is interesting and hugely relevant that Eucken developed his economic standpoints in contrast to Keynes' views, although Keynes

held a sympathetic standpoint regarding mercantilism, as I will explain in detail below. Both Eucken and Keynes were, of course, reacting to the tectonic experience of the Great Depression, but Keynes opted for a state-led demand management and full employment, whereas Eucken saw full employment as a part of the problem in relation to inadequate state interventions, excessive economic planning and lack of competition. As Bofinger points out: “behind the formal theoretical apparatus stands a specific paradigm of Macroeconomics which was developed by Walter Eucken and which is diametrically opposed to Keynesian economics” (2016:12). In the context of the issue of full employment—which was one of Keynes’ strategic goals—Eucken was very sceptical and always saw full employment as equally as dangerous as mass unemployment: “Thus, our review of the German experience leads us to a grave and serious conclusion. Economic policy is faced with a dilemma: on the one hand, mass unemployment necessitates a full employment policy; on the other the policy of full employment makes for an instability on other markets, which is extremely dangerous, and in addition forces economic policy in the direction of central planning. This dilemma is perhaps the most crucial economic and social problem of our time.” (Eucken 1952a, p. 66, see Bofinger, 2016:13) I am of the opinion that the anti-Keynesian premises of Eucken’s views are out of the question, although certain authors—such as Michael Burda who is also a member of the German Council of Economic Experts—argue that the Keynesian tradition in the post-war period could be identified. For example, Burda underlines that: “During post-war reconstruction, Economics Minister Karl Schiller’s central focus was on *Globalsteuerung* (aggregate demand) management. In fact, provisions of the *Stabilitätsgesetz* of 1967 (the law which mandated demand management policy) explicitly address economic growth, inflation, unemployment and the current account balance as the ‘impossible square’ and even provide for contingent fiscal policy projects off-the-shelf which could be implemented in times of recession or crisis” (2016:14). Although these arguments regarding the certain Keynesian layers in the economic policies implemented in post-war Germany must be appreciated, I would argue that in the last fifteen years, many of the social-democratic layers in the German economy and society have been fading. This was particularly the case after the Hartz reforms in 2003, including the previously strong protection of labour through the trade unions.

Nevertheless, we should also be careful to recognise that in the very establishment of the Ordoliberal social-market economy and the famous German social-democracy there is also an embedded potential towards neoliberalism and the strong state. As Ptak points out: “With hindsight, we have to acknowledge that Rustow was correct when he referred to the ‘Social

Market Economy' as the realization of the neoliberal program (Rustow, 1957c,76). Muller-Armack's aim was to promote the social market economy as a strategy for transferring the principles of new liberalism into potentially hostile political and societal spheres without neglecting the ultimate neoliberal objective of creating a new kind of strong state" (2013:123). In addition, in the context of the Hartz labour reforms, it must be pointed out that animosity towards trade unions was, of course, a very Eucken-inspired policy, given he held a negative attitude towards trade unions and corporatism (see also Bofinger, 2016). In addition, the aforementioned labour reform, led by the Green-Red coalition which came to power in Germany in 1998, also had certain Ordoliberal aspects in terms of what Nicholas Rose (2014) calls "governing through communities" or "empowering civil society" (see Biebricher, 2016). As Biebricher (2016) wisely notes, all these elements of the communitarian politics could already be found in Ropke and Rustow.

In relation to the tendency for the principles of economic policies to be legally embedded, I would underline the fact that in 2009 Germany undertook an unprecedented step to add an item defining fiscal discipline into its Constitution. In addition, through the EU institutions Germany also insisted on bringing a similar legal regulation on the EU level by pushing mandatory acceptance of the "fiscal compact". This brings us to second imperfections in Foucault's (2008:167) understanding of Ordoliberals because they did not argue against "economic interventionism, or a minimum of economic interventionism, and maximum legal interventionism", as he held. On the contrary, their interventions are always already focused on economy regardless of their legal character, as the debt-brake inscribed in the Constitution confirms (see also Lazzarato, 2015:109). The production of the new central point of economy and governmentality positioned around the balanced budget and fiscal discipline – which are at the centre of austerity policies in the Eurozone - also sheds a new light on the horizontal Foucauldian understanding of the art of governing as the "conduct of conduct" and his standpoint that the main concern of the neoliberal state of "governing too much". Governmentality in this case cannot be understood only as opposition to the "statist unity of sovereignty", as Foucault (2003:45) held, but precisely in the intention for integration of the market, sovereignty and governmentality in the form of disciplining fiscal techniques. This is also brilliantly noted by Lazzarato: "The problem with Foucault's liberalism—'to govern as little as possible'—is directly linked to the possibility of multiplying the apparatuses of governmentality (of the conduct of conducts), to their diffusion and capillary distribution, to their horizontal and 'environmental' operations. But, when, as is the case in the present crisis,

these apparatuses undergo a sovereign centralization and a partial (Spain, Italy, Portugal) or radical (Greece) destruction, a ‘kind of homeostasis’, a ‘global equilibrium’, is not what we see. What we see is ‘civil war’ as a possibility, as a strategy, as a mode of ‘government’ of the population” (2015:170). This will be discussed further below in the context of the austerity-driven integration of governmentality and sovereignty.

John Maynard Keynes was, contrary to Adam Smith, a proponent of what could be termed moderate mercantilism. But he conceptualized a mercantilism which is good for a nation and its neighbours, as it will be elaborated below, as opposed to the neo-mercantilism which is embodiment of the beggar-thy-neighbour policy. At the beginning of the chapter on mercantilism in his famous *General Theory of Employment, Interest and Money*, Keynes points out that the last two centuries had been centuries of mercantilism, whereas in the century preceding the book the theory of free trade had also risen to prominence:

“For some two hundred years both economic theorists and practical men did not doubt that there is a peculiar advantage to a country in a favourable balance of trade, and grave danger in an unfavourable balance, particularly if it results in an efflux of the precious metals. But for the past one hundred years there has been a remarkable divergence of opinion. The majority of statesmen and practical men in most countries, and nearly half of them even in Great Britain, the home of the opposite view, have remained faithful to the ancient doctrine; whereas almost all economic theorists have held that anxiety concerning such matters is absolutely groundless except on a very short view, since the mechanism of foreign trade is self-adjusting and attempts to interfere with it are not only futile, but greatly impoverish those who practise them because they forfeit the advantages of the international division of labour” (1936:208).

He even goes so far as to criticise his own essay from 1924 for the statement expressed there that protectionism cannot cure unemployment. This was, according to Keynes, a clear example of the strength and influence of the neoclassical school, which favoured free trade. Keynes clearly understood limits of the belief that global trade without tariffs would benefit all nations.

Keynes further discusses the central problem of investment, demand and employment in the context of free trade and, consequently, the balance of payment in an economy. He points out that both neoclassicals and mercantilists tried to address the problem of propensity to invest in economy, and related it to interest rates. He underlines: “In conditions in which the quantity of aggregate investment is determined by the profit motive alone, the opportunities for home

investment will be governed, in the long run, by the domestic rate of interest; whilst the volume of foreign investment is necessarily determined by the size of the favourable balance of trade” (1936:209). However, it should be pointed out that favourable balance of trade would bring additional precious metal in a country and consequently put the interest rates down. Nevertheless, Keynes underlines that low interest rates are a necessary condition but not enough for boosting investments and economic growth, and, furthermore, that neoclassicals completely ignored the problem of aggregate demand whilst mercantilists recognised the problem but could not resolve it: “The mercantilists perceived the existence of the problem without being able to push their analysis to the point of solving it. But the classical school ignored the problem, as a consequence of introducing into their premises conditions which involved its nonexistence; with the result of creating a cleavage between the conclusions of economic theory and those of common sense” (1936:217).

Keynes praised mercantilists for their recognition that leaving everything to the mechanisms of the international markets would not be a solution, as this passage is undoubtedly confirming that scepticism: “the mercantilists were aware of the fallacy of cheapness and the danger that excessive competition may turn the terms of trade against a country” (1936:214). However, he reproaches them for not being able to critically explore how the amount of money in circulation in a country is connected to the level of interest rates, and consequently how interest rates relate to the level of investments through demand and marginal propensity to spend. Therefore, only a policy of autonomous rate of interest operating in conjunction with a national investment policy, which aims at full employment, is capable of generating a successful and prosperous economy. As Keynes emphasises: “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, whether we measure it by the level of domestic employment or by the volume of international trade” (1936:217). This Keynes’ lesson has been unfortunately forgotten in the Eurozone today where German investments in national economy have been limited for fifteen years. Therefore, instead of the policy which are “twice blessed in the sense that it helps ourselves and our neighbours at the same time” - that is, German internal investments which would increase internal demand and enable growth of other economies in the EMU - we have experienced German beggar-thy-neighbour policies.

6.4. Three Ordoliberal Macroeconomic Pillars

After defining the most relevant features in Keynes' and Eucken's standpoints, we can now address the question how the Ordoliberal legacy has influenced current German and the EMU economic policies and how they have created the condition of possibility for German neo-mercantilism, but also have normalized austerity in the EMU. In addition, only after understanding how are these Ordoliberal elements interrelated with German political history can we understand why is Ordoliberalism in Germany almost "religion", as Burda (2015) describes it. Obviously, there are three central macroeconomic features which can be defined by drawing on the work of Bofinger: the first is related to "an almost religious *fixation on balanced fiscal budgets* which reflects a very sceptical assessment of the effectiveness of demand management and the ability of governments to identify profitable investment projects" (2016: 12). The second feature from the Eucken legacy which is clearly shaping the current German and the EMU economic policies is related to the *obsession with inflation*. The third is related to the *labour wage flexibility* as a major means for achieving global competition. I would also add the primacy of the monetarist policies over the fiscal policies to the list of Ordoliberal pillars. All these listed measures are firmly intersected and positively influence each other, but also constitute the condition of possibility for the German neo-mercantile exporting machine, on the one hand, and the reinvented forms of European austerity, on the other.

The starting point of my analysis is this exceptional German fiscal conservatism. As mentioned above, proponents of fiscal conservatism have even managed to enshrine the obligation the so-called "*debt brake*" into the German Constitution in the immediate aftermath of the credit crunch in 2009. By so doing they positioned economic policy within the legal field, and therefore outside changeable government policies and their ideological preferences. In the context of the Eurozone crisis, we should also recall, drawing on Stiglitz, that, "Wolfgang Schauble, Germany's Finance Minister, together with Karl Lamers, the CDU former foreign affairs chief, have proposed 'a European budget Commissioner with powers to reject national budgets if they do not correspond to the rules jointly agreed'" (2016:231). It was therefore an idea for the national budgets to be centrally controlled.

Fiscal conservatism has also been one of the driving forces of the neo-mercantile oriented policies, given Germany has been resisting for years any pressure from other countries

to invest in national economy, and one of the most common explanations was that fiscal expansion would lead to a higher inflation. This is a particular Ordoliberal construct, given there is no in economic theory any direct connection between fiscal expansion and inflation. Flassbeck and Lapavitsas, of course, note that the constructed interrelationship between fiscal expansion and inflation has been one of the lynchpins of the disciplinary stratagem in the Eurozone, and they argue that “public finance would have no direct impact either on inflation or on the external balance” (2015:46). Nevertheless, exploring the Ordoliberal legacy is particularly useful for unmasking the constructed connection. As Bibow writes: “Fear of “fiscal dominance” follows the Bundesbank tradition as succinctly expressed by Wilhelm Vocke (1973), long-time President of the Directorate of the Bank Deutscher Lander who went on to become the first Bundesbank president in 1957: ‘every inflation starts in public finance, as public expenditures get inflated’” (Bibow, 2012:10).

I shall now discuss the second feature of the Eucken legacy in the current German economic policy, namely the *low inflation* set in the Eurozone at close to 2% annually. Ever since the introduction of the euro Germany has been undershooting the inflation target, as I have mentioned in Chapter Three. That has led to the fantastic improvement of German competitiveness both in the Eurozone and globally, but all at the expense of the other members of the monetary union. In addition, on the European level every violation of the inflation rule in terms of its rise is usually perceived as a significant problem, whereas any decrease of inflation is not considered hugely relevant. There is a strong and widely accepted connection between the traumatic experience of hyperinflation during the Weimar Republic and the German public obsession with exceptionally low inflation. However, some authors, such as Bibow (2012), prove that the direct connection between hyperinflation and Hitler’s power is a carefully created image by German elites, which does not hold if we take a more careful look at historical events. As Bibow points out: “It was high unemployment that opened the way to Nazism, not hyper-inflation, as ordinary people in Germany and abroad are led to believe” (Bibow in Cessarato, 2010:13). Namely, hyperinflation took place in the period of 1919–1924 whereas fascism came to power in the later period when deflation was actually the problem in the period 1929–1933. In terms of exceptionally low inflation, there is obviously a structural and destructive anti-labour, Germany-led bias in the Eurozone, carefully supported by ECB rules and policies. Also, as Demetriades (2016), who was a member of the ECB Governing council, points out, there is a substantial penchant for the way inflation-related breaches are treated by the ECB. For example, inflation in the Eurozone has been less than 1% for more than three years now, whereas it was around 3% for just a year in the period between November

2007 and October 2008. Having in mind the Ordoliberal bias, it is clear why the German undershooting of the set inflation for fifteen years in the EMU – discussed in detail in Chapter Three – has not been perceived in German academic and professional public as a problem.

The issue of inflation is related to the third crucial feature of the Eucken's legacy which is still also hugely relevant within current German economic policy, that feature is the *flexibility of labour wages*. Regarding wage moderation in Germany, it was at stage even in the 1980: "Germany benefited from her partners' profligacy, especially in the 1980s. The point is that the German model worked for Germany precisely because and as long as others behaved differently" (see Cesaratto, 2010). The resolute rejection of any increase in wages was particularly dominant policy when the country joined the Eurozone, but the German conservative position in terms of labour costs is also and crucially related to the value of the "German euro" in the monetary union and the relative exchange rates. It is a broadly accepted estimate— also confirmed by the IMF—that thanks to the euro and the European monetary union, the German real-exchange is actually 10–20% lower than it would have been if Germany were a country outside the monetary union with its own currency. As Davies precisely emphasised in the Financial Times, "without the euro, Germany's export sector would already have been hit very hard by a huge rise in the D-mark" (2016). Therefore, the Eurozone provides Germany with an unparalleled advantage and shield in terms of trade competitiveness with partners inside as well as outside the monetary union.

The strategy of keeping the price and status of labour flexible as much as possible, is seen as the ideal, if not the only way of addressing unemployment. As we have seen, the Ordoliberal principle of "complete competition" is also related to wage prices, and they should not be in any way excluded from market forces, nor protected by trade unions. Time and again, Eucken's experience from the catastrophic period of deflation in Germany in 1929–1933 substantially influenced his views, and in the context of labour price (in)flexibility he held that it was a cause of deflation. This is how Eucken connected the house-price crisis in Berlin with wage inflexibility: "In the crisis year, 1931, Berlin builders, for instance, had to reckon with relatively firm prices of materials, such as iron and cement, which were fixed by syndicates, and also with relatively fixed wages, where housing prices were dropping rapidly." (Eucken 1952a, p. 78 in Bofinger, 2016:14). It is now obvious—in the context of the central topic of the thesis—that the pressure by Germany on the countries of the southern Eurozone, and Greece in particular, to adjust and gain equilibrium in their balances of payments through internal devaluation was influenced by the Ordoliberal tradition. This will be discussed further in Chapter Seven in relation to austerity. Stiglitz explains how the Troika insisted on tough labour

reforms – obviously inspired by the Ordoliberal understanding - regardless of the significant goals in the field which had been already achieved: “Not satisfied with the huge decreases in labor costs (in the case of Greece, reductions of about 20 percent) that the market had brought about on its own, just through the high unemployment that the Troika policies had engendered, the Troika demanded reform to labor institutions, in the euphemism of the day, to create more flexible labor markets; in the reality of the day, the reforms would weaken workers’ bargaining power, lower wages still further, and increase profits” (2016:221). Stiglitz provides an in-depth analysis of the labour reforms suggested by the Troika, and draws on Varoufakis’ interpretation of the Troika’s proposal that actually collective bargaining as well as the industrial action should have been banned. Finally, in 2015 Greece regained a solid competitiveness in terms of the measurable Eurozone standards, to which Stiglitz (2016:222) therefore raises the question of why the labour reforms were continued.

6.5. German Current Account Surplus

The German neo-mercantilist economic strategy manifested in the huge current account surplus has become an object of exceptional political and economic attention and analyses since the Eurozone crisis started unfolding. Bulmer and Paterson wisely note that “Germany’s position as an ‘extraordinary trader’ focused on a hyper export performance complicates greatly the pursuit of stability and the legitimacy of the German position” (2013:1390). It has been argued in this thesis that the huge current account surplus is not only the result of the perennial German neo-mercantilist economic strategy imposed after WWII, but also an indication of the deep infrastructural imbalances within the European Monetary Union. It reflects a whole set of economic and political discrepancies which are central in the composition of the EMU. In 2016, for example, the German surplus reached a record-high of 278 billion, which is around 8.9% of its GDP, thus contradicting certain assumptions that the adjustment on the balances of payments of the southern countries in the Eurozone would reduce the German current account. As has been mentioned above, Germany has surpassed China as country with the highest current account surplus in the world. The surplus is, however, a reason for significant concerns for the peripheral countries within the monetary union, because it limits their exporting capacities, confirms a conservative fiscal position of the German government

and its wage-moderation strategies, intensifies deflationary pressures in the whole Eurozone as well as across the global North (America and Japan), deepens differences in the relative exchange rates among the countries members of the union, and more. It should be pointed out that the EU has set an obliging standard of maximal 6% of GDP for current account surplus for every country member, and the set is inscribed in the European Union's Macroeconomic Imbalance Procedure (MIP). After Germany has been constantly breaching the internal rule since 2007, a special committee was established by the EU Commission in 2012 to look into the case. However, as one would expect, the inquiry has not come up with any mandatory solution let alone formal penalties for the breach of the EU standards, thanks to the German hegemonic position in the EU.

Nevertheless, we have to be careful before attributing all the problems related to the German current account surplus exclusively to the composition of the monetary union. While it is certainly true that the monetary union has provided a condition of possibility for the surplus to go from negative to positive so rapidly and so decidedly—which began happening only three years after the union started in 1999—and also to reach the above mentioned historic high in 2016, the German current account surplus has had a perennial and persistent history which should be contextualised and discussed further. In the last sixty years there have been just a couple of periods when Germany has run a deficit, the longest period being in the nineties after the fall of the Berlin wall. The German current account surplus thus goes all the way back to the Ordoliberal economic policies established after WWII—as will be elaborated in detail below—and the period of the post-war reconstruction and rebuilding through industrial development, when an army of desperate and jobless people were providing cheap labour.

As the Bundesbank Annual Report (2013)—which dedicated a whole section to the issue—asserts, the current account surplus has been an almost constant item in the German balance of payment ever since the end of WWII. The firm focus on the export led economy was, for example, explicitly stressed in the immediate aftermath of WWII by Ludwig Erhard, who was Minister of Economics under Chancellor Konrad Adenauer from 1949 to 1963 and later became the German Chancellor himself. In 1953 Ludwig Erhard stated: “*Foreign trade is not a specialized activity for a few who might engage in it, but the very core and even precondition of our economic and social order*” (see Cessarato, 2010:12; Kafruny, 2015:170). Ludwig Erhard was also strongly influenced by the Ordoliberal economic principles of the *Ordnungspolitik*, kept regular correspondence with Eucken and also had Eucken's former student Leonhard Miksch as his personal adviser in the ministerial administration (see Feld, 2016). Therefore, at a time when Germany stubbornly continuous its neo-mercantile policy,

and has recorded the highest current-account surplus in history, the neo-mercantilist genealogy is central for understanding the modern discrepancies within the Eurozone.

Neo-mercantilism is, in the modern sense of the term, an economic strategy based on export-led activities, production and productivity, wage moderation and compression of aggregate demand, as well as being based on real exchange rates and advantages gained through the currency interrelation (see Cesaratto, 2010:7). We should distinguish so-called ‘benign’ mercantilism from ‘malevolent’ mercantilism, the term I borrow from Cesaratto (2010). The first is usually focused on protection of domestic production and employment, and is also positively oriented towards the international cooperation. Malevolent mercantilism is, on the contrary, obsessed with state power, which is enhanced through competitive trade, and consequently has wage compression and rising trade surplus as an epiphenomenon. Finally, the malevolent mercantilism is the policy defined by Keynes as beggar-thy-neighbour. I aim to show how German policy has in the last fifteen years mutated significantly into the malevolent form of mercantilism, although the forms could be traced back to the seventies.

6.6. Long History of Surpluses

It would be fair to point out that the German current account surplus had been attracting economists’ attention long before the European Monetary Union. But before I proceed with the analysis of the phenomenon, I want to elaborate in detail on what the current account is and what it records. The current account is a balance of payment item for every country, and is usually a mirror image of the second part of the balance of payment—the capital and financial account. The current account consists of the trade account, net income from abroad and current transfer. The trade account is in turn made up of goods and services, income is comprised of compensation of employees and investment income from abroad, and current transfers are made up of workers’ remittances and foreign aid. It is a common mistake to consider the current account of a country in the light of only the trade dynamics, because it is a much more complex account. It is particularly important to note that the current account records investment income, that is, income from investments abroad. In the case of Germany, this means that the capital initially gained through the difference in the size of import to export has been invested abroad, and has consequently started operating as a machine in and of itself, generating a further increase in the current account surplus. To put it simply, the current account is the difference between a nation’s savings and investment.

In the context of the German current account surplus, Charles Kindleberger, who was one of the main architects of the Marshall Plan and later also a Professor at MIT, wrote two seminal reflections on the issue in the post-war period. The first essay “Germany’s Persistent Balance-of-Payments Disequilibrium” was published in 1964, and the second ten years later at a time when Germany’s neo-mercantilism was becoming more malevolent. In his first essay Kindleberger tested the following hypotheses in relation to the most relevant causes for the previously mentioned current account surplus:

- Inflation abroad
- Beggar-Thy-Neighbour policies in Germany
- The structure of German trade
- The German propensity to export
- The docility of German labour
- Competition of German markets
- The German propensity to save, or not to absorb
- Deficiencies of the German capital market
- German innovation and technical progress

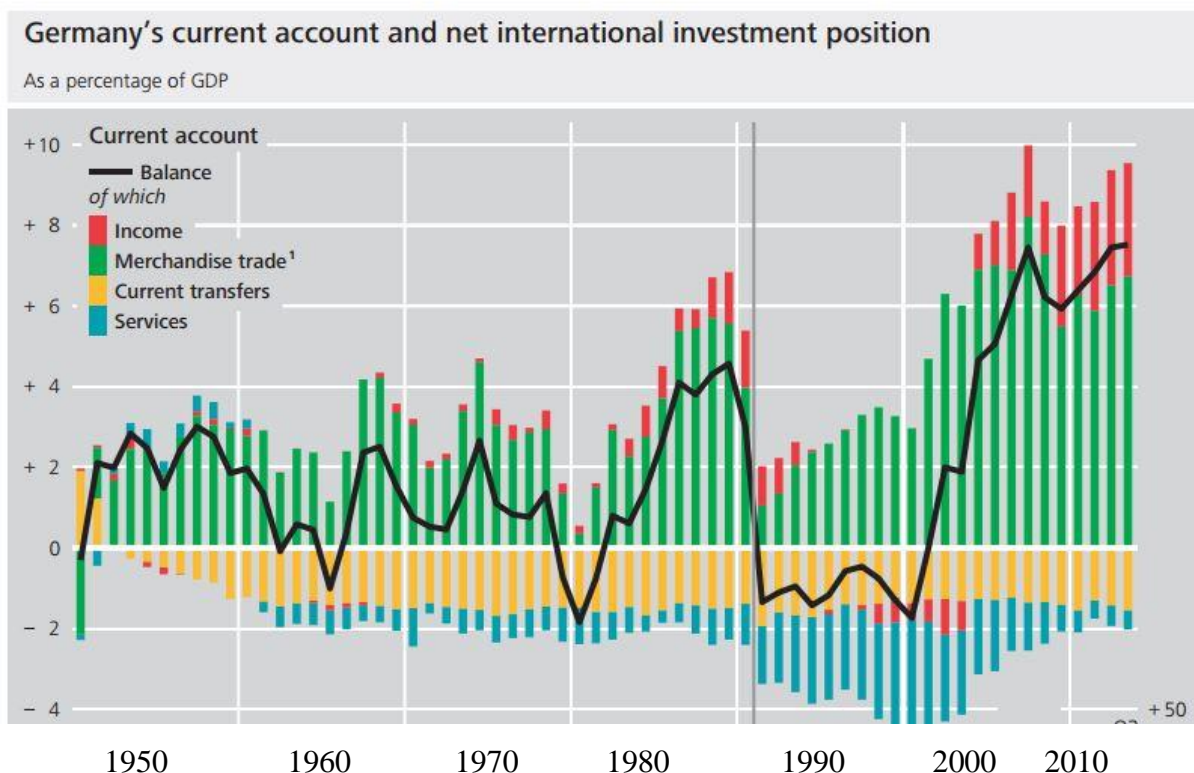
Kindleberger considered all the mentioned factors important, but excluded the beggar-thy-neighbour policy as a relevant factor. As he pointed out in the first essay, the mentioned factors as well as the current account disequilibrium were “in the nature of things” (1966:113), and consequently he indirectly abolished German financial and political authorities from any substantial influence on the matter. However, in his revised version of the same issue written ten years later in 1976, he took another approach, asserting that the beggar-thy-neighbour policy was a relevant factor, along with several important political and economic decisions implemented by the German authorities. For example, in terms of policies, he emphasises that, “policy, of course, covers the actions of the monetary and fiscal authorities on both micro-economic and macro-economic fronts—lowering tariffs (in 1956), altering the value-added tax in foreign trade, revaluing the mark in 1961, 1969 and 1971, and letting it float from 1973, as well as macro-economic monetary and fiscal policies” (1976:127).

As Cesaratto points out, it was in the late seventies when Germany’s neo-mercantilism started becoming more problematic for other European countries: “It is generally maintained that although already an export-led country, after the first oil shock Germany became a malevolent mercantilist country (e.g. Ciocca and Vito Colonna 1981: 109). The reaction of Germany to the economic turmoil of the 1970s featured many of the traditional components of

malevolent mercantilism: wage moderation, fiscal restraint, a resulting favourable inflation rate differential, such as to compensate any appreciation of the nominal exchange rate and preserve competitiveness, as well as little concern for international reflationary action” (2010:22). What started in the seventies in terms of German economic policies continued into the changed economic environment of the monetary union in the new millennium. That is to say, in the case of Germany, banks, companies as well as individuals in the last fifteen years have been saving more than they have been internally investing. As Cafruny points out “German capital has pursued a strategy of relentless cost-cutting and austerity closely linked to its foreign direct investment strategy” (2015:171).

In the midst of the discussion about the issue of the German current account in 2013 – as mentioned above - a special section of the Bundesbank Annual Report was dedicated to the problem. The relevant factors for the low domestic investments are not separate from the biopolitical, given that the demographic situation (age of population and propensity of elderly people to save) was listed as one of the crucial factors: “demographics, productivity and income are instrumental factors—as are price and cost relations, the institutional framework and infrastructure—for gaining an understanding of household consumption and saving patterns as well as firms’ investment and financing decisions” (2013:41). Also, the more capital that was gained through the current account surpluses—both through trade and income from the investments abroad—the more opportunities for further international investments were available. As a consequence of the aforementioned surpluses, “Germany’s net external assets climbed to roughly one-fifth of GDP at the end of the 1980s” (Bundesbank, 2013:41). In the report, it is stated in precise terms that: “Current account surpluses have been a feature of Germany’s macroeconomic landscape since the end of the Second World War. Marked current account deficits occurred only sporadically between 1950 and 1990, specifically in the economic downturns in the late 1960s and the early 1980s....Following reunification, robust domestic demand coupled with the huge capital flows needed to reconstruct eastern Germany kept the current account in the red for a decade” (Bundesbank, 2013: 40).

The diagram below shows the German current account from the 1950s:



Bundesbank, Annual report 2013, page 41

As Cesaratto (2010) highlights in the context of the intersection of Ordoliberal strategies and mercantilist economic policies, the export-dominated strategy was a lynchpin of the German post-war engine and did not happen accidentally. This element is completely missing in Foucault's analysis of Ordoliberal economic and governing premises.

In the nineties after unification, the macroeconomic situation substantially changed—internal capital transfers were flowing from the Western to the Eastern part of the country, huge investment in infrastructure as well as a rise in consumption reversed the trend, and the deficit lasted for a decade. However, in the 2000s we can see in the diagram the rapid growth of the surplus, which is undoubtedly directly related to the European Monetary Union. Since the crisis in the Eurozone developed, Germany has reduced its own trade with other countries-members, and intensified trade with Asian countries. However, the change in the structure of the current account surplus has not changed anything substantially, because austerity measures in the rest of the Eurozone have reduced consumption capacities, and the economic dynamic in terms of trade between countries within the Eurozone has not significantly changed.

6.7. Ordoliberal Techniques of Governing and Surveillance

The final part of the chapter discusses how the crisis has re-invented new forms of technocratic governing, and how Ordoliberal surveillance of states operates in conjunction with policing of individuals. The specific Ordoliberal understanding of sovereignty interrelated with economy – discussed above - has been also exported to the level of the Eurozone and the EU, and the correlation between these two horizons is much stronger than usually perceived. For example, as Bulmer and Paterson point out, “the Fiscal compact represents the clearest example of Germany’s stability culture, enshrined in its own legally binding domestic debt rules being institutionalized at EU level. Another illustration is the 2011 ‘six-pack’ of measures reforming the Stability and Growth Pact and enhancing microeconomic surveillance” (2013:1395). With the German economy there is much more at stake than just economic management, and all these metaphysical layers have become obvious at the very beginning of the Eurozone crisis. For example, as wisely noted by Matthijs, ex-German Chancellor Gerhard Schroder said in 2007, at the eve of the crisis, a statement that shows how metaphysical elements of sovereignty operate through the economy: “If you try to fight the German stability culture, you are bound to lose. It’s better not to start that game” (quoted in Marsh 2011a: 227) That “stability culture” means precisely the above-mentioned Ordoliberal correlation between economy and judiciary, between uncertainty of economy and certainty of “economic constitution” (2016:353). In addition, Biebricher (2017) makes a strong argument that Ordoliberalism has strengthened the state by giving it a scientific, normalizing and moralising instrument for techniques of governing and imposing policies. As he underlines: “the authority of Ordoliberal science is what strengthens the state so that it might overcome the conflicting social parties and their interests. The moral tone in which the requirements of self-restraint and determination for the state to become a strong are voiced is not accidental to the tradition” (Biebricher and Vogelmann, 2017:17)

In this context, it should be pointed out how Will Davies (2014) develops a thorough analysis of the interrelated constellation of governmentality and sovereignty. He emphasises that between sovereignty and governmentality (although they sometimes operate in conjunction to produce the neoliberal illusion of correlation) there is also a permanent tension: the latter is mostly structured around quantitative techniques, measurable practices and

physical realities, whereas sovereignty has always something which is metaphysical, unintelligible, almost mystical. As Davies points out, “neoliberalism seeks to place sovereignty on economically rational foundations, but then becomes entangled in questions regarding the authority—ultimately the sovereignty—of economic methodology as a basis for political critique, decision making and rule” (2014:24). Davies is right to mention Hobs in the context, that sovereign power always—at least to some extent—operates through undiscovered, hidden, unexplainable.

However, Davies does not emphasise enough the extent to which governmentality and sovereignty have been integrated through the Eurozone debt crisis, nor how governmentality—far from being focused just on physical, measurable and quantitative realities—is also a system of power (physical and metaphysical). Rather, I argue in this thesis that the Ordoliberal legacy in the Eurozone has demonstrated that there is no obstacle in dismantling the boundaries between the allegedly separate domains of “traditional liberalism”: politics, economy and judiciary. Economy and economic power have produced both judiciary—through the EU Stability and Growth pact arrangement or so called Six-pack rule—as well as politics, through the suspension of democracy and implementation of technocratic government in a time of austerity. It seems to me that this is particularly well manifested in the aforementioned Chancellor Schröder’s statement, which hints at the stability culture that is tacit, important and omnipresent in Germany, although rarely explicitly illuminated. That could be clearly identified, for example, in the following statement expressed by Chancellor Angela Merkel: “the rules must not be oriented toward the weak, but toward the strong. That is a hard message. But it is an economic necessity” (Merkel, 2010 cited in James, 2012).

In terms of the role of state in the post credit-crunch epoch, Foucauldian technics of governmentality should be considered, as Lemke (2001) wisely notes, both as external and internal in relation to the state. They are not just a given set of tools used by the state, but rather an internal and external re-definition of the state and self-positioning of the state. As Foucault points out, governmentality encompasses “the tactics of government which make possible the continual definition and redefinition of what is within the competence of the state and what is not, the public versus the private, and so on; thus the state can only be understood in its survival and its limits on the basis of the general tactics of governmentality” (Foucault 1991a, p. 103 in Lemke, 2001). Foucault thus explicitly opens the possibility for re-thinking the domain of public versus private, but what we have experienced in the Eurozone crisis is public and private being re-integrated. Moreover, in terms of the interrelation between sovereignty and governmentality, Foucault carefully and clearly points out that sovereignty cannot be

disentangled from governmentality nor from discipline, because “in fact we have a triangle of sovereignty, discipline and governmental management, which has population as its main target and apparatus of security as its essential mechanism” (2007:108; see also Davies, 2014:112) Nevertheless, the newly integrated constellation of state and private capitalism as well as revitalisation of the state disciplinary hierarchy through budget discipline and public debt surveillance, go beyond Foucault’s premises defined in his lectures at the College de France in 1978-79. This is why I draw on Lazzarato’s (2015) critique of Foucault’s conceptualisation of the role of the neoliberal state, and combine it with my own original exploration of forms and intensities of state intervention in which the “strong Ordoliberal state” has been revitalised in the crisis (Tribe, 1995; Biebricher, 2016).

The final section will focus on the immanent lack of democracy within the EU and the following two regulatory standards imposed by the European Commission: evolution of the Stability and Growth Pact in the aftermath of the sovereign debt crisis through the so-called ‘Six-pack’ adopted in 2011, and the Fiscal Compact adopted in 2012. Both were brought about in the wake of the Eurozone crisis, both have strong Ordoliberal traits and have also used as juridical means to toughen up disciplinary strategies in relation to fiscal and macroeconomic policies for nations in the EU. So, while the Eurozone crisis has been a background against which are these techniques for further economic surveillance and policing were brought about.

Since the Eurozone crisis started in 2009, the EU Commission has mostly delegated its obligations and responsibilities in terms of decision-making for the Greek crisis to the Eurogroup, which is a political body consisting of ministers of finance of the countries members of the Eurozone. The EU Commission and the Eurogroup—both strongly influenced by Germany—were providing necessary legality and legitimacy for crucial decisions within the EU political and legal framework. However, an immanent lack of democracy in relation to the EU Commission as well as the overall lack of transparency have only been exacerbated after the credit crunch. As Stiglitz (2016) points out, there are two main problems with the EU and both have been insidiously manifested in the Eurozone crisis. The first is related to the discrepancy between economic and the political integration, where the former has been predominant and implemented through a faster pace, at the expense of political integration. This had already been diagnosed, as I have pointed out above, by Foucault in the early days of post-war Germany, and could even be identified in the first negotiations of the EU Treaty in Rome in 1957, where Germany was represented by Muller-Armack. The second is related to the mentioned immanent lack of democracy which has also been noted by Stiglitz: “One of the reasons is the construction of the EU itself—with the laws and regulations promulgated by a

Commission that is not directly elected. Not even the head of European Commission is elected. Devising rules and regulations that worked for the entirety of the diverse region inevitably led to complexity.” (2016:58) It should be noted that in the initial Ordoliberal conceptualisation of economy and society there was not much appreciation for political-economic freedom and classical liberalism, including free citizenry. Also, there was an immanent despise to masses in the Ordoliberal circle, and Ropke argued that a social crisis is brought about by the “revolt of the masses” in favour of a permissive society. According to Ropke, “this revolt of the masses” must be countered by another revolt, “the revolt of the elite” (see Bonefeld, 2012:636). With this in mind, it would not be an exaggeration to state that the lack of democracy in the structure of the EU is related to the primacy of the economic “order” over “liberalism” and democratic rights for citizens and nations.

The Stability and Growth Pact is one of the most fundamental economic documents of the EU, which was initially accepted in 1997 but has in the meantime changed two times, in 2005 and 2011. The document was initially aimed at defining the economic principles of economic stability, prosperity and growth in the EU, based on budget discipline and control of public debt. The SGP was initiated by the German government in the nineties, particularly by the then German Minister of Finance, Theo Waigel. In addition, the Pact introduced and developed so-called “excessive budget procedures” for countries who did not abide by the Maastricht rules of 3% budget deficit and public debt of 60% of national GDP. It is worth mentioning that both Germany and France—as the founding and most powerful members of the EU—breached the rule of the 3% of GDP for budget deficit in 2003 but faced no consequences. However, in the wake of the Eurozone crisis the EU elites wanted to impose more strict preventive mechanisms and surveillance in relation to the mentioned rules, as well as tougher punishments for the countries who breached it.

In the Eurozone crisis, two significant modifications have been adopted: the first was in 2011 named the “Six-pack” and the second one in 2012, named the “Fiscal Compact”. The “Six pack” has slightly changed the penalties for the countries with excessive budget deficit, but more importantly it has made implementations of the penalties automatic. Namely, the “Six-pack” defined that countries with budget deficit above the 3% were obliged to implement in coordination with the Council for Economic and Financial Affairs (ECOCFIN) the excessive deficit procedures. The procedures were changed in comparison to previous EU rules, and have more expensive for individual countries who do not manage to impose the required fiscal and debt discipline. A qualified majority are needed to vote against them in order for them not to

be imposed (known as the “reversed qualified majority”). In terms of public debt, the EU Press release from 12th of December, 2011 states: “The new rules of the amended Stability and Growth Pact make the debt criterion of the Treaty absolutely operational, since it has been largely neglected over the past years. Another major element of the new rules is that a new numerical debt benchmark has been defined: if the 60% reference for the debt-to-GDP ratio is not respected, the Member State concerned will be put in excessive deficit procedure (even if its deficit is below 3%), after taking into account all relevant factors and the impact of the economic cycle, if the gap between its debt level and the 60% reference is not reduced by 1/20th annually (on average over 3 years).” Thus, the countries with public debt higher than 60% of their GDP, as well as countries with budget deficit higher than 3%, automatically fall into the excessive debt procedure, with up to three years to balance their budget. In addition, countries members are obliged to report their prospective budgets in advance so that the EU Commission can analyse and approve it. At the point when the Six-pack was adopted, all the countries in the EU except Estonia, Finland, Luxemburg and Sweden were in the excessive debt procedure, but the Pack defined that countries in the procedure were allowed a three year grace period—once they had managed to reduce their budget deficit to 3%—to try to decrease their debt below the threshold of 60%. However, this did not mean that certain measures for reduction of the public debt were not also in place during the excessive debt procedures.

The Fiscal Compact is even more important because it was adopted in 2012 as a part of the new Treaty - The Treaty on Stability, Coordination and Governance in the Economic and the Monetary Union. In addition to the request of national budgets deficits not to exceed 3%, it defines Medium Term budgetary objectives which are calculated every three years for individual countries. These objectives stipulate that structural budget deficit (related to government spending and therefore independent of the business cycle) should be maximum 0.5% of GDP for countries with public debt higher than 60% of their GDP, and maximum 1% for countries with their public debt less than 60% of GDP. Importantly, the European Commission required for the decision of the Treaty to be transposed into national legislatures.

We have seen how budget planning, controlling and surveillance in the EU have become strict and law-bound. In addition, as Lazzarato (2015) emphasises, in contemporary capitalism taxation does not come after production as it is usually considered in political economy and social sciences, but on the contrary, systems of taxation actually structure and define production. That is to say, the system of taxation and volume of government budget define society and economy: what is going to be produced and what is not, money allocation

for the welfare state, the national health system, education, innovation, investments, development, housing, people on benefits, and so on and so forth. As Lazzarato points out, a wide spread opinion is that “everything comes after production, even taxes and their distributive function. Of course, the exact opposite is the case. Far from deriving from production and growth, appropriation and distribution antecede both. In capitalism, appropriation functions through a ‘three-headed’ apparatus of capture: profit, rent and taxation. Money and taxation always depend on an apparatus of power (national states as well as transnational institutions like Europe or the financial banking systems)...Taxation is the barometer of austerity policies, of the appropriation of the population’s income, and of distribution among creditors, all of which capitalism has maintained during the crisis” (2015:35-36). With this in mind, we ought to re-think fiscal surveillance and discipline as new forms of collective macro-governmentality that restructure the whole of society. The power of governance is not executed just through the social capillary phenomena, as Foucault held, nor in opposition to the centralised mechanisms of sovereignty, but in conjunction with redefined and reproduced economic sovereignty.

6.8. Conclusion

In conclusion, neo-mercantilism as a strategy of empowering state through economy and trade, even at the expense of progress of neighbouring nations, is at the very heart of Ordoliberal post-war policies. This is particularly relevant in the wake of the Eurozone crisis, when Germany has been recording enormous current account surpluses that are reflected as current account deficits of the southern Eurozone countries, in particular Greece. These macroeconomic elements within Ordoliberalism are completely missing in Foucault’s analysis. My intention has therefore been to analyse fiscal conservatism, low inflation and flexibility of labour within the Ordoliberal genealogy, and to interrelate them with the reinvented strategies of the sovereign governmentality within EMU. Furthermore, Foucault’s understanding and conceptualisation of the neoliberal state is inexact, given that Ordoliberals were conservative proponents of the strong state, rather than liberal theorists prone to state-

phobia, as is the view he seems to have held. Walter Eucken, as the founding father of the Ordoliberal intellectual circle, deeply influenced the anti-Keynesian economic policies of Europe: where full employment is seen as a threat rather than a strategy, and focus on fiscal discipline and low inflation are central goals. In addition, the Hartz reforms in Germany were imposed on the premises that further flexibilisation and disciplining of labour is the only way to make the national economy more competitive and prosperous. While the German current account surplus has started to flourish since the reforms, and the exporting machine has intensified, the effects have been detrimental to the other countries in the Eurozone precisely because their current account deficits have been the mirror image of the mentioned surpluses at the centre of the Eurozone. Since the crisis broke out, the new forms of sovereign governmentality through surveillance and fiscal discipline are imposed across the Eurozone, with the central role of so called Six-Pack and Fiscal Compact. These measures demonstrate that legal interventionism goes beyond maintaining and boosting market competition, as Foucault initially thought, but rather deploys sovereign legal instruments or economic domination and exploitation. As Lazzarato (2015) makes clear, in the epoch of decreasing profit and rent, taxation has become the most influential form of capital accumulation, with fiscal conservatism as one of its central ideological instruments. Although economic theory does not recognise a direct connection between budget deficit and inflation, it is a carefully developed economic construct which demonstrates its own power through the intensification of mutually constructed fear: the fear of high inflation and fiscal expansion.

Chapter Seven

Austerity Assemblage: Policies for Compensating the Rich and Disciplining the Poor

This chapter discusses the austerity in Greece as an assemblage for financial consolidation of the Eurozone centre and further impoverishing of Greek people. It analyses Greek fiscal adjustments and recapitalization of private banks. Also, it interrogates privatization of public assets in conjunction with education reform because these processes are just elements in a broader structural governmentality aimed at controlling, disciplining and de-pathologizing the “nation in crisis”. The privatization was unsuccessful due to economic reasons related to a broader macroeconomic reality, ignored by the Troika. The neoliberal maximal state is discussed, as opposed to the usually presented minimal neoliberal state, because the state is behind all the mentioned processes.

7.1. Plan of the Chapter

The aim of this chapter is to elucidate the austerity imposed on Greece as an assemblage, and to interconnect its heterogeneous elements; ranging from fiscal disciplining and privatization of public assets to reforms of non-economic domains such as national education. In addition, the chapter demonstrates how austerity imposed on Greece operates within the broader EMU assemblage, constituting a “continuous emergency as an exception spread over time” (Negri, 2015), which enables extra-legal framework for financial compensations of central European creditors. I will explain below that the Greek primary fiscal surplus - as one of the main macroeconomic goals of the adjustment program - has been used for repayment of Greek sovereign bond holders; that privatization of public assets has been a form of compensation for the creditors; and that recapitalization of Greek private banks has in

reality enabled a surreptitious transfer of wealth from the Greek public sector to private investors.

Austerity is a multidimensional disciplinary assemblage developed for economic and social de-pathologizing of the Greek nation, which has been imposed across different registers. While Foucauldian analysis of the disciplinary mechanisms has usually been correlated to the immanent social practices of punishments, imprisoning and surveillance, Gane (2012) connects them directly with political economy by pointing out that the panopticon also manifests architecture of a state's surveillance and interventions in the market. The alleged collective Greek economic pathology which the Troika's austerity aims at addressing is related to lack of fiscal discipline, irresponsible increase of indebtedness, and unsustainably generous labour laws and practices. However, at the same time the austerity assemblage aims at addressing an alleged deeper social and moral degradation of the "nation in crisis" and therefore it also reproduces subjectivities. The following example, discussed by Gounari and Grollios in the context of education reforms in Greece, and strongly endorsed by the Troika, is paradigmatic: "according to Mr Kremastinos, a member of the Committee for Educational Affairs, the goal of the new higher education law should be to "shape new human beings of better quality"" (2012:312). The economic crisis is, according to this view, just a result of the deeper moral crisis. That is why the economic reproduction of capital and social reproduction of subjectivities have been exposed to the same disciplinary mechanism – austerity assemblage. The commensurability of the interventions in different social domains such as economy and education by the "immanent and non-unifying abstract machine" is what Deleuze explains in his book on Foucault as degrees of variation: "it resembles coefficients needed to make the diagram, and the higher the degree of variation, the more the assemblage in question becomes diffused in all the others and can suit the whole social field" (1995:41).

While austerity is usually legitimised by its proponents as a necessary economic mechanism for re-balancing the economy and improving its competitiveness through wage cutting and reduction of public expenditure, the rationale behind it is much more complex and subsumes interventions in the domains of biopolitics. In the sphere of economy it is usually presented as a form, "of voluntary deflation in which the economy adjusts through the reduction of wages, prices and public spending to restore competitiveness, which is (supposedly) best achieved by cutting the state's budget, debts and deficit" (Blyth, 2012:3). It is mostly based on the famous Adam Smith transposition of the individual family's economic-and-moral balance on the whole national economy: "What is prudence in the conduct of every private family, can

scarce be folly in that of a great kingdom” (1993:104). But the neoclassical Smith’s foundation received an additional layer in the wake of the Eurozone crisis through Angela Merkel’s unwitting equating of micro and macroeconomy, that is, glorification of the imaginary yet thrifty and responsible Swabian housewife, positioning her as a role model for German and Eurozone economies (see also Stiglitz, 2016). However, the activation of individualistic analogies and a simplistic conceptualization is economically unjust and morally dangerous: saving in a family cannot be compared with saving in a whole economy because saving in a family does not put in jeopardy the jobs of family members, whereas exceptional saving in a national economy activates what Keynes termed the “paradox of thrift”. It is a phenomenon which describes a situation where the vast majority of a population is pressed towards saving at the same time; consequently causing a contracted economy and putting at risk employment, income, and the very saving itself (see Bryan and Rafferty, 2017).

Although the chapter analyses austerity beginning in 2010, it mostly focuses on the period from 2012 – 2017, exploring the following four aspects of the austerity assemblage:

- Fiscal retrenchment and economic contraction
- Recapitalization of Greek private banks with public funds
- Privatization of public assets
- Reform of education

7.2. Greek Economic Contraction

There are different austerity mechanisms and the Greek crisis has also produced numerous peculiar features because of its membership in the monetary union, as I will elaborate below. Bryan and Rafferty (2017) underline different subtypes of austerity and different ways of correlating its fiscal and moral elements. While in Europe saving as a predominant strategy has been operating both on the level of individuals and nations, in the USA fiscal tightening was not rigid at all in the wake of the crisis, and individuals were more frequently coerced to rebalance their investment and keep repaying their obligations, rather than saving cash. This is because in the USA government intervention has been related to the purchase of toxic assets in the form of mortgage backed securities, and therefore market recovery in the USA is directly

dependent on the continuation of mortgage repayments. However, as Bryan and Rafferty emphasise, “European households have been conceived as cash (flows) accounts of current incomes and expenditures, with net inflows and outflows of funds as the adjustment mechanism. The aim is reducing the net debt positions....What keeps them solvent, or at least operating under “administration” (in corporate terms) is the social imposition of moral austerity: the official view that it is morally appropriate for households to endure reduced living standards until the household income account is back in black” (2017:346).

Austerity was first imposed on Greece by the Troika in 2010 as part of the conditionality for the first bail-out program (see Chapter Three and Chapter Four). Greek austerity was a variation of the previously defined IMF’s program of structural adjustment tested in other regions and crises: fiscal retrenchment, increases in corporate and income taxes, flexibilization of labour, cuts in payments, privatization of public assets (Hall, 2013; Stiglitz, 2012; Krugman, 2012). Nevertheless, the program imposed on Greece also differed from the previous programs imposed by the IMF because of the character of the monetary union, and because it could not include monetary instruments nor currency devaluation. As a result it was based on the two pillars: fiscal policy and structural reforms (see Moschela, 2016: 806). That is to say, any changes in terms of monetary policies were excluded because they are managed centrally by the ECB for the whole monetary union, and currency devaluation was impossible because of the euro. The impossibility of monetary devaluation as a means for increasing competitiveness merely intensified the need for internal devaluation of the unit labour cost. Significantly, this was the first time austerity measures designed by the IMF had been imposed on a country considered developed.

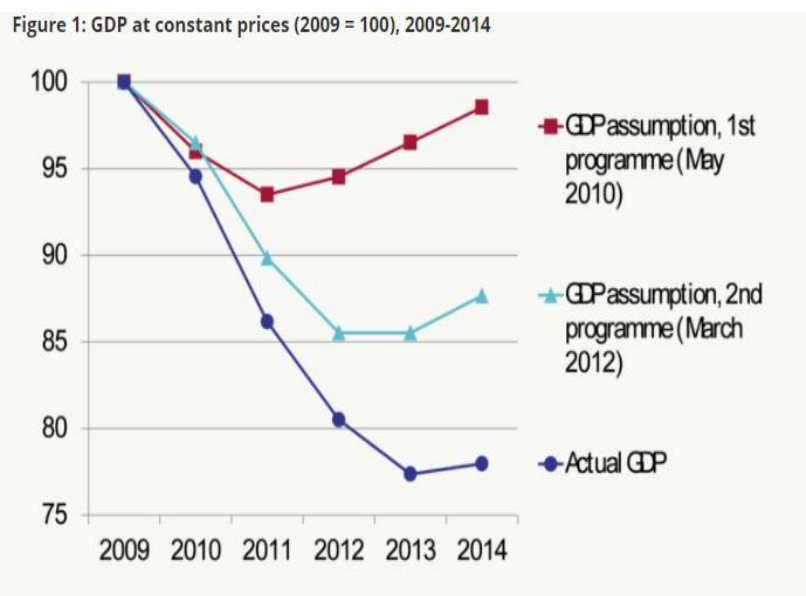
The first bail-out program in 2010 consisted of the following elements: reduction in government spending, in particular wages and pensions, an increase in corporate tax, value added and income taxes, flexibilization of labour, and privatization of public assets (Moschela, 2016). The following two main macroeconomic fallacies of the Greek austerity are related to fiscal adjustment: the first is underestimation of recessionary effects of the measures imposed on the public sector; while the second is the fact that improving competitiveness and macroeconomic indicators in a monetary union – what I have termed the EMU assemblage - depends on factors which are not exclusively related to internal devaluation (government cuts) in a national economy (see Boyer, 2012; Fumagalli and Lucarelli, 2015, Flassbeck and Lapavitsas, 2013). That is to say, the improvement of competitiveness is manageable only relatively and relationally, in comparison to other economies in the EMU.

The Troika's strategies for addressing the crisis in Greece and the EMU have reaffirmed pre-Keynesian policies, ultimately negating a direct and strong correlation between public spending, aggregate demand and total output. Namely, the pre-Keynesian understanding now reaffirmed by neoliberals within the Troika is based on the idea that reduction of public sector spending will be compensated by interventions from the private sector – both in terms of investment and employment – and also that increased competition among private investors will bring interest rates down and consequently boost investments (see Hayek, 1931). Keynes, on the contrary, believed that there is an undisputable correlation between the reduction of public spending and aggregate demand and output, and that interest rates are not the crucial factor which determines if companies invest or not. As discussed in Chapter Six in relation to the Keynes – Eucken opposition, propensity to invest on the microeconomic level of companies is correlated to consumers' propensity to spend. Boyer underlines, in the context of Eurozone austerity, that conventional micro theory could not be extrapolated at the macro level, and also that financial markets are the place where expectations of various actors confront one another in such a way that a collective representation emerges, a convention that then shapes most decisions about production of investment (2012:292). Finally, employment is a consequence of the level of effective demand, itself moved by investment decisions (Boyer, 2012:292). When the initial public sector cuts of around 18% were imposed in Greece as part of the first Memorandum of Understanding, accompanied with pension reductions of 10%, tax revenues automatically dropped because of the cuts and the global recession, which pushed the Greek economy into spiralling economic depression. The initial Troika predictions that fiscal deficit would be under 3% by 2014, and that the public debt to GDP ratio would begin decreasing by 2013, have proved unfounded.

Keynes defined a famous fiscal multiplier which determines how a decrease in public spending affects total output, which in the 1950s and 1960s was considered to be around 2. However, in the following decades it decreased in economic theory in the wake of the neoliberal shift of paradigm. In a paper co-authored by the IMF chief economist Olivier Blanchard and Daniel Leigh in 2013, they openly confessed that the IMF, and consequently the Troika, had been using a wrong multiplier in a formula for calculating how reduction in public expenditures in Greece and the rest of the Eurozone affects the total output. They set a multiplier of 0.5 previously used for developed economies in crisis, but the fact is that Greek economy required a figure around 2.5%. In 2016 the IMF ordered an evaluation of its own decision and failed policies concerning the Eurozone crisis; the resulting document states:

“Gros and Alcidi (2010) argued in April 2010 that in Greece, given its limited openness and low savings rate, the multiplier might be as high as 2.5 and that GDP would fall by 15 percent. In the October 2012 issue of the World Economic Outlook, IMF staff concluded that “actual fiscal multipliers were larger than forecasters assumed” (IMF, 2012a)” (IMF, 2016:25). Put simply, the Eurozone in general, and Greece in particular, have been exposed to much quicker and deeper public cuts than their economies could realistically sustain. This, of course, has had detrimental effects on the Greek economy. Meanwhile, despite the fact that the speed of fiscal adjustment slowed a little after the second bail-out program in 2012, results were catastrophic: Greece’s GDP shrank 27% between 2009-2016 (detailed figures demonstrating discrepancies between Troika miscalculations and the real GDP decrease are presented below). The effects of unemployment were also severe, with total unemployment reaching 21% in 2017, and 48% among the youth.

The size of Greek fiscal adjustment was unprecedented in absolute volume and incomparable with any other crisis in modern history. As an IMF document confirms: “The fiscal adjustment required of these countries was among the largest in recent history: the adjustment in the programmed primary balance amounted to 5.5 percentage points of GDP for Greece (or 7.0 percentage points if cyclically adjusted)...The average annual programmed fiscal adjustment of 3.5 percentage points of GDP in the euro area programs (almost 4.5 percentage points in Greece) was larger than the 1.6 percentage points of GDP required in large Latin American programs in the 1980s and 1990s” (IMF, 2016:22). But in order to understand why the Troika was demanding severe and quick fiscal adjustment of around 11% of GDP between 2010 and 2013 in Greece, we also have to understand the structure of sovereign creditors – discussed in great detail in Chapter Four – where German and French banks were impatient to be repaid for their possession of Greek sovereign bonds. Generating a quick and significant primary surplus in Greece (tax revenues minus public expenditure), even at the expense of a prolonged recession, meant that sovereign creditors could be quickly reimbursed. As the Bulgarian finance minister recalled of the debate that was occurring in the ECOFIN in the Spring of 2011: “the common...point made was that it was better to address initially the short term deficit issue and then worry about how to resolve the debt issue” (Djankov, 2014: 93 in Moschella, 2016:811). Given that debt restructuring was excluded between 2010 and 2012 due to fear of contagion, and that currency devaluation was impossible due to the character of the monetary union, the whole burden of economic improvement was incorrectly concentrated on fiscal adjustment.



(from Tyler Durden blog, 2015)

	2010	2011	2012	2013	2014	2015	2016
Troika expectations in 2010 regarding Greek GDP	-4	-2.6	1.1	2.1	2.1	n/a	n/a
Troika expectations in 2012 regarding Greek GDP	n/a	n/a	-4.8	0	2.5	2.6	3.0
Real GDP decrease	-5.5	-9.1	-6.8	-2.5	1.4	0.4	0.1

Data IMF and Eurostat

The Troika standpoint of one-policy-fits-all completely ignores differences in national economies and the infrastructural composition of the EMU assemblage as a whole. The quick and sustainable increase of competitiveness of a national economy through internal devaluation - which is part of austerity - is not manageable in the monetary union due to the fact that

economies are interrelated, but also because of the different composition of productive sectors in national economies. As discussed in the introduction, one of the fundamental characteristics of the monetary union is that a huge proportion of capital and goods is exchanged between country members, and consequently one country's surplus is always another's deficit. As Boyer emphasises: "Clearly, the German strategy has been sustainable only because the European Monetary Union and the rest of the world had dynamic domestic demands that created space for German exports. If all European countries were to simultaneously adopt similarly drastic austerity policies, they would only succeed in keeping the level of activity by gaining trade shares at the world level, for example with respect to the USA or Asia" (2012:301). Therefore, competition between companies in an economy is not the same as competition between nations in the monetary union, given that the competitiveness of Greek unit labour costs depends also on a value of the other members' unit labour costs. That is to say, success of the reduction of unit labour costs in Greece and thus increased competitiveness – and other countries at the Eurozone periphery – is always relative to the value of unit labour costs at the centre, and in particular in Germany, where the unit labour cost has been almost stagnant for ten years and has made the competitive game a lost cause for Greece, as discussed in Chapter Two. Internal devaluation meant to restore Greek competitiveness, yet despite the fact that Greek unit labour costs fell by 24% in the period from 2010 – 2015 (see TCPD, 2015), exports have hardly improved.

7.3. Recapitalization of Private Banks

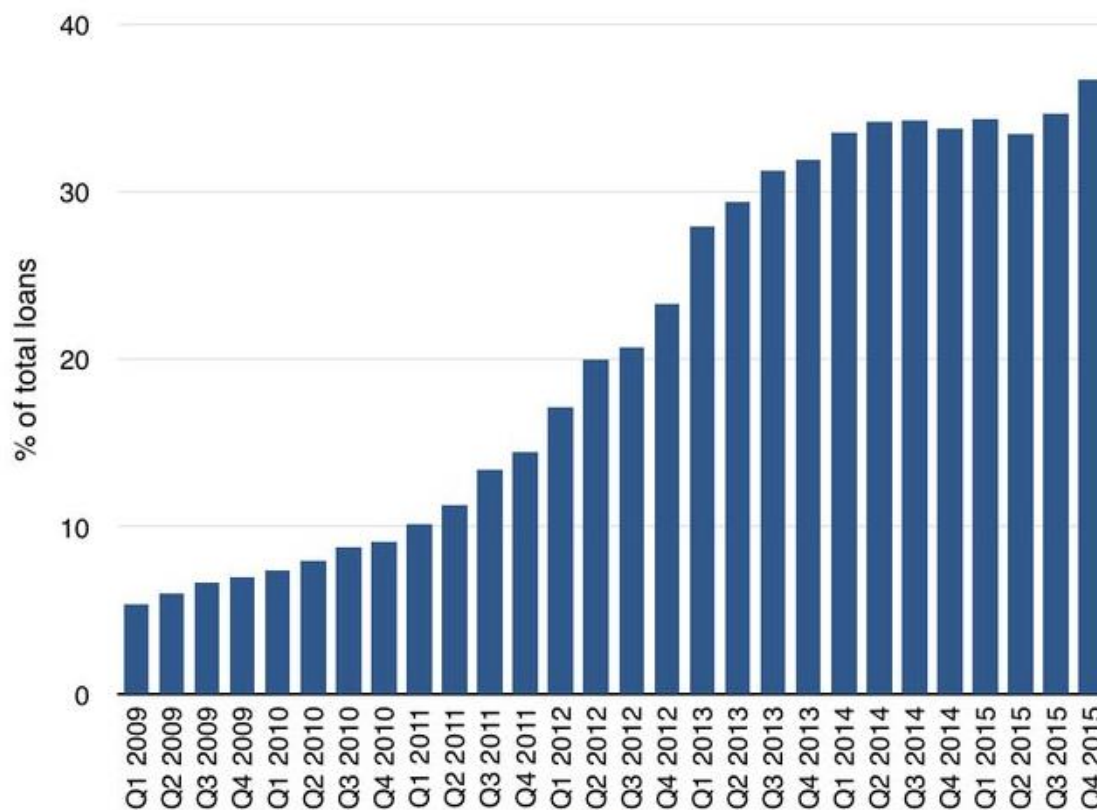
This part of Chapter Seven interrogates the interwoven trajectory of the publicly exposed insolvency and illiquidity of the Greek state, on the one hand, and deliberately disguised insolvency and illiquidity of Greek private banks on the other. In addition, the role and substantial mistakes made by the Troika regarding recapitalization of Greek banks and privatization of public assets will be dissected. Recapitalization of the four biggest Greek banks has been done three times publicly through direct government capital injections and once surreptitiously through specific government backed bonds, which Varoufakis (2014) termed "phantom bonds". For these purposes, as Munevar underlines (2016), the Greek government provided direct capital for intervention as well as capital in the form of guarantees (84.4 billion

euros from 2009 – 2014, just in guarantees). Despite these recapitalizations, in March 2016 “The Economist” stated that a fourth (because the authors were not aware of the surreptitious one) recapitalization is not out of question because all Greek banks are still losing money (Pireus bank, for example, lost around 1.9 billion in 2015), the percentage of the non-performing loans (unpaid loans) is approximately ten times higher in Greece than in the rest of the EU, and Greek banks’ shares continue to decrease rapidly. It must be also noted that there is a discrepancy in the ECB approach to the Eurozone crisis, given that it started designing and developing the so-called Bank Recovery and Resolution Directive in 2013, aimed at creating conditions for bailing-in potential future banks’ crises and losses in the Eurozone. However, in the Greek crisis the ECB has been firmly supporting steps aimed at preventing any bail-in process in which shareholders would bear the brunt of the recession and any necessary recapitalization, while the ECB was resolutely excluding any possibility of public or cooperative ownership of the recapitalized banks. These solutions were successfully implemented in several previous national financial crises, for example, in Sweden and Norway in the nineties (see Munevar, 2016). The ECB’s rigid decisions present the Eurozone as even more neoliberal than the USA “since the latter has not gone so far as to subordinate the central bank completely to private interests” (Terranova, 2015:7).

The second bail-out package for Greece agreed in April 2012 – which was worth in total 130 billion euros as discussed in Chapter Four - was connected to a strong conditionality and had an important item related to recapitalization of the four biggest Greek banks with the amount of approximately 41 billion euros. As an IMF document asserts, the Greek banks had experienced losses related to the sovereign bond swap which was a crucial part of the second bail-out package: “on the asset side, the government debt restructuring generated a €38 billion loss to the banking system, wiping out the capital base already eroded by the recession-related deterioration of the loan portfolio. Non performing loans have been rising fast, reaching 30 percent of total loans at the end of 2012 (including restructured loans)” (IMF, 2013: 10). It has been elaborated in great detail in Chapter Four that the main creditors of Greece after the bond swap in 2012 were not anymore French and German banks, but the European Financial Stability Facility, that is, European tax payers. The Facility transferred the mentioned agreed tranche for Greek banks’ recapitalization in 2013 to its local counterparty Hellenic Financial Stability Facility, with the purpose of bolstering the four most important Greek banks’ operational business: National Bank of Greece, Eurobank, Alpha Bank, and Piraus Bank. At that time, the Greek central bank ordered a detailed analysis from the American consultancy

Black Rock, in order to determine the level of necessary costs for the banks' recapitalization and restructuring. One of the conclusions of the report underlines that "the Bank of Greece considers that, under reasonable levels of economic uncertainty, the amount of €50 billion earmarked in the Economic Adjustment Programme is appropriate to cover the Greek banking sector's recapitalisation and restructuring costs" (Bank of Greece, 2012:43). However, it is worth pointing out that in the context of the constantly deteriorating macroeconomic situation explained above, the projection had to be already revised in October 2012, just a couple of months after it was initially published. In calculating the amount of capital necessary for an adequate recapitalization of the most powerful Greek banks, Black Rock had been following macroeconomic projections presented in the first Memorandum of Understanding signed between the ECB-IMF-EU and Greece. As a consequence, all the projections regarding the necessary capital for banks' recapitalization were constantly undershooting the real needs of the banks because the real sector's capacity to repay bank credits was deteriorating. This was, of course, related to the level of non-performing loans, that is to say, loans which are overdue. By definition, any repayment which is running later than 90 days is considered a non-performing loan. The underestimated problem with the Greek banks was that their deteriorating balance sheets positions were a precise reflection of the galloping recession of the real sector and consequently a substantial increase of the non-performing loans. At the beginning of the Greek financial crisis, the non-performing loans represented around 4.5% of the total value of loans, whereas in 2012 they reached 24.5%, more than 30% in 2013, and then more than 40% in 2015 (see Munevar, 2017).

Figure 1 – Greece, evolution of NPLs as % of total loans, 2009 – 2015



Source: IMF

(from Munevar, 2017)

That also explains why the recapitalization scheme did not consider any bail-in mechanisms which would reduce commitment of the public sector. As the EU Commission report from 2012 precisely diagnoses: “Greek banks are severely hit by the sovereign debt restructuring, against the background of a continuing recession, thereby leading to substantial capital shortfalls for all banks. Viable banks will be identified and adequately recapitalised, following recommendations by the supervisors and taking into account the effects of the PSI. The new programme includes sufficient resources to recapitalise banks, should private shareholders prove unable or unwilling to provide the necessary capital” (2012:3).

The first recapitalization (part of the second bail-out package) was realized in a strange combination of public money from the Hellenic Financial Stability Facility, and money from private investors, predominantly American hedge funds such as the ‘notorious’ Paulson & Co. To put it more precisely, the Greek government obliged itself to cover 90% of recapitalization costs for each of the mentioned banks, if the banks themselves manage to provide 10% of the required capital from private investors. As the Report on the Restructuring and Recapitalization

of the Greek Banking Sector issued by the Greek Central bank in December 2012 asserts: “under this framework and according to the Cabinet Act 38 of 9 November 2012, private shareholders will retain control of the “core banks”, provided they have subscribed no less than 10% of the newly issued common shares” (2012:43). In order to make the investment even more attractive, the private investors received an additional extraordinary incentive: upon buying the newly issued and offered banks’ shares, they automatically received options, so-called warrants, to buy at one point in the future more shares at an exceptionally low (initial) price. The only condition being that interest for the banks generated in the unique public-private game would push the price of shares above a certain level, what became known as the “triggered price”. As Varoufakis emphasizes: “from a public interest perspective, this game was always a lost cause. First, whatever its outcome, it will fail to restore the banks to some modicum of health so that they can start lending again...Secondly, if the ‘recapitalisation game’ fails to push bank shares to the desired level (the *trigger prices*), the government will have to fork out even more monies to keep them undead for longer. And if it succeeds so that the trigger prices are achieved, suddenly, the same bankers get ‘their’ banks back (not just the management, which they never lost, but also their shares) at a spectacularly pitiful cost while the Greek state fails to claim any part of capital gains from its investment” (2013). However, despite the huge interest from several hedge funds, including Paulson & Co. which bet on shares of Piraeus Banks and Alpha Bank, it did not happen; their shares increased 8%, not enough to trigger the warrant which would have allowed them to gain around 90% of the ownership of the banks. So to summarize the first recapitalization: the four biggest banks managed to attract private investors and cover 10% of the recapitalization costs, while government had to cover 90% of the remaining costs. But they didn’t manage to generate interest which would have pushed prices of the banks’ shares above the so-called trigger price and activate transfer of their shares into options for buying additional shares.

Through recapitalization of the four biggest banks, the Greek government’s representatives were offered places on the Managing boards of the banks, but were denied voting rights. The Second Adjustment Program for Greece – published by the EU Commission on behalf of the Troika - was unambiguous about the intentions to protect private capital’s rights in the constellation: “the recapitalisation strategy is being designed to maximise private sector participation, while preserving the State’s interests. The banks’ shares acquired by the State in the recapitalisation process will have limited voting rights, but may still allow for upside returns to be shared between the State and private shareholders. Whenever possible, the

private management of banks will be safeguarded” (2012:3-4). The limited “preserving of state interests” was, however, highly problematic, because the recapitalization of Greek private banks must be understood against the backdrop of a heavily recessionary economy. As a consequence of the recessionary context, only several months after the first recapitalization in Spring 2013, a new recapitalization was necessary, discussed in detail below.

7.4. Second Recapitalization

In autumn 2013 a second re-capitalization was necessary, but this time it was done by offering to private investors an incredibly high discount for the banks’ shares. So, the shares of the same banks which had been recapitalized just months before mostly with state capital – let’s not forget that 90% was state capital and 10% came from private investors - now offered a massive discount to private investors. The Troika began offering shares at around 80% of the price which was paid just a couple of months before by the Hellenic Financial Stability Facility (see Varoufakis, 2015). Finally, in order to secure an extra-legal territory for the spurious process in which half of the previous 41 billion euros of state intervention was wiped out, “the Troika compelled Greece’s government to immunize the Hellenic Financial Stability Facility board members from criminal prosecution for not participating in the new share offer and for the resulting disappearance of half of the taxpayers’ €41 billion capital injection” (Varoufakis, 2015). This unprecedented decision by the Hellenic Financial Stability Facility must be discussed further in the context of the intersection of law and economy, sovereignty and governmentality. Indeed, the immanent propensity of neoliberalism to proclaim the Schmittian state of exception led William Davies to emphasise that “when economics is used as a substitute for law, it becomes like law” (2014:26). However, I dare to argue that the suspension of democracy in Greece, along with several other countries in the Eurozone under the pressure of the Troika, could and should be traced back to Ordoliberal origins. While it is certainly true that other trajectories of neoliberal thought and practice have their anti-democratic tendencies, defined by Mirowski (2013) in the case of the Mont Pelerin Society as the ‘double truth’ doctrine, in the Eurozone we must excavate the tendencies in the Ordoliberal legacy. For example, as Bonefeld points out: “Ropke (1942: 246,247) defines “dictatorship within the bounds of democracy” as a commissarial dictatorship, which temporarily suspends the rule of

law to restore legitimate authority in the face of “extreme urgency”, for which he holds responsible those who lack the “moral stamina” to absorb economic shock (Ropke, 2009:52)” (2012:650). Ropke also talked about “recalcitrant proletarians and the “corrupt parlour game of a democracy degenerated into pluralism” and for him a “revolt of the masses” must be countered by another revolt “of the elite” (Ropke, 1998: 130 in Bonefeld, 2012:636). As Bonefeld summarises: “Ordoliberalism comprises an authoritarian liberal project: one that socialises the losses by means of “financial socialism”, one that balances the books by a politics of austerity, one that demands individual enterprise and calls upon the individual to meet life’s misadventure by courage, and one that sets out to empower society in the self responsible use of economic freedom” (2012:636). Let me also note in passing that there is another strong link between the assemblage of austerity and Ordoliberalism. Namely, Ordoliberalism empowers the state by the scientific and normative discourse, and consequently enables it to moralistically prescribes and enforces policies of austerity. This is brilliantly described by Biebricher: “For Ordoliberalism does not just give a rational and systematic account of what the state should (not) to do it, but it thereby directly empowers the state by giving it normative guidance. While it (*austerity*) might be defined as an economic policy set for “voluntary deflation with regard to its desired outcomes, its mode of legitimising the necessary measures is moralism: The emphasis on personal responsibility, the moral condemnation of debts (often in the name “of our children”) or the rigorism with which it defends the absolute necessity of “playing by the rules” and “doing one’s homework” – all these moral notions partially disguised as economic doctrines are if not taken straight from Ordoliberalisms rhetoric, then at least prepared by it” (Biebricher and Vogelmann, 2017:15)

After the brief digression regarding the undemocratic and moralising crux within Ordoliberalism – which was discussed in detail in Chapter Six – one shouldn’t be surprised that a non-elected supranational formation such as Troika has been pressuring the Greek government towards suspension of law or creation of extra-legal territories for decisions directly related to the financial industry. This is what Biebricher defines as the “rise of unelected” within the broader phenomenon of the crisis of European democracy. As he underlines: “Therefore, while ordoliberals at least rhetorically commit themselves to democracy they simultaneously favor at least a certain degree of insulation of political decision-making from popular pressures, possibly by outsourcing competences to non-majoritarian bodies and institutions like central banks” (2014:9).

In Spring 2014 the consultancy Blackrock Asset Management hinted that the four major Greek banks need more capital injections. A similar assessment was also confirmed by some leaked IMF documents at that time, claiming that Greek banks were short of around 15 billion euros in terms of their equity. To make the whole economic situation worse the Greek government had around 22 billion euros of outstanding debt towards the end on 2014, although by that time the second bail-out package was due to have been completed. But given the necessity for further recapitalization of Greek banks, and the government's outstanding debt, it was obvious that another bail-out package was needed. These events were a trigger for political instability in Greece towards the end of 2014, and a parliamentary election in 2015 witnessed the first elected far-left Government in the Eurozone – Syriza.

In October 2014 the ECB conducted a detailed stress test to examine how well capitalized private banks are across the Eurozone in order to make sure any necessary precautionary steps could be taken. In the assessment three of the main four Greek banks passed the test. However, as Munevar (2015) underlines, the ECB made the same mistake as in 2012 when it had conducted a similar test, namely, “the projections were based on favourable assumptions”, because the ECB assumed positive inflation rates ranging from 0.3% to 1.3% between 2014 and 2016 (Munevar, 2015). In relation to the miscalculated projections and wrongly diagnosed “health” of the Greek banks, the following two points must be emphasized. Firstly, the ECB was constantly underestimating its own projections in terms of inflation since the beginning of the crisis for several reasons, but predominantly because of the paradigmatic, ideological and monetarist - Milton Friedman style - understanding of inflation (as discussed in Chapter Three). The second point is related to the hypocrisy exposed by the ECB: on the one hand the three Greek banks passed the ECB's own stress test in 2014, but on the other, the ECB is a member of the Troika which insisted on further recapitalization of the core Greek financial system.

While the analysis of the third bail-out program formally accepted in July 2015 will be developed in depth in the chapter in the context of the planned privatization of public assets worth 50 billion euros, it must be emphasized that until the end of 2015 the major Greek banks received an additional 6 billion euros from the Hellenic Financial Stability Fund. However, the state injection of capital in these banks was, once again, without any right to buy shares offered to private investors. As Varoufakis underlines: “despite capital injections of approximately €47 billion (€41 billion in 2013 and another €6 billion in 2015), the taxpayer's equity share dropped from more than 65% to less than 26%, while hedge funds and foreign investors (for example,

John Paulson, Brookfield, Fairfax, Wellington, and Highfields) grabbed 74% of the banks' equity for a mere €5.1 billion investment" (2015). Although hedge funds had lost money since 2013, the opportunity for taking over a vast majority of the Greek banking system for such a small amount of money proved irresistibly tempting.

7.5. Phantom Bonds

The story of commercial “phantom bonds”, which I will elaborate in detail below, is paradigmatic in many ways. Firstly, the insolvent Greek state has, time and again, saved the allegedly solvent and liquid Greek commercial banks by stamping its own guarantee on their commercial bonds. Secondly, in such a complex financial constellation the ECB is a direct accomplice because of the problematic, undemocratic and non-transparent character of the transactions. As a consequence of their liquidity problems, in 2013 Greek banks invented a new method to acquire fresh capital: through issuing phantom bonds which were never actually offered on the market for regular selling. While it is untypical and strange for corporate bonds not to be offered on the market, it appears their sole purpose was to be placed in the Greek national bank and secure the sovereign guarantee stamp. With government backing the bond could be placed in the ECB as collateral (guarantee) for taking out loans, and that is exactly how Greek banks managed to accrue cash from the ECB in the form of loans. The amount of loans taken out in this way from 2013- 2014 was 41 billion euros, very close to the 47 billion euros which the Greek government legally, transparently, and publicly injected into the private banks in accordance with the terms of the bail-out programs. As Thomas Jr. analysed in the New York Times when the story broke, the intervention is also an indicator of the general condition of Greek private banks: “perhaps the clearest sign that the finances of Greek banks are more precarious than they may seem has been the record number of government-guaranteed bonds that the banks issued last year — about 40 billion euros, or 22 percent of bank deposits in the country. Issued by the banks to themselves, the bonds, which tend to have a maturity of about a year, are used as collateral to access short-term funds from the European Central Bank” (2014). So, in addition to the well-known bail-out of Greek private banks, there was another surreptitious one, using almost the same amount as the public funds, but operating without the

EU nor Greek parliament's approval, and without the public being informed. The second point has been analysed by Varoufakis: "in an open society, whenever the public assumes responsibility for private debts, it should be properly informed. In a democracy this means that Parliament (or Congress) should debate the assumption of such additional responsibilities. It would appear that in the Eurozone such an important principle has been sacrificed on the altar of the bankers' interests" (2014).

7.6. Privatization of Public Assets

Ever since the Washington consensus was formalized in 1989, privatization of public assets has always been a recommended neoliberal path to economic recovery from a public finance crisis. In essence, the Greek financial crisis has not been an exception in that sense given from the beginning of the turmoil the Troika was decisively opting for privatization of a broad spectrum of public assets. The Troika stubbornly insisted on continuous privatization, despite the unsurprising fact that privatization of public assets spectacularly underperformed from the very beginning of the crisis. Consequently, investors' interest for the offered assets and revenue gained through the sale (compared to the Troika's projections) were missed by wide margins. In addition, the privatization of assets is directly related to the mentioned recapitalization of banks because one of the strategic aims of the banks' recapitalization was to make them privatisable. Namely, as the Second Economic Adjustment Program for Greece explicitly asserts: "while the objective of privatising assets worth EUR 50 billion is maintained, this target will only be achieved in a horizon going well beyond 2015, while the recapitalisation of banks will add to the pool of privatisable assets" (EC, 2012:3). So, the privatizations were unsuccessful in terms of revenue from the privatized assets in comparison to the expected projections, as well as lack of any proof - as Manasse (2014) meticulously shows - that the privatizations enhance solvency of state finance and efficiency of the newly privatized companies. In this context I am also critically interrogating the Troika's dogmatic standpoint that only a dynamic private sector is capable of generating economic growth and investments, and consequently that a rapid privatization of public assets is a path to recovery. I would argue that exactly the opposite is the case, that massive state investments were necessary for restructuring the Greek economy, generating an innovative economic environment and

improving competitiveness. My argument is in line with Mazzucato's (2015) findings that it is impossible to strictly distinguish the private and the state areas in terms of their influence on the market, and also that the state does substantially generate innovative opportunities through funded strategic investments in research and development or new technologies. Mazzucato brilliantly summarizes what Greece as well as rest of the EU should be doing in terms of state driven investment in innovation and industry, i.e. exactly what Germany does, not what Germany says they should be doing (reducing public investments): "the Germans have a large public bank doing what private banks won't do, they have dynamic institutions that create links between science and industry (Fraunhofer), and are directing their (higher than average) R&D towards the Energiewende policy" (2016). Many state funded project later generated a platform for prosperity and profitability in the private sector. Furthermore, many of these types of investments had initially been considered risky and unacceptable for any private capital venture.

The process has been explicitly affirmed numerous times as a crucial model for economic recovery, beginning with the Interim Review of the First Economic Adjustment Program for Greece (the first bail-out package) - published by the European Commission on behalf of the Eurogroup, ECB and the IMF - which emphasized what should be privatized: "banks (Agricultural Bank, Hellenic Post Bank), transport (airports, ports, railway operator OSE), utilities (water providers EYDAP, EYATH), energy (public power corporation PPC, gas company DEPA, petroleum company ELPE), telecoms (OTE), gaming (OPAP, casinos, ODIE), real estate (OSE train operator real estate). The privatisation proceeds in 2011 have been estimated by the authorities at around 1 to 1.4 bn euros. The MoU requires the preparation of a privatization plan for the divestment of state assets and enterprises, with the aim to raise at least 1 billion euro a year during the period 2011-2013" (EC, 2010:19). It is, however, interesting that SOE (State owned enterprises) are blamed in the same document for having hidden fiscal costs and regularly requiring debt takeovers or capital injections (EC, 2010), given what we know in terms of the required state's capital injections and non-transparent debt in the Greek private banking sector, as demonstrated above.

In addition, the fact that creditors which had initially invested in Greece – that is, mostly the financial elites from central European countries, in particular Germany – have become buyers of the newly privatized assets is strikingly familiar to the Asian financial crisis in the nineties. I will discuss several further examples of the non-transparent takeover at the fire-sale prices by German investors but, as Stiglitz points out in the context of analogies with the East

Asian crisis: “in earlier crisis, not only did the IMF (typically with the support of the U.S. Treasury), insist on the huge budget cuts from troubled nations, converting downturns into recessions and depressions, but it demanded the fire sales of assets and the financiers then swooped to make a killing...I described how Goldman Sachs was one of the winners in the 1997 East Asian crisis” (2012:76). Yet in the context of the Greek crisis, a significant portion of the money collected through privatization has also been transferred for the Greek public debt repayment. In this sense Lazzarato’s diagnosis concerning an economy subjected to privatization is precise, given the process actually perpetuates pan-European systems of powers, and transfers capital from the periphery to the centre, with the aim of compensating for initial losses: “the economy subjected to a process of privatization functions as collector of taxes for the benefit of creditors and their transnational institutions. These functions no longer express the power of the state as guarantor of the general interest” (2015:13). So, I will critically analyse the failed processes of privatization of public assets in Greece, but I am particularly interested in forced structural reforms – and here is where my contribution is anchored - to follow the logic of the Foucauldian art of governmentality developed and imposed in the domain of *education*, in parallel with strictly *economic* processes. And the new practices and measures implemented were not just about privatization of higher education in Greece – although it was one of their central goals – but should be analysed as instruments for enhancing the logic of surveillance and competition in education in the post-panopticon epoch (Gane, 2012). However, numerous authors are pointing out somehow simplistically – Gane (2012) included – that the transformation from the Foucauldian societies of discipline towards the Deleuzian societies of control, presume indirectly the suspension or reduction of the centralized disciplining mechanism and intensification of controlling mechanisms of the modulation of dispersed social entities. I am of the opinion that in light of the concept of fiscal discipline as the central axis for organizing social and economic life in the wake of the Eurozone crisis, and the predominance of taxing over profit and rent as a form of social and capital reproduction (see Lazzarato, 2015), the co-existence, rather than superimposing of control and discipline, needs to be considered. We need Foucault’s (2003) approach from the book “Society must be defended” where the stratagem of war is analysed as an operational form of social interrelation, as well as revitalization of the disciplinary techniques from his earlier work, rather than the famous statement of the “neoliberal fear of governing too much” expressed in the “Birth of Biopolitics”. As Lazzarato points out, “the crisis prioritizes the sovereign and disciplinary exercise of power within a security society by establishing authoritarian governmentality” (2015:169).

Consequently, this thesis develops the standpoint that in order to properly understand the forms and aims of new governing technologies imposed on the “working selves” in Greece, one should be following and analysing changes in the education system and the forced privatization of public assets, including the biopolitical example par excellence: privatization of the water supply system in Thessaloniki and Athens. In the context of Greece, it comes as no surprise that the central axis for education reform – in conjunction with the privatization of universities - is structured around “quality and excellence, effectiveness, skills acquisition, training, and measurable and observable outcomes of the education process.....terms that characterize public education (“pathology”, “dysfunctional”, “drama”) are clichés and part of debasing discourse on public education that has been used for years to discredit the role of the public, to insult educators and to open the door for privatization” (Gounari and Grillios, 2012:14).

7.7. Adjustment Program – Technocratic Term for Governmentality

Ambitious and broad plans for privatizations of public assets were announced at the very beginning of the crisis. Accordingly, the third Review of the First Economic Adjustment Program for Greece (or simply the first bail-out program) was published in February 2011 and stated the following: “The government has committed to considerably scale up its privatisation and real estate development programme, and the objective is to realise EUR 50 billion in privatisation proceeds from now to 2015. This has the potential of cutting the debt ratio by more than twenty percentage points of GDP over the next five years. Furthermore, the privatisation programme is likely to increase economic efficiency and support higher investment and exports” (EC, 2011:2). These two strategic anticipations have been proved wrong by wide margins; the privatization of public assets substantially undershot its target (50 billion euros by 2015) in terms of revenue, but also in terms of number of privatized assets. Meanwhile, debt-to-GDP has grown dramatically ever since 2011, reaching the unmanageable level of 175% in 2017. In addition, a para-legal framework for establishing a national agency for privatization (HSFS) was created at that time. As the document asserts, the agency “will comprise an independent and depoliticised board of directors and an advisory board to allow it

to benefit from international experience and technical expertise” (EC, 2011a:31). Therefore, the board was supposedly depoliticised – by the very political ‘dictatorship’ of the technical experts – and also included members from the EU Commission. A couple of months later the head of the country’s privatisation agency, Takis Athanasopoulos, famously said that Greece could become “an El Dorado for investors”. However, all privatization targets were spectacularly missed.

It is worth noting that members of the Troika - as staunch proponents of the market - have actually developed an almost Soviet-style, state-mediated five year economic plan for Greece. In that plan almost nothing has been left to independent market forces, and everything is controlled centrally. Hayek’s life-long ideal was to produce a “basis for modern, expert political authority without the potential to justify centralized economic planning” (Davies, 2014:29), but his project and of his proponents have paradoxically ended up bolstering the Greek state through perpetual bail-outs, thus negating their premises. Furthermore, in the same EC’s document from February 2011, the necessary reforms of Greek education were also developed. I would argue - within the horizon of the argument that measures imposed on Greece aim at biopolitically reforming Greek society - this was not an accident. The aforementioned document stated that “so far, education was not tackled by the adjustment program.....the (*education*) system has been costly without providing a good quality service to the Greek society” (2011:41). Moreover, the document ascribed to the reformed education “*a critical role to play*” in terms of increasing perspectives for medium to long term economic growth. Reform of the Greek university system, described in the fourth and fifth Reviews of the First Adjustment Program, was a programmatic collective example of governmentality; introduction of new governing university bodies consisted of non-academic staff (managers), and “a higher financial independence and responsibility” (2011:31) of universities. So, while the Troika intended to maintain management control over Greek banks in private hands despite massive injections of state-owned capital, as I have shown, concomitantly Greek public universities were steered towards managerial marketization and privatization.

Mass privatization was one of the pillars for the expected success of the Adjustments programs; and as the IMF’s Country Report affirms: “(*Greece must*) Fundamentally reduce the footprint of government in the economy through bold structural fiscal reforms and by privatizing public assets. Greece’s recovery must come from a vigorous private sector response and this cannot happen with the government controlling access to key assets.” (IMF, 2012:

105). Let me now present the list of planned assets for privatization and then analyse the results of the realized plans:

Table 14: Privatisation plan

Date	Name	Participation to be sold	Type of Sale	
2011	Q2	OTE	10.0%	share sale
	Q3	Thessaloniki Water (EYATH)	at least 40%	share sale of SPV
	Q3	Athens Intl Airport	100.0%	Concession
	Q3	OPAP	100.0%	Concession
	Q3	Thessaloniki Port	23.3%	share sale of SPV
	Q3	State Lotteries	100.0%	share sale of SPV
	Q4	Piraeus Port	23.1%	share sale of SPV
	Q4	Hellenic Defense Systems (EAS)	99.8%	share/asset sale
	Q4	Hellenic Postbank	34.0%	share sale
	Q4	Public Gas Company (DEPA)	55.0%	share sale
	Q4	Public Gas Company (DESFA)	31.0%	share sale
	Q4	Railway Operator (TRAINOSE)	100.0%	share sale
	Q4	Larco	55.2%	share sale
	Q4	Alpha bank	0.6%	share sale
	Q4	National Bank of Greece (NBG)	1.2%	share sale
	Q4	Hellenic Horse Racing (ODIE)	100.0%	share sale
	Q4	Mobile Telephony Licenses	100.0%	sale of rights
	Q4	Casino Mont Parnes	49.0%	share sale
	Q4	Hellenic Vehicle Industry (ELBO)	72.6%	share sale
	Q4	OPAP	34.0%	share sale
	Q4	Hellenikon 1	--	share sale of SPV
	Q4	Four Airbus Aircraft	100.0%	Sale
	Q4	Real Estate Assets 1 (incl. office space)	--	share sale of SPV
2012	Q1	Athens Intl Airport (AIA)	at least 21%	share sale of SPV
	Q1	Hellenic Petroleum (ELP)	35.5%	share sale
	Q1	Piraeus Bank	1.3%	share sale
	Q1	Hellenic Agricultural Bank (ATE)	at least 38.6% *	share sale
	Q1	Egnatia Odos Rd	100.0%	share sale of SPV
	Q1	Hellenic Post (ELTA)	at least 40%	share sale
	Q1	Ports 1	100.0%	share sale of SPV
	Q2	Athens Water (EYDAP)	27.3%	share sale of SPV
	Q2	Loan and Consignment Fund	100.0%	share sale of SPV
	Q2	Real Estate Assets 2	--	share sale of SPV
	Q3	Public Power Corporation	17.0%	share/asset sale
	Q3	Hellenic Motorways 1	100.0%	share sale of SPV
	Q3	Regional airports 1	100.0%	share sale of SPV
	Q4	Hellenikon 2	--	share sale of SPV
	Q4	Real Estate Assets 3	--	share sale of SPV
	Q4	Digital dividend 1	100.0%	sale of rights
	Q4	Thessaloniki Water (EYATH)	<i>tbd</i>	share sale of SPV
	Q4	Hellenic Goldmines 1	100.0%	share sale of SPV

2013	Q1	Offshore Gas Storage Fac.	100.0%	share sale of SPV
	Q2	Regional airports 2	100.0%	share sale of SPV
	Q2	Ports 2	100.0%	share sale of SPV
	Q3	Real Estate Assets 4	--	share sale of SPV
	Q3	Hellenic Goldmines 2	100.0%	share sale of SPV
	Q4	Digital dividend 2	100.0%	sale of rights
	Q4	Athens Water (EYDAP)	<i>tbd</i>	share sale of SPV
	Q4	Hellenic Motorways 2	100.0%	share sale of SPV
2014		Real Estate/Land	--	share sale of SPV
		Hellenic Motorways 3	100.0%	share sale of SPV
2015		Real Estate/Land	--	share sale of SPV
		Hellenic Motorways 4	100.0%	share sale of SPV

Table 15: Planned privatisation receipts

<u>By end of:</u>		<u>Privatization Receipts</u>
		(€ Millions)
2011	Q2	390
	Q3	1700
	Q4	5000
2012	Q1	7000
	Q2	9000
	Q3	11000
	Q4	15000
2013	Q1	17000
	Q2	18000
	Q3	20000
	Q4	22000
2014		35000
2015		50000

(Data from The Economic Adjustment Program for Greece, Fourth Review, Spring, 2011, page 32 – 33)

As we can see from the list, different sorts of publicly owned companies and assets were offered for sale: real estate, airports, banks, ports, casinos, water supply systems, motorways, goldmines. However, what is clearly shown is that the expected revenues due to the process of privatization began to significantly undershoot planned targets. This happened because of the lack of appetite on the side of international investors to buy assets in the economy associated with political uncertainty and on the brink of sovereign default. The Troika's documents and reports partially blame reluctance among Greek political elites to change legal and regulatory framework in order to underpin privatization. However, as Manasse (2014) shows the privatization of public assets as an instrument for addressing a financial crisis is highly problematic, which the Greek case evidently confirms. Hence Manasse makes the point that "a government benefits from privatization only as long as it appropriates the increase in the asset value generated by the private sector" (2014) That is to say, efficiency of a company must be significantly improved through privatization in order to increase its solvency, and consequently provide the possibility for increased revenue and debt repayment. Usually there is not such a dramatic gap between the efficiency of a company before and after privatization, which would boost state revenues in the new ownership structure (let's not forget that after the privatization the state is not the only owner of the company and consequently not the only receiver of revenues). Manasse (2014) also points out that it is difficult to realize a methodologically coherent analysis of the effects of privatization, given that companies in the same sector should be compared: companies after privatization with companies which haven't been privatized. In this context he mentions Goldstein's (2003) analysis of privatization in Italy during the nineties, and finds it is impossible to diagnose significant changes in terms of efficiency of particular companies after privatization has occurred.

In 2012 only 2 out of 35 privatization tenders were completed, and in 2013 just 10 out of a planned 44 were finished. The dramatic slowdown was explained and justified in the Second Adjustment Programme for Greece in 2013 as "negative market conditions, legal complications and delays in implementing some intermediate steps" (31). In the following table it is clear how the planned privatization targets have been changing:

Expected privatisation revenues					
(Cumulated, € m)	2011	2012	2013	2014	2015
MoU June 2011	5000	15000	22000	35000	50000
MoU March 2012	1558	5200	9200	14000	19000
MoU December 2012	1558	1574	4200	6500	7700
Compliance report July 2013	1558	1574	3208	6663	8700
- From sales of real estate assets	0	0	378	911	1721



(Data from Manase, 2014)

There was an incredible drop in targets for the total amount of privatized assets until 2015, from an initial 50 billion to 8.7 billion in 2013 euros. Also, we can see that even over the course of one calendar year (2012) the targets fell more than twice. The catastrophically miscalculated projections in terms of revenues from privatizations by the Troika could only be compared to the no less catastrophic miscalculations of Greece’s GDP.

In 2013 the EU Commission stated – on behalf of the Troika - in the Second Adjustment Program (Third review) that “while progress has been made in preparing the privatization, the overall speed of the privatization process remains unsatisfactory” (2013:25). However, in the same document we can witness the paradigmatic role of state governmentality in terms of interventions aimed at modifying regulatory frameworks. Namely, as the documents asserts, additional efforts are made towards implementation of newly adopted regulations for water companies, ports and airports. The government intervention, in relation to privatization of water supply systems in Thessaloniki and Athens, consisted of establishing a pricing policy and amending licenses. Fortunately, the privatization of water supply systems has never happened due to massive citizen protests in Athens and Thessaloniki, with the Supreme Court finally suspending both. In addition, the same document expounds the necessity for education reform and points out the need for “external evaluation of higher education institutions and the reform of their governance structures.....Further rationalization steps may be considered and these should be based on a comprehensive impact assessment, including cost-effectiveness, future tertiary education attainment rates, adequacy of staff, research output and quality of education” (2013:54).

The privatization of private assets in Greece received further public attention after a third bail-out package was agreed in July 2015, mainly due to the significant economic and political turmoil the Syriza Government had experienced, including imposed capital-control because of the ECB restricting use of ‘Emergency Liquid Funds’. The third bail-out program announced ambitious plans for 50 billion euros worth of privatization of publicly owned companies and assets, as if nothing had happened during the previous five years of failed privatization. The Troika’s plan was for 50% of generated revenue to go towards public debt repayment, 25% for the private banks’ recapitalization, and 25% for the public sector in the form of investments.

Let me note in passing that the illusion that Syriza could turn the tide of neoliberal austerity policies was short-lived because the unimaginable mechanism of political and economic power was deployed to conquer the “rebellious” nation and its government. In addition, any success of Syriza’s program for ending austerity would have liberated elsewhere the suppressed collective anti-austerity imaginaries. As Deleuze argued, societies of control operate by predominantly controlling the virtual before they establish control of the actual (see also Lazarato, 2015). Therefore, allowing dismantling of the Ordoliberal shackles of austerity in Greece was too dangerous for the Eurozone elites and thus they have utilised all their political and economic armoury to prevent it. Indeed, this was anticipated by Flassbeck and Lapavitsas, even before Syriza came to power: “Conflict across the entire framework of policy would be inevitable for such a government that set its vision on achieving a deep debt write-off and lighting austerity” (2015:77). Moreover, Flassbeck and Lapavitsas accurately anticipated the most repressive instruments available to the EMU: the first being provision of liquidity to Greek banks by the ECB, and the second lending to national government by different EMU institutions. This is precisely what happened when the ECB suspended rights of Greek banks to participate in the so-called ‘open market program’, which provided liquidity to the Eurozone banks by allowing them to swap bonds of low value for euros.

I will now analyse two paradigmatic privatizations of state owned companies: the first is the privatization of fourteen Greek regional airports, and the second the privatization of Athens International Airport. The German Company Fraport managed to buy 14 regional airports for 1.23 billion euros in January 2016. At the time of privatization, Mr Stergios Pitsiorlas, the Head of Greece’s privatization agency, described it as a necessary step in “winning the trust of markets and entering the road toward growth”; and Fraport’s CEO Stefan Schulte said this is a “win-win for Greece and its people”. As a result, selling 14 airports

at a fire-sale price and through a non-transparent procedure hardly represents encouraging signs of economic recovery. Arguably there needs to be closer consideration of how privatization perpetuates the very crony capitalism and corruption typically blamed by the IMF and the Troika for financial market failure. This stripping away of public assets is conducted without adequate transparency or competition, the very same murky practices German authorities accused Greek governments of is apparently justified when the German private sector is involved. Let me note in passing that Deutsche Invest is presently among the bidders for Thessaloniki Airport, thus more Greek airports could end up in the hands of German investors.

The privatization of Athens airport went in a different direction, but was no less problematic economically or politically. Namely, the Greek investor Lamda Development bought it for just 915 million euros in 2013 (before Syriza came to power). However, the value of the former Athens International Airport is considered to be around 3 billion euros, but this forced fire-sale just repeated all the mistakes which partially generated the Greek financial turmoil – local oligarchs have got hold of the valuable assets under problematic and non-transparent procedure, and national assets were substantially under-priced.

7.8. In the Meantime Education Faces the Same

The overarching biopolitical transformation of Greek society is initiated and envisaged even in the First review of the First Economic Adjustment Program, which states the following: “the government will start preparing and implementing a comprehensive reform of the health care system...in order to improve the cost efficiency of the system and keep public expenditure at or below 6% of GDP” (2010:20); the next page of the same document explicitly states that “a similar reform approach will be followed in the education sector... The purpose is to improve efficiency in the Education sector” (2010:21). It must be noted that reforms in education, along with changes in the healthcare system, were directly subjugated to a managerial restructuring of the society in crisis. So, the necessary changes in education were related to the growth of economy and defined, in the Fourth Review of the First Economic Adjustment Program, as “growth enhancing structural reforms” (2011:20). Similarly, healthcare reforms were defined as “a crucial component of Greece’s fiscal consolidation efforts” (2011:43), signalling

therefore that national health will be subjugated to the supreme principles of international financial market requesting fiscal stabilization. These domains are the most important targets of the Troika led reforms precisely because of their non-economistic and non-market character. Indeed, this was brilliantly noted by William Davies where he underlines that “institutions which claim “authority” or “legitimacy”, without any relationship to markets, calculation or individual choice, become the most crucial object of economic critique, for it is there whose rationale is least visible or explicit” (2014:16).

As I have already elaborated, the Education system in Greece has undergone structural changes in conjunction with the processes of privatization of public assets. Underpinned by the governmental rationale of “rationalization and increase of efficiency” (2012:42), the Greek education system has faced serious restructuring on all levels. In this context Gane’s (2012) contribution is important and relevant because he develops a specific politico-economic analysis of the Foucauldian strategies of control and surveillance – in the ‘post-panopticon’ epoch - and relates them synchronically with the state, free-market, and education.

The whole Greek education system from primary schools to Universities has been accused of inefficiency, bad financial management, over-employment, and high drop-out rates. Quite simply the sector was accused of being “costly without providing a good quality service to the Greek society” (2010a:41). In the carefully constructed representational matrix of a “society in deep crisis”, the Greek government had undertaken substantial reforms in order to supposedly address the issues. For example, The Fourth review of the First Economic Adjustment Program for Greece stated that “in the primary and secondary sector, far reaching reforms are currently being implemented, including a revision of curricula, the introduction of teacher evaluation, recurrent training for teachers, an upgrading and extension of all-day schools, improving the quality of technical and vocational education and a reduction in the high drop-out-rates” (2011:42). Education in Greece has been reformed mostly through these three laws: “The New School”, which aimed to reform the primary and secondary education, and Laws 4009/2011 and 4009/2012, which aimed to substantially restructure Greek public Universities. Gounari and Grollios assert that the “The New School” laws and practices are mostly developed and implemented by following an American reform imposed during George W. Bush’s presidency under the “No Child Left Behind” Act, which is a “punitive and highly prescriptive law that has enacted a truly reactionary conservative agenda where school is a sifter for labour division and stratification” (2012:305). Let me point out that the “No Child Left Behind” Act, as well as the Greek version “The New School”, are structured around

frequent assessment, proving how the instruments of surveillance and control in the post-panopticon epoch are operating. It must also be pointed out that a report from the Reagan era, “Nation at Risk”, has some striking similarities with the rationale for educational reforms in Greece. This particular report, which dealt with a nation in existential crisis rather than just the American economy in crisis, had a passage about “a rising tide of mediocrity” and asserted that the nation “committed an act of unilateral education disarmament” (Gounari and Grolios, 2012:306). Furthermore, the document was opting for an economic change generated through a different education system, therefore a biopolitical change is the primary genesis of economic transformation. In many ways the current legal acts and education reforms in Greece and those of the Reagan era are similar – both intend to address issues within a nation whose spirit is allegedly in decline, with a growing mediocrity, a nation full of alleged social pathologies which are seemingly reflected in economic crisis. The economy is, then, just a consequence of the broader and deeper self-generated national crisis, which affirms the non-economistic understanding of economy and production of subjectivities. I argue that certain similarities with education reform in the UK in the wake of austerity are feasible. As Gane underlines: “in the sphere of secondary education, Graham Burchell observes a neoliberal ethos that seeks ‘autonomization’ through the promotion of ‘a kind of economic or enterprise model of action that pursues a competitive logic’ (1996: 28). The question this poses in turn is how competition is introduced and maintained in such a sector? The answer is through active processes of (self-)government and (self-)surveillance that come from the market and which, most commonly, take the form of an audit” (2012:627).

Reforms in higher education in Greece, as I have mentioned above, were aimed at offering a new concept of universities justified by economic logic such as more employable profiles or more competitive knowledge. Hence universities were facing the imposition of a commanding crisis-management logic produced through the rationale of a “society in crisis”. As Gounari and Grollios eloquently summarise: “Higher education law” 4009/2011, a Law that in a clear technocratic turn opens door to standardization, the privatization of the Greek Public Universities, and the commodification of knowledge through a series of new policies such as the reduction of the already small state funding that forces Universities to seek alternate sources of money in the private sector and the business world; the reorganization of curricula on the basis of an instrumentalist approach, so that students gain skills and competences to fill necessary positions in the job market, but also in the prescribed social stratification; the introduction of tuition in what historically has been free and public education for all; and the

establishment of an oligarchic management of institutions of higher education with the participation of members outside the academic community that abolishes the democratic and self-governed character of the institution” (2012:354). Finally, before the reform Greek academics had the highest increase in the number of published articles in reputable journals in the EU, and that central Greek Universities held respectable positions in global lists. Although they were experiencing issues and had imperfections in certain aspects, the reform was never actually aiming at improving conditions and addressing those issues. Rather, the objective was a conservative agenda of governmentality and controlling a nation in crisis through reformed education.

7.9. Conclusion

The Greek state played a fundamental role in the crisis by continually supporting the private sector through different forms: injecting capital into private banks without getting managerial rights, selling its own assets to repay debt and refinance the private sector, and accepting conservative and disciplining public sector reforms in education. We should be aware of discrepancy: on the one hand the state is blamed for causing the crisis, and consequently it's reduction and withdrawal has been recommended by the Troika as a path to recovery; while on the other hand the incapacity of the private sector to deal independently and successfully with the galloping recession, and to generate enough investment from its own resources, has necessitated constant intervention from the state. This form of state is, I dare say, a reversed and perverse Keynesian state because it fails to mobilise its own resources, while the capital generated or assets offered go either to cover black holes in the private banks or to foreign investors. Thus, the state's investments are not going where they are supposed to go – to infrastructural projects which would boost aggregate demand and potentially change the course of the recession, or to strategic investment in innovation, education, and research and development in green technology. Importantly, nowhere else are state driven processes manifested stronger than in education. The changes in Greek education are at an intersection where intensified governmentality through the economic logic of “growth enhancing reforms” meets the alleged necessity for imposition of a controlling program. Therefore privatization of Greek public universities is a symptom of an economic logic imposed in a non-economic field,

but also an indicator of a deeper non-economistic strategy and reality behind these economic practices. That is to say, a Foucauldian reality in which the economic crisis is just a manifestation of an immanent national pathology which must be addressed through re-production of subjectivities.

Chapter Eight

Saving the Eurozone

This conclusion summarises the argument that the EMU in its current form is unsustainable in the long term. Economic growth has been stagnant for ten years, and there has been a significant rise in unemployment, populism, inequality and poverty. Breaking the Ordoliberal architecture and powers within the EMU is exceptionally difficult. The only way forward for the united Left of the Eurozone is to collectively re-conceptualize a different monetary union, re-organize, and fight for a more democratic Eurozone. One of the possible economic-political paths to recovery and transformation—should the Left attain power—is through green democracy; to be initiated by mission-oriented and innovation-prone state investment. These investments would enable real harmonisation between the centre and the periphery, progress within the real sector, and de-financialisation of the economy.

8.1. Integral Understanding of the Crisis

The post credit crunch epoch has marked an extraordinary period for Greece and the Eurozone, characterised by unprecedented economic woes and an intensification of the Ordoliberal forms of governmentality integrated with ceaseless austerity. This thesis has demonstrated how the macroeconomic vulnerabilities of the small economies at the EMU periphery—and Greece in particular—have been exposed and exploited in the course of the Eurozone crisis through four interrelated assemblages: the ECB, attacks on sovereign bonds, Ordoliberalism and austerity. These vulnerabilities opened the channels for transferring financial and moral responsibility for the crisis which eventually resulted in a quick recovery of the European private banks and the prolonging and detrimental recession of the EMU periphery. In addition, this thesis has demonstrated how the four assemblages have operated in

conjunction, intensifying each other and deteriorating the centre-periphery division in the monetary union, which Terranova (2015) defines as policies and practices aimed at reaffirming the “division of debt”. This “division of debt” is a substitution for the traditional division of labour, and is accompanied with the structural empowering of the Eurozone centre.

The Eurozone has thus faced the following four acute strategic problems, which have been masked and deteriorated by the misconceptualisation of the balance-of-payment crisis as the sovereign debt crisis. These four strategic problems have been discussed in depth in this thesis in the context of Greece. The first is the inadequate institutional design of the ECB and its policies for addressing the crisis. The second is the susceptibility of peripheral countries to speculative attacks on sovereign bonds. The third is the lack of institutional instruments for addressing the divergences in the current accounts of member countries created by German neo-mercantile and Ordoliberal policies. The fourth is the failure of austerity policies to address the challenges of the crisis.

As mentioned previously, the institutional design of the ECB should be changed in order for the central bank to be able to focus on growth and employment, instead of exclusively focusing on inflation. The second part of the conclusion will examine in more detail the way in which current account discrepancies can be institutionally reduced, and the genuine alternatives to the detrimental Eurozone policies of austerity. I will also further elaborate on arguments regarding the necessity for a public debt relief for Greece. However, before doing so, I want to summarise why the conceptualisation of the EMU as an assemblage has proved fruitful for the analysis of the Greek and EMU crisis.

While some of the infrastructural imperfections of the EMU and macroeconomic vulnerabilities of the country members have been already discussed (de Grauwe and Ji, 2013; Lucarelli and Fumagalli, 2015; Boyer, 2012; Flassbeck and Lapavitsas, 2013; Varoufakis 2014), this thesis has analysed them side-by-side and thus demonstrated how are they intertwined and operate in conjunction. In addition, this thesis has affirmed the integral approach, which does not prioritise macroeconomic analyses *sensu stricto* over the analyses of new forms of European governmentality and production of indebted subjectivities. It has therefore provided an overarching analysis of the Greek crisis for the period 2009-2016 in which the objects of analyses—usually epistemologically separated in cultural economy and economics—have been thought integrally. This is the only way to understand how the macroeconomic policies and practices of governmentality discipline both economies and

people. The revitalisation of Deleuze and Guattari's concept of assemblage in a non-performative sense has proved invaluable for analysing both the Greek and the Eurozone crisis, precisely because of its capacity to explore the mentioned economic and non-economic registers together. For example, in Chapter Four in relation to the ECB, the production of subjectivities was analysed through the concept of machinic enslavement, whereas in Chapter Seven the production of indebted and disciplined subjectivities was analysed within the horizon of austerity. Foucault's analysis of Ordoliberalism offered the central theoretical avenue for thinking European forms of governmentality, although his reading was enhanced with the Greek crisis in mind (Lazzarato, 2015). I chiefly refer to the repositioning of the role of the state in the Eurozone crisis and the missing macroeconomic elements in Foucault's reading of Ordoliberalism, and more specifically, German neo-mercantilism.

The neoliberal political and economic machinery in the Eurozone has managed to get through the austerity mostly unwounded, because the Greek crisis has been used for what Mirowski terms (2013) - by drawing on Artaud – “the theatre of cruelty”. European political elites have presented a manichean choice to their electorates in general, and their labour force in particular: either a tough austerity, wage moderation or even a decrease in real terms, fiscal retrenchment, managerial reforms in education and national health systems, or economic dissolution like that in Greece. Therefore it comes as no surprise that Greece as a threatening disciplining “theatre” has been mentioned numerous times by European politicians including German Chancellor Angela Merkel and British Prime Minister Theresa May in 2017. As Stiglitz points out: “Some focus on the political battle: the harsh conditions imposed on the left-wing Syriza government should be a warning to any in Europe about what might happen to them should they push back. Some focus on the economic battle: the opportunity to impose on Greece an economic framework that could not have been adopted in any other way” (2016:315). If financialized capitalism has failed to produce a new figure of subjectivity – previously it was the figure of the entrepreneur or a worker - then it has certainly intensified governing through the political economies of affects (see Lazzarato, 2015). To put it simply, fear determines the political horizon, both at the Eurozone centre and periphery: at the centre we observe the fear of inflation and low interest rates on saving, the rise of public debt, fear of unemployment and of a contagious reaction on the sovereign bond market. On the other hand, at the periphery there is a fear of extension and intensification of austerity, poverty, unemployment, capital control and suspension of liquidity (as happened in Greece in 2015), and an overarching fear of macroeconomic uncertainty.

After the epoch of Great Moderation (Bernanke, 2004) in which the question of the state had been marginalized thanks to the glorification of the market, the Eurozone crisis marks a need for a deeper understanding of the ominous integration of the technocratic state and the market under the command of capital. For this purpose, Deleuze and Guattari's concept of the assemblage has proved adequate for my analysis, under the presumption that it is always already interrelated with the *Urstaat* (state). The Eurozone crisis has also highlighted the shortcomings of the performative paradigm in terms of its incapacity to substantially challenge the inefficiency of financial markets and to understand the role of the macro-structures, as elaborated in detail in Chapter Two. This thesis has centred analysis of the EMU around the question of internal power constellations, rather than around the efficient financial markets. These constellations operate to minimize the consequences of the inefficiency of financial markets, and the distribution of cost and risk immanent to the crisis has reflected the hierarchy of power. Finally, it is demonstrated here that the internal centre-periphery division within the EMU has been intensified in the wake of the turmoil and has further empowered the creditor countries. Only after understanding the complex and interrelated grid of influences and mutually enforcing policies, can we understand how the economic-political reality in the Eurozone has been changed by the underlying principles and power of Ordoliberalism. The euro has turned out to be much more than a sign, currency or a unit of account: it is a hegemonic system of power supported by the monetary union which subjugated the peripheral economies.

8.2. Stagnation and Rise of Inequality in the EMU

The current model of the Eurozone has obviously reached its own limits in economic and political sense: overall GDP of the EMU has been stagnant from 2008 – 2016, with exceptionally high unemployment (in particular among youth), and with unprecedented rise of labour precariousness in Germany, including increase of the intermediary and part-time jobs (see Lazzarato, 2012). According to the Eurostat, official unemployment in Greece is 21% and in Spain 17%, while in Germany is 3.6% precisely because all these forms of precarious jobs are included. The official Eurostat average unemployment rate among youth in the Eurozone is 18.7%, in Greece 42.%, in Spain 37.2% and in Italy 35.7%. Also we have witnessed a freeze

in real wages both at the centre and the periphery, and significantly reduced investments, which has altogether made any substantial recovery impossible.

With rising nationalistic and populist resentment in the USA and the UK, highlighted by a referendum in favour of Brexit and Donald Trump's presidential victory, necessity for protecting, transforming and de-Ordoliberalizing the Eurozone is more urgent than ever. While the Eurozone macroeconomic indicators have slightly improved in the mid 2017 as a consequence of several factors - including the ECB's quantitative easing, the prospect of relative political certainty after elections in France and Netherland, and political uncertainty in the UK - predicted growth for 2017 of 2% within the Eurozone is modest, whilst the overall long term macroeconomic perspectives remain bleak. More importantly, with wages at the Eurozone periphery and centre being stagnant for almost a decade, there is no guarantee that even significant growth would benefit labour and reduce inequality. Therefore, any minor improvement in the Eurozone's macroeconomic parameters is, time and again, just a limited acceleration, before those economies entrapped in fiscal retrenchment and suppressed aggregate demand drop again in terms of GDP growth to 1,9% in 2018 and 1,8% in 2019, as officially anticipated by the ECB (2017). The limited growth is happening precisely because the Eurozone – within the existing infrastructural and policy composition – lacks mechanisms for addressing the asymmetric unbalances, cannot overcome lack of demand at the centre, meaning any growth at the periphery signifies an increase in trade imbalances covered by import of capital which led to the crisis in the first place. Finally, growth in 2017 is being also achieved thanks to a significant financial monthly infusion by the ECB, or quantitative easing – buying of sovereign and corporate bonds – which is likely to be slowed down and eventually stopped in the coming years. Nevertheless, the austerity has badly affected European democracy given that the destruction of the welfare state, rise of poverty, inequality and uncertainty has created a toxic background for expansion of radical right-wing parties across the Eurozone.

Towards the end of 2017 the Eurozone has experienced two substantial political challenges, both directly related to the policies of austerity and the Ordoliberal neo-mercantilism: referendum for independence in Catalonia which has triggered a Constitutional crisis in Spain and the rise of extreme right and government crisis in Germany. I would explain the interrelation between austerity and the crisis in Germany, because the case with the rise of extreme right in Germany is paradigmatic. The neo-fascist Alternative for Germany won around 14% on the parliamentary election and made it to the parliament for the first time since

the WWII. While many politicians, analysts and even academics have related the rise of extremism to the Angela Merkel's generous policies towards the refugees from the Middle East in 2016, the German ex Minister of Finance Wolfgang Schäuble (2016) offered a different explanation. Namely, in 2016 he said that at least half of the voters for the Alternative for Germany on the local elections are actually people concerned with their savings being put in jeopardy, with banking interest rates for savings close to zero or even negative. He blamed the President of the ECB Mario Draghi and the measures including decrease of the central interest rate, decrease of the interests on deposit, and the quantitative easing. However, as Wolf (2016) argues, the real causes for the exceptionally low interest rates for savings in Germany and elsewhere in the Eurozone, should be found in the extreme German current account surplus of around 9% of GDP, which is the main deflationary driver in the monetary union. That is to say, the rise of extremism in Germany should be directly related to deflationary pressures – as it was the case in the 1930s - and not to inflation, which is a widespread economic myth carefully constructed and accepted in Germany, as I have elaborated in detail in Chapter Six. In addition, I would argue that the policies of wage moderation for the last fifteen years have produced the potentially dangerous social ambient for the far-right politics.

The Eurozone has witnessed a significant rise in poverty and inequality inside societies, as well as between country members. For example, “in the case of Greece the gini coefficient increased by 5% from just 2010-2014. It usually takes years and years to move the gini coefficient by a few percentage points. By 2012, according to Oxfam, a third of Greeks were below the poverty line and 17.5% of the population or more than one million, of those between 18 and 60 lived in households with no income at all. From 2008 to 2012, according to Unicef measure, the proportion of Greek children in poverty increased from 23% to 40.5%” (Stiglitz, 2016:72). In addition, an analysis published by the ECB in 2013 demonstrated that inequality at the Eurozone core has increased significantly as well. As de Grauwe and Ji underline in their analysis of the ECB survey: “In Germany the mean household wealth is almost four times larger than the median. In most other countries this ratio is between 1.5 and 2. Thus household wealth in Germany is concentrated in the richest households more so than in the other Eurozone countries. Put differently, there is a lot of household wealth in Germany but this is to be found mostly in the top of the wealth distribution” (2013). This increase in inequality in Germany can be attributed to the above mentioned policies of wage moderation, which favoured income related to capital rather than income related to labour (see also Piketty, 2014).

Although I have deployed different critical apparatuses in this thesis for analysing the current constellations of asymmetric political-economic powers within the Eurozone, it is clear that a complete dissolution of the monetary union could trigger a political and economic havoc both in Europe and globally. With immanent danger in the form of ruling populism in the UK and the USA, a need for a Eurozone reform is imperative as are the modes for transformation. These issues are addressed here in two parts: the first is focused on what should be done to alleviate Greece' position as a sovereign debtor and make prospects of economic growth and prosperity for the country realistic. The second is related to the question of how to transform the neo-mercantilist hegemony of Germany into a sustainable and just Eurozone system in terms of trade and investments across the monetary union, and also how to substitute the detrimental policies of austerity with investment-focused and innovation-led policies.

8.3. European Debt Relief or Grexit

Greece is currently imprisoned in a debt-constellation which obliges the nation to produce a primary budget surplus (tax revenues minus government expenditure before public debt payment) of 1.75% of GDP in 2017 for its public debt repayment, and then in 2018, and the years following, a surplus as high as 3.5% of GDP. With such a high primary budget surplus, the Greek economy is at risk of long term stagnation or even another recession, given government capital available for investment will be limited, small and medium enterprises along with the corporate sector will be impeded by constantly rising taxes and a general lack of demand. This happened towards the end of 2016 when the country recorded a higher than expected budget surplus, but at the expense of these positive fiscal results Greece was pushed back into recession. Therefore, without significant debt relief Greece is facing a further increase of its public debt, and, “there have been reports coming out of Washington that the Fund believes Greece's debt will rise to 275% of national income by 2060, which would undoubtedly put it into the “unsustainable” category” (Eliot, 2017). The argument related to debt relief has been continuously presented, even by the IMF, because further support for Greece by that international institution goes against its fundamental principles, given the IMF provides credit to its members only when their sovereign debt is deemed manageable. Significant debt relief in terms of public debt would also alleviate the pressure on fiscal surpluses, and consequently

would enable the Greek state as well as companies to invest in development, innovation and education. However, German elites are still reluctant to offer any debt relief to Greece after the years of populist and opportunistic policies towards the Southern European debtor-nations.

While I have argued in this thesis in favour of the EMU and the EU, under presumption that it is going to be reformed and therefore will be able to address the need for sustainable growth and economic democracy rather than elitist plutocracy, I am also in favour of a coordinated Greek exit from the Eurozone if the terms of the threatening conditionality imposed by the Troika do not change. The exit must remain an alternative because the detrimental conditionality, including the unsustainable budget surplus, would make Greek prospects gloomy for decades to come. As Stiglitz points out: "In a reasonable well managed amicable divorce Greece would do far better than it is doing under the program imposed upon it by the Troika" (2016:273). Lapavitsas (2012) has been opting for the exit of Greece from the Eurozone ever since the early phase of the crisis, because he rightly anticipated that the debtor countries would not be amenable to any constructive debt relief program and would also insist on the creditor-biased policies of austerity. Nevertheless, it is clear that any Grexit would also have an exceptionally high economic and political price to pay, likely manifested in a devaluation of a new euro (or drachma), a rise in the value of external debt, enormous problems for Greek companies to repay their international obligations denominated in euro or dollar, lack of internal and external investments in the time of uncertainty, and a reduction of bank credits. But at the same time Greece would formally and finally default on its sovereign debt, would start negotiating paying just a certain proportion of the debt on its own terms (in the case of Argentina just 20%), would be able to create fiscal and economic policies independently, to improve trade balances and the balance of payments, and restructure or in some cases nationalize banks and certain companies. With all these painful but necessary measures Greece would be able to start rebuilding its economy and society on premises which are opposed to austerity. As a sovereign nation Greece would be in a stronger position to improve competitiveness of its production and services through devaluation, tackle plutocracy and domination of corrupt oligarchs, end the rule of the financial elites, stop the forced privatization of public assets at fire-sale prices and turn the tide of austerity into investment focused cycles.

8.4. Reforming the Eurozone

This part of the conclusion will demonstrate how potentially the current account disbalances in the Eurozone could be changed and also how the policies of austerity could be changed into investment focused policies. But before I elaborate solution for the macroeconomic issue, a broader horizon of political struggle for new policies must be elucidated. Nevertheless, these Ordoliberal policies must be changed from within, through an international politics of solidarity and collaborative conceptualization of a sustainable and progressive alternative by the European Left. When and how these alternatives will be created by the Left, though, is still unclear, given that the reinvented Ordoliberal strategies of governmentality have conquered not only political-economic realities but also imaginaries. It is crucial for the political alternative of the Left to demonstrate necessity for a pan-European labour solidarity, given that national political and financial elites have managed to control and discipline their electorates by antagonising workers and manipulating and misrepresenting the causes of the crisis. That is to say, any resentment coming from German workers because of their wage stagnation and pauperization has been controlled as the rationale for the crisis offered by the German media and politicians has targeted the profligate South European states. Dominance of these explanatory registers, coupled with the threatening example of the Greek “theatre of cruelty”, has enabled it to pass unnoticed that German labour has experienced a fifteen year long wage stagnation, and that the richest 10% of German households own more than 60% of private wealth, placing Germany among the most unequal countries in the EU (see Fratzscher in Sauer, 2016). Moreover, social mobility has stalled in Germany, and rarely been lower (Fratzcher in Sauer, 2016). To counteract the antagonism between national labour and revitalize the role of trade unions in Germany, which have s been marginalized for twenty years, the Left could recall Marx’s speech at the First International in 1866 when he appealed to international solidarity and awareness of the collective struggle: “Apart from their original purpose, they [the unions] must now learn to act deliberately as organizing centers of the working class in the broad interest of its complete emancipation. They must aid every social and political movement tending in that direction. Considering themselves as acting as the champions of the whole working class, they cannot fail to enlist the [unorganized] into their ranks. They must look carefully after the interests of the worst paid trades, such as agricultural laborers, rendered powerless by exceptional circumstances. They must convince the world at

large that their efforts, far from being narrow and selfish, aim at the emancipation of the downtrodden millions” (Marx in North, 1998:18). A pan-European alternative requires discussing for its creation then confrontation with Ordoliberal institutional power within the Eurozone. As Flassbeck and Lapavistas point out: ”At the core of the failure of EMU lies the German economic model. Other European countries have been unable to question the German model openly and to convince Germany that it is not even in its own interest to opt for competition rather than cooperation of nations, particularly among the members of the currency union. Germany has emerged as the dominant power of the EU, dictating terms to others, crucially influencing policy debates at the level of the EU, and jealously guarding its advantages. Acknowledging that lack of cooperation will be a fact of life for the foreseeable future would be a necessary first step towards reshaping the institutional arrangements that are required for a peaceful division of labour in Europe” (2015:70). Left-wing governments in the periphery are facing what is known as an ‘impossible triad: achieving effective restructuring of the debt, abandoning austerity, and continuing to operate within the institutional framework of the EMU. However, the encouraging success of the British Labour party could set an example for the Eurozone Left of how a courageous anti-austerity political manifesto can invigorate a subdued electorate.

The rising divergence in current accounts is the most acute macroeconomic problem in the Eurozone and a manifestation of the strategy of competition between nations in the monetary union, rather than cooperation between them. Drawing on Keynes, Varoufakis (2016) suggests a solution consisting of two elements: an international parallel electronic currency for trade; and taxation of the nations which diverge too much in terms of their current account surpluses (deficits). Intra-Eurozone trade would be managed with the parallel currency and the national-exchange rates (between the electronic currency and the “national” euros) would be defined centrally. For example, should a country start running a large current account surplus, the value of its “national” euro vs. electronic currency would grow, making imports into the country cheaper and exports more expensive. The introduction of a parallel currency, in conjunction with a system of additional taxation of the current account surplus countries, would enable double control of the imbalances within the monetary union as well as investment in the economies facing current account deficits. Similar ideas were developed and presented by Keynes at the Bretton Wood conference, but unfortunately were not accepted because it was unimaginable at that time that America would be running a current account deficit, and also because the US was not ready to relinquish any part of its monetary and

financial hegemony. As Varoufakis underlines: "Crucial to this system was a fixed exchange rate between each national currency and the bancor, and thus between all participating national currencies. The board of the IMF, on which all nations would be represented, would decide these rates centrally and by negotiations. They would be adjusted whenever necessary, so that countries with stubborn surpluses would see their currencies buying increasingly more bancors (to make their exports more expensive and their imports cheaper), and vice versa for nations in persistent deficit. Even more radically, Keynes's IMF, recognizing that one nation's deficit is another's surplus, would levy a tax on a nation's bancor account if its imports and exports diverge too much. The idea was to penalize both types of imbalance (excessive surplus as well as excessive deficits; the Germanys of the world as well as Greeces) and in the process build up a war chest of bancors at the IMF so that, when some crisis hit, deficit nations in trouble could be propped up and prevented from failing into a black hole of debt and recession that might spread throughout the Bretton Woods system" (2016:35). However, there is a vicious circle in terms of any measures aimed at addressing German current account surpluses, essentially because the crisis has politically empowered the creditor country enormously and its financial elites in particular. Therefore, the hegemonic German position at the top of European institutions can be disempowered only through the rise of labour-oriented progressive political forces in Germany itself, and the wider Eurozone.

The punishing apparatuses of permanent austerity must be reversed and the Eurozone economies re-structured and de-financialized through mission-oriented and innovation-led investment. The Eurozone South needs to turn the tide of public saving and invest in innovation, education, training and infrastructure. As Mazzucato points out: "While Eurogroup forced austerity on Greece (and other southern neighbours) Germany was increasing its own spending on R & D, science-industry links, strategic loans to their middle sized companies (through an active public bank, KfW). This of course helped the competitiveness of others in the Southern periphery (to keep public debt low, Spain cut public R & D by 40% since 2009). Siemens wins contracts abroad because they are one of the most innovative companies in the world, the fruit (also) of public investment in training and new technology" (Mazzucato, 2015).

In addition, while several sectors in the Southern economies are lacking investments, one of the most promising opportunities is related to the global necessity for energy transformation and recent focus on renewable and green technologies, with the potential of utilising solar energy in the Eurozone South. However, as Mazzucato and Perez state: "Renewables alone do not constitute a synergetic technology system. There is not enough

technological convergence in knowledge, suppliers, engineering or skills between solar, wind, wave, geothermal and hydroelectric equipment” (2014:12). They, therefore, draw attention to the fact that renewable systems operate within a broader economic constellation consisting of innovative production and supply, knowledge transfers, but also intervention on the demand side, as discussed below. Also, it should be added that the Green transformation is a much broader and complex phenomenon which goes beyond renewable systems of production, and includes pollution control, reduction of material content per product, designing for durability, replacing products, possession and waste with services, rental, maintenance, and recycling in collaborative and sharing economies (Mazzucato and Perez, 2014). Nevertheless, given Southern Europe has a significant number of sunny days per year, the current economic antagonism between the Eurozone centre and the periphery could be changed into cooperation in which the South produces solar energy and the North much needed infrastructural components. As Varoufakis underlines: “Large-scale green investment will be funded by a partnership between Europe’s public investment banks (the European Investment Bank, KfW, and others) and central banks (on the basis of directing quantitative easing to investment project bonds) to channel up to 5% of European total income into investments in green energy and sustainable technologies” (2017). In the field China has already demonstrated how government interventions could operate both on the demand as well as supply side of the economy in terms of solar energy production. On the demand side China is focused on environmental regulations, public procurement, and support of private demand. On the supply side the measures are focused on how energy is generated and distributed; and importantly the government is influencing the development of innovation in energy technologies through the provision of finance (grants, equity support, tax incentives) or through service support (e.g. information brokerage, networking, developing of common visions) (Mazzucato, 2014).

Yet if most Eurozone countries continue struggling with their public finances, one may ask where the capital for these investments will come from. Varoufakis, Holland and Galbraight (2015) in their perspicacious Manifesto, “A Modest Proposal for Resolving the Eurozone Crisis”, offer a solution by drawing on existing institutions within the EU architecture: the European Investment Bank and the European Investment Fund. They propose a broad strategy under the name The Investment-led Recovery and Convergence Program (IRCP) which would provide financing for infrastructural projects through the issuing of common bonds by the EIB and the EIF. These bonds will be offered on the capital markets, but importantly will not place additional burden on national accounts because borrowing from the

joint institution EIB is not counted against national debt. The authors also suggest the ECB guarantee the bonds, therefore minimizing risk.

The global technological and economic revolution – comparable to the information and communication technology revolution in the nineties - which is looming and is interconnected with Green growth (Mazzucato and Perez, 2015), is revealing horizons for a transformation of the Eurozone on several levels: in the domain of investment in innovative production, balancing of the North-South antagonism and discrepancies, de-financialization of the monetary union, expansion of the real estate sector. Timothy Mitchel (2013), although surprisingly not mentioned in the academic discussions of the Eurozone Green growth to date, has already in his seminal book, “Carbon Democracy”, demonstrated a direct connection between types of energy and modalities for its production, on the one hand, and determination of economic and political systems, on the other. I would argue that what has been imagined and conceptualized as Green Growth (Mazzucato, 2014; Mazzucato and Perez, 2015; Lazonick, 2014; Varoufakis, 2017) is an overarching transformation of the Eurozone economies and societies, aiming at producing a more just and democratic, sustainable and equal, political-economic system. I dare to term it *green democracy*, because it offers a profound political-economic transformation and a viable alternative to the devastating policies of endless austerity. Green democracy is a horizon of hope which should inspire and stimulate a coordinated international political battle against the entrenched Ordoliberal forces, which is, to my mind, the most urgent historical task.

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