

ESCAPING THE DEBT TRAP

Peripheral Countries in Prolonged Debt Crises and How to Exit

Introduction

This thesis is an interdisciplinary piece of academic research, situated within Critical Theory but engaging with other disciplines, mainly Political Economy and Politics, to tackle the topic at hand; sovereign debt crises.

The thesis deals with the Problem of Debt and, more specifically, the Problem of *Prolonged Sovereign Debt Crises*, which is described in this thesis as the phenomenon of the “Debt Trap”. The specific question that will occupy us in this thesis is why countries appear unable to exit these prolonged debt crises. By exiting a debt crisis, we mean here a state of affairs in which a country has managed to render its debt sustainable, regain its democratic sovereignty, achieve economic recovery and, what is more, mitigate adverse effects of the crisis, especially in what human development, social inequality and poverty rates are concerned. This question is tackled through the use of an interdisciplinary approach that combines critical theory perspectives - which are grouped in two paradigms, the Subjectivity paradigm and the genealogies of Capitalism paradigm- with financialisation literature. The purpose is to form an interdisciplinary intellectual framework that will allow us to analyse with a critical perspective the two case studies of the Greek crisis from 2009 to 2015 and the Argentinean crisis from 1983 to 2005. The aim of the thesis is to develop a theoretical framework that allows us to deconstruct the various ideological approaches to these two particular cases of *Debt traps*, including neoclassical and neoliberal approaches, Conservative and Keynesian approaches and uncover the political, economic and class relation that underpin the prolonged crises that the two countries have experienced.

Methodology

I have divided this thesis into two parts; a theoretical section focused on reviewing theoretical currents in the Philosophy of Debt and a case-study section where I discuss in depth the events of the Argentinean debt crisis and its aftermath (1983-present) and the Greek sovereign debt crisis and its aftermath (2009-present).

This thesis combines methodologies stemming from the disciplines of critical theory and politics. While the first section discusses in-depth critical theory and philosophical perspectives on Debt, the second section engages with literature from the field of Politics in order to analyse the case studies of Greece and Argentina. The outcomes of these analyses are then contrasted with the literature reviewed in the first section to evaluate these debt theories. Moreover, in an interdisciplinary manner in both sections of this thesis, I will engage with literature from the

field of political economy and, more specifically, with the ever-expanding financialisation literature and an eclectic mix of heterodox economics literature. This thesis's methodological approach, which is decidedly limited in the fields of Critical Theory and Politics, means that this thesis will not engage in research in either Financialisation or Heterodox economics. Instead, the elements of financialisation and heterodox economics literature we will review in this thesis, will be then used to reflect on Critical Theory contributions on Debt. The methodology of this thesis is clearly situated within the field of Critical Theory, in the sense that it seeks to critically reflect on ideological discourses, especially dominant ideological discourses. What is more, this thesis engages in critical historical work of the type that characterises Critical Theory methodologies and which is often described -following Foucault- as genealogy to emphasise that this is a historical recounting of events that aims to “de-normalise” historical events and reflect as widely as possible on the political, economic, intersubjective and class relations that produced the historical events at hand.

The theoretical section of the thesis

The theoretical part includes in-depth analyses of Maurizio Lazzarato's Theory on the Indebted Man, Wendy Brown's intellectual history of Neoliberalism, and foundational thinkers such as Nietzsche's theory of Debt in the Genealogy of Morals and Foucault's work on Biopolitics. This section aims to analyze Debt as a political instrument and as a disciplinary mechanism and extract concepts that would help us analyze the Prolonged Sovereign Debt Crisis.

In our effort to tackle this issue, we will examine four distinct theories in the study of Debt as a social phenomenon from the field of critical theory. More specifically, we will examine the following theoretical perspectives: Nietzsche's theory on Debt (Schuld), Lazzarato's theory of the “Indebted Man”, Wendy Brown's Thesis on Authoritarian Neoliberalism, and finally, David Graeber's history of Debt. Moreover, we reviewed the financialization literature on Debt to examine whether these two distinct areas of academic research can be employed jointly in an effort to address the question of Prolonged Debt crises.

The purpose of reviewing this literature was to tackle the original question with which we began this thesis, namely why indebted countries find it hard to escape the debt trap and instead appear to be trapped in a series of debt crises and prolonged periods of recession.

Returning to the Critical Theory perspectives as we will examine in the previous chapters, we observe that these can be divided into two different philosophical paradigms. These paradigms can be separated into:

1. The Subjectivity of Debt Paradigm focuses on the type of Subjectivity that being indebted produces and how this Subjectivity conditions persons into normalizing and accepting onerous Debt, thus transforming Debt into an inequality-reproduction mechanism.
2. The Genealogies of Capitalism Paradigm; this paradigm studies Debt as a historical phenomenon that offers us insights into the history of Capitalism.

These paradigms are not mutually exclusive or contradictory but reflect distinct philosophical traditions and methodologies. Nietzsche's work occupies a central place in both paradigms. In terms of the Subjectivity-focused paradigm's Nietzsche's work on Schuld as Debt and Guilt is the most relevant, while in the Genealogical paradigm, Nietzsche's Genealogical method, especially as this was re-interpreted by Foucault, is most pertinent.

The Subjectivity-focused paradigm is represented most clearly by Maurizio Lazaratto's work on the Indebted Man, and it also includes parts of Nietzsche's work, some elements of Deleuze's critique of Capitalism and Foucault's concept of Biopolitics. From a philosophical perspective, what characterizes Subjectivity-focused approaches to Debt is that they employ some concept of production of Subjectivity. Although the four thinkers grouped here under this paradigm perceive the process of the production of Subjectivity differently, they share certain common assumptions, most notably that the production of Subjectivity is not limited to one area of social life, for example, in economic activity that shapes a Subjects Ideology as per the classical Marxist model. Moreover, the production of Subjectivity cannot be seen as a one-dimensional process according to which the Subject is a mere passive recipient. Instead, the formation of Subjectivity is a complex process that includes language, the economy, ideology, desires and is exercised not simply from one oppressor towards an oppressed but is reproduced willingly and unwillingly through social relations, language and discourses. It is the product of a web of social relations and institutions rather than the product of a mere top-down relationship.

The Genealogical paradigm on Debt views Debt as an element in the broader history of Capitalism. This perspective informs the methodological choices of thinkers that fall within this paradigm. Thus Wendy Brown implemented methods that pertain to Intellectual History and the History of Political Thought, while David Graeber implemented methods that stemmed from Ethnography, Anthropology and History.

In the second part of this thesis, I review the two case studies that will concern us the Argentinean crisis of 1983-2005 and the Greek Debt crisis of 2009 to 2015. The period sections have been chosen for their pertinence in the analysis of the phenomenon of the *Debt Trap* and of the availability of historical, economical and electoral data that would allow me to properly conduct the empirical analysis. The rationale behind the selection of the specific case studies and specific historical periods is reserved for the dedicated Greece and Argentina chapters in the Second Section of this thesis.

In the case study analysis we will review the debt crises as complex phenomena with political, ideological and economical dimensions. The analysis proceeds through examining key political events connected with these debt crises, such as crucial elections, formation of governments, credit events, Stand-by Agreements or the implementation of important policies. In accordance with Critical theory methodologies, when discussing economic dimensions of the crisis I record the battle of economic ideas in order to paint a picture of the ideological debates that took place within the two countries during these times of crises. On the other hand, political developments, elections and social phenomena such as mobilizations, strikes and demonstrations are placed within their economic context to allow us an interdisciplinary understanding of the two crises.

The empirical analysis concludes with an original typology and subsequent evaluation of the different strategies that these two countries employed in managing their debt crises. I organise different periods of the historical period under analysis according to the strategies implemented during each time. Three main types of strategies emerge, the full compliance strategy, the amicable renegotiation strategy and the contested renegotiation strategy. Based on the empirical evidence we attempt to evaluate the results typically produced by these three strategies, argue on which strategy produces the most optimal results in terms of escaping the debt trap and proceed to discuss the preconditions for success of each of these strategies.

The Financialization Literature on Debt Crises

This chapter aims to discuss elements of the literature on Financialisation that can offer us insights into the phenomenon of the Debt trap. Financialisation literature is a promising area of study dominated mainly by Heterodox, Marxist and Post-Keynesian economists. The analysis of Financial crises such as the 2008 crisis and the Eurozone Sovereign Debt crisis is indeed one of the privileged objects of study in the literature on financialisation. Nevertheless, this thesis will not look into the role of financialisation in causing financial crises. We will be focused on the effects of Financialisation on class relations on the one hand and policymaking on the other. This chapter will focus on the literature on Financialization and Inequality – as a significant area of study within the Financialization literature- to understand how financialisation changed the relations and balance of power between labour and capital and between rich and poor households. The literature on financialisation and inequality will allow us to understand how changes that occurred in socio-economic relations affected class politics and, ultimately, party politics and the function of the democratic system itself.

From a methodological point of view, it is worth noting that we will tackle Financialisation from a critical theoretical point of view. Critical theory and the financialisation literature have several objects of study in share, and often they even share the same philosophical perspectives – especially in the case of Marxist and post-Marxist authors. Moreover, Critical theory and Financialisation literature share a critical perspective toward Neoliberal politics and the Liberal school of thought. It should come as no surprise that critical theorists have attempted to engage with Financialisation literature in their own work. We must, however, be conscious of the limitations of critical theory when engaging with the results of financialisation literature; critical theory does not possess the methodological tools to review the empirical evidence collected and analysed by Financialization scholars. This methodological limitation is especially true for financialisation literature that is situated in the field of economics. Within the field of Financialization literature, new empirical evidence emerges at a quick rate, while the phenomenon of financialisation itself changes dynamically. Critical theorists must avoid adopting parochial views of the phenomenon that no longer correspond to the empirical evidence. The phenomenon of financialisation ever-changing poses many challenges to investigators, no less due to the lack of available data and the sheer complexity of the phenomenon.

This chapter aims to examine Financialisation as a critical element of the socio-economic context of a debt crisis; when social movements, political parties and governments attempt to tackle a debt crisis and its aftereffects inadvertently, they are confronted with the reality of the financialisation of the global economy.

A debt trap reflects a country's position in the financialised global economy. A sovereign debt crisis is connected with the position of a country's currency, the characteristics of capital inflows and outflows, the country's integration in the international financial system and the global value chains, and the balance of its external sector. Moreover, a sovereign debt crisis can interact with the levels of household debt, the result of household financial inclusion and indebtedment. For this reason, we will employ the financialisation literature -along with Critical Theory literature- to form an interdisciplinary theoretical framework that would allow us to analyse the phenomenon of the Debt trap.

Financialisation as a counter-narrative of Debt Crisis

With the advent of the Eurozone crisis, the Financialization literature provided a counter-paradigm to neoclassical interpretations of the crisis, which presented the crisis as a supply-side problem and the result of excessive government spending on behalf of the EMU national governments. The IMF, ECB, European Commissions and EMU core nations adopted such neoclassical interpretations, while EU and EMU institutions also endorsed the ordoliberal analysis of the Eurozone crisis as a crisis of compliance with the Stability and Growth Pact.

The Eurozone crisis saw scholars from social science disciplines, other than political economy, taking a significant interest in the Financialization literature, as it provided a framework for a causal explanation of the crisis that included crucial facts such as the financialisation of the European economies, the deindustrialisation and class restructuring that took place in European societies, union density and Capital-flows.

Financialisation literature is discussed here to act as an analytical framework for the case studies discussed in section II; the financialisation literature reviewed here will be used to form an interdisciplinary framework of analysis with which the cases of the Greek debt crisis and the Argentinean debt crisis will be analysed.

As described in the introduction, this chapter aims to enrich Critical Theory perspectives on Debt crises with the conclusions of Financialization Literature. At the same time, this thesis employs methods pertaining to Critical theory, and thus issues relating to the empirical

methodologies implemented by Financialization scholars remain beyond the scope of this thesis.

The Eurozone crisis

Financialisation scholars have argued that the creation of a periphery or peripheries within the EMU is an essential part of the causal chain of events that led to the 2009 Eurozone crisis. To be sure, this is a claim that is now widely shared amongst non-neoclassical economists. The identification of the unequal economic and political relations that emerged within the Eurozone is a conclusion shared by many heterodox economists. The Financialization literature was best situated in identifying and analysing this division of the EMU between core and periphery due to its methodological preoccupation with the capital flows, FDI flows, and the flows of credit between the Global North and the South. Moreover, the Financialization literature was able to provide a causal explanation of how the emergence of internal peripheries within the EMU led to the 2009 crisis.

The creation of the EMU intensified the unequal economic relations that had already emerged in Europe and led to a sharp core-periphery division of Eurozone state members between a Core (Germany, Netherlands, Belgium, France, Luxembourg) and a Periphery (Spain, Greece, Portugal, Cyprus, Ireland), while Italy occupied a unique transitional space between core and periphery. A similar periphery emerged within EU members, although this was less acute because peripheral EU member-states -for example, in Eastern Europe- still retained their monetary-policy sovereignty and thus enjoyed greater independence from the core in shaping their economic policies.

The creation of multiple peripheries and the establishment of unequal economic relations within the EMU is a point of agreement between financialisation scholars and heterodox economists. Scholars specialising in EU Political Economy have focused on the premature liberalisation of goods and financial markets that the creation of the EMU has brought about, the rapid deindustrialisation that followed the creation of the EMU (Celi, Guarascio, & Simonazzi, 2019). Seminal Italian economists Celi, Guarascio and Simonazzi, emphasise the change in the political climate in Europe from the slightly more cautious early decades of European integration when some progressive policies were implemented to the more enthusiastic integration of the EMU era when German ordoliberalism reigned supreme.

For Celi, Guarascio and Simonazzi, this shift in the process of European Integration appears to be the result of an ideological shift that the authors suggest took place at the leadership level,

especially in EU member states such as Italy and France, as well as a general ideological change amongst EU staff. The authors describe changes in the political elite's public debate and ideological orientation from what they describe as "from a prudent and progressive approach to integration" to an "aggressive acceleration towards a fully-fledged monetary union". Moreover, the authors place significant importance on the role of monetarist economic theory in shaping public attitudes and elite ideology vis a vis the European integration

Celi, Ginzburg, Guarascio and Simonazzi coincide with other heterodox economists in placing this ideological shift in the 1970s, after the 1971-1973 crisis and the 1980s with the emergence of monetarist theory, as well as the political and ideological shift in Germany and the US towards ordoliberal and neoliberal policies that took place at the same period. Especially, perceived US and German economic success, which was then attributed to the policy of liberalisation followed by the two countries, convinced other European countries, most notably Italy and France, to endorse similar policies. (Celi, Ginzburg, Guarascio, & Simonazzi, 2018). The work of Celi, Ginzburg, Guarascio and Simonazzi on the EMU coincides with financialisation on the issue of Germany's role in the Eurozone; the authors emphasise how the policies of fiscal discipline followed by German governments during the EMU period accentuated imbalances in terms of industrial development between the different EMU member states. The authors describe how the European South industrial production found it challenging to compete with German exports, while Berlin followed a strict wage suppression policy. The authors also emphasise the role of financial bubbles in the European periphery. A consensus has emerged amongst non-neoclassical economists on the above-mentioned weaknesses of the EMU, which are considered to be causally connected with the Eurozone Sovereign Debt crisis.

However, the question remains about what were the causes of the institutional design of the EMU? Can it be attributed to the dominant ideologies amongst the elite? Moreover, the institutional design of the EMU can be attributed to the ideological one-sidedness on behalf of European elites or even mere error of judgement on behalf of policymakers?

The problem with such explanations is that they leave us without a clear answer to the question of the remarkable durability of the EMU structures despite the upheaval caused by the Eurozone crisis. Explanations of the Eurozone crisis that rely upon the idea that the EMU's design was the mere outcome of ordoliberal ideology and erroneous policy ideas are that they leave us without sufficient explanation of the reasons behind the EMU's ability to overcome the crisis. Moreover, such explanations leave us without a satisfying answer about how the

EMU institutions came to be implemented and preserved for such a long period despite their glaring weaknesses. Financialisation literature places the EMU back in a specific historical and economic context -most notably the financialisation of the European economies- and the class relations that underpinned European politics and led to the creation of the Eurozone.

Critique of Neoliberalism and the 1979 Coup

Financialisation literature places the unequal function of the Eurozone within the context of the Financialisation of the international economy and, more specifically, of the particular course that Financialization took in mature capitalist economies. Different European economies began financialising at different paces and at different times. Nevertheless, the origins of the financialisation process are placed in the 1970s with the deregulation of finance that lifted price and quantity controls in domestic financial systems (Lapavitsas, 2009, p. 10). The Financialisation of mature capitalist economies is associated with historical events that took place during this period, such as the 1971-1973 oil crisis and the rise to prominence of neoliberal ideas, as well as the election of Margaret Thatcher to the premiership of the United Kingdom in 1979 -followed swiftly by Ronald Reagan's election as the 40th US President in 1981.

The financialisation of mature capitalist economies can be summed up in the following apparent paradox; whereas the total investment as a proportion of the GDP has declined in many wealthy mature capitalist economies, profits have failed to follow this downward trend (Durand, 2017, pp. 119-120), initiating a form of profit-making that has been described as "profits without accumulation" or "profits without producing". One of the main contributions of Financialization literature in the study of contemporary Capitalism has been the analysis of changing trends in profits. Lapavitsas and Mendieta-Munoz present evidence that shows an apparent increase in the share of financial payments as a percentage of total profits Non-Financial Companies in mature capitalist economies (Lapavitsas & Mendieta-Muñoz, 2016), findings that are consistent with Lapavitsas earlier work on NFC profits in the US (Lapavitsas, 2013). The analysis of sectoral profits has been increasingly important for the study of financialisation; Krippner defines financialisation as a particular pattern of accumulation, where profits are made mainly through financial channels as opposed to through the production and selling of commodities (Krippner, 2011).

The French Regulationist School, one of the critical currents in the study of Financialization, such as Francois Chesnais (2001), has emphasised the connection between the advent of the

finance-dominated economy and the decline of the capital-labour compromises characteristic of Fordist society (Chesnais, 1996). According to Chesnais, the new ‘regime of accumulation with financial dominance (Chesnais, 1996) destabilised the balance of power between employers and the working class and created significant deficits in state revenues. The weak worker revenues lead to equally stagnant and weak consumption and growth.

One of the most direct consequences of Non-Financial Companies making an increasing part of their profits from financial operations is that NFCs become increasingly distant from banks (Lapavitsas & Mendieta-Muñoz, 2016). The distancing of business from banks caused a re-orientation of the Banking sector from lending principally to businesses to lending to households (Lapavitsas, 2011); this turning of banks towards households led to the financialisation of worker’s revenue and allowed workers to supplement their incomes that had been left stagnant since late 1970.

At the household level, we encounter one of the defining characteristics of Financialisation: a never-seen-before level of integration of households in the financial system, both as debtors and asset holders. Evidence shows that financial transactions “have penetrated into the realm of household revenue, both to borrow and to save (Lapavitsas & Mendieta-Muñoz, 2016)” making personal revenue increasingly crucial as a source of profit for banks.

Moreover, this turn of Banks towards lending to households was facilitated by public policies and especially a widespread decline of the labour income share, the weakening of social welfare policies and the decline of public provision of essential services. The post-war Fordist arrangement was based upon strong, unionised Labour that could command pay increases, influence political parties, and eventually fiscal policy (Harvey, 2010). As the financialisation of mature capitalist economies advanced, households were forced to secure their needs through private, instead of public, provisions and supplement their income with access to credit.

With salaries stagnant and public provision of essential services declining, households in Financialised economies turned to private provision solutions and the mediation of credit to finance basic needs for essential welfare services and goods such as housing, pensions, education, healthcare and transport. Households’ consumption of these goods became increasingly privatised and reliant on the mediation of the financial system (Lapavitsas, 2013, pp. 271-277). The decline in public provision of essential services and goods created new investment opportunities for banks and financial institutions to extract profit directly out of wages and household assets, such as mortgage repayments, insurance product payments, and

healthcare insurance payments (Lapavitsas, 2009). The empirical evidence thus paints the picture of a radical change in the relations between firms, the financial sector and households underpinned by the process of financialisation (Lapavitsas, 2013, pp. 38-43)

The end of the 1970s coincided with the election of Ronald Reagan as President and a shift in the Fed's rate policy, with Volcker adopting anti-inflationary measures. In part, this restrictive monetary policy adopted by the Fed shifted the balance of power between labour and Capital; with the US economy in a recession, Labour lost a significant part of its negotiating power, while Capital (Durand, 2017, p. 16). The process of Financialisation in mature Capitalist economies is characterised by a new "balance of power" between Labour and Capital, one that is more favourable to the owners of Capital. This new balance had significant effects on workers' levels of unionisation, labour's income share and ultimately for the parties of the left and central-left that had historically relied on Union support.

The decline of public provision and the decline in demand for labour created additional pressures for workers. We can observe this mechanism at play in the case of the US; as the economy became increasingly financed, the excess offer of labour led to the decline of US organised labour (Krippner, 2011, pp. 73-81). Many areas of the post-war arrangement were negatively affected or even completely overturned by the Financialisation of Western European economies, with perhaps the most drastic effects observed in the areas of housing and the area of employment (Santos, Abreu Lopes, & Betzelt, 2017). Empirical evidence from the United States from 1967 to 2010 confirms the above hypothesis; according to the model Van Arnum and Naples proposed, financialisation led to cost pressures, including downward pressures on wages, decertification of unions, and increasing wages recourse to imports (Van Arnum & Naples, 2013).

The neoclassical view of the financial system is that its primary function is to transfer resources more efficiently across different regions of the world, sectors of the economy, and time (Samuelson & Nordhaus, 2009, p. 455). The neoclassical view of finance is that it allows investments to be allocated to their most productive uses while reducing risks. However, the Financialisation literature provides us with evidence that suggests that the financialisation of an economy can limit the capital available for productive investment and allow firms to make increased profits through financial activities; this predicament is reflected in the synchronous stagnation of productivity with the rise of financial profits made by Non-Financial

Corporations, a phenomenon known as the dual movement (Lapavitsas & Mendieta-Muñoz, 2018, p. 5).

Despite the meagre results in productivity and wages, governments adopted policies fostering financialisation, thus bringing about a shift in public policy, especially in fiscal, financial and monetary policy. States increasingly adopted policies of financial deregulation and liberalisation (Lapavitsas & Mendieta-Muñoz, 2018, p. 4; Krippner, 2011). The emergence of independent Central Banks was a significant component of this shift in state policies.

It is significant to underline three policy changes in particular for their role in further fostering financialisation, namely the emergence of independent Central Banks, the reform of regulations around Capital Adequacy and the new policies of monopoly command on final means of payment (Lapavitsas & Mendieta-Muñoz, 2016; Krippner, 2011, pp. 14-16). The newly emerging independent Central Banks were the result of institutional reforms that aimed at giving Central Bankers independence from voter preferences and electoral pressures. In other words, the Independent Central Bank is an institution designed to have increased independence from democratic processes, especially elections and parliamentary politics. The independent Central Bank is a thoroughly neoliberal institution, as it is underpinned by neoliberal political and economic ideology, namely an underlying scepticism for voter input in economic policymaking and the neoliberal policy preference for low-inflation targets. The Independent Central Bank allowed the banking sector new increased leverage on monetary policy, while the low-inflation targets limited significantly the government's ability to decide on inflation targets according to their democratically approved manifestos; inflation targets were now institutionally prescribed at a low level by independent Central Banks.

The end to the convertibility by the law of money into anything of produced value and the liberalisation of regulations around the liability side of balance sheets of banking institutions further fostered financialisation by releasing significant liquidity in the financial markets. The end of the Bretton Woods system and the widespread shift toward the deregulation of the financial sector taken by countries across the world in the 1990s onwards resulted in a significant increase in international Capital flows.

Another outcome of this shift in policy was that the financial Capital, the financial sector and banking institutions enjoyed an improved input in policymaking and increased leverage over the State. Moreover, the new regulatory, institutional frameworks governing the Banking sector and the newly independent Central Banks meant relied increasingly on information and data

provided by the very banks they were supposed to regulate, thus increasing the risks of regulatory capture (Tomaskovic-Devey & Lin, 2013).

Financialisation and divergence in Europe

The broad image of Financialisation we have painted applies more closely to the financialisation of the US economy. Given that data on NFCs profits was more readily available from US sources, and given the importance of the US economy, the US case has been a seminal case study for financialisation scholars. As we shall see, financialisation took a different course in developing economies, giving rise to a phenomenon that scholars describe as subordinate financialisation. Nevertheless, financialisation did not follow the same trajectory even amongst mature capitalist economies. In the EU, the particular institution arrangement of the EMU and diverging class dynamics and unequal economic relations meant that although EU member states underwent a process of financialisation, the macroeconomic results of this process differed significantly from member state to member state.

Most importantly, these diverging processes of financialisation are a crucial element in the causal events that led to the Eurozone crisis. As a preliminary remark, we must underline that the Eurozone's institutional design fostered the financialisation of member-state economies. Although we will analyse the Eurozone's institutional makeup and its role in promoting financialisation in the region in the Greece Chapter in the Second Section of this Thesis, it is worth underlining here certain elements. The creation of the European Central Bank follows the general principles of independent Central Banks that are typical of mature capitalist economies in the period after the 1970s. The ECB has a robust deflationary bias, with its goal set on keeping EMU inflation rates at low levels, while it is strikingly independent of democratic scrutiny, parliamentary procedures and national governments. Moreover, the Eurozone's treaties have institutionalised ordoliberal policy preferences, such as fiscal discipline and monetary contraction. These policies have been inscribed into the foundational EMU treaties and are effectively rendered obligatory for EMU member states. Although compliance with these obligations has differed, peripheral countries were forced into adopting these policies during the Eurozone crisis. The Euro's appreciation bias, the result of the ECB's monetary policies aimed at allowing the Euro to function as a hard currency, has been significantly beneficial for the European financial sector, while the fiscal discipline policy which gradually became prevalent in the EMU limited risks for financial investors stemming from government borrowing.

The creation of the Eurozone reinforced existing tendencies for working-class restructuring in Europe, many of which stem from the 1970s and onwards, while the EMU accentuated divergences between the European Growth Model. The Financialization literature has attempted to offer a causal explanation of how the creation of the Eurozone, combined with the financialisation of European economies, the pre-existing divergences in growth models and the process of working-class restructuring are causally connected with the eruption of the Eurozone sovereign debt crisis.

Financialisation scholars have argued that the diverging forms that financialisation took in EMU models and the different growth models adopted between different members in the EMU lie at the core of the Eurozone crisis. The internal division of EMU members between a core and a periphery is an empirical fact that can be observed in how different member-states fared during the crisis and different growth trajectories. However, financialisation literature is uniquely equipped to offer us a causal explanation of these diverging trajectories and how these causally contributed to the crisis.

Stockhammer, Durand, and List propose a systematisation of these divergent growth trajectories in a comparative study of the diverse growth models implemented amongst EMU members. The authors distinguish between three different models of growth within the EMU, the Northern (Germany, Austria, Netherlands), Eastern (Poland, the Czech Republic, Slovakia, Hungary, Slovenia) and Southern (Greece, Spain, Italy, Portugal, Ireland) models growth, with some countries, such as the Netherlands, occupying a transitional place within this taxonomy (Stockhammer, Durand, & List, 2016). These three models were structured upon three different forms of working-class restructuring that took place in European countries as they became increasingly financialised. The authors see the crisis as an outcome of divergent trajectories of these growth models in the decade that preceded the Eurozone crisis. The Northern model, according to the authors, is “export-oriented” based upon a significant retreat of the working class, as reflected in weak wage growth, increasing wage dispersion and a decline of Unions. The Eastern model, on the other hand, which mainly reflects EU member states in Eastern Europe from the former Warsaw Pact, typically involved rapid real wage growth, greater integration into global value chains, combined with widening wage dispersion and a substantial decline in union density. The Southern model involves debt-driven growth with moderate increases in real wages and only a moderate decline in union density which is reflected in stable wage dispersion. The authors describe the Southern model as an implicit social compromise, which was economically based on a bubble (Stockhammer, Durand, & List, 2016). These growth

models have a certain degree of complementarity since the export-driven Northern model relies on the deficits of Southern EMU models. In contrast, countries that fall within the Eastern growth model are destinations for outsourced elements of the North's production chain since, for example, "the German automotive industry now relies on inputs from Poland, the Czech Republic, Slovakia and Hungary" (Stockhammer, Durand, & List, 2016).

Nevertheless, the relations developed between the three models are asymmetrical since countries falling within the Eastern growth model only had a subordinate integration into the global value chains, while countries that fall within the Southern model suffered deindustrialisation and rising debts. Ultimately the model was unsustainable as the North's export-oriented growth model was based on increasing borrowing on behalf of the Southern countries, which was financed in part thanks to Capital inflows from the EU's and EMU's core. With the advent of the global financial crisis in 2008, these divergent growth models created the conditions for the 2009 Eurozone crisis, as capital flows were reversed.

The three divergent growth models are primarily based on the different forms that financialisation took in EU and EMU member states and also the different trajectories of class struggles within these countries. Germany and German class politics were significant for the emergence of the Northern model of growth; German Capital achieved what can only be described as a decisive victory in Germany's class politics. Unions saw their influence and density decline, while at the same time, collective bargaining became increasingly abandoned. German exporting Capital was also able to access Eastern German and later Eastern European surplus labour leading to further downward pressures on German labour's income share. This hegemonical dominance of German Capital over labour meant that domestic demand in Germany was sluggish in the era of the EMU, and thus Germany's growth model became export-oriented (Stockhammer, Durand, & List, 2016). Class politics in these three different groups of countries are also reflected in their levels of industrialisation, with countries belonging to the Northern model retaining significant industrial production levels while the South deindustrialised rapidly. However, countries belonging to the Eastern model also experienced deindustrialisation, albeit more moderate, as these countries became part of Northern global value chains.

The Financialisation of Southern European countries is also an integral part of the EMU's divergent growth models; rapid credit growth in the South -the result of Capital inflows from the EMU's core attracted by Southern countries' higher interest rates- fuelled property and

financial bubbles. The financial bubble in the South boosted growth in some cases but also caused increased inflation and decreased competitiveness. As a result, countries that fall within the Southern growth model developed current account deficits financed by the capital flows stemming from the Core. Thanks to moderate wage increases and welfare state expansion, class struggle in the South was also temporarily suspended during this period. The North model countries, on the other hand, are characterised by weak financialisation, with small increases in household debt and house prices, while Eastern model countries experience an intermediate degree of financialisation, experiencing an increase in household debt that was more than the North but less than in the South (Stockhammer, Durand, & List, 2016). The divergent degrees of financialisation are reflected in the FDI flows, with the North showing strong FDI outflows, mainly exporting FDI to the Eastern countries, as these became integrated into global value chains. Most southern countries apart from Ireland experience stable or even declining FDI inflows; what is more, in the South, FDI liabilities declined as a share of total liabilities, reflecting a rise in debt and portfolio liabilities related to asset and real estate transactions (Stockhammer, Durand, & List, 2016, p. 22).

We can now see how the EMU and the divergent growth models undermined the sustainability of the EMU, as the Northern export-oriented model was based on a subordinate integration of Eastern countries in global value chains and increased indebtedness in the South followed by Capital flows that increased the financial fragility of Southern models. Nevertheless, the three growth models within the EMU and the unequal and ultimately unsustainable economic relations between these three growth models were retained because they reflected the newly established dominance of European Capital over labour in the context of the Financialisation of the region.

Financialisation in Developing economies and Financial Fragility

The process of financialisation led to the emergence of new and ultimately unsustainable growth models not only in developed economies in the North but also in developing economies in the South. The subordinate position of developing economies in the international hierarchy of currencies and their unequal position towards mature capitalist economies in the North meant that these states were forced to abandon their industrialisation efforts. Instead, developing economies were encouraged by international organisations such as the IMF and the World Bank to adopt financial liberalisation policies, hoping to attract capital flows and especially Foreign Direct investment. The liberalisation of financial accounts and trade in

developing countries provided the necessary conditions for the financialisation of developing economies and peripheral countries (Correa, Vidal, & Marshall, 2012).

The IMF and the World Bank later formalised these policy recommendations as the Washington Consensus policies based on the ‘financial repression’ hypothesis. This hypothesis claimed that developing economies were limited in their ability to foster investment and growth due to decades of economic nationalism and state controls over interest rates. According to this hypothesis, the Import Substitution Industrialisation strategies should be abandoned in favour of a deregulation initiative that would see financial markets liberated. The higher interest rates that would ensue would encourage saving and investment (Loizos, 2018). Developing countries were also incentivised to adopt a policy of higher interest rates to attract foreign capital flows (Salama, 2006) and policies of overvalued exchange rates (Becker, 2014).

Financialisation was endorsed and supported by liberal international organisations such as the IMF and the World Bank that often advised or requested countries to pursue financial deregulation and integration policies (Karwowski, Shabani, & Stockhammer, 2020). Such deregulatory policies were often included as conditionalities for IMF credit and Stand-by agreements and thus effectively imposed on peripheral and Global South countries. The assumption was that these policies would bring about greater financial sector efficiency and economic productivity (Levine, 2005). These policies of financial deregulation shaped financial institutions, especially in developing countries. The liberalisation of foreign Capital flows in developing countries further incentivises the financialisation of these economies (Kaltenbrunner & Paineira, 2018), while the empirical evidence suggests that the volatility of Capital flows -typically experienced by developing economies- has an economically and statistically significant negative effect on new investment spending by private firms (Demir, 2009). A significant part of these Capital flows is motivated by short-term capital gains and not long term investing in developing economies, a tendency reflected in the increased trading in liquid international assets such as currencies. (Bortz & Kaltenbrunner, 2018)

The IMF and the World Bank acted as the principal enforcers of neoliberal economic policies through their credit and emergency assistance programs. The IMF, the World Bank, along with EMU and EU institutions, created a peculiar nexus of transnational organisations that endorsed financialisation and promoted neoliberal economic policies.

The more significant Capital flows that emerged as a result of these liberalisation initiatives caused emerging economies inflation in the prices of equity and residential properties (Arestis

& Glickman, 2002), thus increasing the financial fragility of these countries and, in some cases causing financial and currency crises (Karwowski, Shabani, & Stockhammer, 2020). Capital flows from developing economies toward developed economies or other developing countries increased with the advent of financialisation, although some of these capital flows can be partially attributed to capital flight toward tax havens (Bortz & Kaltenbrunner, 2018) Capital Inflows to emerging economies -even when denominated in domestic currency- remain very volatile and are increasingly affected by US monetary policy and global risk perception. Foreign flows are attracted to developing economies, at least partly, by expected capital and exchange rate gains. These flows are sensitive to changes in expected returns and risk premiums and thus can give rise to large swings in asset prices, which are often unrelated to domestic economic conditions (Bortz & Kaltenbrunner, 2018). This Capital Flow volatility is further aggravated due to the growing presence of foreign banks and foreign Non-banking investors in developing economies' financial markets that can act as a channel for the transmission of financial shocks from abroad to the domestic economy.

The Financialisation of developing economies is causally interconnected with the financialisation of mature capitalist economies. International capital flows are attracted to developing countries thanks to the higher real interests offered there as compared to low-risk markets, especially in the US or Western Europe (Lapavitsas, 2009). Similarly, banking institutions and financial investors are attracted by opportunities for short term profits in developing economies, promoting the further financialisation of these countries.

Firms from developed countries are turning away from investment in more secure destinations in the North and are turning instead towards opportunities for rapid capital accumulation and profits in emerging economies (Durand, 2017, p. 16). This turn of firms towards emerging economies can partly explain the meagre results in growth, employment, and wages observed in mature capitalist economies. In other words, subordinate financialisation in the South and wage suppression in the North are two phenomena that are causally connected. The low-interest rates in safe investment destinations and weak demand in developed economies function as further incentive for capital flows toward developing economies (Bortz & Kaltenbrunner, 2018).

NFCs based in developing economies have become increasingly financialised, and as a result, they adopt a similarly short-term investment approach. NFCs from developing economies have increased their international financial exposure, primarily through bonds issued by off-shore

affiliates and often denominated in foreign currency- especially US dollars (Bortz & Kaltenbrunner, 2018). A significant part of this borrowing is done with the purpose of engaging in financial speculation in domestic markets, such as derivatives (Bruno & Shin, 2015). As a result, NFCs based in developing economies have experienced an increase in their short-term cash and financial asset holdings, similar to NFCs in developed economies.

Increased global financial integration for developing economies combined with the liberalisation of capital movements and financial capital has, as a direct result, greater exchange rate volatility, forcing developing economies to amass foreign exchange reserves to mitigate the risks stemming from the increased and volatile capital flows, especially the risks of large upswings in the nominal exchange rate or major speculative attacks (Painceira, 2012). The foreign exchange reserves -that developing economies are forced to amass- reproduce the subordinate position of developing economies in the international economy and their unequal relations with mature capitalist economies in the North. Developing countries need to hold low-yielding government bonds or currencies, effectively subsidising or providing cheap credit to developed countries (Kaltenbrunner & Painceira, 2018).

Similarly to developed economies, developing countries have experienced a rise in household indebtedness due to the greater integration of the Global South into the international financial markets. The entrance of foreign banks into developing countries has also strengthened this tendency for rising private indebtedness. The process of “financial inclusion” has extended so far as to include some of the poorest households in the world and some of the most marginalised territories through microfinance and microcredit projects; these projects that have functioned as alternatives to redistribution policies have allowed financial capital to extract profit from economically vulnerable individuals in the Global South (Mader, 2013). However, these increased levels of household debt do not contribute to the expansion of the productive capacity of these developing economies since households are not in a position to use the borrowed funds to improve their ability to generate cash flows (Karwowski & Stockhammer, 2017). As a result, a decline in wages and income or collateral values can result in household bankruptcies. In other words, rising household debt has become another source of risk and financial fragility in developing economies (Karaçimen, 2014).

Foreign trade imbalances and subordinate financialisation

Apart from the deregulation of the financial sector, developing economies implemented policies of commercial liberalisation throughout the 1970s, 1980s and 1990s, while trade

liberalisation policies were included in World Bank and IMF policy recommendations. This commercial liberalisation caused a sustained process of deindustrialisation in developing economies that had followed developmentalist policies in the post-war period, such as Argentina (Cibils & Allami, 2018). Developing economies suffering a decline in their industrial exports as a result of policies of commercial liberalisation relied increasingly on the capital account to alleviate the foreign exchange constraint, through capital inflows but also through debt. As a result of this deindustrialisation and increased government debt levels, developing economies became increasingly exposed to the risks of sovereign debt crises. Financialised developing economies have thus increased credit needs to balance their external sector. This is clearly reflected in the case of Argentina's public debt to GDP ratio, which remained at low and sustainable levels during the pre-financialisation period when the country was pursuing policies of Import Substitution Industrialisation, a policy that Peronist economists had preferred. This era came to an end with the advent of the Civil-Military Dictatorship in 1976. The military regime introduced a series of neoliberal policies, including deregulatory reforms in the financial sector. A significant surge in public debt continued until the crisis of 2001 (Cibils & Allami, 2018), while the country continued implementing neoliberal policies. In other words, the financialisation of the Argentinean economy and the introduction of policies of financial and commercial deregulation saw a rise in the country's government debt. **Moreover,** this dependency on foreign credit means that creditors can acquire significant leverage over developing countries and are able, in many instances, to influence policymaking decisions (Hardie, 2011). Moreover, this dependency on foreign Capital inflows restricts the policy options available to developing countries, many of which are forced to adopt restrictive monetary policies, since monetary relaxation causes outflows of capital or a reduction in asset value, facilitating acquisitions of domestic assets by foreign capital (Bortz & Kaltenbrunner, 2018)

When foreign capital flows are reversed, developing economies would have to rely on their exports to balance their external sector; as a result, many developing countries follow policies of wage suppression in order to improve the competitiveness of their exporting sector (Levy-Orlik, 2013). Balancing the external sector under conditions of capital flight becomes particularly challenging for developing economies that rely increasingly upon commodity exports, such as Argentina. Nevertheless, the financialisation of commodity markets in the North has further destabilising effects on developing economies dependent on primary commodities exports, as commodity prices are closely linked with developments in financial

markets (Cibils & Allami, 2018, p. 126). The increased volatility in commodity prices resulting from the financialisation of the commodity markets adds to the risks and financial fragility of developing economies.

Scholars have used the term Subordinate financialisation to describe the form of financial integration of the Global South, precisely due to the fact that financialisation in developing countries has been accompanied by a significant loss of sovereignty in terms of monetary and fiscal policy. Governments in developing economies experience significant pressures to adopt policies of high-interest rates and policies of fiscal discipline in order to attract foreign capital flows. The subordinate financial integration of developing countries has been combined with a subordinate integration of the same countries in global value chains, the result of decades of trade liberalisation policies. In contrast, other developing economies have experienced deindustrialisation and a return to a dependency on primary commodities exports. These two processes have rendered Capital Flows particularly important for developing countries and their efforts to balance their external sector. What is more, the financialisation of households in the Global South has allowed Capital stemming from developed economies to engage in the financial expropriation of households in the Global South.

Synchronically, with the subordinate financial “inclusion” of households in the South, Firms based in developed economies acquired access to surplus labour in developing economies thanks to the policies of commercial deregulation that had become increasingly dominant as part of the Washington Consensus policies. The creation of global chains of production allowed employers in mature capitalist economies by the mid-1980s to mobilise global labour surpluses (Harvey, 2010), changing the labour market in mature capitalist economies and causing worker salaries to decline. The appearance of structural labour surpluses in mature capitalist economies undermined not simply the welfare state; the destabilisation of the post-war balance of power between employers and workers undermined the foundations of the welfare system built upon the higher levels of employment and social wages characteristic of Fordist models of the economy.

FDIs: The Pull and Push Debate

An element of this subordinate integration of developing economies in global value chains is - as we have seen- that increasingly, firms based in developed economies engage in investment in developing countries due to the opportunity for rapid capital accumulation and profits (Durand, 2017, p. 16). This change in firm behaviour, combined with the increased importance

of Capital flows for the balance of the external sector of developing economies, the issue of Foreign Direct Investment acquired significant importance.

As a result of the important role of foreign Capital flows for developing economies, FDI's have become a contentious issue in the public debate within developing countries. What is more, the attraction of FDI's has become a key policy objective for neoliberal economic policies. Within the context of the Washington Consensus policy mixture, significant hope was placed upon FDI's as a driver for growth in developing economies. Attracting FDI's is one of the main rationales behind international organisations such as the IMF and the World Bank recommending to developing countries that they adopt policies of financial and commercial liberalisation

As we shall see in the chapter on the Argentinean Debt crisis, attracting FDI's became the dominant growth strategy of successive Argentinean governments. Argentinean governments in the period between 1983 to 2001 cited FDI's and attracting foreign capital as the primary rationale for implementing deregulating reforms and restrictive fiscal policy. Moreover, both Buenos Aires and the International Monetary Fund hoped that FDI's would stimulate the Argentinean economy and thus counterbalance the recessionary effects of the IMF bailout agreements. Similarly, one of the Greek Stand-by program conditionalities goals was to render Greece more lucrative for FDI's.

With the augmentation of international financial flows and the creation of global chains of production, two phenomena that characterise the era of Financialisation, research on FDI's expanded significantly. The Pull and Push debate reflects these historical changes, as different empirical theories emerged that proposed to measure the defining causes that affect the amount of FDI's that a country receives. Neoclassical economists were inclined to over-emphasise domestic factors, such as the strictness of the business regulatory framework (red tape) and labour costs. This emphasis was in accordance with the preferred policy recommendations of neoliberal economists, namely for policies that focus on the supply side of the economy and suppress labour remuneration. Heterodox economists, on the contrary, would tend to emphasise external causes pertaining to the international economy as the determinant factor in shaping the inflow of foreign capital.

Calvo, Leiderman, and Reinhart's seminal study on foreign capital inflows in the Latin American region compared flows in different periods in the 1990s and 1980s (Calvo, Leiderman, & Reinhart, 2000). Their comparative analysis identified an interesting

phenomenon; while the amounts of Capital flowing into developing Latin American economies has increased across the region, the authors found that the implementation of neoliberal reforms had little causal effect on these flows. Their study instead demonstrated that these flows were causally influenced by four variables: the international reserves, the real exchange rate, the levels of inflation, and the growth rate of the US economy.

Contrary to the Calvo, Leiderman and Reinhart findings, IMF economist Roben Koepke's research puts more weight on domestic pull factors, especially country risk. Koepke's empirical work found that push factors, especially the Fed interest rate and the rates of mature economies, significantly affect non-FDI capital flows to the Latin American region (Koepke, 2018). Koepke's empirical research found that push factors tend to have a more significant influence on portfolio debt and equity flows, while banking flows are more sensitive to pull variables. Interest rates in mature economies also play an essential role in pushing portfolio capital to emerging economies “, especially into bond markets” (Koepke, 2018). According to Koepke's research on the pull factors, local asset returns have the most crucial role in attracting banking flows, with portfolio investments coming second in the hierarchy of importance.

Aidar and Braga emphasise, however, that the empirical factors commonly found to have a significant impact on Capital flows are those that are associated with the external accounts of each country, especially trade liberalisation, international reserves, exchange rate regime, institutional quality, per capita income, capital account opening and financial market development (Aidar & Braga, 2020). For Aidar and Braga, the predominance of factors associated with external accounts underlines emerging economies' vulnerable and subordinate position in the international economy. Moreover, Aidar and Braga present consistent evidence that country-risk is “primarily driven by external factors” -such as oil prices, the Volatility Index and the 5-year Treasury Note interest rate lending, lending further support the assumptions of the push literature.

The push literature has lent support to Medeiros' theory of subordinate economic cycles, according to which economic cycles in developing economies are subordinate to global financial cycles, thus imposing asymmetric constraints in the elaboration of domestic monetary policy (De Medeiros, 2008).

This subordination of developing economies to Global Financial is expressed in concrete terms in the field of interest rate policy, where emerging economies are obliged to retain an interest rate that cannot be lower than the international reference interest rate (Serrano & Summa,

2015). In historical terms, the 1990s, with the repeated sovereign debt crises in developing economies and the Latin American region, was a period when emerging economies and Latin American countries were obliged to retain very high levels of interest rates, thus often causing the sovereign debt of these countries to become unsustainable. On the contrary, the 2000s is considered a period of lower interest rates for emerging economies due to an expansionary cycle of global liquidity. Nevertheless, interest rates in developed economies and country-risk spreads continue to function as factors of external fragility for emerging economies.

More important is that the promise of growth via FDI to developing economies appears to have been a largely empty one. The policies of commercial and financial liberalisation that were introduced in order to attract more significant amounts of Capital inflows have not allowed developing economies to escape their subordinate position in global value chains and the international financial system. On the contrary, FDIs have appeared to reproduce this subordinate position of developing economies; empirical evidence suggests that the FDI income of developed economies -and more concretely for significant mature capitalist economies like France, Germany, Japan and the US- far exceeds the payments made by these economies (Durand, 2017, p. § 17). Part of this phenomenon is empirically shown to result in many cases of Capital flows from developing economies back to developed economies.

The Financialization of the Argentinean Economy

Although the particularities of the financialisation of the Argentinean economy in the dedicated Chapter in Argentina, I will mark some general characteristics of Argentinean financialisation in this section.

The Financialization of the Argentinean economy belongs in the wider phenomenon of “Subordinate Financialisation”. The term subordinate financialisation is used to describe the peculiarities of the process in emerging economies in the Global South. Subordinate financialisation is used to refer to the unequal position that these emerging economies have in the financialised global economy. Bonizzi, Kaltenbrunner and Powell identify three main ways emerging economies are put in a subordinate position in the global financialised economy (Bonizzi, Kaltenbrunner, & Powell, 2020). Firstly, their position in the global chains of production is subordinate because emerging economies usually specialise in commodities and raw materials and are the origin of cheap labour. Secondly, emerging economies occupy a subordinate relationship in global finance. Capital markets and trade is denominated in currencies emitted from advanced economies while currencies. This subordinate integration in

the financial markets leads to emerging economies receiving short term capital flows denominated in foreign currency -mostly from advanced economies. These flows shape the financial practices domestically, such as domestic banks expanding their offer of consumer credit and local NFCs holding financial assets.

The Argentinean accumulation model shaped the direction that Financialization took in the country. From the establishment of the Dictatorial Regime until the crisis of 2001, the Argentinean model of Capitalism was characterised by a primacy of financial profits, a discrepancy between returns of Capital compared to growth, the transfer of Capital abroad and the occurrence of frequent cyclical crises (Castellani & Schorr, 2004). In the context of this model, local and foreign Capital that were active in Argentina pushed for measures that furthered the financialisation of the Argentinean economy and the deregulation of its capital accounts (Schorr & Wainer, 2018, p. 168).

The Financialization of the Argentinean economy was incentivised by public policies that dominated the region in the 80s and 90s, namely the implementation of fiscal austerity, Central Bank autonomy policies, liberalisation of capital movement, credit agencies, international institutions such as the IMF and institutional investors having significant input into policymaking (Correa & Vidal, 2012).

The Financialization of the Argentinean economy has its origins in the authoritarian regime of the Civil-Military Dictatorship. When Argentina returned to democratic politics in 1983, the dictatorial regime left behind two legacies. The first was the 1977 financial reform that had led to significant deregulation of the financial and banking sector, leading to the entry into the Argentinean market. The second legacy was the rapid augmentation of the country's sovereign debt (Gaggero & Nemiña, 2013).

In Argentina, the process of financialisation of its economy is closely connected with the country's recurring Debt crises. When the country sought IMF help in order to finance its external debt, the Fund was demanded a series of monetary and fiscal policies that incentivised the further financialisation of the country. Throughout the 1980s and 1990s, the Fund pressured successive Argentinean governments to adopt currency-board arrangements; the Austral Plan and the Convertibility Regime that pegged the Austral and the Peso to the dollar were the results of this pressure (Massano, 2018; Damill, Simpson, & Salvatore, 2003). The Fund prioritised currency board arrangements to such a degree that it refused to extend further assistance to Argentina ahead of the 2001 crisis unless the country adopted policy dollarisation. These

currency board regimes were combined with a complete liberalisation of the capital account liberalisation, part of the IMF conditionalities (Freitas & Magalhães Prates, 2000). The complete liberalisation of the capital accounts meant that Argentinean governments were unable to sterilise inflows and outflows of Capital. Subsequent capital flights, sudden withdrawals of bank deposits by non-residents, and en masse sale of stock augmented the financial instability that Argentina experienced between 1983 and 2001. With the arrival of the Menem administration in 1989, Argentina intensified its deregulation of the capital accounts initiatives and established the Convertibility Plan. Apart from establishing a fixed conversion rate between the Peso and the US dollar, the Convertibility plan permitted the denomination of contracts in foreign currency (Argentinean Ministry of Justice, 1991).

Furthermore, the Menem administration advanced the deregulation of Capital markets the same year, allowing Banks and Companies to issue bonds in foreign currency, while the government eliminated the tax on stock-market operations. In 1992 the government passed a Fiscal amnesty law allowing the repatriation of Argentinean capital abroad, contributing to new rapid flows of Capital. Similarly to other financialised economies, Argentina reformed the country's Central Bank, the "Banco Central de la República Argentina" (from now on the BCRA), to limit the Bank's ability to finance the government, while the mandate of the BCRA was focused around controlling inflation (Cunha, Ferrari, & Filho, 2006), per the neoliberal view on the role of Central Banks.

The financialisation of Argentina is closely connected with the structure of its banking sector and, most specifically, with the presence of foreign banks in its domestic market. The entry of foreign banks into the Argentinean banking market began with the Dictatorial regime during the 1977 reform; the reform lifted all the restrictions on the entry and expansion of banking networks. After the return to democracy, Argentina continued to encourage the entry of foreign banks into the country or the acquisition of local banks by foreign institutions (Freitas & Magalhães Prates, 2000) in the hopes that this would increase the stability and health of the Argentinean banking system and it would also increase the availability of credit for companies and households (Marshall, 2008, p. 352).

Afterword

In this chapter, we have examined elements of the Financialisation literature; we have discussed how the financialisation of developed and developing economies has transformed class dynamics and politics and has given rise to new models of growth. We have discussed

how the creation of the EMU fostered the further financialisation of the European economy and created three divergent models of growth, the Southern, Northern and Eastern models. We have discussed how these three growth models are ultimately causally connected with the Eurozone Sovereign Debt Crisis of 2009. This discussion will be revisited in the chapter on the Greek crisis and discussed in more detail in the context of the Greek case study.

Moreover, we have discussed the phenomenon of subordinate financialisation; we have reviewed some critical issues around Capital Flows and FDI, and the subordinate integration of developing economies in global value chains. We also discussed the issue of the financialisation of households in developing economies and discussed how the financial inclusion of these households led to their increasing financial expropriation. We have also reviewed how developing economies have experienced deindustrialisation and a return to dependence on primary commodities exports in the context of their financialisation. This particular trajectory will be revisited in the chapter on the Argentinean crisis and discussed in more detail in the context of the series of Debt crises that the country experienced in the 1983-2005 period.

In the first section of this thesis -which is dedicated to exploring the critical theory literature on debt- we will demonstrate that there is a significant analytical benefit from adopting an interdisciplinary approach combining critical theory and financialisation literature approaches on debt. By the end of the second section, the financialisation literature will form part of the analytical framework with which we will attempt to analyse the Greek and Argentinean case studies.

Critical Theory of Debt: The Subjectivities of Neoliberalism Paradigm

LAZZARARATO: THE HISTORICAL CONTEXT OF AN INTERVENTION

Maurizio Lazzarato's approach to the study of Debt was one of the most influential and widely read responses to the 2007 financial crisis and the Eurozone Sovereign Debt crisis that ensued. Maurizio Lazzarato's intervention to the public debate first with his *Making of the Indebted Man* and later with his *Gouverner par la Dette* was timely. When the French edition of *Making of the Indebted Man* was published by editions Amsterdam in 2011, to be followed by the English translation published by semiotext(e) in 2012 the public debate was being dominated by largely neoliberal and conservative perspectives in the Eurozone crisis. The pamphlet-like publication design and size of the *Making of the Indebted Man* allowed the book to reach a broad audience and provide new terms to think and speak about the crisis. The publication of the *Gouverner Par la Dette* was also made in a critical juncture at a moment when anti-austerity movements were on the rise, and the parties of Syriza and Podemos appeared closer to winning elections than ever.

When the Eurozone entered the worst crisis of its history in 2008, it came to the centre of global media interest. As the Eurozone crisis gathered momentum, questions about the nature and the origins of the crisis emerged in the public sphere, media, and academia. At the first months and years, even of the crisis, the neoliberal/ordoliberal discourse captured media attention and became quasi-dominant in many dominant platforms (Kaitatzi-Whitlock, 2014, p. 32)¹. This discourse was largely negative towards the European periphery and more specifically towards the countries facing the danger of not serving their government debt or not being able to bail out their banking sector, namely Spain, Greece, Italy, Portugal and Ireland. This first phase of the media coverage of the crisis that both Kaitatzi-Whitlock and Bickes, Otten and Weymann (Bickes, Otten and Weymannm 2014a)² place approximately in the period between 2009-2012 was characterized by a tendency to place blame and responsibility on the indebted countries and more specifically on their citizens for the crisis, often using or alluding to cultural stereotypes³. In the political sphere, a neoliberal approach had been elected by European governments to form their basis of their management of the crisis. The consensus amongst

¹ Kaitatzi-Whitlock, S. (2014a). Greece, the Eurozone crisis and the media: The solution is the problem. *Javnost-The Public*, 21(4), 32

² Bickes, H., Otten, T., & Weymann, L. C. (2014a). The financial crisis in the German and English press: Metaphorical structures in the media coverage on Greece, Spain and Italy. *Discourse & Society*, 25(4), 424-445.

³ Kaitatzi-Whitlock, S. (2014a). Greece, the Eurozone crisis and the media: The solution is the problem. *Javnost-The Public*, 21(4), 36

European governments and EU (European Union) institutions was that the best approach to the Eurozone Sovereign crisis would be to implement policies of fiscal discipline, austerity policies and budget cuts. European governments and European institutions emphasized the need for contractionary fiscal policies, a combination of raising taxes and cutting government expenses, as a way of putting public finances in order and guaranteeing the serviceability of government debt. These policies were combined with measures that aimed at improving European *competitiveness* by reducing labour costs, and consequently wages, as well as, introducing labour law reforms that made the labour market more flexible further worsening the position of workers in relation to employers. Pension cuts were introduced, as well as cuts in essential public services.

These policies assumed that public spending on social welfare, high salaries, labour laws that are favourable to workers, were responsible for the crisis. The crisis was framed in terms of excessive public spending and low productivity. In other words the policy remedies to the Eurozone crisis appeared to culpabilise labour, instead of pointing to inherent problems within the function of European capital.

In this environment scholars belonging to various facets of the Left sought to form alternative narratives about the current crisis, that would allow movements and citizens to criticise capital for its role in creating and accentuating the crisis.

One of the most influential of these efforts was the “Making of the Indebted Man”. The book made a timely intervention in the public debate, as media coverage of the crisis was during the 2009-2012 phase with neoliberal narratives dominating media platforms and media outlets still widely demonstrating tendencies of culpabilisation of European citizens for the crisis. The book was to become a global success and was translated across the world. If the *Making of the Indebted Man* was the popular pamphlet that aimed at breaking the monopoly of the neoliberal discourse, the *Gouverner Par la Dette* was the in-depth philosophical discussion of the issue of Debt.

THE NIETZSCHEAN TRADITION: FROM NIETZSCHE'S GUILTY SUBJECT TO LAZZARATO'S INDEBTED MAN

The *Making of the Indebted Man* represents a departure from some of the bibliography that dominated his earlier work (Futuro Anteriore, 1999: 98) such as the works of Gabriel Tarde, Guy Debord⁴ (Toscano 2007, 73) Leibniz and Spinoza (Terranova 2013)⁵. The *Making of the Indebted Man* is a crucial moment for the development of Lazzarato's thought, where the emphasis is put on Debt and where the creditor/debtor relationship has now become the more generalised power relationship (Terranova 2013)⁶.

The themes of immaterial labour and cooperation are toned down and the philosophical analysis is structured around the works of Nietzsche, Marx., Foucault, Deleuze and Guattari. From this unsurprising eclectic mix of thinkers it is worth pausing to reflect on the role of the work of Nietzsche in Lazzarato's work. Nietzsche's writings on Debt/Guilt as an apparatus of power and his writings on the "Guilty Subject" act as the founding stone of Lazzarato's narrative. In what follows we will discuss in detail Nietzsche's historical account of how the institution of Debt emerged and the consequences it had upon culture. We will, then, proceed to examine how Lazzarato mobilises Nietzsche's philosophical perspective on debt in his writings on Debt.

Revisiting the Second Essay of the *Genealogy of Morals* composed in 1887, an essay that famously had served as the inspiration for Michel Foucault's 1975 *Discipline and Punish*. "The Making of the Indebted Man" breathes new life into Nietzsche's passages on Debt/Guilt, by expanding on its themes and using its analytical tools in order to think of the 2007 crisis.

Lazzarato reads Nietzsche from a Foucauldian perspective. Foucault finds in Nietzsche a sort of philosophical forebear, a philosopher who, like Foucault, believed that the process of Subjectivation is intertwined with relations of power. More importantly, Foucault discovered in Nietzsche a method about how to study these relations of power and their effects in the production of Subjectivity. This method was *Genealogy*. Foucault described Nietzsche as a

⁴ Toscano, A. (2007). Vital strategies: Maurizio Lazzarato and the metaphysics of contemporary capitalism. *Theory, Culture & Society*, 24(6), 84.

⁵ Terranova, T. (2013). *Debt and autonomy: Lazzarato and the constituent powers of the social*.

⁶ Terranova, T. (2013). *Debt and autonomy: Lazzarato and the constituent powers of the social*.

philosopher of power, someone who put the theme of power-relations in the centre of philosophical discourse, in the same way that Marx had brought to the forefront of philosophy the issue of the relations of production (Foucault, 1994. p. 753)⁷. Foucault even, later, commented that his first volume of the History of Sexuality, titled as the “Will to Knowledge”, was a homage to Nietzsche⁸. This commentary is characteristic of the Foucauldian interpretation of Nietzsche. Works such as the “Will to Knowledge” and “Discipline and Punish” that heavily rely on Nietzsche’s work are both books that discuss how various structures of power shaped different forms of Subjectivity. To read Nietzsche in this light would be fairly non-controversial today. According to Robert Pippin Nietzsche’s psychology is based upon the assumption that the human psyche is formed within cultural and social processes. According to Pippin’s reading for Nietzsche the human “soul”, this idea of an interiority inside every individual, was simply the name “for a collective historical achievement”. Humans form their “soul”, or in the Foucauldian vocabulary their subjectivity through collective, social processes, motivated or in the service of some ideal -for example the ideal of repaying one’s debts, or the idea of knowing one’s self. Foucault would call this kind of process “subjectivation”. Pippin emphasizes that for Nietzsche the creation of a Subject that has a soul was a process of work upon the self, namely requires self-subjectification.

The "soul" is merely the name for a collective historical achievement, a mode of self-understanding, of one sort or another, what we have made ourselves into at one point or other in the service of some ideal or other⁹.

Lazzarato follows this Foucauldian tradition and offers us a brief genealogy about how contemporary capitalism has given rise to a new form of Subjectivity, “the Indebted Man”. The history of the Indebted Man is based upon Nietzsche’s own genealogy about the emergence of what we will describe as the “guilty Subject”. In what follows we will closely follow Nietzsche’s genealogical account of the emergence of the guilty Subject and we will examine how the Nietzschean method is used by Lazzarato.

To offer a new reading of Nietzsche’s Second Essay of the Genealogy of Morals is no easy task. Foucault had already built on the same Essay and especially on the passages on

⁷ Foucault, M. (1994). *Foucault, Michel. Dits et écrits, 1954-1988, Tome II 1970-1975*. Gallimard, 1994. p. 753

⁸ Foucault, M. (1994). *Foucault, Michel. Dits et écrits, 1954-1988, Tome IV 1980-1988*. Gallimard, 1994. p. 444

⁹ Pippin, R. B. (2011). *Nietzsche, psychology, and first philosophy*. University of Chicago Press. p. 3

punishment in order to construct his own genealogy of penal institutions. By expanding and delving deeper on some of the themes that Nietzsche had already discussed in the Second Essay of the Genealogy of Morals Foucault was able to present us with an extensive body of research on the history of penal institutions and their role in the formation of Subjects in Modern European societies. This research would eventually be published as a book, with the title “Discipline and Punish”.

Foucault, like Nietzsche, is interested in the ‘humanisation’ of punishment and the limitation of direct violence within penal institutions. Foucault would argue that modern institutions of punishment and their detailed, bureaucratic management of bodies allows us insights on both how subjectivation as a process operates in modern society as well as, how these subjects and their bodies are governed in modern capitalist societies. A close comparison of the two works reveals that Foucault agreed with and expanded upon with many of the ideas that Nietzsche had proposed back in 1887. The two books offer us an account of social forms of punishment becoming less focused on violence and corporeal pain and a turn towards inflicting shame, guilt, psychological suffering. Punishment becomes hidden and discreet, almost something that the penal institution is embarrassed of engaging in. Both consider this change of paradigm in forms punishment to be not isolated incidents but rather expressions of larger transformations in the dominant form of Subjectivity.

The genealogy of memory

Where the two narratives differ, however, is in Nietzsche’s interest in the social phenomenon and institution of debt and usury. The social institution of Debt is according to Nietzsche’s argument an essential part of the process of Subjectivation and in order to demonstrate this he begins by asking how humans’, which Nietzsche considers ‘forgetful animals,’ came to acquire a ‘memory’.

The emergence of memory in civilisation, according to Nietzsche, was anything but a “natural” process; in fact, he comments, it was such a demanding ‘task’ to give a memory to this *forgetful animal* that a network of social institutions and psychological mechanisms had to be put in place in order for memory to emerge and be effectively sustained. This effort, which Nietzsche describes as collective ‘labour’¹⁰ (Nietzsche, *GM*, II §2) on the individual and the individual’s

¹⁰ Nietzsche, Nietzsche, F. (1994). *Nietzsche: On the Genealogy of Morality And Other Writings*. Cambridge University Press., II §2

labour on herself that was required for a memory to be constructed was so demanding that humanity would not have pursued it so persistently unless what was gained in exchange was of some benefit. According to Nietzsche the ability to remember was crucial if members of society were to be able to make promises to each other and trust each other, that these promises would be fulfilled, especially promises of repayment.

In Nietzsche's understanding of the genealogy of human societies, civilisation emerges in an environment of instability and turbulence. Societies and cultures function because and in order to provide some direction to their members¹¹, a certain order of things, to install a certain hierarchy of values in an otherwise chaotic world. In other words civilization is constructed in order for humans to make themselves at 'home' with the world. For this "homeliness" to be achieved civilisation needs to transform a meaningless, incomprehensible and chaotic world¹² into a world that is meaningful, a world that humans -which in Nietzsche's perspective are value creating beings- can relate to.

An apparatus of suppression

Nietzsche wants to de-naturalize the institutions of memory and debt. He wants to underline how strange they are as institutions. He asks us to think how much effort they must have required to be established as social functions. It's to emphasize this artificiality, that Nietzsche seeks to establish the claim that in fact if anything humans are essentially forgetful, they are 'forgetful animals' as he puts it. So what is this will to forget that Nietzsche presents us with? Is it perhaps an essential characteristic of human nature? Are we offered an essentialist theory about the unchanging nature of humanity? Nietzsche takes time to differentiate his position from any kind of reductionist or biological interpretations of this idea of humans as 'forgetful animals'.

Forgetfulness is not just a *vis inertiae*, as superficial people believe, but is rather an active ability to suppress, positive in the strongest sense of the word, to which we owe the fact that what we simply live through, experience, take in, no more enters our consciousness¹³.

¹¹ 'Whither is it moving now? Whither are we moving? Away from all suns? Are we not plunging continually? Backward, sideward, forward, in all directions?' Nietzsche, *Gay Science*, §125

¹² Is there still any up or down? Are we not straying, as through an infinite nothing? Do we not feel the breath of empty space? Has it not become colder? Is not night continually closing in on us?, Nietzsche, *Gay Science*, op.cit

¹³ Nietzsche, (*GM*, II §1)

Forgetting, in Nietzsche's view, is an essential repressive mechanism that allows 'us to live through experience' (*GM*, II, §1) and therefore secures psychological stability; it allows humans to shape their world, to make it more homely, by suppressing some of its elements while retaining others, it allows them to erase certain events, fears and memories from their minds. In Nietzsche's account humans need to employ this mechanism in order to remain sane, not unlike how the Freudian Unconscious is formed by early material that is simply too overwhelming for the person and thus it is suppressed in the sphere of the Unconscious. This suppressive mechanism of forgetting is therefore not a '*vis inertiae*', he underlines, not a mechanical force or drive as the naturalists would have it, but rather an active will to forget, an active will to employ forgetting as a 'repressive mechanism' for our psychological benefit. There are many ways in which one can interpret this Nietzschean theory of forgetting. One would be to see this mechanism of forgetting as part of a psychological structure, similar to the theory of the Structure of the Psyche presented by Freud in *Inhibitions, Symptoms, and Anxiety*. In what became to be known as Freud's topological model, the suppressed, unconscious material that resides in the sphere of the Id, is part of the psychological structure of the person, in other words the suppression of these infantile drives, emotions and material to the sphere of the unconscious is the necessary precondition for the development of a person (Freud, 1961)¹⁴. The suppression of infantile fears, emotions and memories is what allows the development of the structure of the personality, according to Freud's Ego-Psychology. And indeed Nietzsche's description of this mechanism of forgetting does have resonances with Freud's idea of memories, drives and emotions that are suppressed and form the system of the Unconscious.

Another way of interpreting is along Weberian lines and the perspective of decisionism. Weberian sociology was based on Nietzsche's philosophy to propose a view of society under which human beings as members of a given culture or a social group, are constantly assigning value to their world around them, hierarchizing elements of their environment, attributing importance to certain elements and erasing or ignoring others. For Max Weber "culture is a finite segment of the meaningless infinity of the world process, a segment on which human beings confer meaning and significance¹⁵". This Weberian view on Culture has been described

¹⁴ Freud, S. (1961). The ego and the id. In *The Standard Edition of the Complete Psychological Works of Sigmund Freud, Volume XIX (1923-1925): The Ego and the Id and Other Works* (pp. 1-66).

¹⁵ Max Weber, "Objectivity in Social Science", in May Brodbeck (ed), *Readings in the philosophy of Social Science*, (New York: Macmillan, 1968) , p.91

as “decisionist” from the German and Latin roots of the words *Decisio* and *Entscheidung* that imply “cutting off” a part of reality and investing it with meaning¹⁶. The links between Weber’s sociological thought and Nietzschean philosophy is a topic that has been widely discussed in secondary literature, but remains beyond the scope of my work here. Whether this Weberian perspective on culture is inspired by Nietzsche’s theory of value and his anthropology of humans as value creating beings or not, we can still use Weber to re-interpret Nietzsche’s theory of memory and forgetting. Forgetting in this sense would be part of the acculturation process, where due a process of selective remembering and selective erasing or forgetting society can create certain common values and perceptions among its members.

We can use Jacques Rancière’s theory of the aesthetic regimes to think this kind of erasing or forgetting that Nietzsche describes; the theory of aesthetic regimes emphasises that all periods in the history of art, or literature or even thinking are premised on an aesthetic regime, namely the regime that decides what topics can art proper examine. Aesthetic regimes tackle the question what should art occupy itself with? What is an appropriate subject matter for artists? For Rancière these aesthetic preoccupations are premised upon a certain social hierarchy. In any given aesthetic regime some social groups, some individuals are excluded, rendered invisible, their viewpoint, their experiences are invisible and never feature in the dominant art of a certain regime, while other groups remain privileged, their experiences, their viewpoint is dominant, dominates all others.

‘I call the distribution of the sensible the system of self-evident facts of sense perception that simultaneously discloses the existence of something in common and the delimitations that define the respects parts and positions within it. A distribution of the sensible therefore establishes at one and the same time something common that is shared and exclusive parts.’¹⁷

Rancière’s theory of the Aesthetic regimes presents us with a theory of culture according to which any culture epoch is characterised by what and whom it excludes as much as to what and whom it gives visibility to. Nietzsche’s theory about forgetting and memory can be read in similar lines. Forgetting functions in Nietzsche’s understanding in order to exclude and

¹⁶ Kondylēs, P. (1984). *Macht und Entscheidung: die Herausbildung der Weltbilder und die Wertfrage*. Klett-Cotta.

¹⁷ Jacques Rancière, *Aesthetics and Politics, the Distribution of the sensible*, p. 12

suppress memories, past events but also other viewpoints, other perspectives. Forgetting is a way in which dominant perspectives exclude and suppress other perspectives.

While on the one hand Nietzsche emphasises the violence endemic in forgetting, on the other hand, he is, also, keen to underline that forgetting allows humans a certain kind of freedom. The process of erasing memories is violent at the same time Nietzsche believes that it allowed humans to isolate themselves from everyday experience, ‘to shut the doors and windows of consciousness for a while¹⁸’ (GM, II, §1) and dedicate time in other activities, such as culture, thinking, the creation of value. Aesthetics, Art, Civilisation are only possible through the mechanism of forgetting and the same applies, Nietzsche states, for ‘happiness and cheerfulness, *immediacy*’. In his perception of culture, forgetting is ‘affirmation’, forgetting is ‘health’, even though it is based on the exclusion of another, on the silencing of another. Human civilisation in fact, according to Nietzsche, benefits and embraces this exclusionary mechanism. In Nietzsche’s narrative, forgetting is no sense a static concept; it is at once a yes-saying and a negation, oppression and emancipation. In a twist that is typical of Nietzsche’s method of doing intellectual history, the genealogy of memory and debt trace back to exactly this will to forget. Forgetting Nietzsche informs us gives rise to three ‘noble functions’ *ruling, predicting, predetermining*¹⁹. Although these “noble functions” are not defined in the clearest of ways, it appears that according to Nietzsche they are ways of thinking that appeared at some, unidentified, point in history, and which allowed us to change the way we relate with time. For Nietzsche, negating instability and the unpredictability of the future is a crucial characteristic of European nihilism and *bad conscience*.

In Robert Pippin’s interpretation Platonism according to Nietzsche is based upon a repudiation of the transitoriness of time. According to Pippin’s reading Nietzsche claims that this desire to put an end to instability, the “revenge against time” is the very foundational motive of Platonism. Platonism and the later European thinking it inspired (Christianity, Kant) -both instances of bad conscience according to Nietzsche - are founded upon this desire to do away with the inherent instability of the future, a desire to control and limit the future.

¹⁸ Nietzsche, F. (1994). *ibid*, II §1

¹⁹ Nietzsche, *GM*, §1

“The Platonic account, would be similarly read in such an account as a hope for and so a projection of the end of instability and unavoidable transitoriness of human desire; in the famous phrase of Nietzsche's, as "revenge against time²⁰” (Pippin, 2011, p.29)

Debt in Nietzsche's perspective is precisely the product of the European *nihilism* of which Platonism is one of the most famous instances. Platonism and Debt as products of this European nihilism are both aiming at controlling and over-determining the future, a theme that as we shall see is of particular importance for Lazzarato.

‘Predicting’ the one of the ‘noble’ activities Nietzsche links with forgetting, opens up for the first time the possibility to conceive the future as controllable. Predicting is based on the belief that one can foresee the future, one can see the outcome of events by judging their current state. One should believe that his or her past experience or even abstract reasoning is enough to put cause and effect together. In any case a forgetting of the chance involved in events must take place, in a sense that all the particular details are forgotten, that a certain pattern is seen to have taken place. Forgetting of the return of chance and contingencies, of the return of the inability to control. Everything must appear in control of the subject -the return of chance must be erased and forgotten- only a pure originality of the Subject's presence and its control upon its presence.

The idea of predictability allows for a certain fantasy of control over the future to emerge, what Nietzsche calls as the second ‘noble’ function, *Predetermining*. At this point forgetfulness leads to the emergence evolving into something more forceful, darker; of demands on the future. Since the future has been rendered predictable, has become known, has been tamed, the Subject will inevitably consider it possible to use this new knowledge of the future, in order to control it. The implication is that the future can be predetermined and when the Subject fails to do so, it is his fault and only. The idea of predetermining can only be born in a forgetful civilisation; the idea can be sustained only if we forget the numerous times that efforts to control the future have failed.. Predetermining can, therefore, keep posing new demands on the Subject to control his future no matter how many times his or others experience might indicate

²⁰ Pippin, R. B. (2011). *Nietzsche, psychology, and first philosophy*. University of Chicago Press. 29

that such a control might be impossible. Forgetting provides here the naivety that is need for this fantasy of control to be sustained ²¹.

This ability to fantasise the future being under the control of the Subject plays a crucial role in the function of memory within society, as we shall see. The possibility to control the future is the one legacy of forgetting that leads to the emergence of memory. The other is the creative possibilities that forgetting as a simplification of the past allows: forgetting erases a great amount of past events and different number of memories, simplifies the past into one memory and few events, allowing thus for memory to be fixated on those events rather than be overwhelmed by the chaotic nature of the past. Moreover, forgetting allows for a wide variety of perspectives and interpretations of the past to be erased, to be forgotten, therefore allowing for the emergence of one interpretation of passed events, for rigid, concrete memories to emerge.

Nietzsche's genealogy thus provides a very liberal explanation of how human societies moved towards the development of a memory. Nietzsche's discussion of how human subjectivity is changed and transformed is fairly abstracted and no historical facts are mentioned. Nietzsche does not make any references to a concrete timing or specific historical context in which these changes took place.

An animal with the ability to remember: a will to memory

Nietzsche makes it clear that the emergence of the social institution of remembering and memory came at a certain cost. According to his narrative, only forgetting is 'health', only forgetting is 'strength' and an *outward* expression of our *will to power*, through forgetting humans become 'artists', creators of their own past, their own world, in other words: forgetting is life²². Memory is an unnatural state, in the sense that it is painful. It burdens living, makes it heavier, ties it down. If forgetting is 'health', memory can only be a sort of pathology. If

²¹ [...] the narrowing of our perspective, and thus in a certain sense stupidity, as a condition of life and growth [BGE, 188]

²² "from the beginning we have contrived to retain our ignorance in order to enjoy an almost inconceivable freedom, lack of scruple and caution, heartiness and gaiety in life- in order to enjoy life- in order to enjoy life! And only on this solid, granite foundation of ignorance could knowledge rise so far- the will to knowledge on the foundation of a far more powerful will: the will to ignorance, to the uncertain, to the untrue! Not as its opposite, but –as its refinement“ BGE, 24

memory is a mechanism aimed at opposing forgetting, limiting forgetting so that certain events, promises, actions remain inscribed, then memory is opposing, the affirmation and the creative joy that forgetting allows. It is only normal that memory appears to be ‘as life against life’, namely a twisted mechanism that turns against the very subject that employs it.

For Nietzsche, memory, like forgetting is not a passive state, or an individual experience, something that simply happens to a person. Memory is an activity, an active will and it is created within and by civilization, it is a social construct. For Nietzsche memory is not simply a recollection of an intense impression, an image of which the subject is unable to free herself. It is on the contrary emphasized in the *Genealogy* repeatedly that memory is a state of activity, an active desire to hold on to or to impose a certain narrative of the past. Memory is not a passive inability to forget an event but an active choice to cling on a certain narrative about the past and is -as far Nietzsche is concerned- an expression of the will to power, a different sort of will to power as we shall see, more complex less direct expression of the will to power. Why would the “sickly” and “weak sheep” - in which Nietzsche is so interested throughout his oeuvre²³ - seek to remember their weakness, their suffering?

In Nietzsche’s narratives humans undertake this project of giving themselves a memory, in order to appear trustworthy, humans have to appear in control of their future before they can hope to be able to make up promises or take up on debt. To use one of Nietzsche’s examples from *On Truth and Lies in a Nonmoral Sense* one needs to be able to trust that a coin will retain its value and use as a means of exchange²⁴.

Memory emerges in order to satisfy a need of society, a need to control, predict and ‘tame’ the future. As a result, memory, although essentially consisting of a fixation of past events, is in reality addressing the future; memory is experienced mainly as a demand for control over the future. The future does not exist yet, but it is already indebted to the past. In fact it exists only as a promise as a debt and as a responsibility. Memory appears in the *Genealogy of Morality* to be a sort of collective negation of chance and unpredictability. According to Nietzsche’s narrative when citizens take up on debt or make a promise for a future payment, they pretend that they are able to guarantee the fulfilment of that promise. Debt lies upon this assumption of

²³ TSZ, p. 204, cf. GM§ 15 to refer only to two complex reflections of Nietzsche on slave morality.

²⁴ [...] ‘coins which have lost their pictures and now matter only as metal, no longer as coins’. *The Portable Nietzsche*, Walter Kaufman (ed.), 47

a fairly predictable future, despite that many eventualities could come about that would make the repayment of debt completely impossible.

This theme of negation of unpredictability ties in with a variety of other themes within Nietzsche's work including that of nihilism and dogmatism. . If a certain memory is seen as just one interpretation amongst many possibilities, then it does not allow for the mechanism of promise to function properly; if memory is understood as some kind of narrative, a fictional construct then the power it can exercise over the future is limited; the demands it makes on subjects are not pressing, future actions do not have to conform to its standards. In order to function as a power mechanism, memory has to hide its interpretative side. The necessary condition for the power of memory over the future is dogmatism. Dogmatism, as Nietzsche treats it in the *Genealogy of Morals* in the cases of the slave morality and asceticism²⁵, consists essentially of denying that alternative interpretations are just other to one's perspective but rather that they are evil, morally condemnable, false perspectives that ought to be denied a priori on the basis of their falseness. Memory works in similar ways in the sense that it has to claim a monopoly on the past, to erase all other versions and interpretations of the past. A debt cannot be effectively recollected if the conditions of its issuing and the original agreement are debatable.

Nietzsche underlines the absurdity of this construct of memory, and it is impossible demand upon humans to control their future. The future, being unknown and uncontrollable, poses a formidable obstacle to any effort of manipulation²⁶. This dimension of the Nietzschean

²⁵ 'How much respect a noble man has for his enemies! – and a respect of that sort is a bridge to love . . . For he insists on having his enemy to himself, as a mark of distinction, indeed he will tolerate as enemies none other than such as have nothing to be despised and a great deal to be honoured! Against this, imagine 'the enemy' as conceived of by the man of resentment – and here we have his deed, his creation: he has conceived of the 'evil enemy', 'the evil one' as a basic idea to which he now thinks up a copy and counterpart, the 'good one' – himself!', Nietzsche, *GM*, I, §10 cf. 'Allow me to present the real state of affairs in contrast to this: the ascetic ideal springs from the protective and healing instincts of a degenerating life, which uses every means to maintain itself and struggles for its existence', Nietzsche, *GM*, III, §13

²⁶ 'so that a world of strange new things, circumstances and even acts of will may be placed quite safely in between the original 'I will', 'I shall do' and the actual discharge of the will, its act, without breaking this long chain of the will. But what a lot of preconditions there are for this!'

narrative is highly reminiscent the function of Freudian Super-Ego demands²⁷. It is not accidental that this parallel between Debt and Super-Ego demands as they are presented in Freud's oeuvre is a theme that was picked up by Slavoj Žižek²⁸. who in one example draw a parallel between superego demands and the EU demands on Greece regarding debt, driving the point that the creditors imposed impossible demands on Athens, not because due to ignorance or miscalculation but exactly because a failure of the Greek government to achieve these goals would leave them further indebted, politically and economically weaker.

Nietzsche and psychoanalysis appear to come close to this point of impossible demands being an essential part of the institution of debt. For him there is a further obscenity in promising what willing and desire are concerned; one desires to borrow money today and s/he promises that in the future s/he will desire the repayment of the debt. According to Nietzsche's analysis for the repayment to be secured, desire has to be fixed, memory has to obsess us with the desire of one thing -p.e. the repayment of the debt- and exclude all other desires. In one sense the will memory is a will against willing, against willing or desiring whatever one might do. Willing, in accordance with memory, has to be fixated, so much so that it appears barely a willing anymore. As with a Freudian Super-Ego mechanism, the demand that memory imposes on humans, to control the future and fix one's desire are purposefully impossible to satisfy: the impossibility of the demand on a person to control his future increases the control exercised over his present by society²⁹. As with the super-ego mechanism so with memory's demand to control the future the Subject's 'staged' failure makes the subject responsible, reduces him or her to a bad creditor³⁰; having failed to fulfil the obligations of memory the subject is constantly

²⁷ 'Their Super-ego still confronts their ego as a strict father confronts a child; and their morality operates in a primitive fashion in that the ego gets itself punished by the Super-ego [...] the 'unconscious sense of guilt' represents the super ego's resistance. S. Freud, 'The question of lay-analysis' in *The Essentials of Psychoanalysis*, (London: Vintage, 2005), p. 42

²⁸ HORVAT, S., & Žižek, S. (2014a). Ce vrea Europa. *Uniunea si necazurile cu ea*, Editura Idea Design & Print, Cluj.

²⁹ "There is a prevailing conviction that the tribe exists only because of the sacrifices and deeds of the forefathers, – and that these have to be paid back with sacrifices and deeds: people recognize an indebtedness [Schuld], which continually increases because these ancestors continue to exist as mighty spirits, giving the tribe new advantages and lending it some of their power.", *GM* § 19

³⁰ 'man's will to find himself guilty and condemned without hope of reprieve, his will to think of himself as punished, without the punishment ever being equivalent to the level of guilt'' Nietzsche, *GM*, §22

indebted, the more he fails to fulfil the impossible promises of the past, the more his present and future seem to unfold at the expense of his unfulfilled obligation, rendering him ever-guilty, ever-indebted. The failure is attributed to the shortcomings of the Subject, some sort of lack that he exhibits. The result is that since the promise is forever broken, that the future remains forever indebted. The debtor is then seen as responsible for failing to satisfy the demand in the future.

The technique of mnemonics- Pain is the most powerful aid to memory

Nietzsche's genealogy of Debt and Memory even briefly ponders on what society looked like before the institution of memory and debt. According to Nietzsche's historical speculation during the early history of debt when members of society had to give additional re-assurances usually of bodily or corporeal nature; upon the failure to keep a promise the creditor would have at least the pleasure to inflict pain on the body of the debtor³¹. A certain virtue is thus required in order to become a reliable debtor; the debtor has to expose his or her body, his or her possessions into danger³² and therefore he has to be confident in his or her ability to control her future. Only few were believed to be strong enough in order to be able to control their future or in order to pay the penalties that the mechanism of promise prescribed if they failed to deliver what they promised; a certain aristocracy of promise and memory develops.

In order to gain this privilege of being considered credible debtors, humans had to work on themselves, had to render themselves predictable enough, "tame" as Nietzsche puts it, in order to be trusted and strong enough in order to be in control of their future before they were allowed

³¹ 'The debtor, in order to inspire confidence that the promise of repayment will be honoured, in order to give a guarantee of the solemnity and sanctity of his promise, and in order to etch the duty and obligation of repayment into his conscience, pawns something to the creditor by means of the contract in case he does not pay, something that he still 'possesses' and controls, for example, his body, or his wife, or his freedom, or his life' GM, II §5

³² 'In a certain sense, the whole of asceticism belongs here: a few ideas had to be made ineradicable, ubiquitous, unforgettable, 'fixed', in order to hypnotize the whole nervous and intellectual system through these 'fixed ideas' – and ascetic procedures and lifestyles are a method of freeing those ideas from competition with all other ideas, of making them 'unforgettable'. The worse man's memory has been, the more dreadful his customs have appeared; in particular, the harshness of the penal law gives a measure of how much trouble it had in conquering forgetfulness, and preserving a few primitive requirements of social life in the minds of these slaves of the mood and desire of the moment.' GM, II §3

to make promises³³. The birth of memory in civilisation takes place in conditions of violence done to the body.

Nietzsche's narrative here is highly reminiscent of Shakespeare's play *The Merchant of Venice*. The play although never explicitly mentioned displays strong affinities with Nietzsche's narrative here; in this still early phase of the emergence of memory, during which pain is of crucial importance as means of coercion and persuasion, as 'the most powerful aid to mnemonics³⁴' (*GM*, II §3). In this original stage pain and violence played an important function in the mechanism of memory, as mementos, forceful reminders of the promise that one's mind should be fixed on, a way of getting rid of the 'competition³⁵' of all other desires, perspectives that might challenge the memory of the promise.

"With the aid of such images and procedures, man was eventually able to retain five or six 'I-don't-want-to's' in his memory, in connection with which a promise had been given, in order to enjoy the advantages of society³⁶"

Violence on the body and punishment were an essential part of the early forms of subjectivation according to Nietzsche and an integral part of the birth of memory and the institution of Debt. Nietzsche discusses this early violent, more corporeal phase of punishment for debts unpaid, to give an account of how societies transitioned from physical punishment to a more sinister form of pain; guilt. The creation of a guilty subject that complies to expectations and fulfils her debts not under the threat of physical violence but under a psychological mechanism, which

³³The 'free' man, the possessor of an enduring, unbreakable will, thus has his own *standard of value*: in the possession of such a will: viewing others from his own standpoint, he respects or despises; and just as he will necessarily respect his peers, the strong and the reliable (those with the prerogative to promise), – that is everyone who promises like a sovereign, ponderously, seldom, slowly, and is sparing with his trust, who *confers an honour* when he places his trust, who gives his word as something that can be relied on, because he is strong enough to remain upright in the face of mishap or even 'in the face of fate' –: so he will necessarily be ready to kick the febrile whippets who promise without that prerogative, and will save the rod for the liar who breaks his word in the very moment it passes his lips.' *GM*, §2

³⁴ *GM*, II §3

³⁵ 'The worse man's memory has been, the more dreadful his customs have appeared; in particular, the harshness of the penal law gives a measure of how much trouble it had in conquering forgetfulness, and *preserving* a few primitive requirements of social life in the minds of these slaves of the mood and desire of the moment.', Nietzsche, *GM*, §3

³⁶ *GM*, §3

Nietzsche describes as the psychology of Debt/Guilt (Schuld). The genealogy of punishment that he offers within the *Genealogy of Morality* served as the inspiration for Foucault's own genealogy of prisons and penal systems. Similarly to Nietzsche Foucault considered the psychological mechanism of guilt as one of the essential pillars of how modern and contemporary societies formed and shaped the subjectivity of their members.

The relation to the self

Foucault's 1975 work *Discipline and Punish* opens with two famous documents retrieved from the historical archives. Famously, the book opens with a detailed discussion of archival accounts of the brutal corporeal and capital punishment of an aspiring regicide Damians³⁷ (Foucault, 1977, pp. 2-5) in 1757 -who in fact caused a relatively minor injury to the French king's hand- and on the other we read the regulations and daily schedule of a juvenile hall³⁸ (Foucault, 1977, pp. 6-7) just eight decades after Damians' execution, aiming at controlling and containing every aspect of the inmates daily activity through a ritual daily routine which however lacked any direct violence at the body. Foucault takes this regulations to be symptomatic of a new way for the penal institutions to function, focusing on a routine of daily ascetics that aim to control the bodies of the prisoners: unlike christian ascetics, modern ascetics aim to render the body not less 'earthy', less desiring, less dependent, but more dependent, more docile, more predictable. On the one hand prisoners undergo a certain training in order to become more predictable³⁹ (Foucault, 1977, 136), in order for the prisoners to be trusted by society anew, in order for them to be reintroduced into the social sphere. On the other hand this process imposes on the prisoners a shift of their subjectivity, they become deeper, more 'internalised'; contemporary penal systems assume prisoners to have souls which should be reformed⁴⁰ (Foucault., 1977, 16-19). And upon this assumption a whole series of new routines, techniques of control and measures of discipline are developed. The soul is only an institutional assumption, a mythology, but becomes tangible, an important aspect of the institution's daily life. In Foucault's genealogy of punishment the invention of the soul allows for a new series of disciplinary action which is much more psychological, inward looking,

³⁷ Foucault, 1977, pp. 2-5

³⁸ Foucault, 1977, pp. 6-7

³⁹ Foucault, 1977, 136

⁴⁰ Foucault., 1977, 16-19

which aims at promoting self-discipline rather than brutal coercion. The whole purpose of the internalized punishment becomes a retraining of the prisoner, during which -as Foucault points out- punishment is only a necessary evil, an act for which the penal system is almost ashamed of and which it carries out in the least public way possible⁴¹ (Foucault, 1977, 9). As such there is no more space for the outward expression of anger and enmity that according to Nietzsche dominated punishment in its earlier phase⁴². Now anger and violence remain suppressed, the modern state is more interested in retaining a certain normality, avoiding all unpredictability, all uncontrollable eruption of feelings of hatred and desire for revenge which might disrupt the function of society⁴³ (GM, II, §12).

Violence is replaced by something darker: introversion and guilt. It is exactly this process of internalisation that Foucault describes when he states that the soul becomes the prison of the body⁴⁴. The inward operation for reforming prisoner's soul is the main narrative under which all coercion takes place, and later on this process culminates when it initiates the subject's own search, own labour on herself or himself. Punishment becomes internalized and its ideal conception can operate mainly through constant self-inspection and guilt. The super-ego concept of a healthy soul will find the prisoner always lacking and therefore obliged to engage to a series of reformatory practices -Foucault's plates include in-prison lectures on alcoholism as just one example of a whole web of institutions that aim not simply to confine or punish the prisoners but to reform their souls; if they were educated about their vices, such alcoholism perhaps they can use that knowledge on themselves, enhance their behaviour⁴⁵ (Foucault, 1977, 169-170). Prisoners are encouraged to apply these lectures and techniques on themselves, they are encouraged to labor on themselves. Be it through techniques of labour on the self or the

⁴¹ Foucault, 1977, 9

⁴² 'Punishment' at this level of civilization is simply a copy, a mimesis, of normal behaviour towards a hated, disarmed enemy who has been defeated, and who has not only forfeited all rights and safeguards, but all mercy as well; in fact, the rules of war and the victory celebration of *vae victis!* in all their mercilessness and cruelty' Nietzsche, *GM*, II, §9

⁴³ *GM*, II, §12

⁴⁴ 'All instincts which are not discharged outwardly turn inwards – this is what I call the internalization of man: with it there now evolves in man what will later be called his 'soul'. The whole inner world, originally stretched thinly as though between two layers of skin, was expanded and extended itself and gained depth, breadth and height in proportion to the degree that the external discharge of man's instincts was obstructed.' *GM*, II, §16

⁴⁵ Foucault, 1977, 169-170

feeling of constant surveillance⁴⁶ (Foucault, 1977, 201) contemporary prison makes the prisoner feel constantly inspected, constantly in a process of reform. The prisoner will therefore start disciplining himself in anticipation of this inspection. At its culmination the mechanism will find the prisoner himself believing in this lack, believing that he is constantly lacking, willingly engaging in the ascetics that will allow him to fill this lack. Under this internalised coercion the prisoner starts labouring on himself.

Foucault's and Nietzsche's genealogies of punishment in *Discipline and Punish* and in the second essay in the *Genealogy of Morals* were groundbreaking, however, in that they demonstrated how the logic of punishment permeated the function of society as a whole; this inward discipline of the body emerging in penal institutions has in fact been incorporated in the function of institutions such as the army, schools, hospitals, in Foucault's work. For Nietzsche this reformatory punishment is nothing but a reflection of a wider tendency of society to aim to produce 'tame' and 'predictable' humans, an effort which culminates in the invention of responsibility and guilt which secures that humans will start to self-discipline; responsibility and guilt are necessary supplements in civilisation's effort to breed an animal with the ability to promise.

That is precisely what constitutes the long history of the origins of *responsibility*. That particular task of breeding an animal with the prerogative to promise includes, as we have already understood, as precondition and preparation, the more immediate task of first *making* man to a certain degree necessary, uniform, a peer amongst peers, orderly and consequently predictable. The immense amount of labour involved in what I have called the 'morality of custom. (Nietzsche, *GM*, II, § 2)

The main purpose of the concept of responsibility -paired with the supplementary concept of causality- was to render humans more docile, more predictable mainly through self-blame, through guilt. In the same way this inward focus of prison led to a whole complex of reformation techniques and immense labour on the self, the concept of responsibility led to an internalisation of civilisation in general.

Debt and bad conscience

Without this mechanism of guilt and theories of responsibility social institutions such as debt, promises to pay, future payments would have been impossible. But it did come at a cost. This

⁴⁶ (Foucault, 1977, 201)

predictability that humans achieved as a result of this mechanism of guilt/debt became a source of pathology for them.

Nietzsche paints this image of this new Subject that is able to promise and that can experience feelings of guilt and responsibility. In Nietzsche's narrative this new "guilty" Subject channels her aggression inwardly towards her own self, in the form of self-punishment. The narrative here is of course making reference to Nietzsche's interest into what he described as European Nihilism and Christian slave morality, namely the creation of a subject with bad conscience that learns to channel all her frustration and aggression towards herself⁴⁷. In other words the Nietzschean genealogy of the guilty subject is based upon his theories on the birth of *bad conscience*⁴⁸. The theory of bad conscience is not picked up by Lazzarato or Foucault in their discussions of the Genealogy of Morality. Nietzsche's famous theory of the slave morality that introduces the distinction between good and evil⁴⁹ but it emphasizes how important is the idea of the guilty subject for Nietzsche. The slave morality and bad conscience that he describes throughout his oeuvre are essentially the morality of the "guilty" subject, a subject that has in Nietzsche's perspective, being conditioned to culpabilise herself and others.

If we consider the theory of Debt within Nietzsche's wider oeuvre, we can appreciate that for him the institution of Debt and the "guilty Subject" whose history he has just finished presenting in the Genealogy of Morals are actually a fundamental part of the European Civilization in the turn of the Century, at least as its understood by Nietzsche. The slave morality and bad conscience is for Nietzsche the foundations of Modern European culture, they are the cultural breakthroughs that separate the ancient world of the Greeks from the Medieval and Early Modern world of the Europeans. And these moments of crucial cultural importance would have never been possible Nietzsche appears to suggest unless society had not created first a guilty, indebted subject. In other words, the Genealogy of Morality appears to suggest that the creation of an indebted subject was one of the founding pillars of European Modernity.

⁴⁷ 'the result that all those instincts of the wild, free, roving man were turned backwards, against man himself. Animosity, cruelty, the pleasure of pursuing, raiding, changing and destroying – all this was pitted against the person who had such instincts: that is the origin of 'bad conscience', Nietzsche, *GM*, §16

⁴⁸ 'I look on bad conscience as a serious illness to which man was forced to succumb by the pressure of the most fundamental of all changes which he experienced, – that change whereby he finally found himself imprisoned within the confines of society and peace.' Nietzsche, *GM*, §16

⁴⁹ Nietzsche, *GM*, I, §2

This connection between the Guilty Subject and European Modernity was a topic that attracted the interest of another thinker indebted to Nietzsche, Max Weber. Weber's account about how Calvinist morality with its strict ethical code led to the birth of Modern Capitalism has strong resonances with Nietzsche's work. The early Calvinist Capitalists that Weber describes in his work engage vigorously in self-introspection. Calvinist faith would have it that human beings are predestined for salvation or damnation since God knows all. In the Calvinist practice, as described by Weber, anyone could be possibly guilty and predestined for damnation⁵⁰. In Weber's account the Calvinist engages in constant evaluation of his life. Her success in business affairs, professional accomplishment, material wealth could be a sign that she has God's blessing and thus she can reasonably assume that she is predestined for salvation. The guilty subject is a recurrent theme in Weber's account of the birth of capitalism with human subjects having to interpret potential signs of divine disapproval, and failure to achieve material wealth being attributed not to the wider economic conditions but as divine punishment.

Nietzsche will not go into any specific details about how the birth of the guilty subject connects with the birth of capitalism, but he does make it clear that European Modernity, in its negative aspects, such as bad conscience and the slave morality, as well as in its positive aspects would have been impossible without the construction of such a guilty subject.

“With the aid of such images and procedures, man was eventually able to retain five or six ‘I-don't-want-to's’ in his memory, in connection with which a promise had been given, in order to enjoy the advantages of society – and there you are! With the aid of this sort of memory, people finally came to ‘reason’! – Ah, reason, solemnity, mastering of emotions, this really dismal thing called reflection, all these privileges and splendours man has: what a price had to be paid for them! how much blood and horror lies at the basis of all ‘good things’⁵¹ (Nietzsche, GM §3)

Subjectivity was forged through self-violence, yes, but from Nietzsche's point of view memory and the mechanism of promise has been, also, the condition and the source of reason introspection, the very “advantages” of society.

⁵⁰ cf. ‘Thus, however useless good works might be as a means of attaining salvation, for even the elect remain beings of the flesh, and everything they do falls infinitely short of divine standards, nevertheless, they are indispensable as a sign of election. They are the technical means, not of purchasing salvation, but of getting rid of the fear of damnation.’, Max Weber, *The Protestant Ethic and the Spirit of Capitalism*, p. 69

⁵¹ (Nietzsche, GM §3)

The birth of the guilty Subject appears to be a *conditio sine qua non* of the birth of European Modernity, since Modernity is based according to Nietzsche on *bad conscience*, and the ideas of guilt, and indebtedness. The guilty Subject appears, however, to predate European Modernity, in Nietzsche's narrative and it seems at points that this particular form of Subjectivity to be one of the preconditions for us living together in a society.

This secret self-violation, this artist's cruelty, this desire to give form to oneself as a piece of difficult, resisting, suffering matter, to brand it with a will, a critique, a contradiction, a contempt, a 'no', this uncanny, terrible but joyous labour of a soul voluntarily split within itself, which makes itself suffer out of the pleasure of making suffer, this whole active 'bad conscience' has finally – we have already guessed – as true womb of ideal and imaginative events, brought a wealth of novel, disconcerting beauty and affirmation to light, and perhaps for the first time, beauty itself . . . ⁵² (Nietzsche, *GM*, §18)

Subjectivity was forged through self-violence, yes, but from Nietzsche's point of view memory and the mechanism of promise has been, also, the condition and the source of yes-saying, of life affirmation.

Lazzarato's Nietzschean method.

Lazzarato's work on debt cannot be reduced to its Nietzschean precursor. Deleuze, Guattari and Foucault are equally important for Lazzarato's overall argument. As we shall see the concepts of governmentality, flow, deterritorialization are important pillars of Lazzarato's analysis. Deleuze and Foucault are in any case long-standing influences on Lazzarato's thought and the post-workerist movement in general. The Second Essay of the *Genealogy of Morals* provides, however, some of the methodological principles upon which Lazzarato constructs some of the most innovative elements of his analysis.

One of the first methodological principles that Lazzarato draws from Nietzsche's work is the idea that the field of time is a space of social and political conflict. Time in Nietzsche's work is the construction of power relations. The very concept of a future time that is predictable and controllable emerges as we have seen as an instrument of control, free time is limited and and the Guilty Subjects in Nietzsche's narratives are supposed to dedicate their future into paying past debts.

⁵² Nietzsche, *GM*, §18

The second methodological principle is related to the idea of bad conscience. Guilt is not simply one of the aspects of Subjectivity, a belief, or an emotion. In Nietzsche's work guilt is what constructs us, as the Subjects that we are. Without guilt memory, depth, interiority, and whole other modes of subjectivity would be impossible⁵³. Guilt and Debt are not just ideology, not just neoliberal propaganda that somehow Subjects fall victims to. It is an essential part of the process of producing a Subjectivity, one of the fundamentals of our anthropological development.

The third methodological principle is of course related to power and subjectivity. Without a clear understanding of the will to power and power relations involved in social phenomena we would be unable to understand their history and their function. One of the most important products of power relations in society is the various forms of Subjectivity that are produced. In an equivalent way that Nietzsche focuses on the transition from Ancient Greek and Roman Subjectivities to the Subjects with bad conscience, Lazzarato will put forward a genealogy of Subjectivities in modern and contemporary capitalism. Any analysis of the economy that focuses purely on the economic-quantitative side of things will always end up in the fallacy of "economism", namely reducing complex social phenomena to only their economic aspect. If one wants to analyze forms of economic production, she also needs to reflect on the "production and control of subjectivity (Lazzarato, 2012, p. 72)⁵⁴".

Finally, Lazzarato will, not unlike Nietzsche, rely on the tool of macro-history. Unlike Foucault, whose historical accounts are usually based on detailed micro-histories, archive researches with a narrow focus before any general conclusions are made, Lazzarato relies on macro-level historical analyses. Reviewing the entire history of post-war capitalism from the *glorious thirties* to the 2007 crisis and its aftermath, Lazzarato is able to give us general view of the evolution of Capitalism. There is a trade-off, however, for this exceptional scope and this is that often details, or evidence and empirical research are lacking, and in many instances the reader will have to unpack dense passages with a large number of claims.

It is, also, worth mentioning that despite his critical stance towards Marxism, Lazzarato will attempt in the *Making of the Indebted Man* to draw analogies and commonalities between the work of Marx and Nietzsche. Lazzarato sees nuances between Marx's concept of the creditor-

⁵³ Lazzarato, M. (2012). The making of the indebted man: An essay on the neoliberal condition, trans. Joshua David Jordan, New York: Semiotext (e), p. 49

⁵⁴ Lazzarato, M. (2012). The making of the indebted man: An essay on the neoliberal condition, trans. Joshua David Jordan, New York: Semiotext (e). p. 72

debtor relation and Nietzsche's. Lazzarato points out that in Marx's theory of credit, the exploitation that takes place is not of the same kind with the exploitation that we observe during production. Credit rather solicits ethical action and the work on the self, "the work of self-constitution." For Marx the credit relation does not take advantage of the physical and intellectual abilities of the person –as in the process of production does- but rather it mobilizes the morality of the debtor, her ethos, her mode of existence⁵⁵ (Lazzarato, 2012 55) For Marx, Lazzarato claims credit relations are different but complementary to the relations of production. Lazzarato, clearly, is arguing here that there is a sort of compatibility between the Nietzschean concept of credit and the Marxian one. And although the two are clearly distinct, their compatibility means that the construction of a theory of debt, drawing from both the Capital and the Genealogy of Morals is not impossible.

Drawing from the Marxist and the Nietzschean tradition then, Lazzarato, is able to claim that the debt economy consists of a twofold expansion of the exploitation of subjectivity: extensive -as every activity becomes exploitable- and intensive -since the debtor must not only work on the productive process, but also work on the self⁵⁶ (Lazzarato, 2012, p. 52). This eclectic mix of the Marxist and Nietzschean perspective allows Lazzarato to present the crisis, as a crisis of time, in the sense of both capturing and appropriating the time of subjects, as well as over-determining the future, limiting our "possibilities for action"⁵⁷ (Lazzarato, 2012, p. 71).

⁵⁵ Lazzarato, M. (2012). The making of the indebted man: An essay on the neoliberal condition, trans. Joshua David Jordan, New York: Semiotext (e). p. 55

⁵⁶ Lazzarato, M. (2012). The making of the indebted man: An essay on the neoliberal condition, trans. Joshua David Jordan, New York: Semiotext (e). p. 52

⁵⁷ Lazzarato, M. (2012). The making of the indebted man: An essay on the neoliberal condition, trans. Joshua David Jordan, New York: Semiotext (e). p. 71

LAZZARATO'S GENEALOGY OF CAPITALISM: FROM FORDISM TO THE INDEBTED MAN.

Beyond production

Lazzarato's work on Debt marks a distinct period in his work that turns away from earlier preoccupations with immaterial labour, vitalism and cooperation, themes that although prevalent in his earlier books they are largely absent from both *Making of the Indebted Man* and from *Gouverner par la Dette*. We will examine how Lazzarato's work on Debt fits with his earlier work in the following chapters, when we discuss the critical reception of the two books we are discussing here. It is worth noting, however, that Lazzarato's theory of Debt echoes the post-workerist milieu of which he has been an important member for decades⁵⁸ (Toscano 2007, 73), participating both in the intellectual debates that took place within the post-workerism and autonomism movement but also contributing to important journals with a strong interest in post-workerism such as *Futur Antérieur* and, later, the journal *Multitudes*⁵⁹ (Muldoon 2014, 59). Although the complex history of post-workerism and autonomism is beyond the limitations of this chapter, it is worth putting forward for reasons of clarity a provisional working definition. James Muldoon describes some of the fundamental hypotheses of the post-workerist and autonomist movements as follows: the subjective power of the working class precedes and is ontologically prior to the movement and development of capital, while capital itself is merely a negative and vampiric force that simply captures and exploits the co-operative powers of living labour, and not as assumed by some currents of Marxist thought, the motor of history⁶⁰ (Muldoon 2014, 61). Despite the complex history of post-workerist thought we can simply retain here that the post-workerists adopt a view of Capital that is critical of the classic Marxist tradition, where production functions as structure upon which all sorts of social, cultural, and political superstructures are constructed.

The echoes of this post-workerist critique can be found throughout Lazzarato's work on Debt. In *Gouverner par la Dette* Lazzarato returns to the issue of production. Now, in classic Marxist thought the capitalist mode of production functions as the material basis of capitalist society,

⁵⁸ Toscano, A. (2007). Vital strategies: Maurizio Lazzarato and the metaphysics of contemporary capitalism. *Theory, Culture & Society*, 24(6), 84.

⁵⁹ Muldoon, J. (2014). Lazzarato and the micro-politics of invention. *Theory, Culture & Society*, 31(6), 59.

⁶⁰ Muldoon, J. (2014). Lazzarato and the micro-politics of invention. *Theory, Culture & Society*, 31(6), 61.

the precondition and foundation of this society, its structure. Lazzarato returns to the work of Deleuze and Guattari in order to call our attention to two phenomena that he considers more fundamental than production, namely *money* and *taxes*. Lazzarato comments that money taxes precede capitalist production, and at the same time they serve as two of the founding pillars of the capitalist "organization of work". He even goes as far as to claim that taxes and money are as important to the capitalist mode of production as the free market (Lazzarato, 2014a. 25)⁶¹.

The political and economic hegemony that financial capital has enjoyed over industrial and commercial capital since the 1860s has been consistently overlooked by Marxist theory, Lazzarato claims. Marxists have been, mistakenly, almost exclusively preoccupied with production, while at the sametime financial capital united commercial and industrial capital in a coherent whole (Lazzarato, 2014a. 115)⁶². And this hegemony occurs because financial capital represents the "purest" and more "general form of appropriation". It is for this blind spot in Marxist thought that Lazzarato invites us to think financial capital with the intellectual tools given to us by *Anti-Oedipus* and Deleuzian thought.

The topic of work

Lazzarato has already made clear that *profit*, *rent*, and *tax* are all important apparatuses of capturing value of the capitalist system, and all three are employed in any given era of capitalism by Capital. The era of neoliberalism sees financial rent becoming relatively more important in terms of capturing value, but that does not mean that appropriating value through the apparatus of profit and the work of labourers disappears. It is here that we can see echoes of some of the debates of Italian "operaismo" and autonomism Marxism over the issue of work appear. Lazzarato is keen to underline that we should not assume that work pre-exists the *apparatus of capture*. On the contrary it derives from it. He claims that we should not think of work, as mere production, which after it takes place it becomes appropriated by Capital. On the contrary it is the very act of appropriation that defines work. Both the concept and the reality of "work" are instituted by Capital. Lazzarato revisits the concept of "surplus labour" which is of course one of the key concepts in Marx's theory of surplus value. In Marx's theory, of course, Surplus Labour is the non-remunerated labour, the unpaid labour that the worker is forced to put in and on the basis of which surplus value is created. It is worth noting that unaccountable work, for example collective work or unpaid labour is a significant theme of

⁶¹ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 25.

⁶² Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 115.

autonomist Marxism. Lazzarato is keen then to argue that surplus labour and remunerated labour -or in Marx's terms surplus labour and necessary labour- are the one and the same thing. Labour or necessary labour in Marx's terminology is nothing but the "quantitative comparison of activities", while surplus labour is simply the "monopolistic appropriation of work from the entrepreneur"⁶³ (Lazzarato, 2014a, 35).

Lazzarato echoes some of the key ideas of autonomism when he proceeds to distance himself from classical Marxist ideas of work. He is keen to emphasize that the concept of production cannot be reduced to productive work in the factory⁶⁴ (Lazzarato, 2014a, 40). We should, also, not reduce all social activities into relations of production, again seemingly making references to classical Marxism. In his model, which is inspired by Deleuze and Guattari as much as it is from Italian automatism, social activities are defined not only by the process of production, but also by the processes of division and appropriation. These conceptual clarifications, although they might appear merely theoretical at first, have important political and philosophical consequences. If social activities are based on appropriation, division and production, the political sphere cannot simply be "a way to live together" or to "establish a world in common". If we agree with Lazzarato that division and appropriation precede social activities and the creation of any social and political regime, such living in common becomes an impossibility. The advent of neoliberalism and the 2007 crisis revealed that the reality of politics is in fact a form "civil war"⁶⁵.

Deterritorialization and flows

Lazzarato's analysis of Contemporary Capitalism is based upon concepts and ideas that he "excavates" in the work of Deleuze and Guattari. Lazzarato borrows the concepts and adopts them to post-crisis capitalism. One of the most important concepts in this respect is the concept of Deterritorialization. In what follows we will briefly cover the use of the concept in the work of Deleuze and Guattari and we will proceed to examine how Lazzarato re-employs the idea to forward his analysis of Debt.

⁶³ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 35

⁶⁴ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires.40

⁶⁵ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires.43.

The 14/12/1971 seminar of Deleuze and Guattari, as part of the influential Vincennes classes, that they gave at the then recently established Paris University VIII, is largely dedicated to the concept of the *flow* after a student asked for a clearer definition of the project. Deleuze describes flows as being an essential part of the social body or *socius* and claims to have picked up the concept from Keynesian economic theory. He proceeds to give examples of economic flows, such as the "values of the quantities of goods and services or money" transmitted between poles. The Deleuzian flow is essentially based upon this Keynesian model. The other key defining characteristic of a flow, Deleuze notes in the seminar, is that any flow implies on the one hand "poles", a sender, and a receiver and on the other hand flows imply codes. These permit and block flows and the example of such codes that Deleuze gives are "the rules of alliance in so-called primitive societies, where taboos represent a blockage of the flow of possible marriages". Kinship rules are an example of coded flows that are based on qualitative principles, values, whereas Capitalist flows are radically decoded, reduced into abstract quantities. In the absence of code, the flows are then managed by means of modern accounting. These decoded flows as we shall see characterise capitalism but for our purposes⁶⁶ (Deleuze, 1971). Lazzarato analyzes the function of money in the light of the Deleuzian theory of the flow. He establishes on key methodological principle, based on Deleuze and to a lesser degree, that money to function as such need to be supported by a power flow ceases to function as means of exchange and measurement. All the other functions of money are secondary to the power flows that support it.

In a fundamental level, Lazzarato claims the process of deterritorialization is not too dissimilar from the phenomenon that Marx described as "the tendency of the rate of profit to fall". Lazzarato draws the analogy the Deleuzian theory of deterritorialization with the theoretical scheme painted by Marx; in the same way that in Marx's view Capital seeks ever new opportunities for profit globally, in Lazzarato's work Capital's productive process is presented as destructive, destroying natural resources, the environment, societies and thus it is obliged to seek ever new territories to exploit ad infinitum⁶⁷ (Lazzarato, 2016, 46).

Despite these affinities, however, Marxist thought, in Lazzarato's opinion, failed to conceptualize two key elements of capitalism. The first was the integration of the working class in forms of capitalist valuation, originally through mass consumption and later through the

⁶⁶ (Deleuze, G. (1971). *Cours Vincennes: the nature of flows. Les Cours de Gilles Deleuze*

⁶⁷ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 46

welfare state. And the second was the process that Deleuze described as deterritorialization. The concept of deterritorialization was discussed by Deleuze and Guattari in their book the *Anti-Oedipus*. In this work Deleuze and Guattari present a bold account of "universal history" that the writers put forward. Deleuze and Guattari distinguish three different forms of social life, which are differentiated on the social body (socius) that takes credit for production⁶⁸ (Deleuze & Guattari, 1973, 163), in tribal cultures this is the earth, while in imperial societies the despot takes the credit for production and in capitalism capital⁶⁹ (Deleuze & Guattari 1973, 163). The term deterritorialization is meant in a first level to signify the transition from tribal societies where production is attributed to earth to imperial societies where production is literally deterritorialized -in the sense that it is no longer attributed to earth- but it is re-territorialized in the body of the despot. In Capitalism establishes a simplistic command, the axiomatic codes that characterized previous societies in capitalism are substituted with simple principles of quantitative calculation of the difference between flows of capital and labour, where for example a product is quantitatively equated with a price and a payment with a certain amount of working hours⁷⁰. (Deleuze & Guattari, 1973, 268) Production is deterritorialized once more but this time it is not re-territorialized in the body of a sovereign but re-territorialized in the bodies of individual which re-territorialize production by buying, consuming, and using their purchasing power. The absence of an "axiomatic", the decoding of signs is what characterises the capitalist deterritorialization. Before we continue in Lazzarato's analysis we have to clarify another Deleuzian concept on which he relies heavily on the concept of *flow*. Although the concept is notoriously elusive for our purposes here we can simply rely on one of the less complex meanings of the term within Deleuze's oeuvre. An economic flow " is the transmission (or exchange) of money – or more generally, of economic value – that moves from one pole to another, that is, there is an incoming and outgoing flow⁷¹ (Smith, 2011)" .

⁶⁸ Deleuze, G., & Guattari, F. (1973). *L'anti-Oedipe*, éditions de minuit. 163

⁶⁹ les formes de production sociale impliquent elles aussi une station improductive inengendrée, un élément d'anti-production couplé avec le procès, un corps plein déterminé comme socius. Ce peut être le corps de la terre, ou le corps despotique, ou bien le capital. C'est de lui que Marx dit : il n'est pas le produit du travail, mais il apparaît comme son présupposé naturel ou divin. Il ne se contente pas en effet de s'opposer aux forces productives en elles-mêmes. Deleuze, G., & Guattari, F. (1972). 1973. *L'Anti-Oedipe*. Paris: Minuit.16

⁷⁰ D'abord, l'échange simple inscrit les produits marchands comme les quanta particuliers d'une unité de travail abstrait. C'est le travail abstrait posé dans le rapport d'échange qui forme la synthèse disjonctive du mouvement apparent de la marchandise, puisqu'il se divise dans les travaux qualifiés auxquels correspond tel ou tel quantum déterminé. Deleuze, G., & Guattari, F. (1973). *L'anti-Oedipe*, éditions de minuit. 268

⁷¹ Smith, D. W. (2011). Flow, Code and Stock: A Note on Deleuze's Political Philosophy. *Deleuze Studies*, 5(supplement), 36-55.

Lazzarato adopts this theory of deterritorialization to our contemporary politics. He describes the process of deterritorialization as indispensable for Capital. As a process, it repeats itself at every new epoch of domination of capitalism, arriving at different areas of social life at different times and it is anything but limited in the area of work. Lazzarato claims that deterritorialization in the end engulfs social relations in their entirety. He gives the example of the relations between capital and work -once located in the victorian factory-, a relationship which in the era of neoliberalism has become entirely "delocalised", as production was moved from mature capitalist economies to the overseas. As a result of this deterritorialization the nation-State and its governmentality were weakened by flows that know no borders such as the movements of capital, the migratory movements, and the transfers of technology.

The story of neoliberalism, according to Lazzarato, is the story of successful class war waged by Capital against the May 68 movements, a class war that was won by Capital thanks to deterritorialized flows. The neoliberal power bloc was extremely successful in promoting its counter-revolution to the May 68 through class struggle. Debt played a crucial role in the history of this post-68 class struggle; Lazzarato describes as the "the most deterritorialized and the most general power relation", which was precisely so effective because it was uninhibited by state borders, it wasn't affected by production, and it was indifferent to political, social and economic limitations. Debt acts immediately and in a global level (Lazzarato, 2012, 88)⁷².

So how shall we conceptualize financial flows? The question of financial flows which had occupied Deleuze is of crucial importance for Lazzarato. He clarifies that they should not be seen in any way as a sign that capitalism is degenerating. On the contrary financial flows "fulfill capitalisms laws". Lazzarato goes even as far to claim that the "Concept of Capital only becomes real" not with industrial capital but with financial capital. And this is because finance expresses better the nature of capital because they are "radically indifferent to the qualification of production" (Lazzarato, 2014a. 116)⁷³. Financial flows are solely interested in extracting surpluses of abstract quantities of money from the "diverse modalities of production and work", without being interested in the nature of production and work from which it will extract this monetary surplus. Finance operates in the juncture of time operating not only on actual production but also on the production that it is to come. In other words it consists not only of actual flows but also of potential future flows. We can think of security contracts, insurance,

⁷² Lazzarato, M. (2012). *The making of the indebted man: An essay on the neoliberal condition*, trans. Joshua David Jordan, New York: Semiotext (e), p.88

⁷³ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 116.

and the tendency of stock markets to price in advance future events as examples of such future flows (Lazzarato, 2014a. 117)⁷⁴. The strength of financial capital lies in the liquidity of credit money, which allows investment to move quickly from country to country and from sector to sector, following opportunities for profit rapidly and wherever these might arise. The liquidity of credit money makes it an invaluable tool in directing investment towards new sectors, untapped resources and new profits(Lazzarato, 2014a. 117)⁷⁵.

The concept of flows allows Lazzarato to offer an explanatory model of the extraordinary power that "money as financing structure" holds in contemporary capitalism. The power of financing structure does not stem from greater purchasing power or put differently it does not stem from the fact that the capitalist is simply wealthier than the worker. The power of the capitalist derives from her ability to control and determine the directions of financing flows. This power, according to Lazzarato translates effectively on the power of the capitalist to dispose of time, the time of other humans that she can exploit and subjugate, manage and command, or simply time in the sense of making decisions and choices, as opposed to a worker's life, which is already over-determined and limited⁷⁶ (Lazzarato, 2012, p. 84). **84** The worker has at her disposal money as means of payment, which belongs to the lesser flow of wages, whereas the capitalist, and in this case the financial capitalist, has in her disposal the control of financial flows⁷⁷ (Lazzarato, 2012, p. 83). Money as Capital is characterized by its destructive/creative potential, whereas money as means of payment which holds no such power. Money as means of payment is subordinate to money as capital because it belongs to a " power flow", the power flow of wages, that is lesser to the flows of capital and financing⁷⁸ (Lazzarato, 2012, p. 83).

The theoretical advantage of the concept of the flow is that it is so malleable and complex that it can be used to describe a variety of phenomena. Lazzarato will use it to re-describe worker strikes. Strikes are now read as a flow, itself, "that interrupts the politics of capital", while at

⁷⁴ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 117.

⁷⁵ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 117.

⁷⁶ Lazzarato, M. (2012). The making of the indebted man: An essay on the neoliberal condition, trans. Joshua David Jordan, New York: Semiotext (e). p. 84

⁷⁷ Lazzarato, M. (2012). The making of the indebted man: An essay on the neoliberal condition, trans. Joshua David Jordan, New York: Semiotext (e). p. 83

⁷⁸ Lazzarato, M. (2012). The making of the indebted man: An essay on the neoliberal condition, trans. Joshua David Jordan, New York: Semiotext (e). p. 83

the same time it is also a refusal and a flight from "the functions and subjections" of the proletariat in a capitalist society⁷⁹ (Lazzarato, 2012, p. 85).

A critique of Deterritorialization.

The question is raised, however, what theoretical or political benefit do we acquire by implementing this Deleuzian concept to such a wide variety of phenomena. The concept of flow is an overarching concept, a fundamental notion that Deleuze and Guattari picked up and expanded in order to describe a huge amount of different social, economic, and political phenomena. The advantage of such overarching concepts is that it allows us to analyze events from a philosophical, sociological, political, and economic perspective without being limited by disciplinary limits. The obvious disadvantage is, however, that what we gain in scope, we lose in depth. By using such a generalizing concept to describe a wide variety of phenomena we run the risk of reductionism. If one is to employ the concept of flows bringing in political flows, which are usually studied by political science, or economic flows usually studied by economics or political economy and social flows that might be studied by ethnography or sociology, we should stay conscious of the disciplinary differences between these different fields of study. Our knowledge of economic flows is based on the methods of economic science and our knowledge of political flows on the methods of political science. Within these fields there are significant methodological debates and disputes and when we engage in interdisciplinary research of the kind that Lazzarato attempts with the concept of flow, we must be cautious to reflect on these debates. Within economics for example the way flows are seen, studied, and analyzed changes whether one comes from a Keynesian, heterodox, neoclassical or Marxist perspective. The way we study financial for example changes dramatically based on the economic approach we choose. A Marxist perspective would have financial flows as a secondary phenomenon, the result of a crisis of capitalist accumulation and emphasize its roots in the economic structure and its material basis⁸⁰ (Baran, Sweezy, 1968), whereas a Keynesian approach for example would put emphasis on changes in policy and the rise of a rentier class as a result of policy and regulator changes⁸¹ (Minsky, Kaufman, 2008). By choosing to see financial flows as stemming from capitalist production or policy changes in the financial sector we drastically change our view of financialization. If we opt for a Marxist analysis,

⁷⁹ Lazzarato, M. (2012). *The making of the indebted man: An essay on the neoliberal condition*, trans. Joshua David Jordan, New York: Semiotext (e). p. 85

⁸⁰ Baran, P. A., & Sweezy, P. M. (1968). *Monopoly Capital: An Essay on the American Economic And Social Order*. Modern Reader.

⁸¹ Minsky, Hyman P.; Kaufman, Henry. *Stabilizing an unstable economy*. New York: McGraw-Hill, 2008.

financialization might appear as inevitable effect of capitalist accumulation, an effect of the laws of capitalist production, whereas if we adopt a more Keynesian view we would have to focus our analysis to the ideological debates, the individuals, political parties, institutions and electoral dynamics that lead mature capitalist economies to adopt policies that liberalised the regulatory framework of financial markets. It is, of course, completely possible to combine these approaches in order to produce an eclectic mix of ideas, however, one of the two explanatory models will assume primacy and this will affect not only the analysis of finance and the origins of financialization but also the conclusions one arrives at. If a Marxist model is followed the implications will be that if one wants to deal with the effects of the crisis they need to look to the direction of the capitalist mode of production, whereas a Keynesian approach would lead one to think that to overcome the financial crisis one needs to intervene in the regulatory, institutional and policy level, without needing necessarily to challenge and change the capitalist mode of production tout court.

The three apparatuses of capture

How does Capital arrive at capturing value from the population? It is around these questions that Lazzarato puts forward his explanatory model of the “three apparatuses.” The Lazzarato model of capture is clearly intended to be a critique to the Marxist theory of surplus value. Although, Lazzarato acknowledges the strengths of this classic Marxist theory, he eventually finds it overly limited and in need of qualification and expansion.

Lazzarato criticises the distorted conceptualization of the economy we encounter in economics handbooks. Lazzarato criticizes "orthodox" and heterodox economists alike for assuming that appropriation is a function of production. Lazzarato does not specify which economists or economic theories he criticises here, but he is making sure we know that he is talking of both neoclassical economics -more associated with the neoliberal camp- and heterodox economics -more associated with the Left.

According to Lazzarato these two economic camps both assume that the distribution of wealth is a simple outcome of production, the distribution of the fruits of production between the different social groups. In economics he claims the theory is that labour, capital and savings are the three key factors of production. The distribution of wealth will then be based on the relative contribution of these three factors to the productive process. Lazzarato does not name any specific models, but we can assume that he refers to labour market theories according to

which the supply and demand for capital and labour will define the "price" that workers or owners of capital are able to fetch for contributing to the productive process. For example, according to David Harvey one of the factors that worsened the power balance between Labour and Capital in mature capitalist economies in the post 1970s era was the relative decline in demand for labour in Western Europe. This decline in employment, the rise in the numbers of unemployed, the deindustrialization of certain zones of the Global North, was not a mere accident but the result of concrete policy choices and the result of a strategy to "curb labour's power" by drastically decreasing the offer of employment.

Lazzarato proposes instead an alternative model in which production is the effect of two processes that should be considered fundamental namely appropriation and distribution. This is a crucial point; in conventional Marxism the mode of production that is dominant in a specific historical period will shape the relations between the classes and eventually how wealth is distributed and appropriated. Lazzarato inverts this relationship, according to him at the beginning of it all lies power, that allows the appropriation of wealth and then its distribution. Once wealth has been appropriated and distributed then production and growth can begin. Lazzarato offers us a theory about how this appropriation works in capitalism; he describes the process of appropriation as taking place thanks to *apparatus of capture* (appareil de capture) with three "heads", namely profit, rent, and tax. Along with the apparatuses of power Capital employs what Lazzarato describes as devices of power and describe their power Lazzarato will give a brief list that includes:

1. Nation States
2. Transnational organizations such as "Europe" (by which one can assume he implies EU and Eurozone institutions)
3. The banking system and finally
4. The financial system.

How do then these devices of power function and how do they underpin capitalist societies? Lazzarato proceeds to describe the function of these devices of power by breaking it down into two main categories. On the one hand he describes them as "initiating relations of economic power" ("initient les rapports de pouvoir économiques") by shaping the social division of labour, attributing roles and functions to everyone. On the other hand, these devices of power can function as mechanisms of capturing value. In this function this capturing of value will shape "property rights".

Lazzarato will use this theoretical tool of the three heads of the "apparatus of capture" to put forward a periodisation of Capitalism. This periodisation of capitalism will allow us to evaluate our current predicament; what is unique about contemporary capitalism and how have power relations changes in the aftermath of the 2007 crisis.

Lazzarato claims that these apparatuses underpins all the different forms of capitalism and what changes historically as capitalism itself evolves is the hierarchy between these forms of capturing wealth changes. This is precisely what differentiates fordist post-war capitalism from neoliberal capitalism according to Lazzarato. Lazzarato divides post-war capitalism in three main phases: keynesian-fordism, neoliberalism or post-fordism and the major crisis of neoliberalism phase⁸² (Lazzarato, 2014a, 34). As every other theory of epochal changes in capitalism, however, Lazzarato needs to specify the distinctive characteristics of these epochal changes. The driving force behind these transitions in the history of capitalism are, according to Lazzarato the dominant ways in which value is captured and measured.

Up until the 1960s profit occupied the central role as the most important apparatus of capture, being the main avenue through which capital could appropriate wealth, as opposed to rent and taxes that occupied secondary roles. In the era of Fordism the realization of the axiomatics of capital is achieved through the nation-state, which "moderates the high speed of deterritorialization of capital". The state overs "compensatory territorializations", the most important of which is the Nation (Lazzarato, 2014a, 130). The end of Fordism came hand to hand with a gradual decline of both social democratic parties and the Keynesian principles that have underpinned them. While the exact timing and causes of this decline are in dispute the decline of Social Democratic parties can already be observed with the advent of neoliberalism and globalisation in the aftermath of the multiple crises of the 1970s. Lazzarato opts for a different understanding of this historical transition. The transition happened in stages with changes in public administration in the sector of finance, industry and private property, that begun from the era of fordism and culminating with the era of neoliberalism that made keynesian reformism, according to Lazzarato impossible to implement and eventually irrelevant. Lazzarato, rightly, comments that for example Keynesian critiques against the kind of speculation that takes place in the stock market today are "absolutely silenced, since Finance is simply put "the motor of both the economy and power⁸³" (Lazzarato, 2014a, 33).

⁸² Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 34

⁸³ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 33

With the advent of neoliberalism -or as others would call it financialization- the expropriation of the population by capital, as well as, overall control are based on rent and in particular, Lazzarato precises, financial rent as well as taxes, much more than profits (Lazzarato, 2014a, 24)⁸⁴. According to Lazzarato the function of tax, rent and profit is based on two supplementary operations: the operation of evaluation/comparison on the one side and the operation of monopolistic appropriation on the other(Lazzarato, 2014a, 35)⁸⁵.

Lazzarato's work on the eras of Capitalism is informed by his earlier position that capitalism has no inherent logic or historical law driving capital forward. Capital imposes its interests on the social body through a process of trial and error where discursive and non-discursive dispositifs of power are constantly articulated and unarticulated (Lazzarato, 2004: 114)⁸⁶. It is in the light that we should see Lazzarato's genealogy of Capitalism; his genealogy is informed largely by these techniques and dispositifs of power. When new dispositifs are introduced or old ones are drastically changed this is an unmistakable sign that we have entered a new era of Capitalism.

The causes of the crisis

In Lazzarato's narrative the era of neoliberalism ended at the dawn of the 2007 crisis, and the period that ensued after 2007 should be considered a new era in the history of capitalism, which Lazzarato describes as the years of crisis. So what was the cause of this crisis? Lazzarato employs the deleuzian concepts he had been developing since the "Making of the Indebted Man" and claims that the 2007 financial crisis and the Eurozone crisis that ensued were crises of "valorisation". By valorisation here we understand the ability of Capitalists to extract value from the "population" and a failure in finance-based capitalist accumulation (Lazzarato, 2014a, 30)⁸⁷. I interpret Lazzarato to imply here that Capital was unable to increase its profits or assets by means of investment in the financial markets as it had been able to in the period prior to 2007, which Lazzarato describes as the period of Neoliberalism. Lazzarato gives the example of the subprime crisis, the crisis that ensued the issuing of mortgage loans to lenders that did

⁸⁴ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 24

⁸⁵ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 35

⁸⁶ Lazzarato, M. 2004. *Les révolutions du capitalisme*. Paris: Les Prairies Ordinaires

⁸⁷ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 30

not have jobs, incomes or assets with which they could repay the loan, as an example of such a crisis of valorisation.

As a result of this failure of capitalist accumulation, Lazzarato claims, Capital is unable to "suck" from society's productivity. As it is frequent with this book, the expression is pretty dense and the reader has to unpack some of the ideas presented here. One can assume that by "sucking" productivity, Lazzarato implies that as an increasing number of citizens are unable to repay or take new loans Capital is unable to exploit society through credit payments. If, indeed, this is the argument being put forward there is empirical evidence to support it.

In one notable example the recent research of Costas Lapavitsas has shown a slowing down in the financialization of some mature capitalist economies (Lapavitsas & Mendieta-Muñoz, 2018)⁸⁸ and one of the theories he has put forward to explain it, it's precisely an unwillingness of households to burden themselves with increased debt in times of financial uncertainty.

However, we should be cautious about making as strong statements as the ones being put forward by Lazzarato. Even if there is a relative slowing down on private indebtedness this is not sufficient evidence to claim that financial capital fails to exploit citizens through loan payments, interests and bank charges. Lazzarato continues with claiming that the function played by rent and financial profit in the era of neoliberalism, namely what he calls "sucking the productivity of society" is delegated to taxes in the era of crisis⁸⁹(Lazzarato, 2014a, 31). What we describe as austerity politics he argues, are in fact akin to obligatory "direct debit payments".

Austerity politics are simply, according to Lazzarato, an array of policies aiming at extracting wealth from citizens either in the form of conventional taxes⁹⁰ (Lazzarato, 2014a, 36) and through salary reductions or through more unconventional forms such as cutting down on social spending -which negatively affects people's income- or increasing the cost of essential services by means of privatisation -one can think for example the increasing privatisation of utilities, healthcare and education. Overall, Lazzarato concludes, in order to service their debts States have to cede public goods to the private sector.

⁸⁸ Lapavitsas, C., & Mendieta-Muñoz, I. (2018). Financialization at a watershed in the USA. *Competition & Change*, 22(5), 488-508.

⁸⁹ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 31

⁹⁰ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 36

The era of crisis: a critique

Whereas many economists would separate the history of capitalism between the post-war Ford era and the era of neoliberalism or financialization, putting the transition from the one model to the other roughly in the 1970s, Lazzarato claims in "Gouverner par la dette" that we have now entered a third period, that of crisis in which the apparatus of capture has been reconfigured once more. This time the most important of the three forms of capturing wealth is taxation. He is indeed supported here partly at least by an increase in the tax burden of citizens especially of lower incomes in the European periphery. The research of Thomas Piketty -although limited to France- did indeed supply some findings that could provide some partial support for Lazzarato's claim. Piketty's investigation into the French tax system did provide us with the surprising result that the French system overall is not progressive but regressive, namely that it takes a larger percentage of income from low-income earners than from high-income earners⁹¹. As Piketty comments:

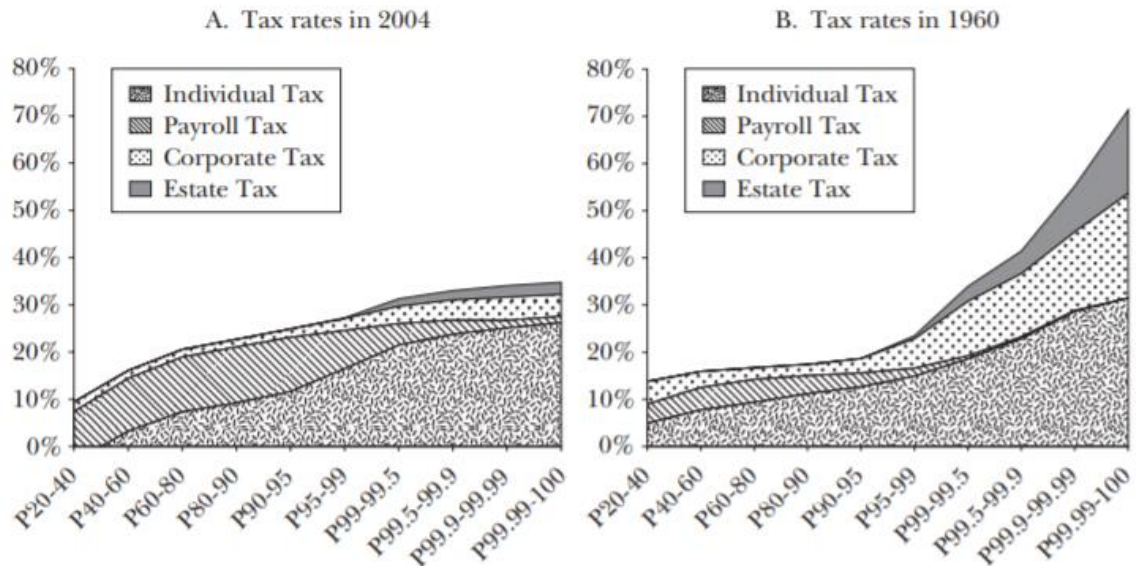
" the French tax system is not progressive. More specifically, when we consider SSC, income and capital taxes, and also indirect taxes like the taxes on goods and services and local taxes, the average tax rate (as expressed in % of national income) is equal to 49%. More precisely, if we consider the total income before taxes and if we rank the French population from the poorest individual to the richest we note that for the bottom 50% of the distribution (with a gross monthly income inferior to 2,200 Euros) the effective tax rate goes from 41 to 48% and is in average 45%. The following 40% of the distribution experience a tax rate between 48 and 50%. Actually, for a large middle class with a gross monthly income ranging from 1,700 to 6,900 Euros, the tax rate is stable. Then, within the top 5% and even more within the top 1% of the income distribution, the effective tax rate sharply declines and falls to 35% for the top 0.1% "

To drive the point home Piketty compares tax contributions in the US (United States), UK (United Kingdom) and France in the 1970s and 2007 only to find that in this time period our

⁹¹ Frémeaux, N., & Piketty, T. (2014a). France: How Taxation Can Increase Inequality. In Salverda, W., Nolan et al (eds) Changing Inequalities and Societal Impacts in Rich Countries: Thirty Countries' Experiences. OUP Oxford

tax systems have become more regressive. Piketty's findings function as some evidence that tax policy, at least as far as France is concerned, has undoubtedly changed towards a conservative direction (Figure 1).

Federal Tax Rates in the United States in 2004 and 1960



Notes: Figures display the tax rate for each of the four federal taxes for various groups of the income distribution in 2004 (based on 2000 incomes adjusted for economic growth) and in 1960. Tax rates are stacked.

adapted from Piketty, T., & Saez, E. (2007). How progressive is the US federal tax system? A historical and international perspective. *Journal of Economic perspectives*, 21(1), Figure 1, 12.

The European Commission has been recommending to state members to reduce Labour taxation, mainly focusing on labour taxes paid by employers, as a way of improving growth and employment levels (Kalyva et al, 2018)⁹². The European Commission Discussion Paper on *Labour Taxation and Inclusive Growth* laments that the elevated levels of Labour taxes paid by employers and recommends austerity cuts, along with more efficient public spending - a known euphemism accompanying policy recommendations for budget cuts. More specifically the paper discusses how a lowering of the tax burden carried by employers could be paid off with budget cuts.

⁹² Kalyva, A., Prince, S., Leodolter, A., & Astarita, C. (2018). *Labour Taxation and Inclusive Growth* (No. 084). Directorate General Economic and Financial Affairs (DG ECFIN), European Commission.

"In this context, a labour tax cut can be financed in a budget-neutral manner by cutting or by better and more efficient use of public expenditure. " (Kalyva et al, 2018).

These policy recommendations which will undoubtedly have an impact on Europe's future tax policy do indeed demonstrate changes in the tax system to a more conservative direction or better put in a direction that is more favorable to Companies and Employers and less favourable to employees. Crisis stricken countries in Europe such as Greece, also, demonstrated an impressive spike in their personal income taxes, which rose from 3.99% of the GDP (Gross Domestic Product) in 2010 to 6.96% of the GDP in 2012 according to OECD (Organisation for Economic Cooperation and Development) (Organisation for Economic Co operation and Development) data (Figure 2). Most of the countries of the European periphery that were engulfed in the Eurozone Sovereign Debt crisis registered some kind of increase in taxes on personal income as a percentage of their GDP. The most acute increases can be observed in Greece and Portugal, while Italy, Spain and Ireland registered milder increases. It is worth noting that the majority of the periphery countries have retained these increased taxes and no country except for Ireland has returned to their pre-crisis tax levels.

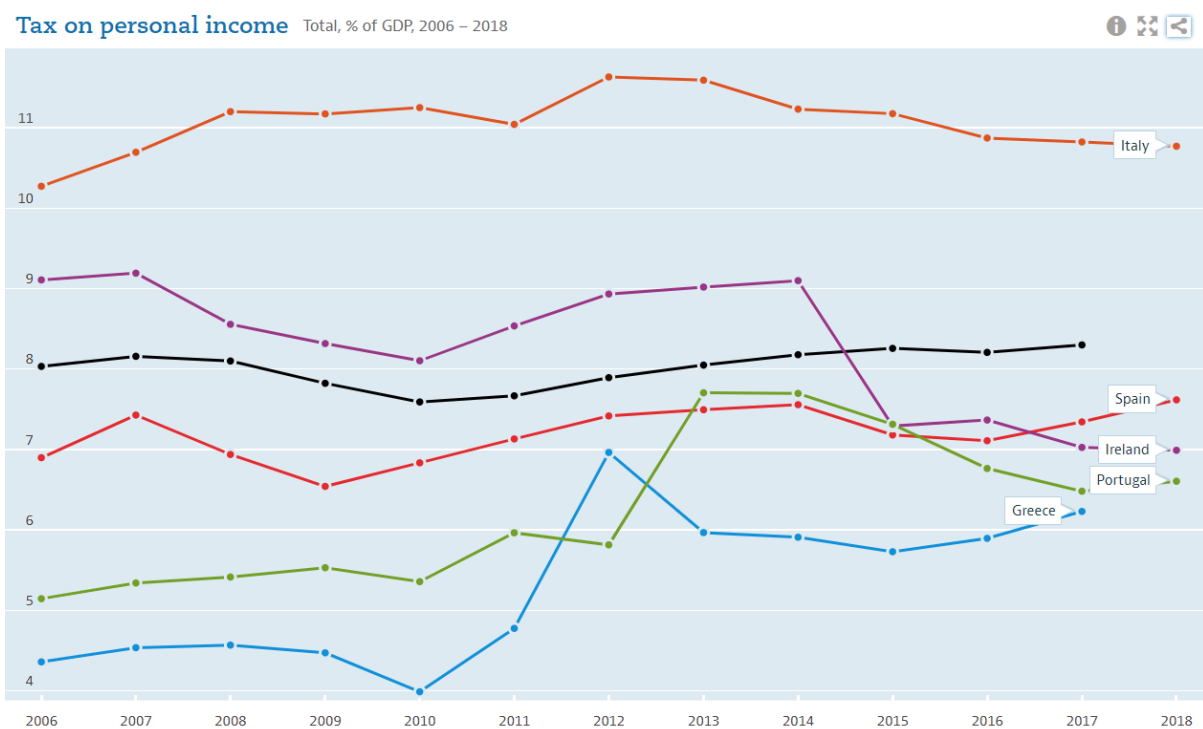


Figure 2. OECD (2020), Tax on personal income (indicator). doi: 10.1787/94af18d7-en (Accessed on 09 October 2020)

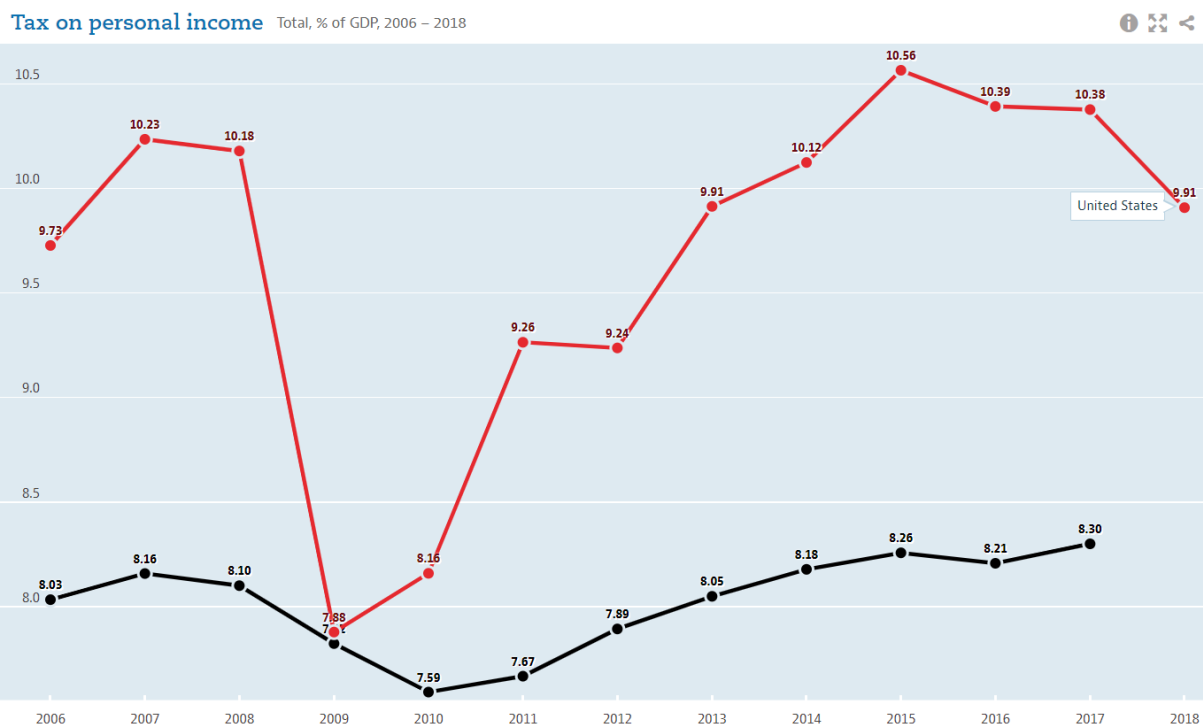
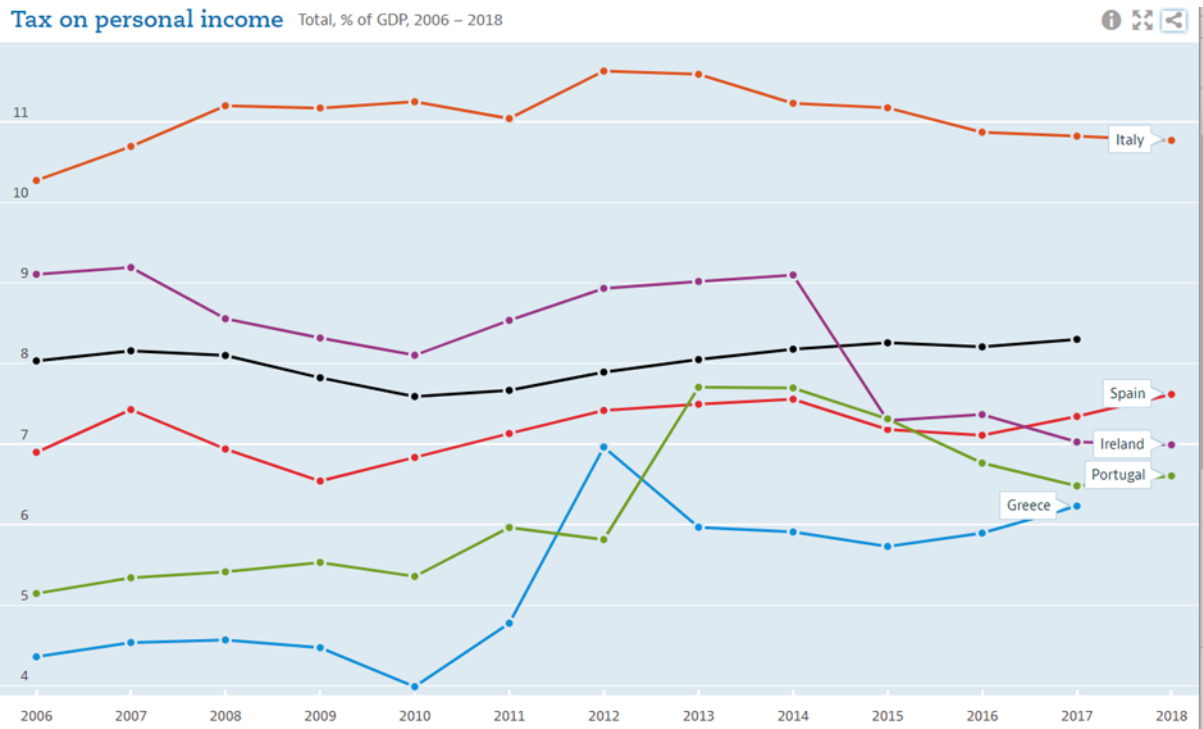


Figure 3. OECD (2020), Tax on personal income (indicator). doi: 10.1787/94af18d7-en (Accessed on 09 October 2020)

A similar spike can be seen in the US where personal income taxes after a dramatic decline in 2009, rose from 7.88% of the GDP in 2009 to 9.26% of the GDP in 2011 (Figure 3). The fact

that countries such as Italy or Spain, however, registered less dramatic changes in their income rate taxes, and in the case of Ireland we even had an overall reduction, calls for further investigation of the Lazzarato thesis and indicates that perhaps more divisions exist between different capitalist economies than Lazzarato's formulation would, *prima facie*, allow.

Nevertheless, it is also worth mentioning that other changes in European taxation trends do lend support to Lazzarato's argument. Such trends include a rise in indirect taxes which rose to 34,7% of total taxation in EU28 on 2018, which stands for a 1,0% rise from 2008 (European Commission, 2020)⁹³. Indirect taxes, such as value added tax (VAT) and excise duties on alcohol, tobacco, and energy, tend to disproportionately affect households in the lower income percentile as they typically tend to not vary based on the payers income level. In the midst of the Eurozone Debt crisis Greek governments and its lenders agreed on two consecutive and relatively sharp rises in VAT rate which allowed Athens to increase tax revenue in order to finance its debt repayments. The IMF's chief economist Olivier Blanchard directly tackled the issue of the VAT raises in Greece clarifying in an IMF article:

"we believed that a small primary surplus, increasing over time, was absolutely necessary to maintain debt sustainability. Having examined the budget closely, we did not see how this could be achieved without VAT reform to broaden the tax base [...] On these, our views coincided fully with those of our European partners (Blanchard, 2015)⁹⁴."

There are several things in Blanchard's statement that would offer some support to Lazzarato' claims about the function of taxes in the crisis years. Firstly, Blanchard clarifies that the raise of VAT (Value Added Tax) was implemented in order to make the Sovereign Debt of Greece more sustainable. The VAT increase would supply a reliable source of tax revenue for the Greek government and secure that Athens could fulfil its debt repayments. In other words, VAT rise was seen as a method of increasing state revenue and achieving a primary budget surplus in order to finance debt repayments.

⁹³ *Taxation Trends in the European Union*, 2020 edition, Directorate-General for Taxation and Customs Union, European Commission, Publications Office of the European Union, Luxembourg, 2020.

⁹⁴ Blanchard, O. (2015, July). "Greece: Past Critiques and the Path Forward.". In *The International Monetary Fund's global economy forum* (Vol. 9).

Blanchard, also, clarifies that this rise in VAT was seen as one of the key preconditions of the Greek bail-out program, a measure that the two most powerful lenders of the Greek bail-out program, the IMF (International Monetary Fund) and the European institutions. In other words, the lenders imposed the measure in order to assure the repayment of the debt. This approach to the VAT tax would partially support Lazzarato's claim.

It appears that in the Greek case the lenders imposed a stark rise in the VAT rate, which disproportionately affected Greeks belonging in the lower income percentiles. What is more the VAT tax is a tax that individuals have to pay irrespective of whether they have an income or not, irrespective of whether they are employed or unemployed. Moreover, the VAT affects not only luxury goods or goods whose demand is elastic but also goods whose demand is inelastic. In the height of the Eurozone crisis VAT tax increases were a cynical but effective way of increasing tax revenue despite rising unemployment and weak wage growth since the VAT is blind to income level and employment status. Greece in total recorded a 5% increase in its VAT rate, from 19% in 2008 to 24% in 2016. Similarly, another debt-stricken country Spain, also, recorded a dramatic rise in the VAT rate, from 16% in 2008 to 21% in 2012. However, in other cases even of countries that were greatly affected by the Eurozone crisis the rise of VAT was less accentuated. Italy for example did indeed see a rise in the VAT by from 20% in 2008 to 22% in 2013, whereas core countries like Germany retained its VAT tax rate stable at 19% - although the rate had been increased by 3% in 2007-, as did France who retained its VAT unchanged during the first years of the crisis only slightly correcting it at a later stage from 19.6% to 20%. Overall the case of the VAT tax offers perhaps the strongest evidence in support of Lazzarato's position, and yet this evidence remains inconclusive, precisely because of how strong Lazzarato's claim is.

The argument that an epochal shift in capitalist economies has taken place in which value is captured mainly through tax is not sufficiently supported neither by Lazzarato himself nor the available evidence. Moreover, there is strong indication that taxation policies differ greatly between the core and the periphery of the Eurozone, with the periphery being forced by creditors and European institutions alike to implement higher and more socially unjust taxes than the core. Nevertheless, there is some merit in his argument in emphasizing the overburdening of the lower income classes, especially in the periphery of the Eurozone with taxes that aim at paying for the damages caused to the European economies from the Eurozone Sovereign Debt crisis of 2008. Taxation did in fact worsen the financial situation of many households in the periphery of the Eurozone, and wealth was transferred from debt-stricken

countries such as Greece and Spain to creditors via the tax system. As the 2008 crisis pushed growth in the Eurozone close to 0, forms of taxation that are not affected by income levels and employment became more prominent. Apart from indirect taxation, taxation on assets and especially housing was also raised in some countries and especially in debt-stricken countries with relatively prominent levels of home ownership.

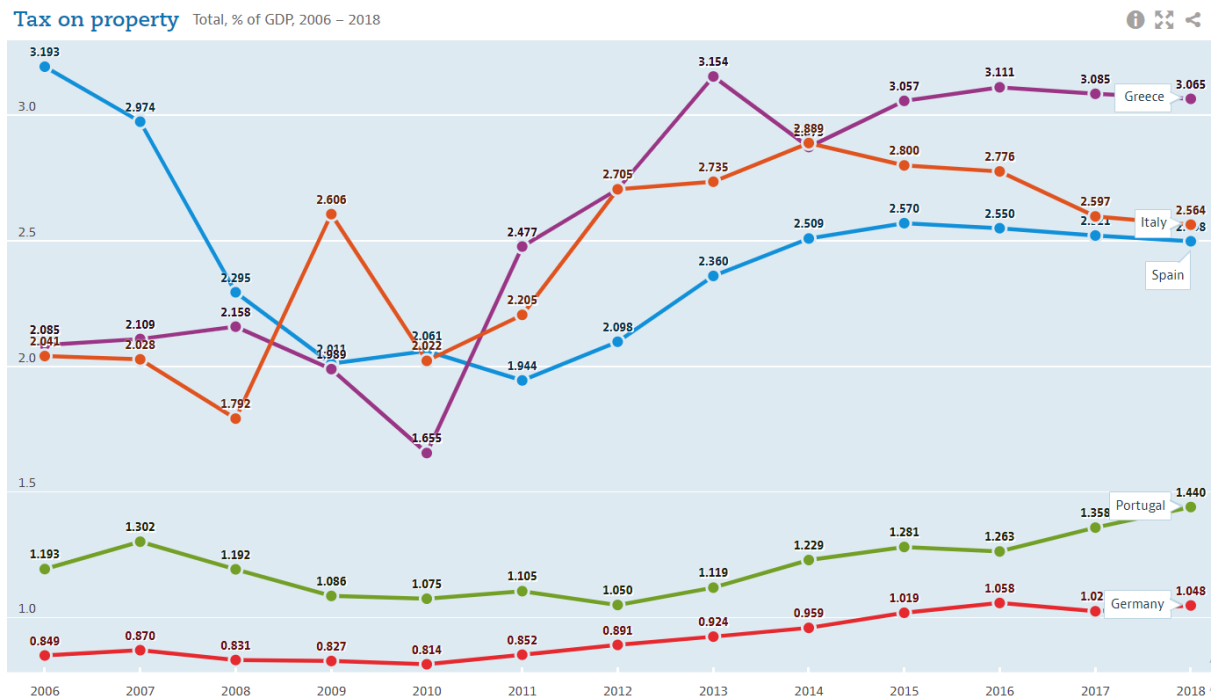


Figure 4. OECD (2020), Tax on property (indicator). doi: 10.1787/213673fa-en (Accessed on 09 October 2020)

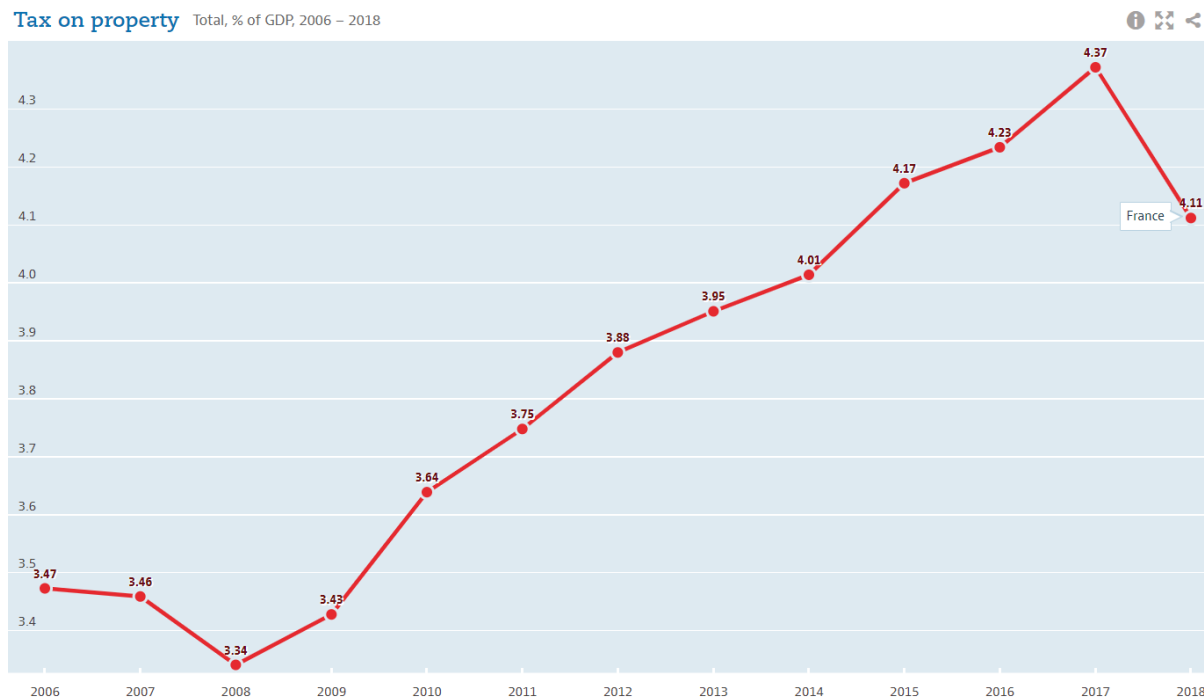
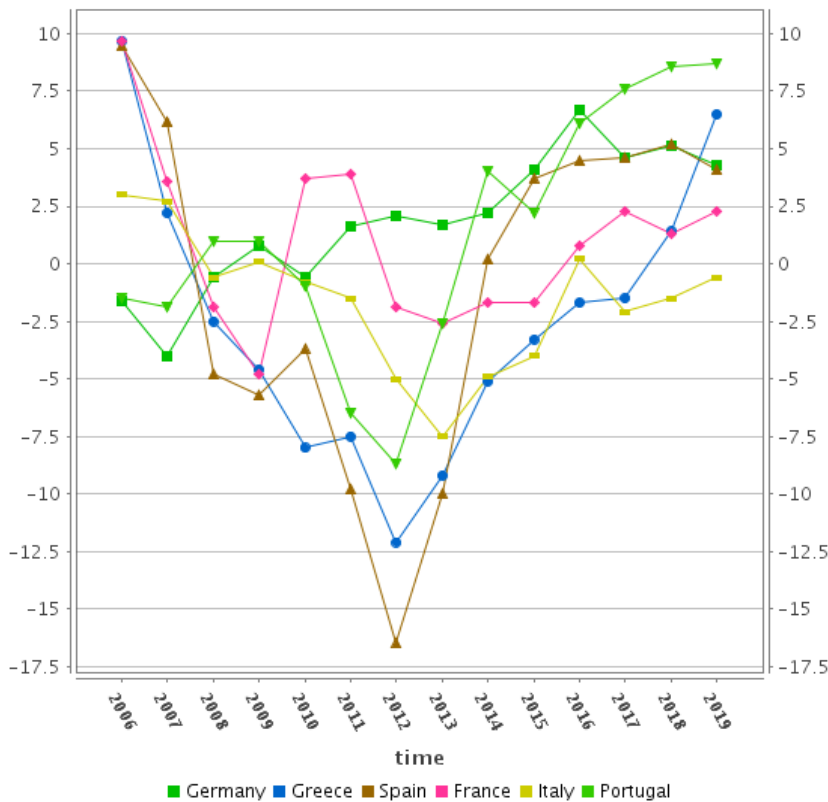


Figure 5. OECD (2020), Tax on property (indicator). doi: 10.1787/213673fa-en (Accessed on 09 October 2020)

Looking at Figure 4 and Figure 5 we notice that Greece and Italy have had significant rises in the taxation of property, while Portugal as well demonstrated a somewhat milder increase. Spain on the other hand despite being heavily affected by the debt crisis did not experience a similar rise in property tax rates, although it is worth noting that Spain has levels of home-ownership that are significantly lower than Greece and Italy. In stark contrast stands Germany whose level of property tax changed very mildly during the crisis. On the contrary France despite being a core country did experience a rise in property tax rates. This, however, does not cancel the difference between core and periphery, as some of this tax property rise could be attributed to upward tendencies in the housing market (see Figure 7) and most importantly the sums collected did not finance an exorbitant debt.

House price index, deflated – annual data
Annual average rate of change



Source of Data Eurostat
Last update: 07.10.2020
Date of extraction: 09 Oct 2020 15:47:46 CEST
Hyperlink to the graph: <https://ec.europa.eu/eurostat/eurostat/tgm./drawGraph.do&init=1&plugin=1&language=en&pcode=tipsho10&toolbox=legend>

Figure 7

The same applies to taxes on personal income, where we can observe a significant upward tendency in debt stricken countries in the periphery while we observe only mild changes in core countries such as France and Germany (Figure 8). Indeed the tendency appears to be upwards although it is hard for us to identify a post-crisis trend, as significant differences can be observed between core countries, large peripheral countries -Italy and Spain- and smaller periphery countries such as Greece and Portugal, which might apply that other factors such as the severity of the debt crisis, political leverage of the country towards its creditors as well as its internal politics can affect tax tendencies.

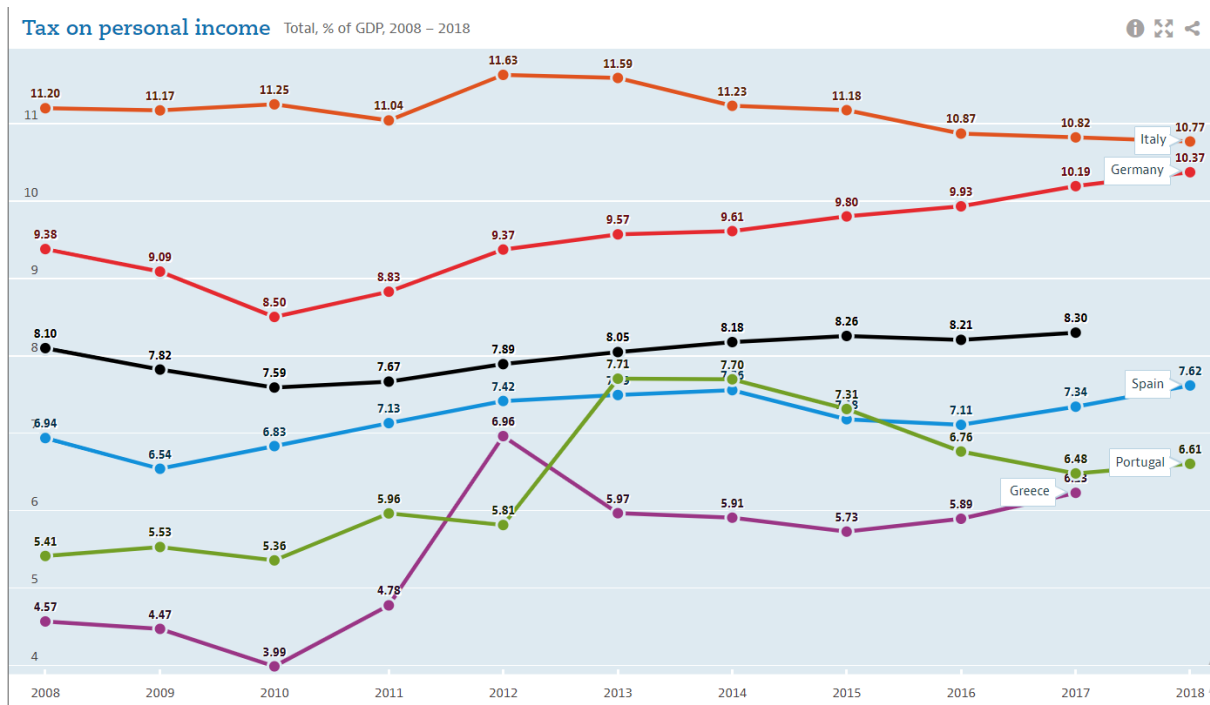


Figure 8 OECD (2020), Tax on personal income (indicator). doi: 10.1787/94af18d7-en (Accessed on 09 October 2020)

If we contrast this to how the level of minimum wage fared during the crisis (Figure 9) which remained stagnant in most cases or even decreased we can appreciate that these forms of taxation had a severe impact on households belonging in the lower percentile of incomes.

Dataset: Real minimum wages												
Series: In 2019 constant prices at 2019 USD PPPs												
Pay period: Annual												
Unit: US Dollar												
Time	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Country												
France	21,062.6	21,431.3	21,288.7	21,263.1	21,536.1	21,626.9	21,745.7	21,920.1	22,016.6	21,994.5	21,860.3	21,949.0
Germany	..	..	..	..	..	..	..	..	23,382.8	23,268.3	23,845.6	24,015.6
Greece	15,997.5	16,712.1	16,241.7	15,844.4	13,073.9	12,761.2	12,930.7	13,159.2	13,268.7	13,121.6	13,040.0	14,307.4
Portugal	10,357.7	11,033.5	11,485.4	11,313.8	11,008.5	10,978.3	11,009.0	11,407.4	11,899.7	12,337.1	12,720.3	13,114.5
Spain	13,434.7	14,012.4	13,969.8	13,710.3	13,383.0	13,277.3	13,297.4	13,432.6	13,594.4	14,404.6	14,731.8	17,891.7

Data extracted on 23 Sep 2020 21:04 UTC (GMT) from OECD.Stat

Figure 9. OECD (2020), Real Minimum Wages. Recovered from: stats.oecd.org

Money and the epochs of Capitalism

In Lazzarato's periodisation of capitalism money occupies a central role as part of the historical transition from one era of capitalism to the other. It was precisely, Lazzarato argues, the

reversal of these Keynesian policies on money and taxation that allowed for the historical transition from Fordism to neoliberalism⁹⁵. Lazzarato underlines three main evolvments:

a) the privatisation of Money issuing -Lazzarato here doesn't specify what he means precisely but one could assume he is referring to Independent Central Banks- which according to Lazzarato paved the way for wider privatisations, especially of those areas of the economy that the New Deal had "relatively", as he puts it socialised.

b) The use of taxation to change the nature of welfare. More precisely, Lazzarato gives the example of subsidies and transfers, more generally, to private companies. The rich, he underlines, become the new protected groups. while the "population" receives only the minimum of social welfare.

c) Additionally, neoliberalism was facilitated by new forms of measurement and new forms of property. Neoliberalism imposed the logic of financial measurement above all other measurements. We can think as an example of the power of measurement of the power that financial institutions have to evaluate the debt sustainability of the sovereign debt of a country, and the dramatic effect such evaluations have had in the past on entire populations. d) Finally, neoliberalism was made possible by the introductions of new forms of property law, such as speculative investment, new forms of investment and financial products.

We see here Lazzarato emphasizing the importance of money and taxation, yes, but also measurement and property rights as important tools with which a specific regime of power can impose itself. The discussion of these tools in "*Gouverner par la dette*" allows us an insight into some of the ideas Lazzarato had already introduced in a briefer manner in the "*Birth of the Indebted Man*". Already in, his *Birth of the Indebted Man* Lazzarato waching the *Anti-Oedipus* Lazzarato comments that money is used to "command" the governed and distribute to them "the places and tasks assigned" (Lazzarato, 2012, p. 72)⁹⁶.

Lazzarato aims to adopt Deleuze and Guattari's ideas on flow and money to the experience of the Eurozone crisis and especially of the way in which the Euro, as a common currency, was used to impose a set of policies that served the interests of Capital. In "*Gouverner par la dette*" Lazzarato clearly separates his own view on money from heterodox economics. Lazzarato takes

⁹⁵ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 26-27.

⁹⁶ Lazzarato, M. (2012). The making of the indebted man: An essay on the neoliberal condition, trans. Joshua David Jordan, New York: Semiotext (e). p. 72

aim at the work of André Orléan "Le pouvoir de Finance", an important heterodox economist of the Regulation School, a predominantly French school of economic thinking that emphasizes the importance of the state, and of the institutional and regulatory framework in an economy to promote growth, to maintain coherence in a market and avoid crises. The regulation school does emphasize the significant role that public money and public institutions such as the Central Bank can play especially in times of crisis. According to Lazzarato's reading of Orléan's "Le pouvoir de Finance", the main conclusion that Orléan draws is that the state by virtue of its position at the exterior of the market, it can act to preserve the interest of the public and protect the coherence of society (Lazzarato, 2014a, 96⁹⁷). Indeed, in works such as "La monnaie entre violence et confiance"⁹⁸ Orléan had emphasized the dangers of what happens when the state fails to protect the coherence of society, as was the case in Argentina's 2001 crisis and the collapse of the Argentine peso, which led to civil unrest. Now according to Lazzarato's reading of the regulation school's theories, we can find in them a conceptual separation between what he describes as "economic money" and "sovereign money", the former is simply private money, an instrument of exchange, a useful tool for everyday transactions, whereas the latter is essentially "state money" that guarantees the continuity of "our living together" in society (Lazzarato, 2014a, 99⁹⁹). Lazzarato does not proceed to specify which work he has in mind when he refers to this distinction between state and private money, but he proceeds to argue against such a conceptualization of money.

Lazzarato will also embark on his critique of heterodox theories of money based on Deleuze and Guattari. The role of state in Deleuze and Guattari's theory of money is crucial. They reject the mythology of the state as a "Republic" that allows us to "live together", on the contrary its role is to protect the "capitalism of the state". The most fundamental point of Deleuze and Guattari's theory of money, according to Lazzarato, is the distinction between money as "means of payment" and money as capital. Unlike heterodox economists that assume the existence of private and state money which fulfill two different functions, Deleuze and Guattari's claim that money as means of payments and money as capital as a distinction simply fulfill different functions of capital. It is made clear that money as means of payment is

⁹⁷ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 96

⁹⁸ Aglietta, M., & Orléan, A. (2002). *La monnaie: entre violence et confiance*. Odile Jacob.

⁹⁹ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 99

subordinate to money as capital. since the first expresses purchasing power, while the second expresses the power to command labour and society reference (Lazzarato, 2014a, 99¹⁰⁰).

Lazzarato mentions the work of the late David Graeber as another theorist that has expanded upon this Deleuzian distinction between credit money or money capital and money as means of payment. However, he takes issue with David Graeber's macro-historical theory of cycles of money. According to Lazzarato's reading of Graeber we witness in the past an alteration between cycles dominated by credit money and cycles dominated by commercial money. Graeber does claim that since 1971 we have entered a new cycle of credit money, about which we cannot say much according to Graeber since from a macro-historical perspective this new phase has only started fairly recently (Lazzarato, 2014a, 100¹⁰¹). Lazzarato radically disagrees with Graeber's conceptualization of the role of money although they both stem from the same Deleuzian point of departure. For Lazzarato Capitalism introduced a radical rupture in the history of money, both as capital and as means of exchange, a rupture that Graeber's macro-historical theory cannot capture. Lazzarato claims that we have not entered a period where credit money or money as capital dominates the money as means of exchange. Lazzarato completely opposes the idea of one type of money dominating another form of money, rather he believes what is characteristic of our era is the domination of Capital and its laws over society(Lazzarato, 2014a, 102¹⁰²).

Credit money as a sub-category of money as Capital is of crucial importance for Lazzarato, a defining characteristic of contemporary capitalism. Credit money represents the more "deterritorialized" form of capital and Lazzarato proceeds to describe it as a financial flow (flux de financement). He describes as literally a form of "police" of Capital and the truest expression of its power. On the contrary money as means of exchange, are mere means to pay salaries and distribute revenues to the dominated population. What is more peculiar about Credit money is that it incarnates the logic of production for the sake of production, or infinite production. This idea of infinite production is introduced in the "valuation of Capital" through this credit money. As in other parts of Lazzarato thought this quite dense passage is not explained in detail. He claims that up until the advent of capitalism societies were aware of the relationship between money and this "infinite", a relationship that had a potential to destroy social relations, which

¹⁰⁰ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 99

¹⁰¹ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 100

¹⁰² Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 102

is why they tried to limit this aspect of money through religious, political, and social systems (Lazzarato, 2014a, 101¹⁰³). It is hard to pinpoint at which historical events Lazzarato refers, as he never names them.

To demonstrate the class dimension of money in capitalism Lazzarato points out that workers and the population can only use their money to purchase the goods that the market has already made available. It is the prerogative of Capitalists using money as capital to prescribe what can be produced and how, in what conditions and under what distribution of labour. In Lazzarato's theory of money Banks play a crucial role as they are the ones that guarantee the conversion of one type of money into the other, despite their heterogeneity, and he claims that this role is played both by private banks as well as central banks (Lazzarato, 2014a, 103¹⁰⁴). This function of money as the great "differentiator" as an expression of differences of power is visible in the heterogeneity of money flows. The flow of purchasing power -consisted mainly of salaries and revenues- and the flows of money-capital are the example, that Lazzarato brings up, of this heterogeneity, since capital on the one side and salaries on the other "do not use and do not manage" the same kind of money. The two flows are so radically different that they should be considered an entirely different kind of money (Lazzarato, 2014a, 120¹⁰⁵).

Lazzarato considers *money* and *taxation* to have played a crucial role in the passage from post-Fordism to neoliberalism, so much so that if we do not investigate their role in this transition, Lazzarato claims, will fail to understand this epochal change in the history of capitalism. For example, Lazzarato argues, Fordism -the name afforded in his work for post-war industrial capitalism- does not commence with production (i.e. Ford's famous chain industrial production), but with changes in *money and taxation*, that were linked to new modalities of "appropriation, distancing and measurement" (Lazzarato, 2014a. 26)¹⁰⁶. Lazzarato explains that many of the Keynesian economic policies we associate with post-war industrial capitalism , like industry nationalisations, the Keynesian countercyclical fiscal and expansionary monetary policies that saw the state intervening in the market, the decline of the rentier class -known as the euthanasia of the rentier- were only possible according to Lazzarato exactly because the

¹⁰³ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 101

¹⁰⁴ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 103

¹⁰⁵ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 120

¹⁰⁶ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 26.

post-war "reformist" capitalism was able to antagonise and appropriate this rentier class. According to Lazzarato what allowed the transition to post-war Fordism was a new way to manage money and taxes, that precisely favoured industrial capitalists and employment in the industrial sector over rentier capitalists and the rentier economy -in which capitalists could take advantage of high rates in order to make profits off their savings.

Unity of Capital

Despite, its indebtedness to Foucault's thinking Lazzarato is keen to offer a critique to Foucault's position that we should distinguish Capital from Capitalism. Foucault's distinction was aimed at underlying that there is no singular capitalism but several variations of it. In this point, Lazzarato differentiates his position, by stating that although differences between German and US capitalism do exist, they all, nevertheless, felt victims to the 2007 crisis. For Lazzarato, the 2007 financial crisis demonstrated that despite all the differences, different capitalisms are all underlied by the same logic (Lazzarato, 2014a, 111¹⁰⁷).

Why does Lazzarato insist so strongly on the unity of Capital? He believes that the advent of neoliberalism, the ensuing liberation of capital from the Fordist institutions -which he doesn't name- and eventually the transition from the hegemony of industrial to the hegemony of financial capital wasn't neither a simple accident nor the outcome of the greed of investors but rather the outcome of the logic of capital itself and of capitalist accumulation. Money had a key role in this passage from Fordism to Neoliberalism and Lazzarato considers the liberation of capital that occurred during the era of neoliberalism to have been essentially a liberation of "money as capital". A key moment in this process of liberalization was the declaration in 1971 of the termination of the convertibility of the dollar. This freedom Lazzarato comments should not be confused with the freedom of the markets to autoregulate as it was proposed by liberal theorists. Rather it consisted of the freedom of capital to appropriate and expropriate social production in new ways. Lazzarato admits that Capital did indeed change the various variations of capitalism -as it was hypothesized by Foucault. But despite the difference between these "capitalisms" they all from the decade of 1970 onwards aim at supporting the further liberalisation of capital through the creation of new institutions. In the end the various capitalisms are united by the logic of Capital and by its mode of accumulation, which remain

¹⁰⁷ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 111

unaltered in all the various forms of neoliberal capitalism, despite differences in the level of the company, the market or competition (Lazzarato, 2014a, 113¹⁰⁸).

Axiomatics

Deleuze and Guattari assumed that different forms of social life are based on different axiomatics. This elusive idea of *axiomatique* which we encounter in the *Anti-Oedipus* is taken up by Lazzarato and incorporated in his analysis. So what is the axiomatic according to Lazzarato? Faithful to Deleuze and Guattari, whom he quotes extensively, Lazzarato describes the idea as "axioms" and "operational enunciations" that constitute the "semiological form" of Capital, component parties to the agencies of production, circulation, and consumption. This passage which relies a lot in Deleuzian jargon makes reference to Deleuze's theory of deterritorialization (Lazzarato, 2014a, 121¹⁰⁹). In another instance Lazzarato describes the axiomatic as language or enunciations that prescribes not what must be believed in but what must be done (Lazzarato, 2014a, 123¹¹⁰).

Axiomatics are forms of language, enunciations as Lazzarato describes them. But if they are enunciations, who does the speaking? By whom are they enunciated? Lazzarato claims if we look at the 2007 debt crisis, we can find answers to these questions. In 2007 the main "enunciators" were the financial institutions and banks, the transnational political institutions that incorporate States as their elements. These "enunciators" define the principles from where economic policies and governmentality stem. These principles in the case of the Eurozone, for example, was the absolute priority of the reimbursement of creditors, the raising of taxes, the reduction of welfare spending and the balancing of the State Budget. These enunciations are semiotic flows that enter in production and they are equally important as material flows. What makes semiotic flows so indispensable in the process of production is that they are adaptable and can respond to changes in the field. We can agree with Lazzarato at this point; it is true that when the Eurozone crisis emerged new axiomatics centered around ideas of responsibility and living within one's means were quickly mobilized and used to legitimise austerity programs (Lazzarato, 2014a, 122¹¹¹).

¹⁰⁸ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 113

¹⁰⁹ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 121

¹¹⁰ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 123

¹¹¹ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 122

But what is precisely the benefit of employing this concept of the Deleuzian axiomatic? According to Lazzarato, analyzing changes in the axiomatics allows us to better understand epochal transitions in the history of capitalism. As societies move from one moment of accumulation to the other, they normally experience intense conflicts over axioms and how these axioms are realized into social life (Lazzarato, 2014a, 122¹¹²). Lazzarato does not offer the reader a wealth of historical evidence on this point, but he does briefly cover one example, mainly the transition from Fordism to neoliberalism. Lazzarato argues that this struggle was characterised by two different kinds of struggles. One struggle took place between capital and its institutions and the dominated over the "axioms of salary and welfare".

Lazzarato's does not precise what "axioms of salary and welfare" were in question here, but we can presume that he is referring to the neoliberal challenge to the "acquis sociaux", the gains that labour had secured in the post-war period. At the same time that this battle was raging, a completely different kind of struggle was taking place within the capitalist elites and their institutions. The neoliberal elites had to wage a prolonged war to impose their own axiomes over the axioms of Keynesian elites. Lazzarato brings the example of Margaret Thatcher's endorsement of Friedrich Hayek's thought, as evidence of this battle (Lazzarato, 2014a, 123¹¹³).

In using the concept of the axiomatic Lazzarato hopes to overcome the classic Marxist dualism of base and superstructure, namely the idea that productive relations function as the base determining other social relations, such as politics or artistic activity. This Marxist approach to Capital misses the semiotic dimension of Capitalism. "Capital is a semiotic operation" comments Lazzarato, by which he means that "flows of signs" enter the process of capital's valuation. Axioms, he underlines, should be seen as being part of the productive machine, as well as the "machines" of consumption and circulation (Lazzarato, 2014a, 123¹¹⁴).

Lazzarato proceeds to offer us a brief history of how these axioms changed as we moved from the years of Fordism to neoliberalism and finally at the years of the crisis. Lazzarato is keen to discuss the axiomatic of this era of financial capital. To do so he begins by reminding us Deleuze and Guattari's theory about the axiomatic of Capital. The axiomatic of capitalism is not, according to them, "production for the sake of production", but "appropriation for the sake

¹¹² Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 122

¹¹³ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 123

¹¹⁴ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 123

of appropriation" (Lazzarato, 2014a, 121¹¹⁵). What characterises the axioms of neoliberalism, Lazzarato claims, are their more restrictive nature. He outlines the axioms of neoliberalism as being the following:

- 1) the markets are capable of autoregulation
- 2) tax breaks for the rich and companies are beneficial
- 3) unemployment is the result of the unemployed willingness to be without work and finally
- 4) privatisations are beneficial for all.

Lazzarato comments that these axioms have never been proven empirically. For example, it has never been proven that tax breaks for the higher income percentiles do indeed have any beneficial effects for growth (Lazzarato, 2014a, 124¹¹⁶). However, these axioms are taken face values, they constitute "independent variables" and in that sense they are real. On the basis of these axioms that have never been proven, important decisions are taken, such as the decision to implement austerity across the Eurozone, to reduce social welfare spending or cut salaries.

In the years of the debt crisis, new axioms emerged. He mentions the following axioms:

- 1) repay the creditors,
- 2) reduce drastically salaries and social services,
- 3) privatise the welfare state.

These axioms, Lazzarato comments, are characteristically few in number; for Lazzarato this shows that capitalist politics is not interested in complex theories. On the contrary the different epochs of capitalism employ axioms that are ever more simplified and in the height of the crisis these axioms became radically simple. This of course means that increasingly capitalist politics relies on unilateral decisions and authoritarianism to impose this simplified set of axioms. What is the reason behind this employment of ever simpler axioms then? According to Lazzarato the reason behind these successive simplifications is not really to control, with these axioms, the flows of capital-money -which were the real cause of the crisis. The purpose of these simplified axioms is to undo and control the flows of welfare that had been appropriated by women, workers, the unemployed, the poor and the young in the previous eras of capitalism. The

¹¹⁵ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 121

¹¹⁶ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 124

axioms subordinate, also, all the flows of decision in the centres of decision-making, such as the banks, the companies, the state, the different industries of consumption. Lazzarato makes clear that these axiomes that underpin the era of the crisis stem from the point of view of financial capitalists (Lazzarato, 2014a, 125¹¹⁷), an indication of the dominance of financial capitalists over capitalists that engage in production, distribution, communication, or research.

The realization of axioms

Realization (realisation) is one of the many Deleuzian concepts that Lazzarato mobilizes in his analysis of debt. Intrinsically interconnected with both the idea of the axiomatics (axiomatique) and the study of Subjectivity, it is only normal that this idea is analyzed in depth in *Gouverner Par la Dette*. Now, as we have seen Capital in the Deleuzian conceptualization consists of deterritorialized flows, abstract flows, "decoded", where there are no subjects, no objects, no individuals, no collectives. However, for the axioms of Capital to be realized concretely, they need to replace new divisions and hierarchies, hierarchies of class, of gender, as well as social and racial hierarchies.

Until the 1970s -the period in which Lazzarato places the beginning of neoliberalism- the realization of the axiomatics of capital is achieved through the nation-state, which "moderates the high speed of deterritorialization of capital". The state overs "compensatory deterritorialization", the most important of which is the Nation¹¹⁸ (Lazzarato, 2014a, 130) 130. Values and institutions that lead to the "forge" sexuality, subjectivity and even the body are important aspects of this process of realization¹¹⁹ (Lazzarato, 2014a, 131).

The sexualisation, racialisation and nationalisation of subjectivities are the products of this model of realization based on the state and Lazzarato describes them as "personifications" necessary for Capital. These subjectivities allow for the formation of the "work force" and the population. The high day of this realization of the axioms of Capitalism based on the State came in the post-war period Welfare state. The Fordist model of realisation of the axiomatics

¹¹⁷ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 125

¹¹⁸ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 130

¹¹⁹ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 131

of Capitalism adds to the existing institutions and values the welfare state, creating "the user" of social services and the never-seen before "personification" of the consumer¹²⁰ (Lazzarato, 2014a, 131).

In Lazzarato's narrative, however, this Fordist model of realization came to be undone. The feminist struggles, along with workers struggles and student struggles unraveled this "compensatory territories" and the institution that realized this capitalist axiomatic. Capitalism, Lazzarato claims, was eventually obliged to get rid of the Fordist state that had started to become a burden for capitalist valuation. He mentions as an example of how capitalist valuations were now being blocked, the "depreciation of capital" that occurred before the arrival of neoliberalism. We can, perhaps, think of examples of such depreciations of capital that preceded the emergence of neoliberalism, such as the 1970s oil crisis and the devaluation of the dollar that it brought about or the 1967 devaluation of the sterling that was implemented by the Labour government in the UK. This devaluation was part of the effort by the Labour government to retain competitiveness in the International Markets, which had suffered as a result of the UK's welfare state policies and higher labour costs. Worker strikes and more specifically the UK dock strikes of 1967 were subsequently blamed for further worsening of the UK's trade balance which made the devaluation unavoidable. The UK Minister of Labour blamed in Parliament the strikes for causing serious disturbance to the UK trade, in a year that the government was trying to avoid having to implement contractionary fiscal policies to reduce the trade balance. The strikes, he stated, " which are unofficial, now involve about 16,000 men, and have caused serious interference with trade, in particular with exports", while a conservative member of parliament Robert Carr also raised the issue of exports in the same Parliament session and even called for emergency action against the strikes reference¹²¹ (House of Commons. 1967). . The 1967 devaluation was combined by restrictive fiscal policies, while the UK had already signed an IMF loan. Later, as these austerity policies slowed down growth and increased unemployment, the Government cut interest rates significantly, a move that has since dominated pro-finance policies in mature capitalist economies. The 1967 devaluation of the Sterling fits with Lazzarato's theory, we have a crisis of capitalist profitability, as the welfare state and distribution policies were pushing the profits of Capital down, which then became a crisis of trade deficit, as the UK was struggling to compete with

¹²⁰ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 131

¹²¹ House of Commons. (1967). October 26 Debate (vol 751, col 1889-92). Retrieved from <https://api.parliament.uk/historic-hansard/index.html>

countries where workers enjoyed a lower level protection and lower salaries, followed by restrictive fiscal policies, a cut in the interest rate and austerity, policies that were aimed at lowering internal demand and boosting exports, and of course an effort to boost growth via cutting interest rate, all of which was supported by an important institution of Capital, that of the IMF. As in other instances Lazzarato does not offer us the historical evidence that supports his hypotheses, however, we can here find some historical evidence that would support his historical narrative. If then the Fordist State was abandoned as a means to realize the axioms of Capital, what was it replaced with? For Lazzarato, the capital axioms of post-fordism did not replace the Fordist model of Subjectivation, where individuals became consuming Subjects and Subjects of the welfare state, with a new adequate form of Subjectivation. At the same time financial capitalism weakened political and social forms of representation, which in the fordist era had allowed for the emergence of national and social subjectivities. The political and social subjects of Fordism are replaced by the much weaker subjectivities of the auto-entrepreneur, the human capital and the hyper-consumer. These subjectivities are based on the competition of everyone against everyone, with social darwinism and an "exaggerated individualism".

The 2007 crisis made a change in axioms and their realisation unavoidable. The neoliberal axioms of credit were replaced by the axioms of debt. According to this new axioms, those who have taken up on debt - a choice encouraged during the era of neoliberalism- were now seen as guilty debtors, unable to pay their debt, who must be held responsible for this failure. These axioms came with new conditions for their realization, which according to Lazzarato were mainly focused at removing the last obstacles to the financial "reorganization", namely the residual "power of salaries", and the remaining power " of the social over the welfare" and an intensification of privatisations¹²² (Lazzarato, 2014a, p. 133).

And along with these new forms of realisation, new subjectivities emerged too, the subjectivity of the "indebted man", a subjectivity which Lazzarato describes as negative and regressive. Long gone is the Fordist promise of prosperity towards the Subject. The indebted Subject can wait for nothing else by the state but the continuation of austerity, budget cuts and recession. Given that these promises are not particularly appealing to the population, contemporary

¹²² Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 133

capitalism needs to employ authoritarian means of realization¹²³ (Lazzarato, 2014a, p. 133-134).

So what is the purpose of remobilizing a concept from the *Anti-Oedipus*, in order to analyze our current predicament? What are the theoretical gains we get from using this, admittedly, complicated concept, taken from a book written in 1972, in times radically different than ours? Lazzarato claims that it allows to avoid a "double trap". On the one hand we can fall into the trap of believing that power is purely subjective and the other hand that the power is impersonal or automatic, exercised by "technical machines" and "cybernetics". Lazzarato references claims about the independence and self-regulation of the markets as an example of such a trap. (Lazzarato, 2014a, p. 134)

Overall the mobilization of the idea of axiomatics and realization offers us some insights and it allows us to think in detail about how capital exercises its control over the social sphere. In Lazzarato's work the idea would benefit from more historical examples and we definitely lack enough historical or empirical evidence that would allow us to evaluate the idea, overall. Some insights are being gained allowing us to explore how subjectivity operates within the capitalist mode of production. Lazzarato, faithful to the Deleuzian tradition, uses a few of Deleuze's concepts from the *anti-oedipus*. The concepts are so numerous that some details are missing. The most obvious point where more clarity could be needed is on the level of agency. For example in the theoretical model of Piketty the main agents are households belonging to different income percentiles, governments affecting policies, political parties as well as the other agents we typically encounter in conventional economics and political science, such as voters, companies. In the Financialization literature the agents which are used to build the theoretical models are borrowed from the field of political economy and finance, p.e. financial companies, non-financial companies, households, central banks and governments, but also using a quasi marxist vocabulary that speaks of labour and capital. In the work of David Harvey we have a return to more traditional marxist terminology, along with a strong emphasis on specific social and political groups and their contribution in the development of capitalism. In Lazzarato's work, agency is structured around industrial, financial and commercial capital, which is used in a similar fashion as in the Marxist vocabulary to signify the capitalist class. Other important agents in Lazzarato's theoretical model are institutions which contribute to

¹²³ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 134

realization and indeed this concept of institution can contain anything from the police or the media to the IMF and the EU. With such a wide notion of the institution, the clarity of the concept begins to suffer. The classic marxist concept of the proletariat is here erased as it tends to focus too much on production and separate from other forms of capitalist domination and exploitation. Lazzarato again employs concepts from the work of Deleuze and Guattari such as the "dividual", population, the consumer, the Subject of the nation state, the user of welfare services, the hyper-consumer and of course eventually the "indebted man" -inexplicably using a gendered work for such an all-inclusive category. Lazzarato's model is characterised by the inclusion of non-human agents such as machines and signs which are, also, part of the productive process¹²⁴ (Lazzarato, 2014a, p. 148) . These are the main agents in the analysis of Lazzarato. Lazzarato has made a good case for using a plurality of notions when it comes to the agents participating in the social sphere. They allow us more plurality and they allow us to reflect how subjectivity, class, race, nationality, place in the productive process forms how these different agents interact with one another. However, the divisions between these forms of agency are not clearly established. It is made clear that a person can hold multiple "personalizations" that form part of her subjectivity p.e. race, nation, class and being in debt could be different personalizations that one person could engage in at the same time. It is also clear that in the years of the crisis the personalization of the "indebted man" is dominant and overarching above other forms of personalisation. However, evidence is not given on why this is the dominant personalisation, one that is above all others. And above all, the theoretical or political gains that these concepts can offer us are not established. The same applies for the concept of the dividual as an agent. The dividual is the product of machinic servitude, the opposite of the subject and a necessary element of capitalist production The dividual is essentially, a deterritorialization of the individual , decomposing it at its constitutive elements, memory, perception, intellect, sensivity, in order to put the finctions and potentialities in use (Lazzarato, 2014a, p. 159) ¹²⁵. The concept of the dividual allows Lazzarato to conceptualize how humans are incorporated in the "capitalist machine", reduced of all subjectivity and identity, as mere data, as mere machine parts, The main reasons that Lazzarato gives behind this move is to avoid reducing capitalism to a pure intersubjective relationship or a relationship between subject and objective reality.

¹²⁴ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 148

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Machinisms

Lazzarato's model paints an image of capitalism as extraordinarily complex, enriched with marxist, foucauldian and deleuzian ideas it presents capitalism as a web of relations between a considerable number of agents. Lazzarato employs the Deleuzian concept of mechanism to discuss the issue of agency in capitalism. He asserts that although capitalism is indeed a relation, it is a relation that is not reduced to inter-subjectivity or inter-individuality. The organisation capital is not centered neither on individuals nor on the social. Capital, Lazzarato claims is a machinic relation, in the sense that it does not imply only subjects faced with an objective reality that dominates them, as claimed by Marx. Capital involves relations with non-humans, social and technical machines which exercise "relations of power".

According to the theory of machinism for Capitalism to organise production it needs to control both the subjectivity of individual subjects and de-subjectivation, a process which Deleuze describes as well as "machinic servitude". The term of Subjectivation is used here to describe "techniques of government "that make use of the linguistic and political representations, knowledge and discursive practices in order to produce subjects. The outcome of Subjectivation is, as we have seen previously, the production of subjects of rights, political subjects, even the Ego, in others words the production of individuals. The process of subjectivations assigns us wut identities, sex, professions, nationalities, in other words produces individual subjects. Lazzarato describes the process of Subjectivation as semiotic trap, a signifying trap that noone can escape. He provides examples of various forms of subjectivities that contemporary capitalism produces, such as human capital, the figure of the auto-entrepreneur, and the figure of the consumer(Lazzarato 2004, 149).

If the product of Subjectivation is the subject, what is the product of its opposite process, the process Desubjectivation or "machinic servitude" ? Machinic servitude, Deleuze claims works and produces a "dividual", an obvious wordplay with the word individual. As a result of this process of servitude humans end up working like mechanical parts of the machinism. Lazzarato mentions as examples of this machinism how companies such Facebook and Google, or polling institutes, data banks even marketing societies treat humans not as subjects, but rather as sources of exchange and transformation of information. This kind of information that is extracted from companies of this kind is then used as "primary matter" for the function of the

machine. The representations, the psyche of a person, her conscience, her interiority are unnecessary from the point of view of machinisme.

Subjectivation functions on the basis of the classic dualism that separates subject and object whereas machinic servitude makes no distinction between machine and organisme, subject or object, human or technique.

How then does this dual process of subjectivation and de-subjectivation operates. The process of Subjectivation, according to Lazzarato, leads subjects to interiorise the failures of capitalism, blame themselves for their poverty, indebtedness, inability to find work. In the end the subject ends up neurotic, anxious, depressive, which Lazzarato considers pathologies of capitalism, a claim that he doesn't qualify or discuss in detail(Lazzarato 2004, 152) This is the subjectivity of the "indebted man", suffering, unhappy individual, which interiorises all the failures of the capitalist system of production. Like the Guilty Subject of Nietzsche, the Indebted Subject of Lazzarato is fundamentally suffering from bad conscience. On the other hand the process of machinic servitude produces individuals than can be reduced to human capital or data, mere entries or outcomes in a machinic process, the individuals are then incorporated in the capitalist production process(Lazzarato 2004, 153)

Nomos: three principles of socio-economic order

Every politico-economic regime is constructed and organised on the basis of three principles and capitalism is no exception. These three principles Lazzarato claims are corresponding to the three meanings of the greek word "nomos" (Lazzarato, 2014a, 38)¹²⁶. The first principle of politico-economic regimes corresponds to nomos as "taking". Every new society -and new eras of capitalism- start with what Marx would describe as primitive or original accumulation, or in Lazzarato's terminology with "conquest". In Capital Marx uses the term primitive accumulation, when he describes the historical question about how capital becomes amassed, how capital ends up being owned by certain individuals. In Capital for example he mentions European colonialism, and the influx of resources and precious metals from the colonies as "the idyllic conditions" for the original accumulation of capital and Lazzarato's use of the term conquest brings in mind this Marxist theory about the primitive accumulation of Capital through the conquest of the Americas, Africa and Asia by the European colonial powers. Until

¹²⁶ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 38

the advent of Capitalism. Lazzarato theorises, this phase of conquest was essentially centered around the appropriation and expropriation of land, as land was the precondition for any rights of property and the foundation of the economy. For Capitalism of the 20th century Lazzarato will use concepts from the German philosopher Carl Schmitt, who in the dawn of WWII and Nazism, had spoken of the "appropriation of industry" (Industriennehmung), during which the means of production and modern industry were taken over. Lazzarato is keen to repeat Schmitt's theory that although this "conquest" of means of production did not involve the conquering of land, was actually more aggressive than older forms of appropriating, because of the extreme level of destructive power and the ability to project this power globally that industrial powers acquired.

The second principle of every ethico-political regime corresponds to the concept of nomos, as division, the division of wealth that defines property rights and the law. After wealth has been appropriated as per the first principle that Lazzarato described it must "measured, weighted, divided". Lazzarato connects this principle with Deleuze and Guattari's concept of evaluation/comparison as necessary supplements of the process of appropriation. The process of evaluation -which then informs the division- goes "hand in hand" with the process of appropriation¹²⁷ (Lazzarato, 2014a, 38). Finally, The third and final principle of socio-political regimes is equivalent to the concept of nomos as production and productive work, which of course lies upon property rights (Lazzarato, 2014a, 39)¹²⁸.

One way of understanding the three principles of politico-economic regimes is to look at Lazzarato's analysis of the post-war social welfare policies. These Keynesian policies did, indeed, change the division of wealth, offering to workers a more favourable distribution of income. However, the price that had to be paid by workers for this concession was to accept the capitalist mode of production, namely of the key principles of the politico-economic regime of capitalism.

Lazzarato's work emphasizes this double nature of post-war welfare; on the one hand a victory for the working classes, on the other hand a hook, a way for Capital to pacify and defuse social

¹²⁷ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 38

¹²⁸ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 39

struggles(Lazzarato, 2014a. 44)¹²⁹. In Lazzarato's work, however, what we are presented with is a systematic theory that allows us to understand the function of social welfare in the history of capitalism. The idea that every politico-economic system is based on the three pillars of division, production and appropriation, offers a more systematic analysis of the post-war changes in mature capitalist societies, one in which some mild changes were allowed in the level of division of wealth with the purpose of preserving the capitalist mode of production and appropriation, thus leading to a situation that the capitalist regime was mildly changed but fundamentally was left in tact. Although Lazzarato's theoretical model stemming from critical theory and not economics or history lacks rigorous empirical or historical testing, it definitely allows us for some interesting insights in that era of the history of capitalism.

The historical events around the 2007 crisis and the Eurozone crisis that ensued can be seen in a new light if we use Lazzarato's model. The crisis that began in 2007 should not be seen, Lazzarato underlines, as a simple economic failure, but as a complete failure of the political relations of appropriation, distribution and production, all three of which were not able to function properly, came to fail critically and could not ensure the reproduction of Neoliberal Capitalism. Lazzarato draws one key conclusion from this that the strategy that most governments adopted in the aftermath of the 2007-2008, namely the exit from the crisis through GDP growth, cannot function because what is really needed is new principles of appropriation, production and division. Lazzarato claims, without precising why, that neoliberalism has been unable to "think " such new principles, while the avenue to reform the existing principles was blocked, thus leading the only option available the implementation of authoritarian and populist policies¹³⁰ (Lazarato, 2014a. 45). There is a lot to unpack in this dense passage, which ultimately the argument here leaves us with some unanswered questions. Why does Lazzarato believe the reformist path is blocked and why is neoliberalism unable to device new principles of appropriation, division and production? Although the suggestion that the rise of “*authoritarianisms*” especially in mature capitalist economies is somehow connected with the crisis of neoliberalism is interesting, it is ultimately left unexplored. Lazzarato's reference to populisms is even more obscure. Populism as a term has an ambiguous sense often used to describe anything from left-wing political parties, to right-wing anti-immigrant speech. Here,

¹²⁹ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 44

¹³⁰ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 45

Lazzarato does not clarify the sense in which he understands the term populism, reducing the overall clarity of the argument.

Lazzarato's three principles model allows him, also, to explain rising inequalities to a degree; since production is based upon appropriation and division, any level of growth, any degree of increasing production will simply reproduce the inequalities that principles of appropriation and division have established¹³¹ (Lazzarato, 2014a. 45). Here too. Lazzarato's explanatory model lacks details and nuance in the sense that we do not get an account of what causes the fluctuations of inequality that can be observed in the data, p.e. the rising inequalities that Thomas Piketty has identified.

Guilt

Lazzarato returns on the issue of guilt in "Gouverner par la dette" and especially in the Nietzschean idea that pain and suffering are intrinsically connected to the social institution of debt; as we have seen Nietzsche claimed that pain and punishment are essential aids to memory, by inflicting pain on humans societies were able to create subjects that self-discipline, remember their debts and repay them. Lazzarato had already mentioned that capitalism in the years of crisis has been extracting value from its population mainly by taking direct payments from people, forcing them to either pay elevated taxes or for overpriced privatised essential services. He now goes full circle linking these ideas he had presented in the "Making of the Indebted Man ", by claiming that essentially these direct payments imposed on the population are a form of inflicting pain. The pain inflicted on people when the state takes away their wealth is combined with the verbal violence; as we have seen, already, the media but also politicians, parties and academic discourses have aimed to shift the blame for their crisis from the financial sector to the populations, culpabilizing entire nations. Lazzarato, himself, considers the role played by the media in the Eurozone crisis, as crucial. He pointed out that the role of French and German banks in the crisis and the rescue funds they received was completely obscured. Instead, the narrative that was put forward was that of a Greek rescue (Lazzarato 2012, 118).

Indeed, it remains a curious fact open to interpretation that so many voices opted to culpabilise ordinary citizens for the effects of a crisis that was at its core financial. Apart from the media

¹³¹ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 45

reactions we have already mentioned, it is worth to also mention that governments and the European Commission have formally endorsed this argument "citizens are to blame for the crisis" often making obscene arguments such as the one made by Eurogroup President Jeroen to German newspaper Frankfurter Allgemeine Zeitung Dijsselbloem "As a Social Democrat, I attribute exceptional importance to solidarity, but you also have obligations. You cannot spend all the money on spirits and women and then ask for help." It is interesting that the President of the Eurogroup faced no consequence for this statement and even refused to take back the statement claiming " I am sorry if you took offense, but I am still behind the message". How then does Lazzarato explain this indeed peculiar insistence on culpabilizing citizens, nations or even entire cultures for the crisis? According to Lazzarato the aim of this verbal and financial violence, is to use the pain caused in order to enforce a false memory of the 2007 crisis on citizens. Who is behind this effort of using violence as "an aid to memory", to repeat the famous Nietzschean phrase? Lazzarato names States, the markets and the media and he claims that this fiscal and verbal violence was proportionate to the resistance with which this discourse was met in the various countries. The more citizens refused to interiorise this culpability, the more they refused to adopt all responsibility and "bad conscience" the more rigorous was the implementation of these violent measures¹³² (Lazzarato, 2014a, 34).

The efficiency of the politics of debt lies in a framework that works similarly to the one Nietzsche describes in the Genealogy of Moral. The mnemotechnics of neoliberalism, Lazzarato claims, might be less violent and cruel than the mnemotechnics analyzed by Nietzsche, however the purpose remains the same. Neoliberal mnemotechnics aim to construct a memory, "inscribe guilt", fear and bad conscience in individual subjects, similar to Nietzsche's account. This is where the interest of Lazzarato in Nietzsche originates from; like Deleuze and Guattari Lazzarato returns to Nietzsche in order to extract a theory about how an indebted, guilty subjectivity can be formed and then used politically. (Lazzarato, 2012, 130).

But how exactly does debt affect and produce Subjectivity? How does this process take place. For Lazzarato debt/money affects subjectivities in two different but complementary ways. First, it operates on the subject via "social subjection", namely exercising moral control of the subject by using her morality, conscience, memory and representations. Morality, however, on its own is not sufficient to guarantee a hold on Subjectivity. The second way on which debt operates on the subject is through what Lazzarato describes as "machinic subjugation". This

¹³² Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 34

machinic subjugation does not operate on the level of reflexive consciousness or the level of the "self". The kind of control that machinic subjugation produces is described by Lazzarato as infra-personal, molecural and pre-individual hold on subjectivity. Lazzarato provides as an example of this machinic subjugation, the "intersubjective relationship founded on trust". This relationship is mobilized by and becomes part of the machinic function of the credit card, until it professionally fragments into "paper transactions on the monetary network" (Lazzarato, 2012,146-147)

The state

The role of the state in the 2007 crisis has been a topic that has attracted significant attention from critical theorists and heterodox economists. The fact that governments in the Global North intervening in the financial markets with taxpayer money in order to bail out financial institutions that had in the previous years preached a minimal state and the freedom of markets was rightfully pointed out by Lazzarato. For heterodox economist Costas Lapavistas it showed the key role that the state has in contemporary capitalism -as well as conclusive proof of the importance of a capture of the state from the forces of progress¹³³ (Lazzarato, 2014a. 78). For Lazzarato the interventionism of the state was only a paradox on a surface level. In reality the intervention of the state in favour of Capital is a precondition for the reproduction of Capitalism. In fact Lazzarato comments in the years of the crisis the scope and reach of the neoliberal state has increased so much that it could be directly compared to totalitarian regimes¹³⁴ (Lazzarato, 2014a. 79). The State in Lazzarato's theoretical model is a necessary precondition for the existence of Capital. The one shall not be reduced to the other, since the state is limited in a specific territory, where it produces a community, a people, a nation. Capital is unable to produce such a community or people. If the State represents and is limited by a given territory, Capital has no limits, it is a deterritorialization, its real dimension is the global market. The division of classes, the private appropriation destroy communities, the people and the nation. While the State is based upon the notions of citizenship and civil rights, Capital is based upon the entrepreneurs and the exploitation of workers¹³⁵ (Lazzarato, 2014a. 81) . For Lazzarato the emergence of the welfare state should be seen under the light of this relationship

¹³³ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 78

¹³⁴ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 79

¹³⁵ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 81

between state and capital; for Lazzarato the institution of welfare states in mature capitalist economies was the result of economic and social forces of capitalism taking over the state and using it for their purposes, which in this case involved the pacification of worker movements¹³⁶ (Lazzarato, 2014a. 82).

In fact, Lazzarato claims the state in the years of neoliberalism was, contrary to neoliberal ideology, not minimal but rather a maximal state. This neoliberal maximal state subdued both public administration and welfare to the valuations of capital and minimised its expenses for the employees, the unemployed, and women. According to Lazzarato's narrative, from the 1970s onwards a change occurred in the relations of power between Capital and the population, changes that favoured Capital and allowed liberals to take over and use the functions of the State to their advantage. Lazzarato mentions the function of the state as lender of the last resort, which as we know was used in the years of the crisis to bail-out financial institutions, or the states fiscal sovereignty, which allowed for an extensive implementation of austerity policies across Europe¹³⁷ (Lazzarato, 2014a. 85).

We can take the Eurozone for example, Lazzarato argues, as further evidence of the role of the State in the post-crisis Capitalism, as well as evidence that it has become impossible to separate the economy from politics. The Euro, he comments, is accurately described as a German currency, as the German State sways significant power over the monetary policies and overall function of the Eurozone and its institutions¹³⁸ (Lazzarato, 2014, p. 92). This influence over the Euro is used in the interest of Capital, acting as a disciplinary mechanism against the population. The institutions of the Eurozone were used efficiently to impose austerity across the member-states of the zone, while the ECB provided important liquidity to the European financial system.

Pro-EU voices would have us believe that single currency represents some kind of a completely unseen before process moving towards the overcoming of the Nation-State. In reality the Eurozone represents, according to Lazzarato the construction of a new space of capitalist domination and exploitation. The European governmentality is seeking to construct a population and market that would be "adequate for the global market", Lazzarato comments. The quite condensed expression could be taken to mean that the Eurozone by creating a larger,

¹³⁶ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 82

¹³⁷ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 85

¹³⁸ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 92

common market of goods, finance and labour is creating a bigger market, that allows for new opportunities for exploitation of workers, appropriation and extraction of wealth on the part of Capital. Lazzarato describes the European institutions, as a new device of exploitation, control and class division¹³⁹ (Lazzarato, 2014, p. 93).

In order to support his theory of the State Lazzarato returns to Foucault's theory of Governmentality and he sees the rise of the welfare state as part of the rise of biopolitics that Foucault considered to be a defining characteristic of the modern state. For Lazzarato governmentality was beyond a series of complex governance techniques that was based around the idea of population. Rather Governmentality had as its objective to create the Social State, a state generated by the markets for the purpose of "socializing" the capitalist process of valuation¹⁴⁰ (Lazzarato, 2014a. 83). At the same time the state was meant to cede its sovereignty to these markets¹⁴¹ (Lazzarato, 2014a. 84).

Given Lazzarato's theory of the State the rising importance of taxes and money should not be interpreted as a sign of the sovereign power of the State. These functions of the State have been put in the service of Capital and its interests. The State's ever stronger control over the population should not be seen not as an expression of the state but the "supra-national" governance of Capital¹⁴² (Lazzarato, 2014a. 84).

This new form of State Capitalism emerged with the advent of neoliberalism and ordoliberalism -which Lazzarato considers two different modalities of the "government by Capital"- and its aim is not simply capture surplus value via industrial production and surplus labour but more than that its purpose has become to capture the social surplus value. Although Lazzarato does not define the concept of social surplus value, he does suggest that it consists essentially of capturing and appropriating wealth that goes beyond work, for example via loan repayments, via austerity or taxes¹⁴³ (Lazzarato, 2014a. 86).

Lazzarato's understanding of both Ordoliberalism and Neoliberalism is connected with his theory that in the years that followed the decline of Fordist capitalism. the State was subdued

¹³⁹ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 93

¹⁴⁰ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 83

¹⁴¹ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 84

¹⁴² Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 84

¹⁴³ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 86

to a never seen before degree to the needs of the market and Capital. What characterises Neoliberal Governmentality is that it no longer exclusively concerns the State, even if the State still occupies a prominent position. Since the 1970s, however, Lazzarato claims we have a process of "privatisation" of Governmentality, by which he means that Governmentality is no longer exercised by the State but by an "ensemble" of non-statal institutions, such as independent central banks, markets, pension funds, supranational institutions among others. He mentioned the vital role that the Troika, namely the EU, IMF and the ECB played during the Eurozone crisis¹⁴⁴ (Lazzarato, 2014a. 105).

The history of *Ordoliberalism* is definitely less developed and detailed in Lazzarato's work but it is clear that he sees these two movements as complementary aspects of post-fordism, two ideologies that aimed at the creation of a new Capitalist State. Ordoliberalism marks a departure from the era of Classical Liberalism. Whereas, Classical Liberalism relied on theories and policies of free exchange, Ordoliberalism is based upon the concept of competition. Ordoliberal competition policies are reliant upon massive intervention on behalf of the state to subsidise and ensure the conditions necessary for its existence¹⁴⁵ (Lazzarato, 2014a. 87). Lazzarato interprets Ordoliberalism as an effort of deproletarizing politics. Ordoliberals argued for policies that would undermine class struggles in Germany and in Europe, by pushing for Welfare policies and co-management structured. At an early stage this de-proletarization policies did, indeed, signal a transfer of wealth to the working class and a more favourable distribution of income for workers. With the advent of contemporary neoliberalism this de-proletarization became a mere discourse, as at austerity policies and economy of debt instituted economic and existential precariousness¹⁴⁶ (Lazzarato, 2012. p 92)

Ordoliberalism, a term with which we normally describe the German variant of Liberalism which was developed by economists of Freiburg University, shaped Germany's post-war economic policies, with a mixture of free-market policies, an industrial organization that aided oligopolies, emphasis on austerity, a reliance on exports combined with some social welfare policies. International relations scholar Robert Gilpin summarized ordoliberalism in his classical handbook "Global Political Economy" as follows:

¹⁴⁴ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 105

¹⁴⁵ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 87

¹⁴⁶ Lazzarato, M. (2012). *The making of the indebted man: An essay on the neoliberal condition*, trans. Joshua David Jordan, New York: Semiotext (e).

" Germany, like Japan, emphasizes exports and national savings and investment more than consumption. However, Germany permits the market to function with considerable freedom; indeed, most states in Western Europe are significantly less interventionist than Japan. Furthermore, except for the medium-sized business sector (Mittelstand), the nongovernmental sector of the German economy is highly oligopolistic and is dominated by alliances between major corporations and large private banks. The German system of political economy attempts to balance social concerns and market efficiency¹⁴⁷ (Gilpin, 2001. 168)."

For Lazzarato the purpose of Ordoliberalism is, using a phrase of Foucault, to economize society, to force society to conform to the rules of capitalist accumulation. Without the Ordoliberal state, Lazzarato comments, the market had no chance of existing. Neoliberalism and ordoliberalism are essentially continuations of each other, something that Lazzarato claims is evident by the project of the individual enterprise, the model of the auto-entrepreneur who constantly invests in herself. This project expands the form of the company at the interior of the social fabric and even the body. This logic of the individual company divides the social fabric and "de-multiplies" it not on the basis of individuals but on the basis of companies¹⁴⁸ (Lazzarato, 2014a. 88).

Lazzarato poignantly points out the discrepancy between Ordoliberal theory and praxis, since Ordoliberalism was founded upon the idea of a strong legal framework, that levels the playing field, remaining sufficiently abstract so that it does not serve any particular sector, or policy or company. However, Lazzarato claims the legal framework promoted by Ordoliberalism served as a disciplinary mechanism to keep the rising number of indebted citizens under control in the interest of the creditors¹⁴⁹ (Lazzarato, 2014a. 91). Lazzarato again does not offer us concrete examples of such a regulatory framework and how it functions on a practical level, but we can assume here that Lazzarato is referring to bankruptcy law and the wider legal framework that often leaves citizens unprotected against debtors. Lazzarato claims that often this willingness to put rules in the service of the creditors is even counterproductive from an economic perspective, giving the example of the European South. The policies imposed on the indebted states of the South, the counter-reforms, the austerity measures, the rising taxes for the lower

¹⁴⁷ Gilpin, R. (2001). *Global political economy: Understanding the international economic order*. Princeton University Press. 168

¹⁴⁸ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 88

¹⁴⁹ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 91

and middle classes, the depressed wages are all leading to the destruction of society. Societies are being blackmailed to conform to these destructive policies that serve the interests of the creditors. To avoid any kind of democratic resistance to the logic of debt, to the logic of capitalist valuation and neoliberalism all liberties are set aside, producing a "post-democratic authoritarian" governmentality. Lazzarato is not the first critical thinker to claim that the 2007 financial crisis and the Eurozone sovereign debt crisis have led to a democratic deficit in Europe. Austerity was implemented across Europe as the main policy mixture in response to their crisis despite that the policies remained unpopular or were even outright rejected in democratic processes, such as the Greek referendum 2015. However, it is interesting that according to Lazzarato's theory Keynesian criticisms to austerity that it economically makes no sense, that it is suboptimal for all parties involved are completely impotent.

Varoufakis ability to put forward a reasonable criticism against the Eurozone's austerity policies, that he described as self-defeating, that largely informed his academic writing and political career¹⁵⁰ (Varoufakis, 2018, p. 5-7). The idea behind his argument is that since austerity produces self-defeating results, making indebted countries worse-off in the process, a common-sense solution could be reached between creditors and debtors, with the former relaxing austerity to allow for the latter to avoid a prolonged recession. In the long term the argument goes, creditors and debtors have a common interest, which is debt sustainability¹⁵¹ (Varoufakis, 2018, pp75-78). However, if Lazzarato is correct here and the purpose of the creditors is to capture as much wealth as possible. while at the same time imposing an unbreakable discipline to creditors with the use of laws and institutions -such as the EU and the Eurozone-, then the behavior of the creditors towards the indebted South makes complete sense.

The Decline of Democracy

Similarly to the State apparatus, representative democracy, as a function of the state, was subdued to the needs of Capital¹⁵² (Lazzarato, 2014a. 85). The advent of the crisis, he

¹⁵⁰ Varoufakis, Y. (2018). *Austerity: Vintage Minis*. Random House.5-7

¹⁵¹ Varoufakis, Y. (2018). *Austerity: Vintage Minis*. Random House. 75-78

¹⁵² Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 85

comments, significantly, reduced the ability of the governed to express themselves. He mentions the current electoral laws, the role of the media and the experts as forces that have reduced the ability of the population to express its democratic will, and yet Lazzarato claims even our contemporary democracies are still too democratic for this new kind of governmentality that emerged in the years of the crisis. For Lazzarato in the era of the crisis the voice of the markets has never been louder compared to the voice of democratic institutions. And Lazzarato believes that in this era of crisis if democratic processes do not produce the desired results, then these new forms of governmentality will attempt to distort or repeat the democratic process. Later events and especially the Greek referendum of 2015, where voters would explicitly reject the continuation of neoliberal policies, these policies were implemented regardless, thanks to a process that can be accurately described as a distortion of the democratic process; the abandonment by the Greek government of the Syriza party of its key electoral promises, as well as, electoral and parliamentary tactics that allowed them to continue in government.

The Real Economy and Financial Markets; contradiction or convergence

The question regarding the relations between the real economy and finance, or the "virtual economy" as Lazzarato puts it, is explored in the Making of the Indebted Man. This issue is one of the key questions faced by any scholar who works on the history of neoliberalism. Does financial capitalism antagonize industrial capital? Is growth in the real economy being sacrificed in the altar of financial profits? The answer is of crucial importance as it will directly influence how we value the different responses towards the financial crisis. If a distinction between finance and the real economy can still be drawn, a way of dealing with the aftermath of the 2007 crisis would perhaps involve industrial capital, who could potentially rally to the cause of limiting financial markets to a more narrow role in the economy, in order to invest and protect growth in the real economy. If such a distinction between the real economy and finance cannot be separated from the real economy, hopes that industrial capital could assist in mitigating some of the adverse effects of financialization would be misplaced. Lazzarato's position is clear, the relations between real economy and the virtual economy are not those of contradiction, but those of convergence. (Lazzarato, 2012, 102) To support his position Lazzarato refers to the fact that a large part of company revenue derives from financial revenue. Although, Lazzarato does not refer to any concrete empirical data, Financialization literature and Costas Lapavistas have presented empirical data that corroborate Lazzarato's claims. Non-

Financial Companies (NFCs) do make an increasing percentage of their profits from financial investment. Despite, the existence of this data, however, making the claim that division between the real and the virtual economy is of no use anymore, would actually remove that tool of analysis from our disposal. By separating between financial profits and non-financial profits, non-financial companies and financial companies, as well as, industrial production and financial markets allow us to measure and analyze tendencies and trends in investment and profits. In the research of Costas Lapavistas for example the high amount of financial profits made by NFCs does demonstrate that NFCs were highly involved in the financial markets, and that the process of financialization is not limited to the size of financial markets. These conclusions are of high importance and by removing this distinctions as recommended by Lazzarato we run the danger of losing a wealth of information.

Time

Debt is essentially a relationship of power that allows Capital to control future time, expropriate substantial amounts of the time of individuals and limit the potentialities of the future, so much so as to make capitalism the only viable socio-economic system. Tiziana Terranova describes Lazzarato's conceptualization of debt as a technology of government that over-determines the future, reduces the unpredictability of the future, in order to guarantee "rising rates of capitalist accumulation" (Terranova 2013)¹⁵³. As debt becomes a generalized condition Terranova argues it reduces the "the autonomy of existential or ethical life"(Terranova 2013)¹⁵⁴.

In the era of post-war Fordism valuation was mainly structured around "time of work" or work hours, which Lazzarato describes as a form of measurement used by the "capitalist machine" of capturing value¹⁵⁵ (Lazzarato, 2014a, 35). During the era of industrial capitalism the time spent at work had a hegemonic role as a form of measurement in society; daily activities were hierarchized, compared, reported on, and quantified under the name of work. We can, perhaps, think of the archival research of Foucault on juvenile prisons as he presented it in *Discipline and Punish*, where every part of the day is placed within a rigid schedule, it is given its place and time, it is ordered. Similarly, the daily activities of the worker are organized within the institution of the "working day". This is of course an important theme in classical Marxist thought, with Marx himself commenting in Chapter 10 of Book I of *Capital* on "The working

¹⁵³ Terranova, T. (2013). *Debt and autonomy: Lazzarato and the constituent powers of the social*.

¹⁵⁴ Terranova, T. (2013). *Debt and autonomy: Lazzarato and the constituent powers of the social*.

¹⁵⁵ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires.35

day"¹⁵⁶ (Marx, K. (2004). *Capital: volume I*. Penguin UK.) on how the organization and length of the working day are the object of class struggle, intrinsically tied in with the logic of the capitalist mode of production. This era of the "working day" was only to be replaced in importance by the measurements of financial rent with the advent of neoliberalism.

Lazzarato doesn't offer forms of such measurement but some examples could be a part of institutions such as Moody's which have immense authority in terms of measuring and evaluating the sustainability of Sovereign Debt, other forms of financial measurement such as the "credit-worthiness" of a citizen asking for a loan, all the information that the financial system asks of an individual in order to evaluate her ability to take a loan. Finally, the years of crisis saw a new form of measurement becoming more important, namely measurement of tax, we can think as an example of this how the population is arranged in tax categories with certain social groups such as the poorest percentiles being subjected to increasingly higher taxes.

Alberto Toscano emphasized that the issue of time has been a long-standing preoccupation of Lazzarato dating from 1996 and a key concept in his analysis of the periodisation of capitalism. In the early work of Lazzarato, time is presented as the "terrain of political engagement," where we can witness the "guerilla warfare of plural time" of constituent power, a Spinozean term for the population who forms the commons, against the empty time of "capitalist self-valorization"¹⁵⁷ (Toscano 2007, 84)

As early as 1996 in his work *Videofilosofia. La percezione del tempo nel postfordismo*, Lazzarato described the transition from fordism to post-fordism, as a transition from one mode of exploitation of people's time to another. According to his argument the post-fordism mode of production was a strategic "dispositif" that allowed Capital to subordinate not just labour time (for example the 8 working hours) but what he describes as "tempo qualunque", translated freely as whatever time possible, namely a much larger part of a person's time, without being limited in the working place, but extracting time even during the private life of a person. (Lazzarato, 1996. 117) ¹⁵⁸. In the *Making of the Indebted Man* Lazzarato claims that the both Neoliberalism and Crisis Capitalism were able to reproduce themselves and retain power over the population by overdetermining time, through prolonged debt payments, exploitation, work,

¹⁵⁶ Marx, K. (2004). *Capital: volume I*. Penguin UK.

¹⁵⁷ Toscano, A. (2007). Vital strategies: Maurizio Lazzarato and the metaphysics of contemporary capitalism. *Theory, Culture & Society*, 24(6), 84.

¹⁵⁸ Lazzarato, M. (1996). *Videofilosofia. La percezione del tempo nel postfordismo*. Roma: Manifestolibri. 117

and appropriation the population has lost control over their future. Time is so key for Capitalist appropriation that Lazzarato claims that the substance of *money as capital is essentially time* (Lazzarato, 2012, 85).

Subjectivities

The emphasis on the analysis of Subjectivity, as a theoretical tool, has characterized the work of Lazzarato from its initial stages (Toscano, 2007, p.73-74). Subjectivity was a concept that acquired significant importance amongst the thinkers of the post-workerist milieu. Post-workerist thinkers were attempting to escape the tight confines of the Marxist analysis of capitalism. The Marxist analysis would divide social reality into a subjective dimension, the superstructure (ideology, commodity fetishism, exchange value, culture) and an objective dimension, the structure of real production, the material reality of economic relations and of capitalist exploitation, which as we have seen was rejected by Lazzarato and the post-workerists for being reductionist and economistic, reducing social relations to the economic relations that emerge within the process of production. For post-workerism it was crucial to think of Subjectivity not as mere epiphenomena, a secondary superstructure, but rather as important for the reproduction of capitalism as “real economy” itself. “subjectivity itself has become essential to economic processes and is in this sense, as Felix Guattari once put it, indistinguishable from the ‘economic’ infrastructure (Terranova 2013)¹⁵⁹”

An analytical focus on Subjectivity has been evident in Lazzarato’s earlier work on Capitalism. The Microsoft example as discussed by Lazzarato in his “Les révolutions du capitalisme” is telling of the difference that exists between his analysis and a classical Marxist analysis. Microsoft from the Marxist perspective is a company that extracts surplus value from the labour of the workers she hires to produce products which it later sells to consumers. For Lazzarato if one is to analyze the Microsoft phenomenon correctly one must start from the consumer. Microsoft’s main task consists in the capture of networks of clients who become faithful to the brand. By modulating their memory and attention Microsoft produces a new subjectivity of the microsoft product consumer, which then creates and informs the demand for and production of its products¹⁶⁰. (Lazzarato, 2004: 116)

¹⁵⁹ Terranova, T. (2013). *Debt and autonomy: Lazzarato and the constituent powers of the social*.

¹⁶⁰ Lazzarato, M. 2004. *Les révolutions du capitalisme*. Paris: Les Prairies Ordinaires. 116

Lazzarato builds on Foucault's genealogy of Subjectivity, according to which in the post-war era we passed from disciplinary societies to the era of biopolitics or as Lazzarato describes it - borrowing the term from Deleuze- to societies of security or control. An exemplary of the disciplinary society is the school, the prison, the hospital and it's a form of society that Foucault investigated in depth in his work "Discipline and Punish", where he described the birth of the disciplinary society, as new "mechanics of power which has as its aim to create docile bodies, under control, efficiently subservient"¹⁶¹.

Si l'exploitation économique sépare la force et le produit du travail, disons que la coercition disciplinaire établit dans le corps le lien contraignant entre une aptitude majorée et une domination accrue (Foucault, 1993 [1975], 140).

According to Lazzarato the societies of control were a response to the rise of a new subjectivity in the rebellious decade of the 1960s -and one can assume that Lazzarato has in mind the events around 1968- that disciplinary societies could no longer control. In response to this challenge in societies of control a new regime of *power* emerged, one where power was no longer implemented in the "closed spaces" of school and university but even in open spaces and eventually on society itself in its entirety. The concept of a Society of Control derives of course from the work of Gilles Deleuze and its a common preoccupation amongst automatist Marxists -with Toni Negri and Michael Hardt famously also commenting on the issue. Gilles Deleuze excavates the idea of a control society from the work of Foucault, and I am using the term excavate here in the sense that Foucault himself never speaks of a society of control, per se. He does allude to the idea, however. in *Discipline and Punish* when he claims that the mechanisms of power of the disciplinary society gradually begin to de-institutionalise themselves, to exit from the "closed fortresses" and "circulate freely" . This according to Foucault led to a situation where mass discipline begins to "decompose" and morph into soft and adaptable processes¹⁶². (Foucault, 1993 [1975], 213). Deleuze will develop this idea on the book he dedicated to his teacher titled *Foucault* and then he would later proceed to expand on these ideas in "Post-

¹⁶¹ Foucault, M. (1993). *Surveiller et punir. Naissance de la prison [1975]. Gallimard, Tel.*, 140

¹⁶² Tandis que d'un côté, les établissements de discipline se multiplient, leurs mécanismes ont une certaine tendance à se « désinstitutionnaliser », à sortir des forteresses closes où ils fonctionnaient et à circuler à l'état « libre »; les disciplines massives et compactes se décomposent en procédés souples de contrôle, qu'on peut transférer et adapter. Foucault, M. (1993). *Surveiller et punir. Naissance de la prison [1975]. Gallimard, Tel.*, 213

scriptum sur les sociétés de contrôle¹⁶³ (Deleuze,1990). To summarize the rather complex discussion of this idea by Deleuze societies of control were the result of disciplinary techniques of power, such as the hospital, the school, the prison system that had begun to be put into question, where according to Deleuze disciplinary societies forced individuals to start always from point 0, always having to follow disciplinary processes, from school, to university to the workplace, in societies of control, as he characteristically says, individuals can never finish¹⁶⁴, using the examples of continuous education as characteristic of this new kind of power relations.

Dans les sociétés de discipline, on n'arrêtait pas de recommencer (de l'école à la caserne, de la caserne à l'usine), tandis que dans les sociétés de contrôle on n'en finit jamais avec rien, l'entreprise, la formation, le service étant les états métastables et coexistants d'une même modulation, comme d'un déformateur universel. Kafka qui s'installait déjà à la charnière de deux types de société a décrit dans *Le procès les formes* (Deleuze, 1990),.

Lazzarato's theory of the "Indebted Man" should be seen, as he makes it clear, in the light of Deleuze's theory of Society of Control, as part of this form of power that "never allows us to finish" with our obligations and aims at a softer, more adaptable, more widespread control.

The more mature fruit of these new societies of control was the rise of a new type of subjectivity, a subjectivity that characterised the era of neoliberalism/ordoliberalism, that of the individual-enterprise. The purpose behind producing this new subjectivity was, according to Lazzarato, was to end with social movements and the class struggles that had plagued Capital during the Fordist era. The post-war period saw workers movements and social struggles emerge in the space of the factory that had become an obstacle to capitalist profitability. Starting from the 1980s neoliberals had tried to liberate themselves from these movements by introducing the new policies of "human capital" and policies of flexible labour, transforming workers into "independent contractors". We can think how many new forms of precarious labour that have emerged with the sharing economy have undermined worker struggles and

¹⁶³Deleuze, G. (1990). *Post Scriptum sur les sociétés de contrôle. Pourparlers 1972 - 1990*, Les éditions de Minuit, Paris.

¹⁶⁴Deleuze, G. (1990). *Post Scriptum sur les sociétés de contrôle. Pourparlers 1972 - 1990*, Les éditions de Minuit, Paris.

have reduced workers into completely flexible forms of work. These phenomena which Lazzarato describes as individualisation of work, which both Ordoliberalism and Neoliberalism advanced, have given an advantage to the forces of Capital over Marxism. In Lazzarato's opinion the Marxist framework of thought remains trapped in the notion of the factory, by which I take him to mean the relations between proletariat and the owners of means of production as were described by Marx in the height of the pre-war of the Industrial revolution. By employing the Deleuzian concept of valuation, Lazzarato aims to show the crucial role that Subjectivity plays in the reproduction of Capitalism. The capitalist mode of valuation attributes importance exclusively to profits, it evaluates activities based on their profitability. All other activities that the Subject could potentially seek to explore are dismissed and ignored (Christiaens 2018, 258)¹⁶⁵. The activities of the Subjects are limited by Capitalist measurements of value and profit. Systems of capitalist valuations have a significant import on the production of Subjectivity. Christiaens gives the example of a loan application; every individual applying for loans, mortgages and other forms of credit –which have become more and more essential and necessary- must conform to quantified standards of evaluation upheld by the bank. Certain lifestyle choices, such as being in a nuclear family, having a certain type of work, a certain kind of accumulated wealth and property, working in sectors considered more valuable would be rewarded by banks with a lower interest rate. Through credit financial institutions have an enormous influence on what kind of lifestyle choices are rewarded or not in society (Christiaens 2018, 259).

While Marxism still focuses entirely on the process of production, the factory, separating it conceptually from society, neoliberalism and ordoliberalism with their policies of individualised work were able to infiltrate the entire social sphere, through the mediation of finance, debt and the new era of "digital machines (Lazzarato, 2014a, 89)¹⁶⁶".

For all the emphasis

¹⁶⁵ Christiaens, T. (2018). Neoliberalism and the Right to be Lazy: Inactivity as Resistance in Lazzarato and Agamben. *Rethinking Marxism*, 30(2), 265.

¹⁶⁶ Lazzarato, M. (2014a). *Gouverner par la dette*. Paris: Les Prairies Ordinaires. 89

Resistance and Negation of Work

So with which strategy, from what space can the debtors hope to wage an efficient resistance against Capital. Increasingly Lazzarato appears to point to the direction of negation of capitalist work, the recuperation of time is in the more recent work of Lazzarato as the most powerful strategy of resistance. In his work on Marcel Duchamp and the refusal of work, Lazzarato discusses his concept of lazy action, which he sees as an alternative and antagonist to capitalist action. Lazy action, he claims, opens potentialities that cannot be reduced to the narrow confines of economic production and capitalist valuation. Lazy action opens the possibility of an endless becoming, an experience similar, Lazzarato claims, to the moment of creativity we might have while resting. Laziness is not a mere negation of activity, but on the contrary is the struggle to introduce “heterogeneous potentialities” that escape the actual state of affairs that limits us and reduces our potentialities to mere economic production¹⁶⁷ (Lazzarato 2014b, 46). Lazzarato posited this idea that struggle against capitalism lies in the “opening of becoming” and not in dialectical struggle in his work “Les révolutions du capitalisme” (Lazzarato 2004, 19)¹⁶⁸. Lazy work and the negation of capitalist modes of valuation opens up the possibility of resisting against neoliberalisms increasingly authoritarian principles; referring to the work of Duchamp, Lazzarato comments that when the public engages in lazy action, for example in observing Duchamp’s work, there is an absence of predetermined values, such as the monetary value or the artistic value. This allows the public to escape the hierarchies of capitalist valuation and develop its own standards of valuation.

¹⁶⁷ Lazzarato, M. (2014b). *Marcel Duchamp et le refus du travail*. Prairies ordinaires Editions. 46.

¹⁶⁸ Lazzarato, M. 2004. *Les révolutions du capitalisme*. Paris: Les Prairies Ordinaires. 19

CRITICISMS

The critique to lazy action

Despite, his sympathetic and detailed discussion of Lazzarato's ideas Tim Christiaens criticises Lazzarato's idea of lazy action which he considers easily integrated within "a neoliberal appreciation of potentiality as innovation (Christiaens 2018, 257)¹⁶⁹". He proceeds to describe the lazy person's conceptual persona in the work of Lazzarato as "evidently" part of the "neoliberal imaginary" (Christiaens 2018, 265)¹⁷⁰. The space of creativity that Lazzarato hopes that lazy action will open and which he believes that it will allow us to counter capitalism, has already been recuperated by capital in the entrepreneurial framework. While Lazzarato considers lazy action to be outside of the logic of profit Christiaens claims it is in reality a key part of capitalist profitability as it is part of capital's search for innovation. For Christiaens Lazzarato's work has failed to question the very category of potentiality and the "politics of the possible".

Negativity and Dialectics

Burgio had criticised in the past Lazzarato for doing away with the concept of the working class subject. In Burgio's opinion the disappearance of the political subject of the proletariat and Lazzarato's claim that the labour movement has become obsolete robs us from a lever with which to overthrow capitalist power¹⁷¹ (Burgio, 1999). For Burgio and for other scholars such as Benjamin Noys, post-workerists like Lazzarato are blind to the contradictions that are imminent to Capital accumulation. For Benjamin Noys and Burgio Lazzarato's willingness to do away with dialectics is dangerously utopian. For Burgio the work of Lazzarato completely ignores the classical marxist capital/labour dialectic. Noys in his "Persistence of the Negative" claims that Lazzarato severely underestimates the importance of antagonism in Capitalist society. For Noys the work of Lazzarato ends to propose a kind of affirmationism, an overly

¹⁶⁹ Christiaens, T. (2018). Neoliberalism and the Right to be Lazy: Inactivity as Resistance in Lazzarato and Agamben. *Rethinking Marxism*, 30(2), 257.

¹⁷⁰ Christiaens, T. (2018). Neoliberalism and the Right to be Lazy: Inactivity as Resistance in Lazzarato and Agamben. *Rethinking Marxism*, 30(2), 257.

¹⁷¹ Burgio, Alberto (1999) *Modernità del conflitto. Saggio sulla critica marxiana del socialismo*. Roma: DeriveApprodi.

optimistic view of capitalist society that believes that laziness, love and indeterminacy can overcome the exploitative mechanisms of Capital¹⁷² (Noys 2010).

Burgio's critique operates in two different levels. On the one hand it criticises Lazzarato's work on an epistemological level, for failing to implement the methods of Marxist dialectics and consequently ignoring the capital/labour relations of exploitation. On the other hand it criticises Lazzarato's work for being strategically and politically misguided in the sense that it does away with the most effective tool of class struggle of the working class, the labour movement.

The epistemological criticism that Burgio wages against Lazzarato's early work reflects more the different paradigms from which the two thinkers emerge. The concept of Dialectics is one of the essential assumptions of the Marxist paradigm, an assumption on which marxist analyses are built on. Although this concept has been used in interesting ways and evidence has been put forward, not least by Marx himself, in order to reinforce this assumption, it remains an assumption. For a post-Marxist like Lazzarato dialectics and especially the labour-capital dialectic as the motor of history is an assumption that has limited the scope of Marxist analyses, narrowing their focus to exploitation within the factory. The difference here is one of paradigms, which as the work of Thomas Kuhn has indicated can be extremely hard to resolve. We will further explore the Burgio criticism when we engage in the analysis of our case study in an effort to evaluate the strength and weaknesses of these two paradigms.

On the political level, the claim that Lazzarato's analysis is politically impotent because it does away with the worker's movement appears exaggerated. It is a fair observation that worker movements in the aftermath of the 1970s economic crises have become less potent in relative terms, have lost part of their influence they had amongst workers and have been unable to protect some of the "conquis sociaux" of the post-war workers' movements. To attribute this to theoretical attitudes or philosophical perspectives appears to be putting the carriage before the horse. The decline of the worker's movement is a phenomenon observed by many, which calls to be interpreted and analyzed. It is a long stretch to consider the analysis of this phenomenon to be its cause. The question of the worker's movements, as well as movements will be discussed in more depth in subsequent chapters, as well as, in the case studies to analyze the question of its decline and its current role in social struggles.

¹⁷² Noys, B. (2010). *Persistence of the negative: A critique of contemporary continental theory: A critique of contemporary continental theory*. Edinburgh University Press.

James Muldoon claims that to some degree Lazzarato appears to have taken into account some aspects of this Marxist/Hegelian critique, by re-introducing concepts of class struggle and class conflict. Muldoon claims Lazzarato appears to be re-evaluating some of these Marxist concepts. For Muldoon the binary struggle between creditors and debtors is clearly of a Marxist inspiration. Most importantly Muldoon claims the objective of Lazzarato's critique has shifted from "depolarizing the dialectic" to a "resumption of the class struggle"¹⁷³ (Muldoon 2014, 74). Tiziana Terranova, also, sees a transition of Lazzarato away from his earlier work on knowledge and cooperation but she claims his position on dialectics remains unchanged. For Terranova the strength of Lazzarato's thought lies precisely in that it goes beyond the dialectical opposition between capital and labour that is now failing to account for grassroots movements such as the Gezi park, the Occupy movement or Indignados which cannot be described as the struggle of proletariat against a capitalist class. The Left, Terranova claims, has found that the dialectical tools are ill-equipped for our contemporary politics, where differences are multiplied (Terranova 2013)¹⁷⁴. The main problem of the left is how to construct unity, even, at the face of such proliferation of differences. She interprets Lazzarato as still retaining his earlier anti-dialectical position, with which she agrees, and claims that his earlier work on Deleuzian nomadology could provide a guidance for how to create such unity. It is for this reason, for his anti-dialectical stance, that Terranova considers Lazzarato's work highly compatible with the feminist struggle and a useful resource for social movements.

Jason Read criticises Lazzarato's reliance on the study of Subjectivity as a method to analyze capitalism. Re-employing some of Simondon's arguments against Marx, Read points to the sheer complexity of all the multiple factors of subjectivity, such as affects, language and habits. Moreover, Read comments the process under which Subjectivity is produced is equally complex, with technology, the economy and politics all being factors that shape subjectivity. Given these multiple layers of complexity to what extent does it make sense to speak of a production of subjectivity? Moreover, Read claims Lazzarato's effort to provide a materialist analysis of Subjectivity, according to which Subjectivity is both the necessary affect and condition of the economy risks inverting the relationship between Subjectivity and the economy, making Subjectivity the "determining instance" and ending up in subjectivist model

¹⁷³Muldoon, J. (2014). Lazzarato and the micro-politics of invention. *Theory, Culture & Society*, 31(6), 74.

¹⁷⁴ Terranova, T. (2013). *Debt and autonomy: Lazzarato and the constituent powers of the social*.

(Read 2016, 238)¹⁷⁵. Mezzadra and Neilson caution against an “absolutization of the logic of debt” (Mezzadra & Neilson, 2019, p. 9)¹⁷⁶ commenting that financial operations cannot be abstracted from the promise of future production. Lazzarato’s analysis of contemporary Capitalism must not ignore the compulsion to work that comes with the logic of debt (Mezzadra & Neilson, 2019, p. 160)¹⁷⁷. Mezzadra and Neilson accept that the importance of finance cannot be underestimated but express their that “a single branch or sector of the economy as providing a dominant paradigm for capitalist activity today” (2019, p. 161), calling instead for a methodology that instead of seeking for one dominant branch of the economy, seeks to analyze how “how relations of power and dominance are forged through the intertwining of different kinds of operations (2019, p. 161). .” Despaigne has emphasized the strengths of Lazzarato’s periodisation of capitalism. In Despaigne’s comparative analysis of Lazzarato with notable Financialization scholar Greta Krippner he emphasizes that Lazzarato’s account of neoliberalism could strengthen and supplement theories of financialization. For Despaigne Lazzarato’s analysis of the crisis of Fordism as essentially consisting in the contradiction between profits and wages, allows us to explain why Finance was the logical solution for capital and the preferred way out of the 1970s crises. With the installation of neoliberalism and the expansion of finance profits were able to soar as credit and consumption expanded, despite the stagnant wages (Despaigne 2017 410)¹⁷⁸.

¹⁷⁵ Read, J. (2016). The Noopolitics of Capital: Imitation and Invention in Maurizio Lazzarato. In *The Politics of Transindividuality* (pp. 227-247). Brill. 238

¹⁷⁶ Mezzadra, S., & Neilson, B. (2019). *The politics of operations: Excavating contemporary capitalism*. Duke University Press. <https://doi.org/10.1215/9781478003267>

¹⁷⁷ Mezzadra, S., & Neilson, B. (2019). *The politics of operations: Excavating contemporary capitalism*. Duke University Press. <https://doi.org/10.1215/9781478003267>

¹⁷⁸ Despaigne, H. G. (2017). Homo debitor: money and debt as power2 relation. *Journal of Critical Realism*, 16(4), 410.

CONCLUSION

In this chapter, we have discussed in depth Lazzarato's work on debt focusing on the research he presented in *The Making of the Indebted Man* and his *Gouverner Par la Dette*. We have discussed the philosophical sources from which Lazzarato borrows in order to develop his theory of debt, mainly Nietzsche, Foucault and Deleuze. We have engaged in an in-depth study of Nietzsche's writings on the issue of Debt and we discussed on how Nietzsche's philosophical take on the issue informed Lazzarato's methodology. We have, also, discussed Lazzarato's indebtedness to Deleuzian concepts. We have examined the notions of Deterritorialization, flows, apparatuses of power and axiomatics. We discussed their origins and their use in Lazzarato's work. We have discussed Lazzarato's critique to the classic Marxist theories of surplus value, production and exploitation and discussed the advantages and disadvantages of Lazzarato's own theory on capitalist appropriation. We have, also, reviewed how his theory of Debt and periodisation of Capitalism informs his theory of the State, Democracy, Production and Work. We have reviewed contemporary criticisms of the work of Lazzarato from a variety of theoretical perspectives and discuss potential defenses that Lazzarato would have against these criticisms.

Moreover, we discussed Lazzarato's own periodisation of Capitalism and we discussed the changes that took place in Capitalist appropriation as we moved from the Post-Fordist model to the neoliberal/ordoliberal model and finally to the era of the Crisis. We have tried to examine Lazzarato's periodisation from an empirical perspective, evaluating some of his claims against available data on taxation and incomes, as well as, against some of the empirical research presented recently by Thomas Piketty. We found that Lazzarato's claim do possess significant merit and appear to be overall reasonable, but to be lacking in more detailed empirical evidence that would establish them beyond reasonable doubt. We have discussed Lazzarato's choice to engage in macro-historical methodologies, analyzing large periods of time, and we have reviewed the advantages and disadvantages that this approach brings to his analysis.

Critical Theory of Debt: The Genealogies of Capitalism Paradigm

WENDY BROWN-IN THE RUINS OF NEOLIBERALISM

The book “*In the Ruins of Neoliberalism*” by Wendy Brown is essentially a continuation and an update of the author’s themes in her previous work “*Undoing the Demos: Neoliberalism’s Stealth Revolution*”, as well as on work she had published on the troubled relationship between Neoliberalism and democracy dating back at 2003 (Brown, 2003). In that work, Wendy Brown had presented her theory on the economisation of democracy and political life, according to which “neoliberal reason” transformed political institutions into economic ones. In this book, Brown claimed that Neoliberalism had undermined the political sphere and democratic processes, subduing them to economic reason (Brown, 2015, p. 17). Four years later, she returned to this theme, seemingly influenced by the return of authoritarianisms and Trump’s era. American politics and the rise of extreme right-wing groups and “strongmen” presidents in the U.S. and Brazil, and elsewhere are all developments that are echoed throughout the book. Brown is clearly thinking of the U.S. and global political drama in the last four years as she develops her argument. The book’s main objective is to provide a causal theory about how neoliberal thought and politics entered a period of crisis and ended up enabling right-wing violence and authoritarianism.

Brown, in her earlier work, had opposed reductivist readings of Neoliberalism that equated neoliberalism “with a radically free market: maximised competition and free trade achieved through economic deregulation, elimination of tariffs, and a range of monetary and social policies favourable to business and indifferent toward poverty (Brown, 2003)”. Although Brown accepted that the economic policies we have come to describe as neoliberal are an important part of the picture, reducing Neoliberalism to mere economics risks of losing sight of what she described as the “political rationality” behind these policies. Already, since 2003 she aimed at re-mobilising the lectures of Michel Foucault in College de France on Neoliberalism in order to interpret the current state of neoliberal societies. Using a similar method as Foucault, Brown will study the “founding fathers” of Neoliberalism, separating them into two large groups, the Chicago School -focusing mainly on Hayek and Friedman- and the Ordoliberal school.

Brown’s interpretation of Neoliberalism’s History was that its evolution diverted significantly from the intended goals of its founding fathers, especially Hayek, Friedman and the German

Ordoliberals. Analysing their writings, Brown claims that Neoliberalism was based upon three fundamental principles:

- a) Social democracy and socialism -often seen as interchangeable- would invariably lead to a totalitarian society; this is mainly because these political ideologies are based on rationalism and the idea that principles of justice should be imposed as the goal of society from above.
- b) The political sphere should be limited to a maximum degree. Democracy should be viewed as a mere method of government, and limitations should be imposed on democratic institutions to avoid “democratic excesses”. Issues of Justice should be resolved via traditional morality and the spontaneous orders this morality creates/
- c) The state’s reach should be significantly diminished and put in the service of the markets. Markets should be allowed to organise society freely, and the state should make it its mission to allow these markets to develop. If economic freedom is secured, eventually, political freedom will be secured. Thus, a certain form of liberal authoritarianism can be tolerated.

Brown will proceed to claim that Neoliberalism is not only in an era of profound crisis but that it has even failed to achieve its own goals. Her work on Neoliberalism is thus partly about identifying what went wrong in the history of neoliberal politics.

Brown intended her work to shed light on areas that conventional narratives of the Left failed to do -mentioning authors such Yanis Varoufakis, David Leonhardt, Manuel Funke and Philip Stevens. The Left narrative, as she describes it, emphasises the impact of rising inequalities in the Global North, combined with South-to-North immigration that led many individuals in mature capitalist societies to turn towards the right-wing (Brown, 2019, p. 7). Brown claims that this narrative puts significant emphasis on the era of de-industrialisation, the product of the neoliberal reforms of Ronald Reagan and Margaret Thatcher (Brown, 2019, p. 4). Neoliberalism brought about a decline in industrial sector jobs, as well as a significant reduction in social welfare spending. The result was, of course, increasing inequalities, poverty, and unemployment. The social crisis that ensued allowed the right-wing to take over social groups that would traditionally align with the Left. Moreover, other variants of the Left have attempted to explain the current crises of Neoliberalism on the existing legacies of old racisms or the gullibility of an uneducated working class that turns towards the right-wing, while others have criticised the Left’s absorption with issues of identity.

Brown claims that these explanatory models cannot account for what she considers to be a demonstrable “nihilism” that has emerged in neoliberal societies. She describes this nihilism as “a broken faith in truth, facticity, and foundational values” that was already present in late modern culture but intensified in the era of Neoliberalism (Brown, 2019, p. 16). She describes this nihilism as a form of resentment and a factor that dissolves social relations. Moreover, existing left narratives have failed to account for the rising phenomena of “of “wounded white masculinity” (Brown, *In the Ruins of Neoliberalism: The Rise of Anti-Democratic Politics in the West*, 2019, p. 171) or the emergence of a new hostility towards gender, social and racial equality. This reaction against the so-called “political correctness” needs to be explained, and this is what Brown’s work will attempt to do.

The Ruins of Neoliberalism is fundamentally a work of political philosophy, and thus the causes of this nihilism will be sought in the founding ideas of Neoliberalism, namely Hayek and Friedman. Brown will engage in a discussion of their declared intentions, their aspirations for Neoliberalism as a movement. She will then proceed to compare their intentions with the lived experience of Neoliberalism. Analysing how it all went wrong, how Neoliberalism ended up not giving individuals more liberty but rather reinforcing new forms of authoritarianism, Brown hopes to identify the causes of this divergence between the intentions of Neoliberalism’s founding fathers and the outcomes of neoliberal policies.

Brown’s Hypothesis

The hypothesis continues that the overreliance on traditional values proved to be problematic as the traditional values stem from societies that were often patriarchal and hierarchical (Brown, *In the Ruins of Neoliberalism: The Rise of Anti-Democratic Politics in the West*, 2019, p. 116). As the state withdrew itself from social issues, leaving them to be decided by individuals upon their traditional moral values, it comes as no surprise that individuals often act upon their prejudices, patriarchal or classist attitudes. The result is a generalised production of exclusion against minorities, women, the LGBTQ+ community and other marginalised groups. Neoliberal attacks upon society and ideas of the common good and the ensuing individualism led to a new era of nihilism. Individuals in neoliberal societies are no longer inhibited by the moralistic restrictions of earlier societies. In terms of consumeristic gratification and pleasure-seeking, neoliberal societies allow individuals a high degree of freedom. As all aspects of life become commercialised, consumers can pursue their consumeristic desires freely. Brown claims that this emancipation is superficial, however, and concerns only the gratification of such consumeristic pleasures. Unhinged by traditional

morality but also unemancipated intellectually, socially, and politically, these Subjects are free to express the “will outwardly to death” or Thanatos, exercising violence, especially against the marginalised.

Wendy Brown hypothesis is intended to critically engage with what she describes as “the standard left narrative”. More specifically, she criticises a lack of analysis of how Neoliberalism distorted and destroyed conceptions of the common good. These concepts of common good were severely attacked by both Neoliberal scholars, such as Hayek and Friedman and Neoliberal politicians, such as Thatcher – with Brown referring to her “there is no society” statements (Brown, 2019, p. 28).

To demonstrate this hypothesis, Brown will use qualitative methods pertaining to the history of political thought, analysing texts from the history of political philosophy in order to come to establish a link between today’s crises of Neoliberalism and the

The method implemented by Wendy Brown in her work “in the Ruins of Neoliberalism” pertains to the methods of political theory and, more specifically, the history of political philosophy. Brown’s work proceeds in a way that is typical of researchers in political philosophy, namely through an investigation of the history of philosophical ideas. This method which we can encounter in numerous works of philosophy or political theory (Skinner, Rawls, Kymlicka), consists of discussing political issues from a political-philosophical perspective. This discussion, as with Brown, usually involves research in the history of philosophy, presenting important philosophers who had taken in the past a stance on the said issue, while sometimes an effort is made to identify the first instance in which this issue was included in philosophical debates.

Faithful to this methodology, Brown seeks to analyse the origins of Neoliberalism by examining two thinkers, Friedrich Hayek and Milton Friedman, who are not only arguably the two most influential thinkers of the current of Neoliberalism, but they are also considered to be the very founders of this school of thought. Wendy Brown discusses in-depth the way Hayek and Friedman constructed the philosophical foundations of Neoliberalism. She discusses their work in good faith, trying to understand from their perspective their intentions when arriving at their philosophical positions.

Revisiting foundational texts and thinkers when analysing a current of thought, like Neoliberalism, has significant advantages as it allows researchers to reflect on how far a

movement has diverged from its beginnings. In Brown's case, the study of the origins of Neoliberalism is indeed crucial to her central thesis and her research objectives.

By returning to the philosophical origins of Neoliberalism, she can identify a paradox; many of the main premises of Neoliberalism seem to have been betrayed in practice by actual Neoliberalism. Whereas Hayek and Friedman believed Neoliberalism would lead to increased individual freedom and a limited, impartial state, actual Neoliberalism has been accompanied by new forms of authoritarianism, gendered violence and a state that appears to, in fact, act in the interest of specific business interest and especially in the interest of finance.

The obvious disadvantage of this methodology lies in the fact that Brown's method lacks interdisciplinarity when its subject matter calls for an interdisciplinary approach. Neoliberalism began as an academic school of thought from scholars such as Hayek and Friedman working in the fields of economics and political philosophy. What is more, already from the early stages of its history, Neoliberalism escaped the confines of academia and became already since the 1980s and the Thatcher years a political program and eventually a set of policies. Brown does not attempt to engage either with the party politics or the policies of Neoliberalism. She only briefly discusses policies such as privatisations and the liberalisation of finance, but she does not engage with interdisciplinary research from the field of political economy or politics to be able to offer an in-depth discussion of these crucial aspects of Neoliberalism.

As a result, in the work of Brown, the scope is radically limited, given the complexity of the phenomenon at hand. However, given that the main research objective of Brown's research is precisely to discuss the divergence of actual Neoliberalism today from the philosophical ideas of Hayek and Friedman, this limitation in scope somehow undermines the strength of the argument. This comparison is somewhat imbalanced with the philosophical work of Hayek and Friedman receiving in-depth analysis, while she dedicates much less depth when it comes to her analysis of Neoliberalism.

The economisation of politics

Neoliberal societies are made in the image of the market. Under Neoliberalism, the logic of the market exchange infiltrated all areas of the social and political sphere. This is a point of agreement between all the thinkers we have examined in this chapter. Lazzarato, Graeber and Brown agree on this point that all social relations have been subdued to economic relations, and the economic sphere has been declared superior. It is an idea that emerges from the work

of Michel Foucault. Brown's engagement with the work of Michel Foucault on Neoliberalism dates on the early stages of her career (Brown, 2005). What distinguishes her later work on Neoliberalism from earlier pieces of research, however, is that in the later works that we will discuss here, she discusses issues of "democratic erosion" or displacement and issues pertaining to financial Capital and the phenomenon of financialisation (Brown, 2015, p. 228 n.29).

Wendy Brown's analysis of Neoliberalism is inspired by Michel Foucault. According to the Foucauldian perspective, Neoliberalism is "an order of normative reason". When Neoliberalism becomes "ascendant", when it becomes the dominant form of normative reason, it becomes a "governing rationality". The purpose of the Neoliberal "governing rationality" is to extend its economic values, practices, and metrics to every dimension of human life (Brown, 2015, p. 30).

Brown draws a distinction between marketisation and economisation. To claim that Neoliberalism economises all areas of social activity is not identical to claiming that it marketises or monetises them. In fact, areas can be economised without being subjected to any form of monetisation. Brown considers economisation to mean that the logic of the market, the logic of market relations, are transplanted in other social relations and spheres of activity. In neoliberal societies, individuals are increasingly seen as small-enterprises, and their relations are seen increasingly as a form of investment (Brown, 2015, p. 31). The auto-entrepreneur is a theme that has been discussed by Lazzarato, Graeber and Wendy Brown, and in her books on Neoliberalism, she will attempt to offer a theory about how the ideology of the auto-entrepreneur is linked with a crisis of democracy.

The economisation of politics originates, Brown will claim, from neoliberal discourse and philosophy. More specifically, the economisation of society can be linked to the neoliberal discourse around society. "There is no society", the famous statement by Margaret Thatcher, was more than mere political communication. But rather, it reflected a philosophical tradition within the movement of Neoliberalism. For Brown, Thatcher's famous phrase was not merely an attack on social democracy and social welfare. Rather it aimed at redefining our concept of society itself. Freedom, Brown claims, was an intrinsic part of what it means to live in a democratic society. To put it simply, a society cannot be called democratic unless it affords the freedom to its citizens, and citizens cannot be considered fully free unless they live in a democratic society. The neoliberal discourse aimed at undoing this conceptual connection

between freedom and society; the neoliberal perspective argues instead that the exercise of freedom should not be concerned with social context or consequences. Considerations of fairness, social justice or social bonds should not limit the freedom of an individual. Above all, individual freedoms should be above any concept of the “common good”, a concept that had become an anathema for neoliberal thinkers (Brown, 2019, p. 44).

It is important here to note that with the concept of the political, Brown designates something radically different than merely elections or political parties. The political parties here are not reduced to “the particulars of political power or political order”. Rather, the political is used by Brown to encompass the entire theatre of “deliberations, powers, actions, and values” that shape our common existence (Brown, 2019, p. 56). She also clarifies that her concept of the political should not be confused with Marxist concepts of the superstructure, which would imply that the political is a mere reflection of the real social and economic struggles between classes.

Rather, Brown sees the political as a space where “rationality”, the “form of reason and its conclusions”, and a “set of norms” are shaped and debated. This rationality, a form of reason and norms, in their turn, shape the political. Quoting Foucault, Brown claims that she understands political power to be “neither independent” nor “assimilable” to the truth (Brown, 2019, p. 56).

As Brown will try to show, one of the main objectives was to contain and limit the political sphere in this wider sense. As we shall see, one of the key aims of Neoliberal thinkers was to detach the political from sovereignty, criticising ideas of popular sovereignty. Overall, neoliberalism Brown comments aims at delegitimising and de-democratising the political, frequently arguing in favour of technocratic governments or the privatisation of government activities and post-ideological politics. This would explain why the era of Neoliberalism was characterised by the emergence of depoliticised states and supranational institutions, such as the IMF and the World Bank, that severely limited and overdetermined the political. The state was to be remodelled according to the principles of the market and the logic of business (Brown, 2019, p. 57).

In what follows, we will examine Brown’s intellectual history of Neoliberalism, as she attempts to trace this limitation of the political to the intellectual origins of the neoliberal school of thought. She examines the works of Milton Freedman and Friedrich Hayek as the two founding fathers of Neoliberalism, as well as the ideas that dominated German Ordoliberalism. More

surprisingly, she includes in this genealogy the thought of Hannah Arendt. Brown will claim that in their effort to criticise social democracy and the mass movement politics that emerged post-war, these thinkers developed a set of philosophical ideas that would define Neoliberalism and that would eventually deal a mortal blow to democracy.

Arendt's attack on the Political

Brown embarks on a historical account of how concepts of common good were criticised in neoliberal thought. Somehow surprisingly, she does open this account with an analysis of the work of Hannah Arendt. According to Brown, Arendt's work was an important milestone for neoliberal thought, even if Arendt herself cannot be described as neoliberal. Brown is interested in Arendt's critique against the social as it can be found in works such as "On the Human Condition" and "On Revolution". According to Brown's interpretation, Arendt sought to criticise the emergence of the post-war social welfare policies and social democracy, and indeed Arendt's work contains significant criticisms on socialism and social democracy, criticising them for reducing thinking individuals into consuming masses (Arendt, 1998 (1958), p. 60.). Undoubtedly inspired by Heideggerian philosophy, Arendt believed that politics was being reduced to simple questions of welfare. This, in its turn, runs against our "species distinctiveness", which was according to Arendt was that we were beings of action and intellection (Brown, 2019, p. 47) – undoubtedly a way of thinking about politics inspired by the work of Martin Heidegger. Arendt provides as evidence of this reduction of humans into masses, the perceived absence of discussions around immortality, a topic which Arendt believes was always privileged throughout the history of philosophical thinking (Arendt, 1998 (1958), p. 55).

Arendt will pick up again the theme of the Social in her work "On Revolution", where she deplores the French revolution. The French revolution was destroyed when the demands for freedom were replaced by the demands of the poor for bread. As Brown comments, the poor, according to Arendt, flooded the political realm with their bodies and their needs, leading to the era of Terror (Brown, 2019, pp. 47-48). Arendt described poverty as a dehumanising force, as according to her, it forced humans to abandon their being-distinctiveness and their freedom to pursue mere material needs (Arendt, 1963, p. 63).

Arendt is not typically grouped together with the likes of Hayek and Freedman, but Brown is right to point out the commonalities between the founding thinkers of Neoliberalism and

Arendt on the issue of the Social. We should not, however, underestimate the significant differences that exist between the works of these three philosophers. For Arendt, the invasion of Modernity is characterised by an expansion of the Social to the detriment of the public realm (Arendt, 1998 (1958), p. 55). This destruction of the public realm had significant consequences on human Subjectivity. In the ancient world of the Greek city-state, the public realm was where citizens could perform their individuality, and this motivated their love for politics, Arendt comments. In Modernity, however, different social groups are reduced into one uniform society, founded upon conformism (Arendt, 1998 (1958), p. 41). In mass society, humans are no longer “acting”, Arendt comments. They are behaving. Behaviour is used here as a term that would suggest quasi mechanical reactions to stimuli to convey the loss of free and conscious action. These quite distinct from Hayek’s criticisms of the Social, which were based on a defence of tradition and individual freedom, an argument against state intervention in the markets and in favour of “spontaneous order”.

Hayek’s Spontaneous Orders

If we are to understand Hayek’s philosophical position, we need to take into account the intellectual tradition in which he is situated. Hayek was a passionate exponent of the analytical tradition in philosophy or, as he called it, the empirical and unsystematic British tradition, by which he meant mainly thinkers such as Burke and other thinkers of the Scottish Enlightenment and, of course, Locke. Hayek mobilises the political thought of modern British liberalism to develop the intellectual project of Neoliberalism.

Hayek is, of course, interested in the individualism of the British tradition as well as the liberal political philosophy that emerged in early modern Britain and sought to limit the Sovereignty of the King and the authority of the state. He was also interested in British moral philosophy and the importance it attributes to established mores and tradition. He contrasts the British tradition to the continental tradition, which describes as rationalist, romantic and utopian. He sees the ideological battle between continental and British philosophy as an opposition between “liberal democracy” and “social or totalitarian democracy” (Brown, 2019, p. 68).

Hayek will revisit and use some of the fundamental notions of Liberalism as developed by John Locke. Hayek seeks to use Locke’s individualism and his critique of Hobbesian concepts of politics. At the same time, by distancing himself from Locke’s concept of sovereignty, Hayek will demarcate the differences between Liberalism and Neoliberalism.

Locke's concept of "freedom" and especially of "freedom under government" would prove to be one of his most long-lasting legacies in contemporary Neoliberal thought. Locke emphasises that freedom *under a Government* consists in not being subject to someone else's arbitrary will. In a passage that would be foundational for both classical Liberalism and Neoliberalism, Locke defined freedom of Men under a government as " a Liberty to follow my own Will in all things, where the Rule prescribes not; and not to be subject to the inconstant, uncertain, unknown, Arbitrary Will of another Man" (Locke, 1988, pp. II, 22).

This definition of freedom that would heavily influence Hayek's thought was based on Locke's concept of the Law of Nature. The state of nature is a '*State of perfect Freedom*' and '*also [a state] of Equality* wherein all the Power and Jurisdiction is reciprocal, no one having more than another' (Locke, 1988, pp. II, 22). Locke makes it clear that only when one grasps these characteristics of the state of nature can one properly understand 'political power right'.

The political assumption of Locke's argument is in one sense similar to that of Hobbes –and contrary to rule by divine law philosophers of early Modernity such as Filmer (Filmer, 1949) that argued for a hierarchical state of nature; for Locke, no man has by nature any right of authority over any other.

It is crucial here to underline that Locke's state of nature is in stark contrast with Hobbes' notion as it developed in the *Leviathan*. In chapter 13 of the *Leviathan*, Hobbes presents us with a famous description of the state of nature; lawless humans living in the state of nature without any obligations or safety, no order or civilisation. Their human nature urges them to claim gains either to satisfy their passions or to "gain glory" (Hobbes, 1996 (1651), p. §61). Since these men 'live without a 'power to keep them in awe' means that their disputes can only be resolved by force and acts of violence; without a sovereign and given human passions, a war of everyone against everyone is inevitable (Hobbes, 1996 (1651), pp. §61-62). They are free, but at the same time, they live in a state of constant insecurity and threat; their lives are nothing but 'short' and 'brutish'. These men of the state of nature are by no means social; in fact, any human interaction causes them 'great deale of griefe' (Hobbes, 1996 (1651), p. §62). As a result, in this free state of nature, civilisation itself is impossible, and thus there can be no industry, no culture, no economy, no social institutions or knowledge, no arts. If everything we hold dear in civilisation is to be secured, Hobbes is implying, the state of nature and its anarchical freedom must be left behind.

For Hobbes, the concept that there can be any rights and duties outside of the Commonwealth, such as the principles of equality and freedom from the arbitrary will of another person, as Locke implies, is nonsensical metaphysics. No such values can emerge from this state of nature. There can be no law and no duties, and rights until the freemen of the state of nature have agreed upon ‘the Person that shall make’ laws until they have ‘authorised’ a sovereign to act in their name (Hobbes, 1996 (1651), p. §62). He goes so far as to assert that “The notions of Right and Wrong, Justice and Injustice have there no place. Where there is no common power there is no Law: where no Law, no injustice (Hobbes, 1996 (1651), p. 63)”.

Locke, on the contrary, is keen to emphasise that the liberty of the state of nature is not equal in any way to the brutal anarchy described by Hobbes. The state of nature, that state in which ‘all Men are naturally in’, is not an asocial condition as Hobbes has assumed, and it is not a mere semi-bestial state; It is that state in which men are set by God (Dunn, 1982, p. 97). Humans living in Locke’s state of nature are not equal; “Age or virtue may give men a just Precedency: Excellency of Parts and Merit may place others above the Common level: Birth may subject some [...]”. However, Locke affirms that despite all these levels of inequality, all humans are equal in terms of their right to be free from the will or authority of others; “the Equality I spoke of [...] being the equal Right that every Man hath, to his Natural Freedom without being subjected to the Will or Authority of another Man” (Locke, 1988, pp. II, 70). Men in it are equal –in what their rights are concerned and free- Locke argues, against Hobbes, that the state of nature cannot possibly be considered synonymous to the state of war. The latter is characterised by the use of force and the lack of a common Superior to which one ‘can appeal for relief’. In the former, however, there is a common superior who judges men’s actions and this no other but God under whom men live in accordance with ‘reason (Locke, 1988, pp. II, 19)’. The state of nature is governed, therefore, from a law of nature itself based on the will of God; the state of nature is a state of freedom, but not ‘a state of licence’ (Locke, 1988, pp. II, 6), namely not an amoral state as Hobbes has assumed. One does not have the ‘Liberty, to dispose of his Person or Possessions, yet he has no Liberty to destroy himself’ (Locke, 1988, pp. II, 1-5). There are indeed specific moral imperatives stemming from this observation.

Hayek will consistently criticise this Hobbesian view of politics and will rather opt for a Lockean concept of politics; according to Locke’s view, a Commonwealth is founded on completely voluntaristic grounds, and this means that the people who consent to the authority of the ruler should have some form of control over how the Common affairs are being managed.

Where Hayek begins to depart from the Lockean tradition is on the issue of popular sovereignty and parliamentarism. For Locke, in the political sphere, the Legislative branch of power over the executive. With this position, Locke aimed at reaffirming the primacy of the Parliament over the King (Locke, 1988, pp. , II,198, 11. 1-7) since the Constitution of the Legislative being the original and supreme act of the society, antecedent to all positive Laws in it, and depending wholly on the People, no inferior power can alter it' (Locke, 1988, pp. II, 158). The will of the people is the ultimate rationale of politics, and if a Ruler is violating their freedom or seek to deny them expression by limiting the influence of the Legislative power, then his authority is mere tyranny without any just foundation. Hayek's thought radically breaks away from the Lockean tradition at this point.

For Hayek, the idea of "popular sovereignty" was not only nonsense but also dangerous. Hayek criticises the Continental tradition for entertaining this idea. He criticises the continental tradition for entertaining the idea of popular sovereignty, as he claimed the concept threatens the freedom of individuals. The problem with popular sovereignty, according to Hayek, is that it licenses unbounded government and confers supremacy to the political domain. The main danger is that the legislative branch of power when acting in the name of the people, will confuse its mission. According to Hayek, the legislative branch of power should limit itself at formulating universal rules of justice. When, however, the legislative power takes it upon itself to pursue the public interest, then this branch of power is essentially exceeding its mission, expanding the powers of the administrative state in the process (Brown, 2019, pp. 68-69). The very notion of public interest is, for Hayek, nonsense. When the legislative pursues "the public interest", it turns parliamentary proceedings into corrupt deal makings involving bribes – a term Hayek uses to describe a variety of redistributive mechanisms and policies. Hayek describes this kind of parliamentary politics as governing by corruption and special interests. Hayek poignantly uses the term special interests to describe demands from social groups that might be debated in Parliament.

The fallacy of popular sovereignty, Hayek clarifies, lies not in the claim that the power should be in the hands of the people. Rather, the error lies in the idea that this power should be unlimited (Hayek, 1979, p. 33). Sovereignty, according to Hayek, was incompatible with limited government and Hayek's project to dethrone politics. Since the dethronement of politics and limited government are both preconditions of a flourishing economy and moral order, the concept of popular sovereignty has detrimental effects on the moral and economic standing of an economy. The concept of popular sovereignty was not only an economic and political

catastrophe. It was also a dangerous secularised theological concept (Brown, 2019, p. 70) a “false constructivist interpretation of the formation of human institutions”, a philosophical error that attributes these institutions to “an original designer or some other deliberate act of will.” (Hayek, 1979, pp. 3, 33).

The concept of popular sovereignty and the continental philosophical tradition that promoted it, namely the Continental tradition, has created the delusion that societies must be shaped by the “political” and the ideal of the power of the people, instead of Hayek’s preferred “organic moral orders” (Brown, 2019, p. 70). According to Hayek, democracy does not inherently lead to absolutism, but when democracies critically adopt the concept of popular sovereignty, falsely establishing the belief that people collectively acting together is morally preferable the separate individual action (Brown, 2019, p. 71).

Hayek draws here a crucial distinction that would come to haunt Neoliberalism in the future. The distinction was that between Liberalism -as a perspective on the scope and purpose of government- and democracy -as a method of government based on the majority rule (Hayek, 1960, pp. 167-168). I say this was to haunt Neoliberalism, not because of the distinction itself -Liberalism and democracy are distinct political phenomena- but because it was on the basis of this distinction that Hayek conceptualised for the first time that the aims of Liberalism could potentially be advanced without democratic majority rule. Hayek claimed that while democracy is an answer to the question of who should exercise public power, Liberalism is the answer to a radically different question; regardless of who exercises public power, what limits should be imposed on this power. This line of thinking would eventually lead neoliberal thinkers and economists to excuse a variety of forms of public power, including dictatorships, especially in the case of Chile, as we will see.

If democracy and Liberalism respond to different questions, it must also be true that they face entirely different threats, Hayek argues. The threat to democracy is, of course, authoritarianism, which could include anything from the USSR to Pinochet’s Chile. The opposite of Liberalism, however, is totalitarianism which for Hayek is essentially when every aspect of life is under control.

Above all, Hayek argues, democracy and Liberalism have radically different opposites. Democracy’s opposite is authoritarianism, concentrated but not necessarily unlimited political power. Liberalism’s opposite is totalitarianism, complete control of every aspect of life. This makes authoritarianism compatible with a liberal society—freedom, traditional morals, a

protected private sphere. Hayek's definition of totalitarianism is, of course, idiosyncratic. Hayek includes examples of totalitarianism, mentioning the French Revolution, Nazi Germany and the Soviet Union, but he also believes that any society implementing central planning of the economy would unavoidably transform into a totalitarian society, a fate he predicted for much of Europe. Totalitarianism for Hayek begins as it becomes accepted in a society "that the individual is merely a means to serve the ends of the higher entity called society or the nation" two concepts which as we have seen are for Hayek nonsensical and essentially theological, the product of a monstrous expansion of the political sphere. When this belief is accepted, Hayek claims, complete totalitarianism follows pretty much as a matter of necessity, almost automatically (Hayek, 2005, p. 53). Hayek is, of course, trying to claim here that once a society buys even partially into central planning, socialism or popular sovereignty, this society is already on the road to serfdom. With this stratagem, Hayek, in genuine cold-war spirit, would render a great number of different socialist and social-democratic currents of thought ideologically suspect of harbouring totalitarianism. Based on the conceptual distinction between democracy and Liberalism and their respective opposites for Hayek, both totalitarian democracy and authoritarian Liberalism are logical but also historical possibilities (Brown, 2019, pp. 72-73).

This line of thought will lead Hayek, along with other neoliberal thinkers, most notably Freedman, to accept the legitimacy of authoritarian regimes in the transition towards Liberalism. This argument would lend some moral support to the dictatorial regimes that had emerged in Latin America as part of the *Dirty War*. These dictatorships aimed at crushing left-wing opposition and worker's movements in the context of the Cold War, as well as in promoting neoliberal and free-market policies in a variety of areas. If one follows Hayek's logic, these regimes could be justified and indeed legitimate if they aided in the transition to Liberalism. From Hayek's perspective, progressive governments such as Allende's government in Chile or the various socialist and workers' movements that had emerged in Latin America in the post-war era were, in fact, greater threats to freedom than the military dictatorships of the Dirty War era. Democratic socialism, the ideal for which Allende was striving, was not only unachievable but would lead, according to Hayek, to the destruction of freedom itself/

"[...] democratic socialism, the great utopia of the last few generations, is not only unachievable, but that to strive for it produces something utterly different – the very destruction of freedom itself (Hayek, 2005, p. 44)."

An authoritarian regime that allows the market to organise production freely and allows organically developed social morals to resolve moral issues is less of a threat to individual freedom than a government that seeks to promote social ideals -for example, gender equality- and central planning of the economy. Indeed, Freedman using similar arguments, made positive comments about Pinochet's regime. In a what was to be a controversial interview, Freedman would claim:

“...in the end, the central government, the military junta, was replaced by a democratic society. So the really important thing about the Chilean business is that free markets did work their way in bringing about a free society (Friedman, 2012, p. 251)”

The distinction between Liberalism and democracy would generate another highly influential concept, that of the “excesses of democracy”. According to Brown, this was a term often used by neoliberals when criticising the social movements of the 1960s. This idea of democratic excess related to neoliberal critiques of the expansion of the scope of state action and democratic decision. The implication was that there are areas of social and economic activity that should not be under the influence of democratic decision making (Brown, 2019, p. 73).

Hayek's Legacy

This authorisation of authoritarian Liberalism would prove to be one of the most lasting legacies of Hayek's thought and an issue on which he would be often criticised. The links between Hayek's position on authoritarianism and the Cold War are, of course, quite visible.

Brown proposes an innovative reading of Hayek's philosophy, one that goes beyond the Cold War and U.S. interests. She points out that Hayek's theory of democratic excesses reveals that his objectives were not merely to support the free market economy in the context of a Cold War contest between Soviet-style centrally planned and free-market western economies. Hayek's critique of the excesses of democracy was predominantly focused on issues around the social state, the lack of respect for political authority that, according to him, was prevalent in the social movements of the 1960s. Hayek was also concerned that democratic excesses had led to the replacement of organically developed moral law with principles of social justice. Hayek argued in favour of inherited, shared moral principles and “evolved rules of conduct”, including the inherited regime of private property, gender norms and other traditional beliefs as opposed to ideals of social justice. In other words, according to Brown's reading of Hayek, limiting the political and the scope of democratic decision-making were the true foundations

of his thought, as opposed to ideas around respecting and protecting markets (Brown, 2019, p. 74).

Brown describes Hayek's philosophy of the dethronement of politics as an inversion of Aristotle's politics according to which participating in political life is what allow us to actualise our potentialities as a human being while at the same time allowing us to be genuinely free. For Hayek, our freedom as human beings is restricted by politics and law. We are only truly free when we live by the traditional moral principles we have inherited from the past, to which we freely abide. Political power, laws, principles of social justice and rationalism that supports them are all threats to these traditional moral principles and our freedom (Brown, 2019, p. 75). Hayek's project to dethrone politics and replace it with tradition explains, according to Brown, the seemingly contradictory positions held by contemporary Neoliberalism, namely a belief in radical individualism and a belief in traditional values -religious or social at the same time (Brown, 2019, pp. 75-76). The same political voices that argue for greater individual freedoms, especially in the field of economic activity, are the voices that seek to retain or even revive archaic values on issues such as abortion or same-sex marriage. Hayekian philosophy would limit the scope of democratic decision making to the minimum, leaving the democracy with "little left to do and with little power to do it" (Brown, 2019, p. 76).

Neoliberals and ordoliberals

Hayek's dethronement of political would become one of the foundations of neoliberal thought and would influence both Milton Friedman's neoliberal philosophy, as well as German Ordoliberalism. Brown embarks on a parallel discussion and comparison between Milton Friedman and German ordoliberal thought. The comparative analysis of these two sources provides interesting insights as they reflect both influential traditions of Neoliberalism. One the one hand, we have Milton Friedman's whose thought inspired U.S. and Latin American Neoliberalism, as well as the Pinochet Regime. And on the other hand, we have German Ordoliberalism that fundamentally shaped Western German politics, as well as the politics of unified Germany and, most importantly, inspired the institutional design of the Eurozone and the Maastricht Treaty (Young, 2014).

The idea that it was necessary for the political to be dethroned has influenced both Milton Friedman's and the Ordoliberals' thought. Both Friedman and the Ordoliberals agree that the political is dangerous because it provides a platform to various democratic majorities, such as

the poor but also big Capital, to distort the market with their petit interests. The illusion of a common good that ought to be pursued is another danger that emerges in the political. Politically designed societies were unfree societies, and both Friedman and the Ordoliberals rejected them, and as a result, they opposed the most public policy and public goods, especially public education (Brown, 2019, p. 61). What the ordoliberals and Friedman share is what Brown describes as the economisation of politics and the subordination of political power to the economy. Economic measurements and metrics play a key role here since they function as an institutional limitation to the political sphere.

For Milton Friedman, the sphere of the political is dangerous and self-expanding, and thus it ought to be limited and bound to the aims of Neoliberalism. Ordoliberals, influenced by Carl Schmitt, envisaged a strong state which would nevertheless be subservient to the economic order and pursue the aim of economic stability. The ordoliberals envisaged a depoliticised state run by technocrats that would be insulated from democratic demands (Brown, 2019, p. 61). Milton Friedman and Friedrich Hayek cast the political as a dangerously self-expanding domain that had to be tightly bound and conformed to neoliberal purposes. The ordoliberals drew closer to Carl Schmitt, seeking to build the strong state required for economic order and stability while giving it a technocratic form and insulating it from democratic demands. Both movements of Neoliberalism, however, see the state as essentially subservient to the market, a means for a more efficient economy, rather than as a democratic institution meant to express the will of the people.

The critique of the over-expansion of the political sphere was logically linked in the work of Hayek and Friedman with criticisms of democracy and its potential for excesses. Hayek and Friedman themselves did affirm liberal dictatorships as a transitional regime that would help a country avoid totalitarian democracy -which was often equated with social democracy (Brown, 2019, p. 62). Friedman's theory about co-dependency of political and economic freedom facilitated this theoretical tendency for neoliberals to tolerate or even endorse cold-war liberal dictatorships. The argument was that there is a synergy between political and economic freedom, the one will bring about the other in time, which is why true democracy can only exist with Capitalism (Brown, 2019, p. 65). Friedman's argument was that Capitalism and free markets required limited government and the separation of economic from political power. This process will lead to an increase in political freedoms and eventually to democracy thus offering a certain degree of legitimacy to dictatorships as long as their economic policies are liberal. This line of argument along with the sweeping claims that all socialism -to which

Friedman includes social democracy- will eventually lead to totalitarianism allowed neoliberals to legitimise dictatorial regimes. If Allende's government was going to eventually lead to a socialist totalitarianism, a liberal dictatorship is legitimate and perhaps even necessary, especially when this dictatorship is economically liberal; even if Pinochet's regime was authoritarian, its economic Liberalism would inescapably lead to the return of genuine democracy (Brown, 2019, pp. 66-67). Brown comments, however, that Neoliberalism's attacks on democracy were often less bold, and consisted in reducing democracy to a "method of setting rules".

This depreciation of democracy is visible on Friedman's preference for markets over politics. Any exercise of political power, even democratically voted legislation is seen as suspect since they involve a certain degree of coercion and they impose uniformity. Markets on the other hand with their freedom allow diversity. Democratic decisions put freedom in danger, as they allow majorities to impose their will on minorities, whereas markets allow individual preferences to shape outcome. According to Friedman in democratic legislation only the majority get to see their preferences included in laws, whereas in a market every individual can have their own preferences, and everyone gets to get what they chose (Brown, 2019, p. 66). Thus, replacing the reach of the state or political institutions with free market means replacing coercion for choice, submitting to the majority with diversity (Friedman, 1962, p. 15).

Ordoliberals shared the neoliberal preoccupation with the potential of democratic legislation to become a hindrance for individual freedoms and the market. We can trace the historical causes of this preoccupation of Ordoliberals with the dangers of democracy. Ordoliberalism emerged through the collaboration of a diverse group of economists and jurists that would come to be known as the "Freiburg Circles". The members of these circles were economists Walter Eucken, Adolf Lampe, and Friedrich Lutz and jurists Franz Böhm and Hans Großmann-Doerth. Ordoliberalism emerged in the context of WWII, with the first manifesto of the group emerging in 1937 (Böhm, 1937), although the name "Ordoliberalism" was coined in the post-war period in reference to the academic journal "Ordo". The group reflected the politics of its time and strongly opposed Nazism and Socialism but also Keynesian policies. It's policies are connected with German miracle and the recovery of German industrial production after the war, which was crucial in creating a strong industrial sector while containing the influence of unions and workers in German politics.

The Ordoliberal solution to this problem of democratic legislation which was considered too volatile and too prone to become subject to the will of the majority was the concept of an “economic constitution”. This concept was to become incredibly important during the Eurozone sovereign debt crisis since the idea of an economic constitution underpinned the institutional making of the Eurozone. The purpose of the economic institution was to create a nexus of restrictions that would force the state to leave untouched several liberal policies especially when it came to the freedom of the market, competition and the price mechanism (Biebricher, 2019, pp. 38, 133)

Jonathan White describes the idea of an economic constitution as “an ideal of political order in which agents of the state design an enduring framework to underpin the functioning of market society” (White, 2017, p. 2). For White the idea of the economic constitution was founded upon an ethical philosophy, that valorised taking risks and bearing the responsibility for these risks and the values of individual freedom. These neoliberal values translated in policies that endorsed private ownership, opposed monopolies, and prioritised price stability -as opposed to the Keynesian prioritisation of growth. What is more, the economic constitution would involve monetary policies that could foster ordoliberal policies, with the Eurozone and the Euro being an expression of the monetary policies of the ordoliberal economic constitution (White, 2017, p. 3). The ordoliberal economic constitution aimed at depoliticising the state and limiting the ability of citizens to affect policies by democratic means, thus creating a stable environment for the markets to operate in. Ordoliberal theoretician and parliamentarian Franz Böhm envisaged a state that would be limited at the task of the defining the structural framework within which markets could operate. According to Böhm’s vision there should be little place for political discretion and state affairs to an automatically functioning system of coordination (Böhm, 1989, pp. 62-63). In the ordoliberal institution of course there is no ambition to eclipse the state. The state would play an important role in shaping the framework of economic activity. Ordoliberals simply seek to avoid that the state is captured by powerful economist interests such as private enterprises or even industrial workers and their unions (Brown, 2019, pp. 77-78). Workers’ unions were of course powerful players in the post-war European political sphere. Their influence upon electoral outcomes in Western Germany was a cause of concern for ordoliberals, since the mere size of the industrial sector and industrial labour in the country allowed workers significant chances of success in influencing policy by sheer number alone.

The economic constitution would allow technocrats to choose the appropriate economic order, without pressure from the demands of the moment. The economic constitution secured the

influence of technocrats over economic policy. Technocrats would design the economic constitution as a technical blueprint that would allow economic policy to remain uninfluenced from the excesses of democracy. Technocrats, as the experts on the topic, would also be tasked with implementing economic policies in accordance with the economic constitution (Brown, 2019, p. 79). In this point ordoliberalism and Neoliberalism diverge, as neoliberal thinkers such as Friedrich Hayek were sceptical towards the role of social science in politics. Hayek claimed that social science could never attain the status of hard science, and when scientism prevails in a society it can lead to totalitarianism (Hayek F. , 1980 (1952)).

The ordoliberal embracing technocrats assumed that contemporary capitalism is too complex for ordinary citizens or political ideologues to grasp, and thus economic decisions needed the technical expertise. At the same time ordoliberals dismissed the idea that orders could emerge naturally from below, organically as Hayek would have it. Ordoliberal theorist Franz Böhm described grassroots politics as cacophonous babel, a place of discord and dispersion. He commented that the complex challenges of contemporary capitalism required that the experts are vested with some political authority in order to be able to translate their knowledge into practice. There had to be a robust political order, a set of ideals that stood above all others and with which all economic policies must comply. He spoke about making sure that the state protects and enforces the knowledge of the technocrats in the field of policy. The more capitalism becomes complex Böhm writes and “the more dynamic economic life becomes, the more stable must its order be (Böhm, 2017, p. 116)”.

The ordoliberals cautioned against the kind of statecraft that Europe was experiencing in the post-war period. Western Europe was witnessing the emergence of the social welfare state, which ordoliberals described as the economic state. A state of this kind can be manipulated by different social groups that impose their will on the state. The ordoliberal concern here echoes Friedman’s and Hayek’s concern with majorities imposing their will on all individuals and their fear of “democratic excesses”. At the first economic crisis this state becomes subservient to the economy, and ends up restricting the initiative of the entrepreneur, cripple regulators and distort the price system (Brown, 2019, p. 78). The ordoliberals thus rejected social welfare policies and Keynesian recipes for the overcoming of political crisis. These Keynesian crisis management policies were the mere results of partial economic interests imposing themselves as the general will. Ordoliberals instead aim at a state that was sealed from such democratic pressures and free to pursue the purely general state interests. As Wendy Brown comments for Ordoliberals as well as U.S. neoliberals the root of the problem is democracy and its excesses.

The ordoliberal solution to the democratic problem would have far-reaching consequences for European politics, as the structure of the Eurozone, both legally and administratively was founded upon the principles of Ordoliberalism and the idea of an economic constitution. The idea of an economic constitution that would protect the interests of the markets in the face of the whims of democratic decision making underpinned the structure of the Eurozone; elements such as limits in primary budget deficit, the independence that ECB enjoys in terms of democratic accountability and the obligation of Eurozone member states to follow what is essentially an low-borrowing restrictive fiscal policy obliged governments in the zone to implement similar fiscal policies, independent of their democratic mandate. If the hypothesis that the E.U. and Eurozone structures are based on ordoliberal ideas, then Wendy Brown comments the “democratic deficit” that is observed in E.U. institutions should be considered not an accident but an intrinsic part of the E.U. project (Brown, 2019, pp. 80-81).

State and Democracy

The concept of economic constitution in German Ordoliberalism shows how much ordoliberals have moved away from classical Liberalism in terms of the state. The classical liberal model was based on the theory of the laissez-faire and a minimal state that essentially acted as a watchman.

With the advent of Neoliberalism, both in its Friedman-inspired and Ordoliberal variant, the ideal of a weak state is abandoned. Neoliberalism thinkers as we have seen have sought to limit the political sphere and what they described as the “excesses of democracy”. This would of course mean some limitations to the statal powers (Brown, 2019, p. 64). However, Neoliberals no longer sought a weak watchman state. Instead, they proposed the vision of a laser-focused state, a state that focused on guaranteeing the orderly function of the markets as ordoliberal theoretician Christian Joerges would put it (Joerges, 2017, p. 198). The main danger for the neoliberal state are obviously the excesses of democracy. Private interests could of course influence policy makers to introduce policies that distort the market, but the main danger comes from the masses. Democracy if left without supervision would inadvertently allow the masses by sheer number alone to impose their will on politicians and impose their demands and interests on the state (Brown, 2005, p. 63). Universal suffrage in large capitalist nation-states would lead more often than not to social democracy and social democracy itself to totalitarianism.

This is why according to Brown ideology plays such an important in neoliberal societies. Precisely, because neoliberals feared that majority rule would lead to the working class putting pressure on politicians for redistributive policies, they developed strategies that would allow an alliance between Neoliberalism and elements of the working class. This strategy aimed at establishing the narrative of TINA (“there is no alternative”) and its purpose was to convince the lower classes to abandon claims for redistribution by appealing to other lines of privilege and power such as whiteness and masculinity. Brown claims that the male or white privilege was perfectly adapted to the purposes of Neoliberalism, since the reproduction of these two lines of privileges relied on individual liberty rather than equality (Brown, 2019, p. 61). A polity that aimed at securing maximum individual liberty, even if that meant that it was willing to tolerate significant inequalities, allowed privileged groups to freely exercise and reproduce their privileges.

Another neoliberal strategy for averting the danger of the underclass using its superior numbers to impose redistributive demands is to put significant barriers to the political voice of the people and delimiting democracy. For this reason Neoliberals engage in a critique of democracy and call for the repealing the regulatory state, a strategy that is common in the works of Hayek, Friedman and the Ordoliberals (Brown, 2019, pp. 63-64). The state instead of continuing its role of the subject and author of legislation, it now becomes the object of legislation, an institution whose aim is to secure the best possible function of the markets. In the aftermath of the 2007 crisis commentators have talked of “socialism for the rich and capitalism of the poor”, a discourse that had been used to describe the risks to which the working class is exposed to while Capital enjoys statal protection. Noam Chomsky summarised this discourse in a 2017 interview when he described the post-2007 role of the state:

The state is there to provide security and support to the interests of the privileged and powerful sectors in society while the rest of the population is left to experience the brutal reality of capitalism. Socialism for the rich, capitalism for the poor (Chomsky, 2017).

Wendy Brown is expanding the “socialism for the rich” argument and providing a causal basis for it, tracing the causes for this phenomenon in the intellectual history of Neoliberalism itself. Brown is arguing that the “laser-focused state” and the economic constitution as envisaged by Neoliberals and Ordoliberals alike was expected to behave exactly in the way that states behaved towards enterprises and towards the poor after the 2007 crisis. The neoliberal state is

supposed to be insulated from the demands of the poor and to be technocratic, independent from democratic processes, and focused on best serving the markets. The situation that Chomsky and others have described as “socialism for the rich” was in fact not an exceptional situation or a paradox, but the logical consequence of neoliberal state-building. That is not to say that there is no contradiction between how the neoliberal state has been functioning in the aftermath of the 2007 crisis and the declared intentions of neoliberal philosophers. In what follows we will examine how neoliberal practice came in direct contradiction with neoliberal theory.

What went wrong?

There is a sense that Neoliberalism is in crisis, a crisis that started in 2007 and which has never truly ended. Progressive economists and critical theorists especially consider the post-2007 crisis to be a period of failed recovery leaving Neoliberalism as a socio-economic regime too weak to continue functioning as before but too strong to be replaced by an alternative.

Wendy Brown, also, shared this belief that Neoliberalism is in fact facing a never-before-seen crisis and for her this crisis is reflected in the era of Trump, with the advent of right-wing strongmen in neoliberal politics and the emergence of a new form of patriarchal perspective, a new phenomenon that as we shall see combines traditional right-wing attitudes with a profound nihilism. This crisis of Neoliberalism became even more visible as neoliberal policies now need the support of authoritarian policies to be implemented. Today Neoliberalism is dependent on statal oppression for it to survive as a socio-economic regime, as opposed to the declarations of a laser-focused state. So at what point did the neoliberal dream went wrong?

Before we can answer this question is worth examining neoliberal vision for the role of democratic institutions and the state. For Brown, the neoliberal vision hoped for states where Capital would accumulate and flow freely, societies organised according to the principles of traditional morality and according to the markets. States would limit themselves to securing the neoliberal project and would protect the markets from the various ideologies that could threaten them; ideologies that neoliberals described as “rationalists”, planners, redistributionists or egalitarians (Brown, 2019, p. 82), all names with which neoliberals used to describe the various variants of the Left. To protect these markets democracy would be separated from any concept of popular sovereignty. Democracy itself would be reduced to a mere mechanism (Hayek F. A., 1960, p. 170) and citizens would be limited to being mere voters in a de-democratised sphere of the political. These citizens-voters, unaffected by

illusions of popular sovereignty and protected from the excesses of democracy, would be politically pacified (Brown, 2019, p. 83). Brown is here returning to an earlier theme of her research, the theme of homo economicus. According to this concept that she borrows from Foucault, in the era of Neoliberalism our political life is limited and reduced to passively acting as voters, choosing between a set of pre-defined choices, policies that must above everything else be beneficial to the markets. Citizens are reduced to mere participants in the market, the homo politicus is reduced to homo economicus. The argument in “Undoing the Demos” was not simply that the “needs of the markets” had come to dominate the political sphere, but rather that with the advent of Neoliberalism the Subjectivity of the democratic citizen is destroyed and replaced with the Subjectivity of the homo oeconomicus. According to the “neoliberal iteration of homo oeconomicus is extinguishing the agent, the idiom, and the domains through which democracy — any variety of democracy — materialises (Brown, 2015, p. 91)”.

The neoliberal vision for the future of democracy is that this citizenry made of homines oeconomici that would be politically pacified. Under the neoliberal vision the authority of state is not weakened, as for example envisaged by classical Liberalism, but on the contrary strengthened.

Since, the mission of the neoliberal state is to secure the conditions necessary for the flourishing of the market, the rule of technocrats is seen as inevitable given the complexity of modern economic phenomena. One can see how neoliberal’s critique of “democratic excesses” and the reduction of political debates into mere questions about how to best support the function of the markets, the rule of technocrats becomes inevitable. If the flourishing of the markets is seen as the singular goal of politics, then the persons that know how these markets function or even better are part of these markets are the best skilled to respond to the challenges of today.

The neoliberal state limited in serving the markets, run by technocrats, indifferent to concepts of popular sovereignty and divorced from ideas of serving the common good had destructive effects for democratic politics.

It is not that prior to the advent of neoliberalism bourgeois nation-states were run by the demos. Far from it, bourgeois nation-states neither were nor could they be run by their lower classes, which were systematically marginalised and poorly represented in the political sphere. However, as Brown had already established the main difference between liberal and neoliberal democracies lies in the concept of popular sovereignty. Even if liberal democracies were not run by the demos, they were run in their name, in other words there was an agreement that

democracy should be run by the demos (Brown, 2015, p. 207). This according to Brown acted as limitation to the anti-democratic tendencies of liberal politics. The concept of popular sovereignty was, however, completely abandoned in the era of Neoliberal democracy, leading to a further decline in democratic representation of the demos. The anti-democratic tendencies of Neoliberalism were re-enforced, leading to “displacement of liberal democratic legal values and public deliberation with governance and new management (Brown, 2015, p. 207)”. This according to Brown left Neoliberalism vulnerable to “rogue political powers”, or even “anti-democratic rebellions against its effects” (Brown, 2019, pp. 84-85). We can reflect of the multiple crises provoked by Trump in the U.S. or Bolsonaro in Brazil, both of which were products and ideologues of Neoliberalism.

According to Brown after four decades of anti-democratic discourse by neoliberals has produced a “profoundly anti-democratic political culture”, where democracy is not simply subdued to the market or the economy but “explicitly demonised (Brown, 2019, pp. 86-87).

If we sum up Brown’s argument so far, this focuses on the economisation of politics, and how this process reduced the ability and opportunity of the demos to express their voice, claim visibility and take part in the democratic decision-making. This hollowing of democracy would undermine the democratic institutions themselves, leaving to the rise of a new variant of right-wing Neoliberalism.

Apart from the economisation of politics however Neoliberalism undermined democracy via its affirmation of traditional morals. We have seen how Hayek spoke against universalism and rationalism, the effort to impose moral values from above- which according to him was what social democracy was trying to do by invoking principles of justice.

According to Brown this was one of the key motives behind Hayek’s antipathy to social democracy and the diverse variants of the Left that he described tout court as socialism (Brown, 2019, p. 107). Namely, he opposed social democracy’s effort to replace traditional values, that have emerged organically from below, with “rational master designs of society” (Brown, 2019, p. 108). Social democracy’s rationalist philosophy is based on a misunderstanding of human beings, society, and the concept of justice. Neoliberalism stood then for affirming order based on tradition and individual freedom. Free societies Hayek affirmed do not pursue centrally planned ends in the way socialist and communist regimes did, but rather are based on “spontaneous order” that arises from a body of “common abstract rules” which apply to all citizens equally (Hayek F. A., 1988, p. 63). These rules according to Hayek must develop

organically, almost through an evolutionary process; Hayek rejects theories of legal positivism that would allow courts or parliaments to define such rules “from above” (Ogus, 1989, p. 402). Human conduct that is not proscribed by these abstract rules falls within the field of the “protected sphere”, in which every individual with their own values, ends and ideas reigns supreme. This in practice meant supporting deregulation policies, opposing social welfare and other social justice related policies (Brown, 2019, p. 108).

Brown describes this concept of the “protected sphere” as a form of privatisation, equivalent to the economic privatisations supported by neoliberal philosophers. In the same way, Brown claims, economic privatisations were “deeply subversive” for democracy, by generating inequalities, private ownership of the commons and plutocracy. In a similar way the privatisation of life that Hayek endorsed, allowed the values of Christianity and the model of patriarchal family to extend their influence. The extension of the “personal protected sphere” permitted anti-democratic moral values to take reign in society and subvert democracy (Brown, 2019, pp. 115-116) and be presented as nothing else but individual freedoms. For Brown Thatcher’s famous statement that “there is no such thing as society only individuals and their families” encapsulates this privatisation of the social sphere. Brown will go as far as to comment that this privatisation of private life is perhaps even more dangerous than economic privatisations, in the sense that privatisation of social life leads to the “psychic and political formation of a liberal authoritarian political culture (Brown, 2019, p. 116)”.

Brown claims that Hayek’s theory of “organically developed morals” and personal sphere would function as a legitimising discourse for long-lasting injustices and exclusions, as well as religious and patriarchal concepts such as “hierarchy, exclusion, homogeneity, faith, loyalty, and authority” (Brown, 2019, p. 116). These values are now presented in a positive light, when they are considered to be organically developed values and not elements of oppressive institutions.

This legitimisation of patriarchal values in Neoliberalism becomes visible in the analogies between a home or family and a nation, that were often drawn in neoliberal discourse. Brown describes this discourse as a form of privatisation and “familialization” (Brown, 2019, p. 117) of the nation itself which is now presented as an inefficient business that needs to improve its performance or a home under threat by outsiders. This discourse was of course heavily present in the political speeches of Thatcher and Reagan but for Brown it reached its highest point in the era of Trump.

The “familialization” of nation-states in neoliberal discourse opens the way for nationalism and eventually for illiberal attitudes towards foreigners and outsiders. Eventually, this familialized state would become increasingly authoritarian with policies of heavy policing and securitisation. A securitarian state emerges thus in order to protect this privatised nation-state with an excess of laws, border patrols, police and army presence as well as private security forces. Refugees trying to reach Europe became victims of this securitarian state and its apparatus of oppression (Brown, 2019, pp. 117-118). The neoliberal state becomes increasingly authoritarian as it become privatised and ends rejecting “public, pluralistic, secular democratic order”, opting for a “private, homogenous and familiar order” instead.

The neoliberal state was unable to achieve the declared goal of achieving independence from partial economic interests. On the contrary to Hayek’s affirmations that a neoliberal state would be unaffected by the interests of smaller groups, the neoliberal state has come to be dominated by the financial sector and other powerful industries (Brown, 2019, p. 118). The 2007 crisis revealed the sway that financial institutions and banks had in policy making, when governments across the Global North implemented policies that were largely favourite to this sector, such as Quantitative Easing policies, the injection of liquidity to the banking sector, or other policies that allowed the financial and banking sector to return to profitability- even if they did not return to their pro-crisis levels (Lapavitsas & Mendieta-Muñoz, 2019, p. 7). The influence of ideas of traditional morality appeared to be equally toxic for democracy. Traditional morals rather than leading in some spontaneous order, they were “weaponised” to resist causes of social justice or legitimise inequality and the common good (Brown, 2019, p. 104)

Furthermore, the commercialisation and weaponisation of traditional moral values, their exploitation for purposes that contradict the moral principles that these values impose has according to Brown lead to a kind of contemporary nihilism (Brown, 2019, pp. 118-119). Brown summarises as follows how neoliberal societies have ended up causing the hollowing of traditional values:

Politicised as “freedoms,” they lose what Hayek affirmed as their noncoercive constraint on freedom, apart from limiting practices they oppose. Weaponised as individual and corporate prerogatives against equality and antidiscrimination laws, they become a means to attack and

disrupt rather than foster social bonds and integration (Brown, 2019, p. 119).

The argument follows an almost Nietzschean strain here. Traditional moral values turn on themselves, they become means of expressing resentment towards other groups that one disagrees. For example, the traditional values related to nuclear values can be turned against women that seek access to free and safe abortions. Traditional moral values ended up being used as excuses for legitimising long lasting injustices.

Conclusions

There is one commonality between the works of Lazzarato and Brown, and this is the usage of their concept of Subjectivity. They both re-mobilise the lectures of Foucault on Neoliberalism and put Foucauldian concepts in use to analyse the current crises of Neoliberalism. Both Brown and Lazzarato embark from Foucault's claim that Neoliberalism should be seen not as a mere economic ideology but as a form of "governmentality" that results in the production of a certain type of Subject, a Subject that is better suited for the needs of a neoliberal society.

Whereas Lazzarato aims at providing us with a detailed theoretical model of neoliberal Subjectivity for Wendy Brown there is less space dedicated on the issue. Brown focuses primarily on forms of nihilistic Subjectivity in neoliberal societies, especially male and white Subjectivities.

Brown considers this Subjectivity as a symptom, an effect of the errors in the original design of Neoliberalism as a politico-philosophical phenomenon. Her declared purpose is to investigate the "political rationality" behind Neoliberalism and to do so she engages in an analysis of the writings of the philosophical founding fathers of Neoliberalism, namely Hayek, Friedman and the German Ordoliberals. Brown employs methods stemming from political philosophy and the history of political thought. These methods consist in the researcher picking and analysing seminal thinkers whose thought the researcher considers that they have had exceptional influence in the history of political thought or even political history tout court. These thinkers are often considered to have begun a new paradigm or movement in the history of political thought and radically changed the course of events in the world of ideas. Brown's work, also, seeks to affirm the importance of equality for the "concept and practice" of democratic politics. Brown will argue that concerns about social justice are crucial for the function of democracy. Her work demonstrates that social relations and the social sphere are of extreme significance for contemporary democracies (Brown, 2019, pp. 50-51).

The method implemented by Brown, however, has one obvious weakness. This weakness lies in the complicated relationship between philosophical debates and political debates. Brown's argument summarised is that the philosophical ideas that founded Neoliberal politics included strong anti-democratic, anti-popular tendencies that would eventually lead Neoliberal societies to weaken their democratic institutions and processes. The problem lies in that Brown never explores what influence did Hayek, Friedman and the German Ordoliberalists have had on Neoliberal politics and how they exercised influence. Neoliberalism as a socio-political phenomenon is the outcome of the concrete actions taken by a great number of agents, which willingly took proactive steps to bring about the status quo we describe today as neoliberal politics. This included the banking sector, political parties -both social democratic and conservative-, Capital, and in cases such as Argentina or Chile, institutions such as the military and the deep-state apparatus took actions to see neoliberal policies imposed. Intellectuals and academics were without a doubt part of the history of how Neoliberalism was imposed as the dominant socio-political paradigm. Perhaps the clearest example of this agency is Friedman's role in Chile, his training of the Chicago boys that would go on to form part of Pinochet's apparatus but also his visits in the country or his media interviews that often offered direct or indirect support to the Chilean dictator. There is no question that the militancy of academic institutions and academics was crucial for the dominance that Neoliberalism currently enjoys. However, the relationship between Neoliberal ideas and the politics of Neoliberalism is left unexplored. Did Friedman and Hayek build a philosophical project with strong anti-democratic strains that was subsequently adopted by the forces of reaction and Capital. Or the origins of Neoliberalism lie in the interests and politics of Capital, which lobbied for and imposed neoliberal policies, with Friedman and Hayek only providing the philosophical façade for these policies. The role of Friedman and Hayek within the wider socio-political alliance that brought about the establishment of Neoliberalism is not fully explored and thus as a result the Brown hypothesis remains only partially verified. Her argument that a strong anti-democratic strain exists in the work of Chicago School neoliberals and Freiburg Ordoliberalists is established thanks to a plethora of references. Whether we can trace the current democratic crisis in Neoliberal societies in the philosophical design of Neoliberalism or the socio-political and economic forces that rallied behind the Neoliberal banner is a question that is never answered.

DAVID GRAEBER: A GENEALOGY OF DEBT

David Graeber's history of debt is a macro-historical study on debt's genealogy from the early beginnings of credit and cash markets in Bronze Age Mesopotamia to the 2007-2009 crisis. Graeber's main achievement is to make a convincing argument that debt was not a by-product of barter but a fundamental social mechanism that lies at the heart of essential transformations in society and politics.

David Graeber's book on "Debt: The first 5000 years" was a monumental work published right after Graeber's involvement with the "We are the 99%" movement. The work which had a substantial impact is an extensive study of the history of debt has an impressive scope. Covering the history of debt from the early bronze age and Mesopotamia to our days. Graeber insightfully employs anthropological and ethnographical resources to offer us a new perspective on debt, which is not limited by classical economics' assumptions and methods.

Graeber sets out to investigate the origins of debt, reviewing archaeological findings, ethnographical data, and anthropological sources. He does not engage in any data collection himself, and he mainly relies on others' data, something that is to be expected in a book of this scope. However, Graeber uses the existing literature in innovative ways to point out gaps in classical economics and offer exciting insights into the history of debt.

Graeber will establish that the history of debt is intrinsically tied in with the history of the state and money, and he will discuss how these three institutions feed into each other and the different ways they have evolved through history.

The myth of barter

Graeber's historical account on Debt is as complex as the phenomenon itself. It is a long narrative that visits numerous geographical regions and historical moments. Graeber's argument is through and through an anthropological work, discussing issues about economic history. Thus, it comes as no surprise that for Graeber to establish his argument, he would have to discuss some of the established assumptions about economics' history. Before he can show how commercial debt emerged in societies and how it replaced earlier forms of obligations, he needs to do away with one of the most foundational narratives, the myth of barter.

The myth of barter is the conventional story about the origin of money extensively discussed by Adam Smith. It is present in any neoclassical handbook. It is so widely accepted that it is barely discussed and debated (Graeber, 2011, p. 75). There is only one problem in this theory: little historical evidence supports it. Alternatively, at least so claimed Graeber.

The myth of barter is one of the fundamental assumptions of classical and neo-classical economics. Perhaps the most famous example of the barter theory is a passage from the *Wealth of Nations* where Adam Smith develops his theory of the “double coincidence of wants”. As individuals go about their everyday lives trying to exchange the goods they had with goods they needed, they would eventually begin stockpiling an excellent such as metal or nails or fish, which everyone would accept. This phenomenon would eventually lead to the creation of money.

Graeber engages in a detailed discussion of the myth and examines various anthropological and historical evidence that shows, in fact, that this emergence of money via barter never actually occurred. The myth of barter obscures the role of debt and state-sponsored violence in the creation of money. In what follows, we will discuss the history of money as part of the history of credit, as presented by Graeber.

Historical evidence, however, Graeber comments, shows that money is not a result of barter (Graeber, 2011, p. 29). Quite the contrary, as money predates barter and itself is predated by debt, barter appears then to be nothing but an “accidental by-product” of the use of coinage or later paper money (Graeber, 2011, p. 40). When people are used to using the money for their everyday transactions have suddenly no access to it, such during the fall of the Soviet Union, the Argentine crisis in 2002 or the European Dark Ages, barter would be what they would typically revert to in order to continue with their lives (Graeber, 2011, p. 37). The fact that after the collapse of the Roman Empire, goods in Europe would still be denominated in the then non-existent roman currency shows that barter cannot exist without the use of money. Individuals would still use imaginary money in the European dark ages, although the physical coins were no longer circulating. Graeber claims that anthropological evidence shows that barter is a relatively recent phenomenon. What is more, barter has the presence of individuals already familiar with money and credit systems as its prerequisite.

Anthropological and historical evidence, Graeber claims. Show that the history of money begins not with benign early humans seeking means to exchange their goods. Instead, available evidence suggests that the history of money is intrinsically connected with state-sponsored

violence. Money is, in a sense, a necessary tool for the state to enforce its authority. As we shall see, money emerges when sovereigns need to create standing armies and proliferates at eras of upheaval, war, and conquest.

Most importantly, the history of money, as we shall see, is intrinsically connected with the history of credit. Graeber describes the economies as “human economies” that have little need for money or credit systems, as we shall see. These economies operate on honour and mutual obligations. Graeber will try to explain then precisely how we transitioned from these human economies to exchange-based economies, as we know them today, and how these economies gave rise to money and credit. To examine this historical transition, we need a better explanatory model for the emergence of money. Graeber will attempt to offer his alternative to the myth of barter. In what follows, we will discuss Graeber’s theory of money.

Graeber claims that we are caught between two fallacies. As we have seen, the first was the myth of barter, the overly benign account offered by Adam Smith for the emergence of money. His assumption of noble savages with good intentions, simply trying to exchange their good, obscures state violence’s role in the emergence of money and markets. Primordial debt theories are plagued by another fallacy, namely placing debt at the origin of all debt relations and rendering the primary social relationship. To overcome these two limiting theoretical models, Graeber will propose a new theoretical concept; human economies (Graeber, 2011, pp. 207-208).

Credit before Money

Despite historical evidence that contradicts barter’s myth, this fundamental assumption remains influential and has retained its position in classical economics handbooks. Why has the myth been able to survive then despite the historical evidence that would disprove it? Graeber claims that the myth of barter cannot go away despite the lack of historical evidence because it is central to economics’ entire discourse (Graeber, 2011, p. 43). Adam Smith’s epistemological intentions, Graeber comments, was to establish economics as a science governed by laws like the laws of physics established by Newton. Although unsupported by historical evidence, the myth of barter portrays the market as the natural and effortless outcome of economics laws. The basis of economic life was assumed to be the human propensity to barter (Graeber, 2011, p. 25). This assumption of a de-politicised, instinctual origin of the economic sphere was much more compatible with classical economics assumptions and its epistemological and political goals of classical economics.

Barter, Graeber claims, is, in fact, a modern institution which occurs when individuals who are used to having money have for some reason or another no access to it. Revisiting Adam Smith's theory on barter and the creation of money, Graeber claims that the reason why barter was used extensively in Scotland at the time Adam Smith was writing the *Wealth of Nations* is that salaries would be delayed for significant periods, up to a year, due to lack of coins. Thus, the products of one's labour, such as metal nails could be used as a means of exchange as anyone could find a use for the product. In Virginia, tobacco was recognised as legal tender thus obliging merchants to accept the product as payment and at the same time turning them into middle persons for the tobacco business.

The story of the emergence of barter shows that credit systems were improvised by people when money was in short supply. Mesopotamian and Egyptian sources, Graeber claims show that credit systems preceded the invention of coinage and the emergence of markets by thousands of years (Graeber, 2011, p. 38).

What is money?

It is undoubtedly a striking statement to make, namely that money comes before barter. It appears counter-intuitive, and it means that if correct, we should reject one of the founding principles of classical economics. In Graeber's perception money is simply a form of IOU.

Borrowing from the state-money theory (Graeber, 2011, p. 46), Graeber claims that money functions not as a means of exchange but as an "accounting tool" for credit. The first evidence Graeber brings to support this theory comes from modern economics and the Bank of England's history. The Bank of England, which functions as the model upon which most central banks were based, could issue money precisely because its customers were willing to accept it as IOUs. Graeber points out that the Bank of England's currency was backed by the King of England's debt towards the bank. This set-up allowed the Bank to profit from both the King's debt payments and the deposits made by citizens. What is interesting, Graeber points out, is that the King's debt to the bank -as quantified by the money in circulation- was virtually unpayable. This unpayable debt level allowed the system to continue functioning (Graeber, 2011, 49). If we imagine a scenario in which the King somehow repaid the Bank of England's debt, the institution would be deprived of an essential revenue source. It would presumably be unable to continue guaranteeing the value of money in circulation.

The circulation of these IOUs for Graeber is intrinsically connected with state violence and, more specifically, with the emergence of standing armies, empires and powerful sovereigns.

Members of a community that trust and know each other have no use for money. They have access to their established credit systems. However, soldiers of standing armies fighting far from home and often for different sovereigns had an enormous need for an IOU that could be accepted anywhere. Soldiers need access to goods, thus leading to the emergence of markets - where impersonal economic transactions can occur- and for merchants to be paid, they need a form of IOU that they can use anywhere. Currencies and markets emerge around ancient armies, affirm Graeber. For Ancient rulers, the art of governing consisted primarily of “thinking about the relation between mines, soldiers, taxes, and food (Graeber, 2011, p. 50)”.

In summary, Graeber’s theory was that as states needed to support large armies, they needed to issue some form of IOU that soldiers could use to access goods. The presence of armies led to the creation of markets and money circulation. Large armies, oppressive empires, money, and markets are intrinsically interconnected.

Currency proved to be a helpful statecraft tool in creating new forms of financial dependency, more specifically by forcing the people into economic subjugation through taxes. Graeber provocatively asks why and how sovereigns could impose taxes on their subjects legitimately. Graeber underlines we are not talking here of mere extortion. Sovereigns were able to give some legitimacy to their taxes. *Prima facie*, if a sovereign already controls the silver and the gold mines, it seems entirely unnecessary that they would ask citizens to pay back some of the currency in circulation in the forms of taxes since the Sovereign could already have access to all the silver and gold they needed through their mines (Graeber, 2011, p. 49).

To explain the paradox of taxes, Graeber refers to Madagascar’s colonial history and the French colonial authorities’ imposition of a head tax. This head tax, which was incidentally one of the French’s first measures once conquering the island in 1901, could only be paid in the newly issued Malagasy francs. This tax that was named the “moralising tax”, was imposed at the end of the rice harvesting season when rice supply in the country was at its highest. By imposing the moralising tax, the French could force the locals into new economic relations. To obtain these new francs, the farmers would have to sell their rice to merchants, and as the supply was so high, they had to sell large amounts to make the sum they needed to pay the taxes. For many farmers, this meant that they could not hold on to enough rice to feed their family for the entire year until the next harvest. As a result, many were forced to buy back later in the year some of the produce they had sold in mass during harvest. Invariably this policy produced situations in which farmers ended up indebted to avoid starvation. Simultaneously, the advent of

consumerism in the country made sure that the economic relations that pre-existed in Madagascar were destroyed. The colonised were suddenly and violently incorporated in colonial economic relations based on credit, French currency, and profiteering.

Social currency and Human Economies

Graeber invites us to revisit the actual anthropological evidence on the history of money. We observe the presence of so-called “primitive money”, namely money which were used among individuals in the absence not only of state mechanisms but also markets. The presence of primitive money should be impossible to explain if one accepts the myth of barter. According to neoclassical economics, money was adopted to facilitate market exchanges, but the existence of “primitive money” shows that money was used before the historical emergence of trade markets. Moreover, the available anthropological evidence shows that this kind of money cannot be described as a more primitive or crude version of our contemporary money but as a radically different kind of currency. This “primitive money” was, in fact, social currencies whose use was not to purchase or sell goods but rather to organise and reorganise relations between people (Graeber, 2011, p. 130). Graeber discussing the phenomenon of social currencies in China, mentions as examples of this kind of currency “marriage presents, fines, fees, and tokens of honour (Graeber, 2011, p. 220)”. These currencies functioned in the context of economies that were radically different from ours. Graeber names these economies “human economies”, not in the sense that they were any more human than the exchange economies on which we operate now but because they were “economic systems primarily concerned not with the accumulation of wealth, but with the creation, destruction, and rearranging of human beings” (Graeber, 2011, p. 130). Social currencies, Graeber, comments function on the hypothesis that any amount of money cannot replace humans. Every human is irreplaceable, and no quantifiable equivalence can be established between, for example, a relative that has been killed and another human or monetary compensations. (Graeber, 2011, p. 158).

Graeber draws practical examples of how human economies function from the anthropological research of Mary Douglas on the Lele people of Belgian Congo in the 1950s. The Lele operated a human economy where no human life could be reduced to a monetary value. Although the Lele used complex social currency systems, wives could not be bought by men -to mention just one example of how the Lele refused to quantify human life (Graeber, 2011, pp. 137-138). The Lele community, as other human economies, operated based on mutual obligations and

expectations. The Lele created and recreated human bonds through kinship, family arrangements and gifts, as well as life debts.

Moreover, while everyone was, Graeber comments, in some sense a pawn as almost everyone was involved either in some marriage debt or life debt that meant that certain expectations were on them, but these obligations appeared to be neither too onerous nor specific to any individual; if everyone was a pawn it could not be too bad to be a pawn, What is more, the Lele community did not allow individuals to exercise coercion or violence on other individuals, in order to force them to meet their obligations. Graeber describes this non-coercive human economy as having “all sorts of rules”, but the community did not operate any coercive mechanisms. Without any governmental, judicial or police mechanisms to enforce one person’s interpretation of a dispute, everyone’s feelings had to be considered in the end (Graeber, 2011, p. 143).

Graeber had already clarified that he does not necessarily consider human economies to be more humane, an apparent gesture to let the reader know he is not idealising these communities. However, the writer does not refrain from pointing out some of the advantages these communities had compared to our exchanged based economies. Human economies were characterised by a lack of coercion and stata violence. A regime in which everyone’s feelings and perspective must be taken into account when dealing with disputes paints a favourable image compared to debt peonage, and injustice for the lower classes characterise exchange-based economies.

Graeber has already emphasised that human life is irreplaceable in the Lele community as in all human economies. There is, however, one exception to this rule -at least according to Douglas’ research- where indeed life is quantifiable and can be valorised in terms of monetary value. Discussing the case will allow Graeber to reflect on human societies’ transition from human economies to exchange-based economies.

Graeber comments that the only case when a person could be reduced to a quantifiable object was in marriage disputes that led to wars. In these cases, the Lele would wage war with the aim of kidnapping women. As presented in Mary Douglas’s work, in the Lele community, one person or clan could not use physical coercion over another. Thus, if a male had a marriage dispute with another person or clan, he could choose to sell his claim to the only entity that could violently enforce marriage debts, namely a village. Once paid, the claim was passed to the village that adopted it as their own and could now claim a marriage debt as the village saw fit. In other words, Graeber comments, in the human economy of the Lele, an equivalence

between human life and the material economy is only possible in the context of war and violence. For a human to be rendered into a quantifiable object, the person needs to be violently separated from the social surroundings. In this case, a woman must be separated from the family she belongs to (Graeber, 2011, pp. 143-144). The main lesson that Graeber wishes to draw from these historical examples is that violence is an essential element of how societies transition from treating humans as irreplaceable to treating them as objects (Graeber, 2011, p. 165).

The story of these wars around marriage obligations is emblematic of the intrinsic relationship between violence and the quantification of human life. The latter Graeber seems to imply would be impossible without the former. Examining the history of the Atlantic slave trade in Africa, Graeber discovers that instead of replacing the human economies that were already established in the region we today know as Nigeria, slave traders used and exploited these human economies and their mechanisms to dismantle them and replace them with an exchange-based economy in which slavery would be both possible and acceptable (Graeber, 2011, pp. 150-155). Using the elaborate mechanisms of life debt that pre-existed in these societies and were mostly harmless and violence-free, the slave traders could exploit the communities they met more efficiently, more extensively, and with local collaborators. This form of transition from human economies to economies of exchange was not exclusive to Africa. Graeber claims that one can witness similar shifts in Thailand and other parts of Asia. Slavery, like the Lele marriage wars, was essentially a way of objectifying another human being by ripping them apart from their social and cultural context (Graeber, 2011, p. 168).

If human economies like the Lele allowed for the occasional use of violence and objectification of human beings, societies which Graeber describes as “heroic”, including Bronze Age Homeric Greece and Medieval Ireland, elevate the total submission of another human being and destruction of their honour and dignity as a value in itself, and one of the highest values (Graeber, 2011, p. 209). In Heroic societies depriving a person of their honour by subduing them into slavery was considered evidence of heroism and valour. Graeber brings the example of Achilles trophy slave Briseis, who was later taken away from him from Agamemnon. It is noteworthy that Homer was Achilles emphasising that although Briseis was a slave he took by force, he still harboured feelings for her as any valiant person. In other words, Briseis has not been entirely reduced into an object.

The concept of communism

Although human economies are, as we have seen, not presented as an idyllic alternative, Graeber does believe that we should re-examine these economies to break out from the ideological trap of exchange economies. The narrative one encounters in classical economic books is that economies operate on the premise of self-interest that leads individuals to create markets.

What is fascinating about human economies is that they are so evidently based on principles different from self-interest and egoism. They instead operate as we have seen on moral obligations, interpersonal ties, and cultural values. On the most fundamental basis, Graeber claims, these economies operate upon something he describes as “everyday communism”. He provocatively describes this concept of everyday communism as a “human relationship” based on the basic principle of “mutual aid” (Graeber, 2011, p. 329) that can be summed up as “from everyone according to their abilities to everyone according to their needs” (Graeber, 2011, p. 94).

Graeber clearly distinguishes his concept of everyday communism from the Marxist conceptualisation of the terms. It is worth remembering that Graeber embarks on his analysis from an anarchist perspective, which is nowhere more visible than in his theory of communism. Graeber makes two opening remarks concerning what he describes as communism. Firstly, his concept of communism is not referring to any utopian ideas. Secondly, he does not refer to the Marxist revolutionary program and the ownership of means of productions (Graeber, 2011, p. 95). None of us, Graeber states, could consistently act communist, and societies can be organised purely and exclusively upon communist perspectives.

According to Graeber, this communistic cooperation between humans’ functions instead as a bedrock for societies. All social systems, including Capitalism, depend to a certain degree upon this bedrock of communism. We can think, for example, of women’s reproductive labour within the context of nuclear families, which as Silvia Federici and others have consistently argued, is vital for the function of the capitalist economic system. (Federici, 2012). If not for the selfless, mutual aid within families, the working class’s reproduction would be impossible.

Consequently, the capitalist mode of production would be impossible too. One needs only to reflect on how early industrial capitalist was based upon a patriarchal division of labour according to which men worked in the productive process. However, women would have to occupy themselves with all the domestic tasks necessary for the household’s survival.

The principle of “from each according to their abilities, to each according to their needs” is not utopian thinking but a concrete reality of social human relations. Humans would typically act on this principle when interacting with someone who is not an enemy, or the principle does not require some extraordinary sacrifice (Graeber, 2011, p. 98).

When we act upon this principle in our everyday life, our actions are fundamentally beyond any quantification. Mutual aid and this kind of everyday communism do not function based on calculations and quantitative values. Accounts are not taken; values are not measured. Mutual aid within a family or between friends is not measured to calculate debts in the way it is done in commercial relations. Graeber affirms that if we reflect upon such relationships, we will agree that it would be not only bizarre between two individuals in such a communistic relationship but also impolite even to consider taking accounts and measuring the value of this aid (Graeber, 2011, p. 99).

Graeber asks what happens to these forms of selfless mutual aid to this everyday communism in societies like ours where Social convention claims that social relations are based purely on free-market exchange. Usually, two things, Graeber answers, these forms of everyday communism are either ignored or deified (Graeber, 2011, p. 267).

Debts to the Cosmos

Today, we perhaps almost automatically connect debt with an economic transaction. However, Graeber is keen to point out that cultures thought of debts in radically different terms for the more significant part of their history than we do today. Typically, in the Greek, Buddhist, Brahman societies, Graeber investigates humans often mention primordial debts towards the *Cosmos*, the *Sages* that came before oneself, *humanity*, and *one’s parents* (Graeber, 2011, p. 67). These are nothing like commercial debts, Graeber notes. These debts are essentially unpayable and abstract. They do not involve the equality and separation between the transaction parties that commercial debt involves. One repays their parents’ debt by becoming a parent and to the sages by becoming a sage. The debt to humanity is paid “generosity to strangers, by maintaining that basic communistic ground of sociality that makes human relations, and hence life, possible (Graeber, 2011, p. 67).”

This anthropological evidence seems to lend some credibility to the French school of thought theories, known as “primordial debt theory “. This school of thought involves French economists -some once members of the French regulationist school- such as Michel Aglietta, Andre Orleans, and Bruno Théret (Aglietta, Ahmed, & Ponsot, 2016). At least as Graeber

summarises it, this school of thought's core premise is that "debt is the essence of society itself", pre-existing both money and markets (Graeber, 2011, p. 56).

This social debt was expressed in earlier phases of social history through religion and not through the state, which explains the recurrence of debt in various religious and philosophical traditions. According to this school of thought, our debts to the gods is nothing but a social symbolism of the debt we have to each other. This debt will be later claimed by the first kings, which were, after all, gods-on-earth, sovereigns in the name of God. Now the debt is owed to the Sovereign, the representative of God on earth (Graeber, 2011, p. 58). This debt towards the Sovereign will give rise to the Government as "the guardians of the debt that all citizens have to one another" (Graeber, 2011, p. 56). For Graeber, the primary error of the "primordial theory" school is that it assumes society as given as if all individuals belong to a concrete and clearly defined society (Graeber, 2011, p.69). Historical evidence might show that individuals throughout history often lived in less clearly defined conditions, being members of various societies. Nations, states, and societies within clearly defined borders themselves were the products of hard-fought political and social battles and hardly "givens".

According to Graeber, these theories of primordial debt get right because, indeed, sociality implies a debt. Members of a society have a certain kind of obligations towards each other based on relationships of trust. However, these moral obligations are radically different from financial debt, implying a certain kind of quantification typically present when people do not trust each other. Graeber's interpretation of these concepts of unpayable primordial debts in various historical texts is drastically different. These concepts of unpayable cosmic social debts seem to recognise that sociality implies a certain kind of debt to others. Without the contributions and advances made by those who came before us and without the cooperation and support we receive from other individuals, our way of life and even our existence would be impossible. However, this debt is described across these historical texts to emphasise its non-economic, non-transactional nature. How can one pay their debt to the Cosmos?

Moreover, how can one quantify their debt to their parents? These primordial debts were presented in such a way as to be both unquantifiable and impossible to be monetised (Graeber, 2011, p. 68). Graeber comments that instead of pointing to the direction of some primordial social debt that we are burdened by and acts as the foundation of our societies and states, historical sources point out precisely towards the lack of any such obligation creditors or the states. World religions and theories about debts to the Cosmos, the ancestors or our parents are,

perhaps, for Graeber, an eloquent way to demonstrate that these debts are abstract and non-quantifiable, a way to show that we are free to decide ourselves to whom we feel indebted to (Graeber, 2011, p. 69).

Graeber claims that the myth of barter and the myth of primordial-debt are, in fact, supplementary to each other; they are two sides of the same coin (Graeber, 2011, p. 75). Only once we come to see human life as “a series of commercial transactions” that the conceptualisation of human life as debt becomes possible. However, not all human societies have adopted such a commercialised conception of human life. As we shall see, human economies had a radically different understanding of human relations.

Similarly to the barter myth, the myth of primordial debt contradicts anthropological evidence. Graeber references anthropological evidence that shows that hunter-gatherer societies are characterised by a refusal to calculate credits and debits. Graeber refers specifically to one interview with a Greenland Inuit from Peter Freuchen’s *Book of the Eskimo*, where the subject of the interview states explicitly that he refuses to be continually calculating who owes what to who because such an approach to life would reduce human relations to a series of calculations (Graeber, 2011, p. 79).

According to Graeber’s account, these debts to the cosmos reflect two things. Firstly, they echo moral obligations, forms of obligations that emerge in a type of economy that Graeber describes as human. Human economies function based on such obligations to others unquantifiable and non-monetised, very much in the light of our debts to the Cosmos.

Secondly, the presence of the issue of debt in global religions and ancient ideas on sovereignty reflects the importance of the issue of debt in these societies. As we shall see below, the question of debt broadly defined class struggle in the ancient world and was the reason behind revolutions and social unrest.

From Obligations to Debts

How do we transition from “human economies” that might not necessarily be any more humane, but which nevertheless assume that every individual is irreplaceable, to contemporary economies of exchange when humans can be quantified and given a monetary value? The answer lies in credit and money, with which slavery is intrinsically connected.

Historical evidence, Graeber claims, shows that extensive scale slavery -as observed in Ancient Greece or Rome- coincides with the emergence of large armies and “itinerant” heavily armed soldiers willing to exchange goods for silver and gold coins. The larger the need for military spending and armies, the more significant was the need for silver and gold coins to convince soldiers to fight in the side of the Sovereign. The human economies based on promises and obligations served no purpose for these travelling soldiers who often fought far away from home in communities where they had no ties with the locals. Disconnected from the local communities of the theatre of war in which they had to operate, soldiers could not get access to goods in exchange for a moral obligation to provide something in return in the future; the way neighbours would do. Graeber rightly comments that these armed itinerant soldiers would define credit risk (Graeber, 2011, p. 213). Coins act Graeber claims as a means of transaction without history that is not tied to any social milieu and can be used anywhere. The final blow to the human economies and their values of individual uniqueness and irreplaceability comes with large scale slavery that accompanies wars and conquests. When armies are disbanded in times of peace, credit systems make their return, while in times of war, precious metals such as gold and silver functioning as money become more dominant.

Graeber then summarises his explanatory model with a historical example from Antiquity. Graeber points out the massive army that Alexander the great could master required exceptional amounts of precious metals to be maintained. This shaped Alexander’s strategy, who sought to take over the Persian mines and use them for his army’s needs. Mineworkers were, of course, typically slaves, often captured at war. In other words, Alexander’s military machine could conquer new territories thanks to its ability to mint large amounts of precious metals. The conquered population would then be enslaved and forced to work at the mines to finance further conquests (Graeber, 2011, pp. 229-230). Modifying Geoffrey Ingham’s term, Graeber describes this system as the “military-coinage complex”. While Alexander was minting vast amounts of a new currency, the Persian credit system, which was based upon the gold deposited in temples- was destroyed as Alexander liquidated this gold for his military’s needs. Graeber refers to Alexander the Great’s story as an example of how state-sponsored violence and social stratification bring about the end of human economies and lead us to exchange-based societies.

To sum up Graeber’s model, he claims that states, wars and markets tend to “feed off one another”. Military conquests created the need for taxes, and taxes were often used as a means to create markets. Markets themselves are convenient for “soldiers and administrators” (Graeber, 2011, p. 179).

As human economies give way to this new era of exchange-based societies, moral obligations established by traditional hierarchies are transformed into credit systems. Moral obligations are essential for human economies, such as the Homeric heroic societies (Graeber, 2011, p. 186) or ancient Celtic societies (Graeber, 2011, p. 117). The existence of such obligations supports social hierarchies in these societies. Graeber refers to the sociology of gift, the research strand initiated by Marcel Mauss' seminal book "The Gift". Graeber borrows from the sociology of gift the fundamental assumption that gifts can reflect relationships of inequality, especially when one of the two parties cannot offer a gift of similar value to the one she received. Graeber explains how the ability to offer gifts, favours or assistance to others that could not possibly ever return the favour was crucial for their production of elite classes in human economies (Graeber, 2011, pp. 117-120).

The emergence of credit reflects the social transformation that took place as human economies gave their place to exchange-based economies. While human economies are based upon mutual obligations, exchange-based economies replace this into human relationships with the more commercial and formal debt relationship. We have already noted that obligations are practically impossible to quantify. Here is where the transition to debt comes into play. Graeber comments, but the difference between a debt and a mere moral obligation lies not in the presence of violence, which we have seen from the Lele example can be present in human economies. As Graeber characteristically comments, both moral obligations and debts can be enforced by "armed men". The difference is that in a credit system, the creditor has the right to quantify precisely how much money she is owed (Graeber, 2011, p. 14).

The necessity to quantify personal belongings that could be repossessed for unpaid debts as well as to quantify an equivalence between damages caused to the creditor and payments due is what, according, to Graeber leads to the rise of the first systems of measurement. Quantification and violence go hand in hand. Credit is based on quantifying the debtor's obligations and enforcing the timely repayment of debt.

We should note here that, similarly to Lazzarato -with whom Graeber had several exchanges on the issue- sees forms of measurement as crucial. Measurements of economic value should not be interpreted as a mere accounting tool but rather as a political weapon, a means by which one can transform social relations. These measurements and valuations that emerged from regimes of credit eventually transformed into money. Money, Graeber claims, relates to the necessity of quantifying damages and compensations because of legislation surrounding debt

payments and punishment regimes for debtors that failed to repay their debts (Graeber, 2011, p. 14).

These power hierarchies were based on the following idea: moral obligations must always be fulfilled between equals. Moral obligations Graeber comments imply that the two parties are essentially in a relationship of equality. There is no essential difference between the two persons. When the obligation cannot be fulfilled, the relationship of equality breaks and now the person owing the obligation finds herself in a lesser position. This state of inequality was assumed to be somewhat unnatural. The person who owns the obligation is forced to show symbolic gratitude to the other individual as a recognition that they ought to have fulfilled their obligations. This idea underpinned ancient relationships of patronage, the patron and their clients are equals, but the clients failed to return obligations to their patron. Thus clients must show gratitude towards the patron for these unreturned obligations. However, it is worth noting that these obligations and the gratitude owed towards the patron are impossible to quantify.

Systems of credit depend on a similar assumption of formal equality. Debt requires a relationship between two individuals who are potential equals. Entering a relationship of debt means that this equality is temporarily breached. Nevertheless, this formal equality can be restored when the debtor repays her debts (Graeber, 2011, p. 120). this formal equality that is the foundation of any credit relationship is what makes issues of debt so politically explosive. Since both debtor and creditor are nearly equal, if the debtor finds herself in a position that she cannot repay her debts and restore herself to equality with the creditor, then there must be something wrong with her (Graeber, 2011, p. 121). If something that separates debt from moral obligations is that debt can always be repaid or forgiven. The concept of unpayable debt is absurd. Even criminals convicted for hideous crimes can claim that they have repaid their debt to society when they have served their time in prison. Unlike moral obligations, debt can and must be repaid. Failure to repay is then seen as an exceptional circumstance for which the debtor must be blamed. Moral obligations are essentially unpayable, and they are often only symbolically repaid through gifts, recognition, and gratitude.

This formal equality is the reason why debt often becomes intertwined with issues of morality. The assumption is that if the debtor is an equal of her creditor, for example, they belong in the same class or social group or share any other form of equality, the debtor must have done something wrong to have lost her position as equal.

In this formal equality lies the power of debt as an institution lies; it implies a certain kind of moral responsibility of the debtor. This labialisation of the debtor is a powerful political tool, as it puts the debtor in a vulnerable position and forces her to do her utmost to repay these debts. Violent inequality is much easier to legitimise when phrased in terms of debt; Graeber points out historical and anthropological evidence from historical conquests.

In this place, Graeber's analysis of debt is not all too different from Lazzarato's. The former agrees with the latter in that debt functions as a moralising power that forces subjects into self-subjection; the indebted subject knowing that she will be held morally responsible for any inability to repay her debts becomes more docile, more vulnerable, easier to oppress as she does everything in her power to repay those debts.

It is a theme that Graeber rightly points out had preoccupied Nietzsche in the *Genealogy of Morality*. Indeed, as we have seen before, Nietzsche claims that the emergence of a nihilism allowed for a calculative worldview, according to which everything can be reduced to quantifiable values. We have seen how Nietzsche emphasises the quantification of suffering and punishment, giving the example of a creditor that quantifies the amount of human flesh needed to make up for the unpaid debts (Nietzsche, 2007, pp. I, 5).

Like Graeber, Nietzsche believed that an epochal shift had turned humans into "inherently calculating" animals, prone to hierarchising others, and themselves, calculating the value of the world around them. Graeber re-reads the narrative of the *Genealogy of Morality* as a genealogical account about how this process of calculating the value of others and we stem from the process of socialisation and subjectification. According to Nietzsche, humans, owing to their existence to their communities, on which they depend for safety and their livelihoods, begin conceptualising their relationship to this community in terms of debt (Graeber, 2011, p. 77). Obeying the laws of the community becomes the more obvious way to repay our debt to society. As societies become stronger and stronger, individuals become increasingly vulnerable and weak compared to the collective. As power becomes concentrated to the hands of sovereigns and the population becomes docile, the consequences for unpaid debts towards society become ever more severe. Graeber characteristically claims that anthropological and historical evidence shows that individuals ended up fearing their societies like they would fear an angry creditor. According to Graeber's reading of Nietzsche, this fear of unpaid debt transforms into the fear of Gods and Sovereigns, the Cosmos, and eventually the Christian God a deity that with his son's sacrifice brings about the "maximum feeling of indebtedness".

Debt crises and class struggle

The language of morality and guilt is thus weaponised and used to impose the interests of the creditors. It is not long before debtors appropriate the moralising language of debt to wage class war against the creditors. Graeber claims that for the longest period in history the class struggle between rich and poor took the form of a conflict between creditors and debtors, with conflicts raging around issues of interest payments and its moral standing, debt peonage, repossessions, or amnesty (Graeber, 2011, p. 8). This class struggle over debt explains the constant recurrence of debt in human philosophical and theological discourses. The debt was such a critical social issue that its language became pervasive in all social activity areas, with different groups struggling to use this language in their favour.

This constant struggle is the explanation that Graeber offers for the apparent connection between issues of Debt and Morality. To demonstrate this connection between the two and support his theory, Graeber presents a wealth of anthropological evidence, mainly historical texts, and anthropological evidence on trade customs to support his argument. Graeber points to the World religions; Debt and Sin are fundamental concepts in the Sanskrit religion, for example, and Graeber underlines that the same word is used to signify the two concepts. Nietzsche had made a similar point about the dual meaning of the German word “Schuld”, as both guilt and debt in the second essay of the *Genealogy of Morality*, a linguistic affinity that Nietzsche similarly to Graeber uses to demonstrate the affinity (Graeber, 2011, p. 407n.59). Graeber traces this connection between debt and morality in different sources and cultures, citing the *Republic* where Cephalus defines justice as giving one what is owed (Graeber, 2011, p. 400n48), and the Bible where the Greek word *Opheilema*, a word that signified among other things financial debts, is used as the translation of the Aramaic word for sin (hoyween) (Graeber, 2011, p. 403n.25). Graeber points out the importance of “karmic debt”, the idea of debts stemming from one’s past lives, for some currents of Medieval Chinese Buddhism, while Confucianism and other forms of Chinese Buddhism emphasised the debt towards parents (Graeber, 2011, p. 263).

The class struggle between creditors and debtors could explain this “moral confusion” that Graeber identifies. The said confusion can be demonstrated by anthropological evidence that consistently shows that cultures seem to hold two contradictory beliefs. The first being that those indebted should always repay their debts and that the money lenders are morally dubious and highly problematic figures (Graeber, 2011, pp. 8-9). For example, Hindu medieval law believed that debtors who failed to repay their debts would be reborn as a slave or horse or

even ox in the house of their creditor. Graeber, however, unearths a Medieval Japanese book that stems from a similar tradition of karmic philosophy, albeit of its Buddhist variant, describes a different scenario; the story of Hiromushime, a greedy moneylender. Few days after her death, the author informs us the woman was prematurely reincarnated this time as a half-ox, a punishment for her karmic transgressions. However, Graeber's argument's logic is weak here since the two examples stem from two different contexts, albeit within the broader paradigm of karmic Buddhism.

In any case for Graeber, here lies the moral confusion; either the debtor can be accused of failing to repay her debts or the creditor of being excessively greedy. Nevertheless, both moral propositions cannot hold, either the debtor becomes reincarnated as an ox or the creditor, but not both (Graeber, 2011, p. 12). The logic of the argument remains thin here since one could envisage that the moral of the Buddhist story could be that debtors have to pay their debts, but creditors are advised not to be excessively greedy. Nevertheless, one can accept Graeber's broader point. In culture, creditors are often presented as morally dubious, greedy, and evil characters. One can think of Shakespeare the "Merchant of Venice" as a typical example of usury representations in culture. Graeber's evidence shows that indeed many societies at different times in their history held slightly contradictory positions in what debt is regarded.

Graeber's explanation of this moral confusion lies in this assumption of formal equality that a credit system implies. There is no equality between a slave and a master, but an economic transaction implies two equal members. In ancient societies, a slave had little grounds to challenge her position in society. A slave is inherently inferior as she has been conquered, defeated in battle, and thrown into slavery. The dominant class does not accept a slave as their equal. However, creditors do recognise formal equality to debtors since those asking for a loan must have a certain social standing to be considered creditworthy. This formal equality immediately puts debtors on a much higher standing than a slave and allows them to offer their counterargument against the creditor's discourse. The debtors will develop their own discourse, their own ideology, which typically emphasises the greedy nature of creditors (Graeber, 2011, p. 8) This leads to a veritable battle of discourses and ideologies between the creditors' discourse and the discourse of the debtors, a battle that is reverberated in our language and the foundational texts of philosophy and world religions that Graeber analysed.

Furthermore, this question of the relative moral positions between creditor and debtor defines political and social struggles through history. It is not only world religions and philosophers

that have tackled the issue. Revolutions were fought in the name of the immorality of the creditors. In contrast, creditors used the discourse of the immorality of bad debtors, who refuse to pay their debts, to legitimise suppression and authoritarianism.

In the long history of human societies, Graeber mentions, debt cancellation and land redistribution were some of the most common causes of overt political conflict and civil unrest. This historical fact is *prima facie* perplexing if one considers the grave injustices that individuals had to suffer in the ancient world. Great evils such as the enslavement of a conquered population or a tribute's imposition appear to have mainly been normalised in the ancient world. The evidence for this is that ancient cultures described such events not as right or wrong but rather as just how things are, part of the nature of things (Graeber, 2011, p. 85).

Graeber unearths traces of this social struggle in our parlour and the language of social justice, which, according to the author, echo ancient arguments about debt (Graeber, 2011, p. 89). This resurgence of the language of debt demonstrates how pervasive the relations of debt are, so much so that they have affected our linguistic field.

The solutions to the Debt Crises

These social struggles became particularly acute in periods of debt crises. During periods in which a critically large number of debtors were no longer able to serve their debt, societies entered in periods of crisis. Whether these defaults came because of a financial disaster or increasing poverty posed a significant challenge for credit systems. These systems rely on debtors repaying their debts, and if this does not happen, the system is in danger of collapse. Faced with impoverished debtors unable to make payments creditors had only one avenue for recovering debts; taking personal belongings, the debtor's home, or assets. In extreme debt crises, however, when the debtor's personal property was not sufficient to repay a debt, the only recourse for the creditor would be to throw the debtor in debt peonage, in other words, slavery. Debt slavery, Graeber suggests, appears to be a highly troubling phenomenon for ancient societies. Enslaving individuals through conquest or war was for more normalised. The conqueror could have taken the life of the slave, and thus she owes her conqueror a life-debt (Graeber, 2011, p. 169). Debt slavery, however, appears to have been particularly toxic for societies fuelling many revolutions and unrest across history. Graeber's explanation that the assumed formal equality destabilises the creditors' discourse can then account at least partly for this special status that debt peonage seems to have had in the ancient world.

Eventually, these crises were so disrupting that many societies instituted various forms of debt relief to avoid extended debt-peonage and insolvency. The Greek and Roman societies solved the issue by exporting their economic crises. The Greek cities and Rome could ease internal social tensions by merely providing their citizens with spoils from wars abroad and obtaining slaves from their military conquests. The wave of Greek colonies that were founded across the Mediterranean in the Archaic period resulted from these policies that aimed at averting debt crises.

The Greek solution to the recurring debt crises was the creation of colonies across the Mediterranean populated with the offspring of the poor, to avoid generational poverty. These colonies allowed for the proliferation of the slave trade. The increased numbers of slaves in Greek cities eased the economic and social tensions and allowed the emergence of a middle class of citizens, with enough time in their hands to devote to politics. Of course, the position of the Greek aristocrats was threatened by this new development (Graeber, 2011, p. 191). The aristocrats were remnants of the human economies of the “heroic era” of the Greek civilisation. For them, the most valuable currency was their honour. Aristocratic authors who wrote most of the surviving texts of ancient Greece, deplore this commercialisation of Greek society, the emergence of impersonal markets and the influence of money and most of all they deplore the new middle class and its moral corruption (Graeber, 2011, p. 187). Middle Eastern societies, on the other hand, implemented a system of periodic debt jubilees with across-the-board debt pardons (Graeber, 2011, p. 82)

Money, similarly, is the product of another kind of violence, the violence of punishment.

It's the former-the erosion of hierarchy-that really seems to have been at stake in the “debt crises” that struck so many Greek cities around 600 BC, right around the time that commercial markets were first taking shape.⁷⁴ When Aristotle spoke of the Athenian poor as falling slave to the rich, what he appears to have meant was that in harsh years, many poor farmers fell into debt; as a result, they ended up as sharecroppers on their own property, dependents. Some were even sold abroad as slaves. This led to unrest and agitation, and also to demands for clean slates, for the freeing of those held in bondage, and for the redistribution of agricultural land. In a few cases, it led to outright revolution. In Megara, we are told, a radical faction that seized power not only made interest-bearing loans illegal but did so retroactively, forcing

creditors to make restitution of all interest they had collected in the past?⁵ In other cities, populist tyrants seized power on promises to abrogate agricultural debts.

The face of it, all this doesn't seem all that surprising: the moment when commercial markets developed, Greek cities quickly developed all the social problems that had been plaguing Middle Eastern cities for millennia: debt crises, debt resistance, political unrest. In reality, things are not so clear. For one thing, for the poor to be "enslaved to the rich," in the loose sense that Aristotle seems to be using, was hardly a new development. Even in Homeric society, it was assumed as a matter of course that rich men would live surrounded by dependents and retainers, drawn from the ranks of the dependent poor. The critical thing, though, about such relations of patronage is that they involved responsibilities on both sides. A noble warrior and his humble client were assumed to be fundamentally different sorts of people, but both were also expected to consider each other's (fundamentally different) needs. Transforming patronage into debt relations—treating, say, an advance of seed corn as a loan, let alone an interest-bearing loan—changed all this?⁶ What's more, it did so in two completely contradictory respects. On the one hand, a loan implies no ongoing responsibilities on the part of the creditor. On the other, as I have continually emphasised, a loan does assume a certain formal, legal equality between contractor and contracts. It assumes that they are fundamentally the same kind of person at least in some ways on some level. This is undoubtedly about the most ruthless and violent form of equality imaginable. But the fact it was conceived as equality before the market made such arrangements even more difficult to endure. 191

Graeber's methods

In this part, we will evaluate the methodological strength of Graeber's arguments. Graeber's work on debt, despite its impressive degree of engagement with other academic disciplines, remains firmly within the field of anthropology. Most of the evidence presented in the book are either anthropological or ethnographical.

Despite his reliance on other anthropological and ethnographical data, Graeber relies mostly upon the literature analysis and not in his own primary studies or data collection. One example of this is the use of Mary Douglas' work on the Lele communities. Graeber does not verify this data, nor does he collect any of his data on this community. Graeber relies mostly on the fact that Douglas' book is considered a seminal work of anthropology and her research has been established as a classic in her field. Nevertheless, Graeber does take Douglas' data and her

interpretations of these data at face value. As a result, weaknesses, that might be present in Douglas' research, would unavoidably diminish the strength of Graeber's argument.

Another problematic aspect of Graeber's primary sources is that some of them are dated, given that for example Mary Douglas' book *The Lele of the Kasai* was initially published in 1963 (Douglas, 1963). Graeber made the conscious choice to focus on discussing the existing literature rather than engaging in empirical research. The choice of scope over detail is a choice that is entirely reasonable and necessary when one investigates on such a complex phenomenon that spans for over five thousand years. Given the scope of his research conducting empirical research would be practically impossible. Nevertheless, the point stands that Graeber's arguments are only as strong as the data upon which they are based. Given the significant amount of secondary data on which he relies one can see how Graeber's opponents need only to criticise the strength of any of his multiple sources to inflict a significant wound upon the whole theoretical edifice. However, this weakness is less of a problem since Graeber's sources are well-established authors within the fields of anthropology and ethnography.

Graeber's book's grand scope forced him to take a *long durée* perspective on the history of debt. The scope of his macro-historical approach is the strength and weakness of his work. Graeber discusses and analyses literature and evidence covering 5,000 years of history, but there is a trade-off for this impressive scope, and this is the lack of detail. Graeber cannot discuss in detail all his sources and the different historical eras which he analyses.

The choice is of course entirely legitimate and properly argued for. Before Graeber's book there was no over-arching historical account of Debt and its genealogy. Since the history of Debt is both exceptionally long and interconnected with the history of money and the state, a great variety of interdisciplinary sources are needed to properly discuss the history of Debt. Moreover, Graeber's methodological approach is further legitimised by the fact that most analysis of debt only study recent historical events ignoring the long *durée*. Especially considering that the myth of barter has a crucial role in our theoretical assumptions on money, it was entirely necessary for Graeber to revisit the historical period in which money and markets first emerged.

One of the peculiarities of Graeber's methods is that it does not involve any discussion of critical theory or philosophy literature. This is surprising because several of his theoretical conclusions and notions have far reaching consequences for critical theory. His concept of everyday communism is both innovative and with interesting practical consequences.

Graeber's work prompts us to think about alternatives to neoliberalism and financialised Capitalism and he even provides us with historical examples and inspiration that could help us reflect on such alternatives. Graeber's work remains decidedly however in the field of Anthropology and stops just short of making concrete political proposals as we shall see in the following chapter.

The post-1970s era

Graeber's work on debt has a macro-historical approach and thus focuses on the long history of debt in the ancient, medieval, and the early modern world, rather than on the contemporary debt crises. There is a certain hesitation from the part of Graeber to put forward proposals for how to overcome the current predicament we found ourselves in. This is entirely understandable if we consider that from Graeber's anthropological point of view the events of the 2007 crisis and the Eurozone crisis that followed it are all recent. And their effects are yet to be seen (Graeber, 2011, p. 214).

He does, however, dedicate his last chapter in today's world. He intended to help the reader make her own conclusions about our contemporary crises, considering the historical and anthropological evidence he presented. Graeber shared with Lazzarato the idea that neoliberalism, as an ideology seeks to make capitalism "the organising principle of almost everything (Graeber, 2011, p. 376)". Like Lazzarato, Graeber emphasises neoliberalism's auto-entrepreneur ideology, according to which individuals are seen as tiny corporations.

The post-1970s world, after the end of the golden standard of the dollar, is yet another period of virtual money, money that is not backed up by precious metals but by trust. Virtual money eras are quite common in history as we have seen. The European Middle Ages cases, where virtual roman money was being used despite the fall of the roman empire or, the First Agrarian Empires (3500-800 Be), were "dominated by virtual credit money" are. Like the current period, eras of virtual money, Graeber claims (Graeber, 2011, p. 214). In comparison, the Axial Age (800 BC-600 AD) eras and the Age of Capitalist Empires (an era beginning around 1450) were eras dominated largely by coins and precious metals.

Today's virtual credit money is, of course, the US dollar. Graeber underlines that we should be careful to describe the US dollar after the end of the Gold Standard as fiat money. The phrasing fiat money would assume that under the Gold Standard rule, the real money was gold. Today's US dollar, in reality, is just another variation of credit money, just as much the gold standard

dollar was a form of credit money. If the latter was supported by gold, what guarantees the value of the former?

It is worth reminding that the era of the Golden Standard ended under pressure created by the Vietnam War. The military expenses were putting pressure on the US budget, and the US primary deficit was becoming increasingly unviable, and the Nixon government was forced to end the gold standard to finance its war effort. The result of the end of the gold standard was that the value of gold sky-rocketed, while the value of the dollar, which was no longer convertible to gold fell. The end of the convertibility of the dollar greatly benefited the US, which had its reserves primarily in gold and harmed greatly less-developed nations that kept their US dollar reserves.

The history of this new era of virtual money is intrinsically connected with war. Although Graeber has shown that eras of virtual money usually bring about peace and a decline in military conflicts, this is not true for our era (Graeber, 2011, p. 368). To this day, the US debt remains largely a military debt given how many resources the Federal Government dedicates to military spending (Graeber, 2011, p. 365). The US military supremacy and the significant investments it requires is the cause for the abandoning the golden standard. However, this military supremacy supports the role of the dollar in the global financial markets.; the US federal budget deficits -partly the outcome of increased military spending- increase the amounts of dollars in circulation, while the US government with its military supremacy and control over the global financial system can enforce its interests on any given country in the world.

Moreover, countries under occupation by the US military rely greatly on US treasury bonds, creating a vicious circle of military occupation and debt overreliance (Graeber, 2011, pp. 366-367). Given the number of US bonds held by foreign governments, essentially the US government occupies the role of a global creditor, a creditor that possesses military means with which to enforce their will on debtors. This alliance of credit and military coercion is common throughout history as we have seen. However, what makes our current situation unique is that while typically military violence recedes in eras of virtual money, the post-1971 virtual money era has seen an increase in military violence.

One thing that characterises virtual-money eras is that we often encounter mechanisms that protect debtors such as periodic debt cancellation, anti-usury laws, and institutions intended to protect the debtor and prevent corruption of politicians and bureaucrats by the creditor class

(Graeber, 2011, p. 18). In this perspective, we live in a unique era, in the sense that we seem to be moving backwards in terms of debtor protection.

This new age of credit money in which we are currently has developed global institutions in the service not of debtors but creditors, with the International Monetary Fund being one example (Graeber, 2011, p. 18) The IMF's interventions in insolvent countries are based on the principle that debt crises should principally burden the debtors (Graeber, 2011, p. 368), while the creditor should bear the minimum amount of damage.

Like other eras in the history of debt, ours is a contested area, a battlefield for contemporary class struggles. On the one hand, creditors enjoy the support of "over-arching institutions" such as the IMF, that aim at imposing their interests. With the advent of neoliberalism, the position of the rentier changed completely. Graeber reminds us that Keynes had a strong anti-rentier stance; especially when it came to monetary policy. Keynes supported the use of monetary policy to overcome recessions, something which was an anathema to creditors and a popular policy among creditors, notes Graeber (Graeber, 2011, p. 374). Like Adam Smith and Ricardo before him, Keynes criticised the rentier class;. At the same time, Adam Smith was an exponent of the idea of a society without debts, Ricardo described rentiers as parasites whose very existence was a hindrance for growth.

Similarly, Keynes favoured policies that protected debtors as the best means to avoid social unrest and a potential revolution. The Keynesian era came to an end with Thatcher and Reagan's ascendance into power and the implementation of neoliberal policies. Before we can analyse neoliberal policies around debt, however, we need to reflect on what brought the Keynesian era's end.

To explain the transition from neoliberalism to Keynesianism, Graeber re-employs the Marxist idea of capitalist crises. The classic Marxist theory of capitalistic crises, as developed by Lenin, claims that capital in its perpetual pursuit of profits seeks to include new territories into the capitalist mode of production and new areas of the social sphere until it eventually has no more new investment opportunities to take advantage of and collapses (Lenin, 2010 (1917)).

For Graeber, the crises of Capitalism in the post-war era have been predominantly crises of *inclusion*. In the aftermath of World War II, western governments in the global north offered a better deal to workers. This deal would include industrial workers in mature capitalist economies to share the benefits of economic growth. Keynesian policies of social welfare and

wealth redistribution allowed workers to drastically improve their living conditions. However, if we consider it from a global perspective, these Keynesian benefits were extended to only a tiny part of the global population. Graeber claims that as more social groups demanded inclusion on the post-war deal, such as women or minorities, the Keynesian post-war model came to a breaking point (Graeber, 2011, p. 374). If the same distribution and welfare levels were extended to all the previously excluded groups, capitalist profitability would have to take an enormous blow. This inclusion crisis came at its highest point in the aftermath of the May 1968 movements, during the economically turbulent decade of the 1970s. The Thatcher and the Reagan years signalled the end of the post-war deals, and all the economic rights that have been given to a small part of the working class were called off. The most important element of this new offer to the working class was the decoupling of wages from productivity, rises in productivity would (Graeber, 2011, p. 375).

Austerity politics in fiscal policy were coupled with a tendency for governments to opt for a decreased supply of liquidity in their monetary policy (Graeber, 2011, p. 374). This remarkable Graeber notes because governments appear to act as if money is in limited supply, the way they would act if money were based on gold or production. Money today is created by central and private banks, and it is not based on precious metals or levels of production, which means that this a speculative form of money. This return to monetarism harmed GDP and wage growth, but it is generally favourable to capital, especially financial capital, limiting inflation.

What way forward?

The question emerges then; if neoliberalism was simply eliminating all the gains that the working class made during the post-war era, why did neoliberal politicians win several electoral battles. Part of the answer could lie with the new deal, offered by neoliberalism, to eventually replace the post-war deal. The neoliberal deal was essentially the promise that any member of the working class could become a rentier. Even though incomes were left, stagnated citizens were encouraged to invest in the financial markets. Graeber refers to the retirement accounts' examples, which became important financial investors or Thatcher's "nation of homeowners" policies, allowing ordinary citizens to buy out properties formerly used as social housing for investment. In the 1990s and 2000s, citizens were offered an exceptional amount of mortgage-refinancing schemes that financialised housing, promising homeowners that they could turn their homes into ATMs, while credit cards became widely accessible.

Financial capital gained significant influence in the US political system with the new laws passed in the 1980s that were more permissive towards lobbying. Lobbying, combined with the liberalisation of interest rates, allowed creditors to charge excessive lending rates for lending money allowed the financial sector to exploit debtors (Graeber, 2011, p. 376).

Lobbying, increasing political influence allowed the financial sector to significantly influence the political system in mature capitalist economies, while everyday citizens bought into the neoliberal deal of becoming rentiers. Like the previous 1945-1975 cycle in the history of Capitalism, however, the neoliberal era experienced its crisis of inclusion in the eve of the 2007 crisis. The promise of democratising credit came to a halt because as Graeber claims, it was impossible to extend this status of rentier to a small part of the population.

This problem is largely structural, Graeber asserts. Capitalism by design functions on exploitation and exclusion. Thus, there are very concrete limitations on the number of people integrated into these “deals” (Graeber, 2011, p. 381). The aftermath of the 2007 crisis revealed the limits of capitalist inclusion. As financial institutions and households felt the impact of the crisis, the US government took the decision to provide liquidity and assistance to the former but not the latter. The limits of inclusion had been re-established. Work under Capitalism has always been based on free labour, be it the labour slaves or the reproductive labour done by women in the household. Today, this reality becomes again painfully obvious as work remains severely underpaid compared to productivity (Graeber, 2011, p. 350).

So it seems that Graeber suggests that the Thatcher promise of everyone becoming a rentier has been withdrawn. The deal is now off. The current distribution of wealth is becoming increasingly worse for the lower-income percentiles. The new deal emerging in the post-crisis world will be even worse for labour and even better for capital.

While reading Graeber’s work on debt, however, we must not forget that Graeber was an academic and an activist, famous for his involvement with “We are the 99% movement”, an anarchist who participated in several struggles across the world.

Graeber’s activism does not detach the book against the excesses of the financial sector and the post-2007 policies of austerity. He does admit that in the book on Debt, he refrained from making too many concrete proposals. However, as the work comes to its end, Graeber is keen to show a way forward. How can we resist this new post-crisis deal then? How can effective resistance be mounted against neoliberal policies?

Graeber wants to identify places where resistance can be mounted. He has insinuated that the exchange-based world we know today, where the logic of capital encompasses large areas of our social life is not the only option. Even within capitalist societies, there is a lot of mutual aid offered between friends or within families that are not commercialised or done under the exchange logic. As we have seen, Graeber considers this to be the outcome of us acting in a communist way, offering aid to some people depending on their needs and our capabilities without expecting anything in return. These communist principles that every society, even capitalist societies, needs to function are also visible in the post-2007 world. We must look at the purposes for which most people borrow money. Graeber claims that this mainly ensures survival when their salaries are not sufficient to cover even the most basic needs. Another reason that is particular to the US case is, of course, illness and the need to borrow to pay medical expenses (Graeber, 2011, p. 379). However, there is one category of spending that draws Graeber's interest and this is discretionary spending. Borrowing mainly takes place for spending on gifts, spending towards one's children or friends. This kind of borrowing signals to Graeber that humans are not content with merely surviving. Even at times of stagnant incomes and rising living costs, individuals will borrow money to be spent with others, out of friendship or love. This kind of spending appears to exceed the logic of capital, and it seems that Graeber suggests that for these feelings of mutuality and friendship, resistance can start to be built.

So what is to be done in the face of a post-crisis world of stagnating incomes and rising inequalities? History already can provide us with some interesting ideas. As we have seen, virtual money eras are usually coupled with periodic debt jubilees and institutions that protect debtors. We have seen that the post-1975 era is unique in virtual money eras in that it lacks such jubilee-mechanisms or a pro-debtor institution. Graeber suggests that we should learn from history and institute a contemporary debt jubilee both for international and consumer debt (Graeber, 2011, p. 390). Such jubilee would have the additional advantage that it would act as a "reminder" that debt is after all a social construction, an arrangement and that democratic rights should include the freedom to change this arrangement for a better one. Historically, debt jubilees have been resisted by state apparatus, and Graeber mentions Rome and Athens's examples where the ruling elites resisted the idea of a profound jubilee that would solve the recurring debt crises preferring to postpone the problem with half-measures that gave short-term relief to debtors. The struggle then lies in de-normalising the current debt arrangement and taking up the class struggle for debt to achieve a better outcome for debtors. Graeber's

work has aimed to show that such a class struggle for debt is always going on, whether we realise it or not, that debt arrangements are social conventions that can be changed through democratic contestation and social struggle. Graeber seeks to remind us that mutual aid and cooperation are the very foundation of our society. Based on this everyday communism, as he described it, we can create new forms of social relations based on cooperation and mutual assistance on the logic of capital.

SECOND SECTION: CASE STUDIES

CASE STUDY I: THE GREEK DEBT CRISIS 2009-2015

INTRODUCTION-THE GOALS OF THE CHAPTER

This chapter will examine the case study of the Greek sovereign debt crisis from 2009-2020. The debt crisis that erupted in Greece in 2009 is seen here as part of the broader Eurozone Sovereign Debt Crisis. We will examine the historical events that lead to the Greek Bailout Program and the arrival of the IMF in Athens. We will evaluate the results of the Bailout Program and analyse the different strategies adopted by the various Greek governments vis a vis the bailout programs, and examine their efforts to implement and renegotiate the Program. These strategies will be collected, analysed, and compared to help us understand the relative advantages and disadvantages of these strategies.

This chapter will also examine the theoretical disputes over the causes of the crisis; we will examine conservative, Keynesian, neoliberal and left-wing interpretations of the crisis. We will discuss how these interpretations affected political decisions and strategies. We will evaluate them based on the empirical evidence and the outcomes of the Greek bailout program. The purpose of this chapter will then be to:

- a) Examine and compare different theories about the causes of the crisis.
- b) Examine and compare alternative strategies for the Greek crisis (implemented or proposed).

2009-2012 FROM THE ARRIVAL OF THE IMF TO THE RISE OF SYRIZA

EU-IMF partnership: from Hungary to Greece.

The main argument of this chapter is that the Eurozone crisis that erupted in 2009 revealed the common currency's endemic weaknesses. However, further, than the crisis revealed the Eurozone's political orientation, fundamental characteristics, and impact on European economies. As we will try to show in the pages that follow the crisis, emphasised certain key aspects of the Eurozone:

- a) The Euro was based upon unequal economic relations between Core and Periphery, which were exploitative and ultimately unsustainable.
- b) The Eurozone was oriented toward rendering the Euro a global currency and benefited the financial sector at the expense of other productive sectors.
- c) The Eurozone favoured Capital at the expense of labour and institutionalised neoliberal and ordoliberal policies.
- d) The Eurozone deepened the already existing democratic deficit in the EU. Institutions such as the ECB and the European Commission now sway significant influence over policy in Europe but are only subject to limited democratic accountability.

For the IMF, the Eurozone crisis was, in some sense, an opportunity. The global financial crisis found the IMF politically in a relatively weakened position. Firstly, the IMF had suffered a symbolic defeat by Argentina's relative macroeconomic success after Nestor Kirchner terminated the IMF era policies in 2006. Argentina was a clear example of an alternative to the IMF bailout programs for countries in the Global South. The case of Argentina's recovery after the termination of its IMF program showed that countries could potentially yield better macroeconomic results by eliminating and renegotiating debt. Moreover, as we shall see in the chapters that follow on Argentina, the termination of the IMF program by the Nestor Kirchner government led to an essential loss of income revenue for the Fund.

For the IMF, involvement in the Greek crisis had some apparent benefits; the chance to re-establish the relevance of the Fund, but also the creation of a new source of income, and the opportunity to have a say in the management of a significant crisis. It is thus not surprising that the IMF was willing to extend a loan to Greece.

On the other hand, the fact that the Eurozone and the EU sought the intervention of the IMF in order to deal with the Eurozone Sovereign Debt crisis, at least in what Greece was concerned, might appear surprising.

Firstly because the Eurozone has two crucial global economic powers as its members, namely Germany and France, it was surprising to see Paris and Berlin willing to hand over part of the Crisis management to an international institution in which the United States has a large part of the vote share.

Secondly, the IMF's arrival in Greece was surprising because the Eurozone had at its disposal its own Central Bank, the European Central Bank. Countries typically resort to the IMF when the Government and their Central Banks are unable to use fiscal and monetary tools to avert an economic crisis. When the crisis of 2009 hit the Eurozone, governments in the periphery were overwhelmed and unable to deal with the situation independently. However, the European Central Bank still had plenty of tools at its disposal, such as quantitative easing and bond-purchasing programs, tools that it had not at that time put to use. In other words, the situation of the Eurozone was not hopeless enough to have merited the intervention of the IMF in one of its member states.

In his research on the relations between the IMF and Middle-Income European countries, Chris Rogers claims that the decision to involve the IMF was made to avoid criticisms for the ruthless austerity that was going to be imposed on Greece (Rogers, 2012, p. 184). Apart from being a convenient scapegoat, the IMF would also ask for "conditionalities" in exchange for financial assistance to Greece, as it does for all its loans. These conditionalities include some mixture of privatisations, austerity and reform in a neoliberal direction. Many of the IMF conditionalities are particularly harsh, imposing significant economic pain on the citizenry, especially the less wealthy. Empirical data from IMF Stand-By programs in other countries provided sufficient evidence that the Greek IMF program would cause an increase in poverty, income inequalities and thus popular discontent amongst the Greeks. Rogers argues that European policymakers were all too aware of these facts. Austerity would be presented as a requirement of the IMF and the negative results of fiscal discipline would be blamed on the IMF. Some credibility is lent to Roger's idea by the fact that the IMF and the EU regularly blamed each other for the results of the Greek program.

The empirical evidence on the effects of IMF programs leaves little doubt that the policies that are included in these programs as conditionalities predominantly reduce the income of the

lower-income percentiles. The IMF bailout programs substantially affect class dynamics, essentially increasing labour's burden of servicing the country's sovereign debt. Valentin Lang's extensive empirical research on the effects of IMF programs demonstrates that the IMF conditionalities negatively affect economic equality, increasing inequalities. These adverse effects were more significant in countries that were democratic regimes with developed social welfare programs (Lang, 2021). Being a democratic regime with significant social spending, Greece was expected to experience a significant recession and an increase in economic inequalities. The choice by Greece's lenders to involve the IMF thus demonstrated a clear political choice to favour and protect European and Greek capital from the effects of the Eurozone sovereign debt crisis while overburdening the Greek lower and middle-income percentiles with the costs of the Stand-by program.

However, IMF Stand-by programs are not only known to favour Capital over labour and higher-income percentiles over the lower income percentiles. IMF Stand-By programs are known to have a negative impact on democratic accountability since often the IMF required conditionalities have to be voted in under emergency procedures with little democratic scrutiny, often voted within parliaments or Senates but seldomly supported by voters. Moreover, the comparative work done by Chelsea Brown on countries that have received IMF loans in Latin America provides empirical evidence that the IMF programs can have a "deleterious effect" on democracy (Brown, 2009). The choice of involving the IMF gave Greece's creditors the guarantee that their interests would be protected despite popular discontent.

The arrival of the IMF in the EU

The partnership between the IMF and the EU culminated in the Greek bail-out program that marked the closest-ever collaboration between the two organizations. The partnership, however, did not begin with the Greek program; the IMF had signed Stand-By agreements in the past with EU or EEC member states. The evolution of the EU-IMF partnership reflects the decisive neoliberal turn that the EEC and later the EU took between 1974 and 2009. In 1974 mature capitalist economies were suffering the effects of the 1971-1973 global crisis, with two EEC members, Italy and the UK, seeking IMF assistance. It is characteristic that during this period, the EEC made sure to assist the two member states with programs kept separate from the IMF Stand-by agreements the same countries also signed during the same period. During the era of the EU precursor, the European Economic Community, Italy was forced to ask the Fund for a Stand-By agreement in April of 1974. A few years later, another EEC member state would seek IMF credit; James Callaghan, the UK prime minister, was compelled by the rapid

devaluation of the Sterling and the ongoing balance of payments crisis to ask the IMF for assistance in 1976.

While in 2009, the IMF, the EU and the EMU collaborated closely on the management of the Eurozone sovereign debt crisis, during the 1974 Italian crisis, the EEC chose to distance itself from the IMF and implement an agreement with the Italian government that was to be separate from the IMF Stand-By agreement between the Fund and the Italian government, one that included different conditionalities and separate monitoring processes (Hodson, 2015). In other words, there was nothing akin to the IMF-EU-ECB Troika that was established for the Greek Bail-out program. The creation of the Troika demonstrated in the most straightforward way the political and institutional transformation of the EU and the EMU in a more decidedly neoliberal direction, a state of affairs that allowed seamless collaboration with the Fund.

In 1974, the IMF and the EU created two parallel, separate delegations during the Italian crisis. However, within thirty years, when faced with the Eurozone sovereign debt crisis, the EU and the IMF would establish closer cooperation, culminating in the creation of a joint three-partite delegation, known more widely as the Troika. This new era of closer collaboration was inaugurated for the first time in the context of the Hungarian bailout program. The Hungarian Sovereign Debt crisis was typical for a country in the European periphery; in the years prior to the 2009 crisis had benefited from increased inflows of foreign capital and easier access to foreign credit. With the advent of the 2008 financial crisis, these financial flows were reversed, creating an unsustainably high deficit in the Hungarian current account (Cordero, 2009, p. 3). Unlike the 1974 crisis, the EU was keen to have the IMF involved in the Hungarian Bail-out, marking the first time the two institutions would cooperate in providing emergency credit to an EU member. At the time, the head of the IMF was the prominent French politician Dominique Strauss-Kahn, while he would be later replaced by former Finance Minister of France Christine Lagarde. The presence of the high-level politicians from one of the EU's core member-states undoubtedly played a role in the close collaboration between the EU and the Fund during the Eurozone crisis. In November 2008, the Hungarian government signed an agreement for joint financing packed with the EU and the IMF (Commission, 2008); the novelty of the Hungarian government was that the EU and the IMF would collaborate in monitoring the implementation of the program (Hodson, 2015, p. 571). with the IMF providing the monitoring know-how and arrangements. The loan provided to Hungary was financed from joined IMF (€6,500 million) and EU (€12,300 million) funds and €1,000 million funds provided by the World Bank (International Monetary Fund, 2008).

The Hungarian program functioned as the blueprint for the emergency assistance extended to Latvia and Romania in December and March 2009, respectively, as the global financial crisis was now spreading to Europe. The two programs were of a total value €7,100 million and €18,000 million, in other words, a, relatively small as compared to the later Greek program. The Latvian program reflected -from a legal but also a practical standpoint- a deepening of the EU-IMF coordination in tackling the sovereign debt crisis that was now affecting the region. The Memorandum of Understanding that the Latvian government signed with the European Commission directly mentioned the IMF and obliged Latvia to fulfil the IMF conditionalities included in the Stand-By agreement (Commission, 2009a). The Memorandum, essentially, made further European aid to the Latvians conditional upon the satisfaction of IMF conditionalities. This endorsement of IMF conditionalities by the EU acted as clear evidence of the dominance of hardline neoliberal ideas within Brussels, an ideological shift that had been many years in the making and which allowed the European institutions and the Fund to quickly come to a consensus about how the crisis in Europe should be managed (Commission, 2009a).

Another dimension of the Latvian program that made it historically significant was the inclusion of clauses that prohibited unilateral decisions on any policy area that could have a significant fiscal impact or could influence Latvian Government Revenue or the health of the country's banking sector (Commission, 2009a). The phrasing here appears to be purposefully as wide in scope as possible as to include a plethora of policy areas, practically obliging the Latvian government to seek the IMF's and the EU's consensus on practically most areas of policymaking. Moreover, the Memorandum even obliged Latvia to pass a new Budget and Financial Management Law in collaboration with the EU and the IMF, a reform aimed at enshrining in national law fiscal discipline. These two tactics, namely firstly obliging countries receiving aid to seek the prior agreement of the EU and the IMF before implementing any policy of significance and institutionalizing fiscal austerity as a legally obligatory fiscal policy, were clauses brought into the agreements with countries such as Spain, Portugal and most notably Greece as the Eurozone Sovereign Debt crisis began to take pace. In fact, in the case of Greece, this clause prohibiting "unilateral" or "without prior consultation" policy decisions emerged as a key instrument used by the creditors to coerce Athens into unfavourable Stand-by agreements. Moreover, creditors have used this clause to have a significant say on the country's policy-making and to advert any potential Greek efforts for a Sovereign restructuring of the Greek Government's Debt.

Another important element of the early EU interventions during the Eurozone crisis was the decision to make it the responsibility of national governments to support and bail out their national banking systems. This decision, which appeared to be motivated by Ordoliberal ideas that any ECB intervention to provide funds for national banking systems could embolden fiscal expansion policies, left the smaller members of the EMU in a particularly vulnerable position. Without monetary policy independence and without the ability to print money in order to bail out their struggling banking sector, smaller EMU member states such as Ireland had to face a policy dilemma; bailout their banks by borrowing significant sums and risking a sovereign debt crisis or allowing their banks to collapse in order to prevent amassing unsustainable levels of government debt. Ireland attempted to navigate this complicated situation by providing guarantees to its banks. These guarantees, however, became increasingly more costly as the 2009 Eurozone crisis began gathering pace. Eventually, the Irish government could no longer bear the cost of these banking guarantees and, faced with a default, decided to ask for the IMF, EU and ECB for emergency assistance (Dommett, MacCarthaigh, & Hardiman, 2016).

The decision to have each EMU member-state solely responsible for providing bailout funds to their national banking system raised further questions about the potential limits of the European emergency assistance programs. The sheer size of the Italian economy posed a direct risk of contagion of the Eurozone crisis from periphery members to core members. The Italian crisis eventually triggered the ECB intervention, which began buying en masse Italian Government Bonds under the condition that Rome would implement a fiscal discipline program under the monitoring of the ECB and the EU (Kickert & Ongaro, 2019). Unlike Greece, Latvia or Ireland, Italy was not asked by its EMU partners to seek a Stand-by agreement with the IMF, and eventually, the Italian bailout program was dealt with within the EMU. In other words, Italy was given a more favourable agreement since the IMF is a partner with significant leverage and almost zero flexibility in terms of revising conditionalities. The handling of the Italian case demonstrated that while Greece and Ireland occupied a position decisively in the European periphery with little say or weight in the process of decision making, Italy occupied a peculiar position, neither in the core of the periphery of the Eurozone. The management of the Eurozone Sovereign Debt crisis was thus adapted on a case by case basis, with the EU and the ECB appearing to weigh two main factors; the position of a country in the internal hierarchy of the EMU and the fear of contagion to core countries. The weight these factors had on deciding the kind of support offered in each country acts as evidence of the unequal economic relations established within the Eurozone. Unlike Italy, when Portugal faced

a debt crisis -combined with a governmental crisis- it was forced to seek assistance from the EU and the IMF, leading to the Portuguese rescue package of May 2011 with a total value of €78,000 million financed by both European and IMF funds (Hardiman, Araújo, MacCarthaigh, & Spanou, 2017).

The Greek crisis marks a historical shift in EU-IMF relations since the Greek bailout program was the first case in which the IMF and the EU would collaborate in a single program. Until the eruption of the Greek crisis, the EU and the IMF had intervened in the Eurozone sovereign debt crisis by signing separate agreements for emergency assistance. Hungary, Latvia, and Romania, the three EU countries that experienced government debt crises before Greece, agreed-upon separate bailout programs with the EU and the IMF. When the Greece found itself unable to continue servicing its sovereign debt in the first semester of 2010, EMU heads of state agreed to extend emergency assistance in the form of coordinated bilateral loans -since a more permanent mechanism was lacking at the time. However, these coordinated bilateral loans would be offered to Greece upon the condition that the IMF would also participate in the Greek bailout program, not simply symbolically but with substantial funding -as the phrasing of the press release put it. (Euro Area Heads of State or Government, 2010). The result of this decision was that a Greek bailout program was drawn jointly between the IMF, the European Commission and the ECB. The program also prescribed that the progress of the Greek program should be subject to quarterly reviews held jointly by the three organizations; these joint quarterly reviews gave rise to the Troika.

We should not underestimate the divisions and disagreements that existed within the IMF, EU and the ECB on how to manage the Greek debt crisis as well as the Eurozone crisis as a whole, with significant disagreements expressed in areas such as the level of debt relief that Greece should enjoy or issues such as Quantitative Easing. It is also important to note the differences that exist between the IMF and the EMU in terms of economic theory. Whereas the Fund appears to be more aligned with U.S. neoliberalism and neoclassical economics, the EMU was primarily constructed upon the principles of German Ordoliberalism. Similarly, the IMF's decision making is significantly influenced by the U.S., the member state with the most significant share of Special Drawing Rights in the Fund, whereas the European Commission and the ECB were often more aligned with core EMU and EU member states when it came to managing the Eurozone debt crisis. Finally, EMU and EU institutions, such as the ECB and the European Commission, were significantly more limited in their decision-making than the Fund due to the significant ambiguity in the mandate of the Fund (Finnemore & Barnett, 2004, p.

57). As a result, the Fund appeared to have greater flexibility in terms of the macroeconomic targets of the Greek Bail-out program and appeared more open to negotiating debt relief with Greek governments (Lütz & Kranke, 2014, p. 321).

The new IMF-EU partnership.

The EU claimed its closer and somewhat controversial collaboration with the IMF because the Fund had built significant know-how in designing and managing bail-out programs and monitoring the progress of structural reforms implementation (Lütz & Kranke, 2014, p. 316). The official rationale was that EU and EMU institutions lacked the expertise in managing sovereign debt crises (Kickert & Ongaro, 2019, p. 1351). Citing the IMF's expertise in handling past crises raises a whole set of questions once we review the outcomes of the IMF Bail-out programs, the vast majority of which gave mixed results while facing significant criticism from several fronts. IMF programs have had pro-cyclical effects while, in several cases, they also caused social inequalities to widen and poverty and unemployment to increase. Moreover, IMF programs often even failed in terms of their own declared goals, such as inflation control or debt sustainability (Brenta, 2013, pp. 27-28; 318-322), and in some cases, these programs even exacerbated countries' debt problems (Stiglitz J. E., 2003, p. 113). Finally, and perhaps most importantly, the IMF is an institution with limited democratic accountability and issues relating to conflicts of interest and transparency since Central Bankers and rich countries have a disproportionate influence on Fund decisions. The Fund's decision-making structure leaves large parts of the world -such as the Global South- or sectors of society -such as labour- without an ability to efficiently influence the decisions made by the IMF -despite the tremendous impact that these decisions have on the global economy (Stiglitz J. E., 2003, p. 134). Why would the EU and the core EMU states seek the Fund's participation in the Management of the Eurozone Sovereign debt crisis?

One interpretation put forward by Chris Rogers focuses on the ideological dimension of the EU-IMF collaboration; with the Fund participating and shaping the conditionalities of the Greek program, the EU could deny responsibility for some of the most aggressive demands, including in the Stand-By agreement, passing the blame for these to the Fund (Rogers, 2012, pp. 184-185). Indeed, the EU and the Fund did engage in some public criticism of each other's role in the Greek program, although these criticisms were minimal and reduced to some specific issues rather than the program's neoliberal direction.

Hodson, whose approach to the IMF-EU collaboration is largely positive, believes that the main reason behind the EU choosing to engage with the IMF is the experience that the Fund had in monitoring the implementation of Bail-out agreements. Essentially, the EU sought to create in collaboration with the IMF a double-tier structure of supervision of the implementation of Bail-out agreements (Hodson, 2015, p. 580). This was particularly pertinent in the case of Greece, whose Stand-by agreement was characterised by a high degree of uncertainty in terms of its implementation. Hodson described this EU strategy as the “multiple supervisor approach” and the “parallel police patrols”, and he claims that in the Greek case, this approach improved accountability (Hodson, 2015, p. 587). Indeed, Hodson cites significant evidence to prove that improving monitoring and forcing compliance did indeed play a significant role in establishing an EU-IMF collaboration, especially states from EU officials, including German Chancellor Angela Merkel. These statements show that EU politicians were concerned about the EU’s lack of experience in managing deficit procedures and implementing bail-out programs. For Hodson, overall, the EU and IMF collaboration has positively affected the project of European integration. Hodson mentions as examples of this positive contribution the IMF’s recommendation to Eastern European states that they should unilaterally adopt the Euro as their national currency or the IMF plans for a proposed European Bank Resolution Authority (Strauss-Kahn, 2010) as well as the proposal by then Managing Director of the Fund Dominique Strauss-Kahn for a European mechanism of fiscal transfers (Hodson, 2015, p. 588).

Rogers and Hodson embark from two entirely contradictory points of view vis a vis the IMF’s involvement in the Eurozone sovereign debt crisis, with Rogers adopting a more critical perspective and Hodson a more positive one. Nevertheless, Rogers’ and Hodson’s claims on the reasons behind the EU’s choice to collaborate with the IMF to manage the Eurozone crisis. Concerns about EMU cohesion and the EU’s legitimization amongst citizens and concerns about the adequate supervision of the bail-out programs’ implementation could have contributed to this decision.

Hodson’s view of the EU-IMF collaboration exhibits some glaring weaknesses. In analyses such as Hodson’s, European integration is considered a good-in-itself, a policy goal that all member states should strive for and benefit the EU. In the pages that follow, we will aim to illuminate the asymmetries and unequal economic relations within the EU and the EMU and the role these inequalities had in the Greek Sovereign Debt crisis. Moreover, I will attempt to show that the loss of monetary sovereignty and sovereignty over banking policy was for the peripheral EMU member states, in fact, disastrous, as it left these states without access to

crucial policy tools when trying to manage the 2009 crisis. It is also important to note that Hodson's analysis overlooks intergovernmental relations and how diverging national interests shaped the policy reactions to the crisis. Hodson's analysis is oversimplified in this respect; although it does mention how nations such as France and Spain, with significant levels of sovereign debt, had a different approach to the 2009 crisis as compared to surplus member states and especially Germany (Hodson, 2015, p. 585) the diverging levels of sovereign debt within the EMU are taken as an external variable and a given that is not questioned or analysed further. In the pages that follow we will analyze the causes behind the diverging levels of sovereign debt within the EMU and the periphery-core unequal economic relations that lead to the 2009 sovereign debt crisis. These relations and national as well as class interests will feature as factors in the analysis of how the EU and EMU managed the 2009 sovereign debt crisis. Similarly, Hodson does not engage in analysis at the private-sector level, thus leaving out his framework agents that played a crucial role in shaping the Eurozone Crisis, most notably the banking sector. As we shall see, core banks had significant exposure to the periphery, and thus the eruption of the Eurozone sovereign debt crisis in peripheral member states threatened the stability of the banking sector in the core.

German banks and other core-member states' banks had significant exposure to government debt from periphery member states. Core banks had been incentivised by the higher interest rates offered in peripheral Eurozone member-states such as Greece, Portugal, and Spain for the 2007 crisis to increase their lending to these governments (Lapavitsas, et al., 2012, p. 99). What is most notable, however, is as data on foreign exposure published by the Bank of International Settlements clearly show is that core banks increased their exposure to Greek, Spain and Portuguese debt increased in 2008 and 2009 (Lapavitsas, et al., 2012, pp. 99-100), demonstrating that core banks took a calculated risk to invest in private, and public debt in these member-states to profit from the higher interest rates offered in the Greek, Spanish and Portuguese markets, as these countries were becoming engulfed in the Eurozone Sovereign Debt Crisis.

Along with other core banks, German private banks were over-exposed to Greek sovereign debt; thus, these banks would be directly affected by how the Greek Debt crisis would be handled. A debt haircut or a Greek default, for example, would cause damages to German private banks and thus could have adverse effects on the overall stability of the German economy. Similarly, potential factors that could have influenced France's stance towards the Sovereign Debt Crisis were French banks' exposure to Greek bonds. In other words, Hodson's

analysis does not consider one of the critical factors that shaped policy responses to the Eurozone Sovereign Debt crisis, namely risks for the European banking sector. This omission weakens the overall strength of the analysis, as the banking and financial sectors are essential factors in the entire causal chain of the 2008 global crisis and the ensuing Eurozone crisis. Moreover, it leads Hodson to make wrong conclusions regarding issues of accountability. Indeed, the EMU and EU's management of the crisis was considered overly favourable to the banking sector, especially in core countries and was criticised famously as essentially burdening the public with the banking sector's damages while keeping banking profits private (Stiglitz, 2014).

The May 2010 EU/IMF Program, An Indirect Bank Bailout

At the early stage of the 2008 Financial crisis, Europe shied away from taking any coordinated actions towards dealing with the impending banking crisis, despite the Euro-summit of October 2008 where the European reaction to the Lehman Brothers fall was discussed. (Kickert & Ongaro, 2019, p. 1350). By 2009 it was becoming clear that Greece would not be able to deal with sovereign debt crisis domestically, and by 2010, Greece was at risk of declaring default on its debt (IMF (International Monetary Fund), 2013).

Financial institutions, especially core banks, increased their lending to peripheral countries, at the first stage of the crisis, including Greece. Indeed, after the first signs of the 2007 crisis, exposure of core banks to peripheral countries increased significantly (Bank of International Settlements, 2020), while Credit Default Swaps (CDS) spreads for the European periphery remained low up until the collapse of Lehman Brothers in September 2008.

Indeed, However, as liquidity became scarcer, especially after the Lehman Brothers collapse, this flow of capital towards the periphery began to decrease. The ECB, to support private banks with liquidity, launched its “ non-standard measures program” and began accepting as collateral for secured debt many and “debatable” types of paper (Lapavitsas C. , et al., 2010, p. 324). As a result, banks began gradually deleveraging while they stopped buying long term securities. Supported by the ECB, private banks preferred to hold short-term instruments in order to improve liquidity. ECB data shows clearly that as European banks began deleveraging, the total value of their long term securities of over two years declined while the total value of their short term securities of up to 1 year increased sharply (ECB, 2010, p. 361).

The Greek deficit crisis was accelerated by a tactical move by premier George Papandreou, who decided to question Greece's official statistics on the government deficit. The newly

revised statistics projected that the government deficit would reach 12.5 per cent of the GDP for 2009. The announcement caused the already deteriorating creditworthiness of Greece to worsen at an accelerated pace; Standard and Poor's downgraded Greek bonds to BBB+ while Moody's reduced Greek bonds to the A2 category. Questions about whether Greek Government Bonds would be eligible for European Central Bank refinancing operations fuelled a sell-off of Greek bonds (Xafa, 2014, p. 7). In 2010 the ECB's collateral rules returned to the pre-crisis status, which included minimum credit rating threshold in the collateral eligibility requirements (European Central Bank, 2010).

By May 2010, the 10-year credit spread over German bunds had risen to 600 basis points, and Greece effectively lost access to capital markets. In April 2010, Standard and Poor's had already further downgraded Greek bonds to BB+, also known as junk, with a negative outlook.

As a result of the accelerating decrease of the market value of Greek Government bonds, the European private banks faced significant losses; European private banks owned significant amounts of Greek Government Bonds, and thus European Central Bank was forced to intervene. On May 3d of 2010, it announced a suspension of the minimum credit rating threshold for "marketable debt instruments issued or guaranteed by the Greek government" (European Central Bank, 2010). The absence of a clearly defined Eurozone bailout mechanism and surplus countries' unwillingness, especially Germany, to commit to a bailout for Greece worsened the Greek sovereign debt crisis. Under Germany's insistence, the EU treaty included Article 125 that prohibited bailouts.

During the negotiations for the creation of the EMU, German negotiators had insisted that no bailout mechanism should be established in fear that such a mechanism would create a moral danger. Berlin believed that the absence of a bailout mechanism would force Eurozone member-states to adhere to the strict ordoliberal rules of the Stability and Growth Pact. Dyson and Featherstone describe how negotiators accepted the absence of a bailout mechanism as a "fait accompli" (Dyson & Featherstone, 1999, p. 382). In other words, the lack of a bailout mechanism in the Eurozone was neither a mere accident nor just a matter of insufficient European integration.

The absence of a bailout mechanism combined with the fact that member states of the Eurozone could not use the policy tool of devaluation put increased pressure on national governments to adopt ordoliberal policies. States faced with decreasing competitiveness and debt problems could always use the devaluation of their currency to regain some of the lost competitiveness. In the

Eurozone, peripheral countries faced with competitive German imports could no longer devalue their currency. The only option to recover competitiveness and diminish debt when needed was through fiscal policies, mainly through a reduction of labour costs and through a reduction in public spending. It is thus no accident that when bailout mechanisms were introduced in the Eurozone, this came with conditions attached; programs of austerity and public spending cuts. This way, the “moral danger” was averted, and ordoliberal policies were imposed on member-states in exchange for bailout funds.

Nevertheless, core European countries and Germany, in particular, were forced to reevaluate their no bailout strategy in the face of a contagion of the debt crisis to other countries of the Eurozone peripheries. Moreover, banks in the core countries were heavily exposed to debt in peripheral countries, including Greece, and they were at risk of suffering significant losses in the case of such a contagion event. Several eurozone countries were concerned about the health of their banking sector in the event of a Greek default. Germany and France and Italy were particularly exposed to Greek Sovereign Debt. In 2008 of the Greek debt securities that belonged to foreign holders of Greek Debt securities (almost exclusively foreign banks and other financial companies), 26% were controlled by French-based banks and financial companies. German banks and financial companies controlled 15% of the foreign-held debt securities, while Italy held 10% (Lapavitsas C. , et al., 2010). The policy dilemma for core Eurozone member-states was whether to bail out Greece or their banking system (Featherstone, 2011, p. 203).

It is telling that when the Greek Program was launched, the ECB launched a secondary market bond purchase program, which was named the Securities Market Program (SMP). The declared objective of the Program was to reduce sovereign borrowing costs in the periphery of the Eurozone at sustainable levels (Xafa, 2014, p. 7). However, the Program also benefited holders of sovereign debt of these peripheral countries, especially banks based in core Eurozone member states.

The solution that was opted for was to bail out Athens, essentially providing funds to Greece to continue serving its debt, a significant amount of which was in the hands of Eurozone banks. Greece’s Eurozone partners -and especially Chancellor Merkel- pressured the newly elected Government of George Papandreou to seek an IMF loan in order to avoid a default. Merkel referenced the Fund’s experience with dealing with the Sovereign Debt crisis, an area that was still new for the EU.

In fact, the bailout funds provided to Greece could be seen as avoiding larger payments towards the European Banks exposed to Greek debt. Janssen claims that the actual beneficiaries of the Greek bailout program were “banks, insurance companies and pension funds” (Janssen, 2010, p. 6). The funds of the Greek bailout were mainly used to pay back banks and institutional investors. Given that the funds from the Greek Program came from public sources, the Greek bailout deal meant a significant transfer of debt from private investors to public hands. What is more, banking and financial institutions that profited from the Greek bailout deal did not have to pay any price for the generous bailout they received. Unlike a direct banking bailout where the Government might ask for bank stocks in exchange for bailout funds, the indirect bailout that was implemented vis a vis Greek bonds did not involve any terms of that kind. The banking institutions that benefited from the bailout did not have to suffer supervision and were not ordered to restructure or restrict their business.

In the name of protecting its competitiveness, Germany avoided increasing labour remuneration after the 2009 crisis, although such a measure would provide significant relief to periphery countries. In other words, the interests of German capital were prioritised above the interests of Eurozone and German workers for a more balanced trade relationship.

The First Program, the Strategy of Internal Depreciation.

Greece was obviously weak when the negotiations between the Government in Athens and the Troika began. Chelsea Brown has demonstrated that typically states that appeal to the IMF for a loan are in a weak negotiating position with little leverage given that their governments are engulfed in a crisis (Brown, 2009). In the case of Greece, their negotiating position was made worse by the fact that Athens was negotiating not only with the IMF but also with European Institutions such as the European Commission and the European Central Bank and core states such as Germany, France and Holland. French President Nicolas Sarkozy and German Chancellor Angela Merkel and the French and German Finance ministers were influential agents in the duration of negotiations (Bohn & de Jong, 2011). The Greek crisis was negotiated at a vast negotiating table that involved two European institutions, one International Organisation, and several European governments, Germany and France’s most influential. Now, it is worth noting that these negotiating sides had their agendas and differences. For example, Germany and the ECB disagreed on whether the Bank should implement a quantitative easing program, while the IMF did argue in favour of a “haircut” of the Greek Debt. According to IMF official Ashoka Mody, the IMF knew that a haircut of the Greek debt was necessary, and it almost said as much in its reports on the Greek debt. Nevertheless, faced

with European reaction to any haircut of the Greek debt -that could affect German and French banks- the IMF backtracked. Retrospectively Mody claims that the IMF and the US treasury should have insisted on a haircut on what was essentially an unsustainable debt (Mody, 2018). Mody's retrospective on the European crisis reveals that this wide negotiating table with the participation of several agents acted primarily against Greek interests. Athens could not exploit disputes between the European institutions, national governments and the IMF.

On the contrary, disagreements amongst the creditors only delayed further decisions around the Greek crisis, which exacerbated Greece's debt crisis (Bohn & de Jong, 2011). Metinsoy and Angin, in their interviews with Greek government staff on the negotiations with IMF, found that their interview participants believed that although Greek Prime Ministers did have some space for negotiating better terms, this space was limited (Metinsoy & Angin, 2017).

Furthermore, the EU's institutional structure and the principle of unanimity worked against Greece (Tsebelis, 2016); although the principle was meant to favour smaller member-states such as Greece in the case of the bailout negotiations, it functioned against Athens. Whatever proposals Greek governments would submit to the Council or Eurogroup would be rejected by different member-states, which became apparent during the 2009 negotiations enduring the intense 2015 negotiations (Tsebelis, 2016).

As Metinsoy and Angin rightly argue during the Greek Bail-out negotiations, the IMF was concerned mainly with avoiding contagion in the international financial system. In contrast, the Greek Government was naturally concerned about the domestic effects of the crisis and, more specifically, the impact of the recession on Greek society (Metinsoy & Angin, 2017). On the other hand, European institutions had different priorities; to avoid contagion of the Greek crisis in the Eurozone and impose fiscal discipline on other countries in danger of a sovereign debt crisis. These diverging priorities meant that while the IMF and the European institutions could have their objectives included in the final bailout agreement, Athens could not succeed in including any of its objectives in the deal.

In May 2010, a three-year economic adjustment program was agreed on. Greece would receive official financing of €110 billion, €80 billion of which would come from the Eurozone and €30 billion from IMF funds. (International Monetary Fund, 2010).

The Greek bailout program was mainly based on the conclusions of the 2009 IMF report on Greece by economists Delia Velculescu -and later the IMF mission chief in Greece-, Bob Traa and Marialuz Moreno-Badia. The 2009 Greece Report blamed the Greek crisis on glaring

weaknesses in the Greek economy. The imputed equilibrium real exchange rate was considered overvalued relative to the fundamentals of the Greek economy (Velculescu, Moreno-Badia, & Traa, 2009), causing a competitiveness gap of 20 to 30 per cent. There seems to be a consensus that the Euro was overvalued even if measurements differ slightly – Greek economist Gregory Papanikos measures it at 20 per cent in 2014-while there is also a relative consensus that the overvaluation of the Euro harmed Greek GDP growth (Papanikos, 2015). The IMF report also argued that the rigid employment laws and “structural impediments”, such as high costs for starting a business, hindered the product market’s function. The IMF report also claimed that internal competition was insufficient due to high regulation. The three IMF economists also claimed that limited liberalisation of utilities (water, gas, electricity) meant that Greek supply chains were inefficient and energy costs high, affecting the Greek economy (Velculescu, Moreno-Badia, & Traa, 2009) negatively. The trio also claimed that should Greece adopt (neoliberal) reforms according to best practices, the country could see its levels of employment rise by 5 or 10 per cent. EU institutions, on the other, interpreted the Greek crisis from an ordoliberal perspective and thus emphasised the lacking of compliance with existing rules as the main obstacle to effective management of the global financial crisis (Lütz & Kranke, 2014, p. 326).

Given that the Greek crisis presented a significant risk of contagion to the rest of the EMU, the European Central Bank (ECB) and the European Commission would also be involved in the Greek bailout program, with the three institutions forming the Troika. The Troika followed the IMF procedures for the management of the Sovereign Debt Crisis. The Troika was to determine the loan amount that was going to be extended to Greece, the objectives of the Greek Program and the conditionalities- that always accompany IMF loans (IMF, 2012). The loan conditionalities included an extensive list of “structural reforms”, the IMF terminology for neoliberal, free-market-oriented reform, accompanied by fiscal and financial policies - austerity- that would allow Greece to salvage its banks and eliminate its primary budget deficit (Spanou, 2017).

For the Greek Government to be given access to the bailout funds, it had to implement a strict and fast-paced neoliberal reform program. The Program that Athens was forced to accept had three main components; a) fiscal contraction that aimed at reducing the budget deficit and create budget surpluses that would allow Greece to repay off the debt b) reduction to wages, pensions, and other costs to increase Greek competitiveness and c) neoliberal structural reforms that aimed at increasing productivity (Ioannides & Pissarides, 2015, p. 352).

This strategy that the Troika imposed on Greece was described euphemistically as the “Internal Depreciation”. Typically, countries faced with a Sovereign Debt crisis, combined with low competitiveness and trade imbalances, would devalue their currency to help boost their exports. This crucial tool was not available to policymakers in Greece’s case due to Greece’s participation in the Eurozone. With the monetary policy tool out of the picture, the Troika had to design a program aiming at two goals, i.e., improving competitiveness and reducing the budget deficit using only the tool of fiscal policy.

The Eurozone funding of the Greek Program was secured through bilateral loans, as the European Financial Stability Fund (EFSF) was not yet operational due to the Eurozone’s hesitance in creating a bailout mechanism. The EFSF would eventually become involved in the Greek crisis in the second Greek Program of 2012.

The term “Internal Depreciation” meant to convey that the Program would achieve similar goals to the depreciation of a national currency, namely improving competitiveness with supply-side fiscal policies, mainly through the reduction of unit labour costs through reductions in wages and pensions and the introduction of flexible forms of employment. The IMF assumed that the fiscal contraction would have very small negative multipliers, which proved not to be true, as negative multipliers proved to be significantly larger. The fall in the output was also more extensive than expected, and internal demand experienced significant reductions. Greece’s trade deficit was naturally reduced from 11.2 per cent of the GDP in 2009 to 1.66 per cent of the GDP in 2019 (World Bank, 2019). At no time during the implementation of the Internal Depreciation strategy did Greece manage to achieve trade surpluses.

The Neoliberal structural reforms included in the Bail-out program did not have positive results for Greek competitiveness in the Global Market. According to the World Bank’s Global Competitiveness Index, despite the extreme cuts in wages and the increasing deregulation of employment laws, Greece experienced a sharp decline in its competitiveness in the period from 2009 to 2012, with the country recovering back to the 2009 levels of competitiveness only at 2014, before experiencing a minor decline in 2015. This despite Greece improved significantly in the World Bank’s “ease of doing business” score.



Figure 1 Global Competitiveness Greece Source: World Bank Group (tcddata360.worldbank.org)

Free Market economists Ioannides and Pissarides attributed the failure of the Greek Program to achieve its goal, in IMF’s over-optimistic calculations, on “sticky” prices that were not reduced as salaries and pensions were being cut and inefficient implementation of the structural reform (Ioannides & Pissarides, 2015, p. 352). Ioannides and Pissarides blame the sticky prices on a lack of openness of the Greek economy; the Greek market is subject to more frictions than other European economies, and as a result, the reduction in wages and the subsequent decrease in aggregate demand caused not a reduction in prices but more significant increases in profit margins (Ioannides & Pissarides, 2015, p. 354).

The phenomenon of sticky prices in Greece during the austerity years is complex and beyond the limits of this thesis. The oligopolist structure of the Greek economy, where Capital exerts a powerful influence and the dependence of Greece on imports, appears to be partly causally connected with the high prices in Greece. Free market economists and the Troika appeared to think that further deregulation of the Greek market would allow the market to function more efficiently and would bring a drop in prices. Nevertheless, the deregulation of the Greek market combined with extensive privatisations meant that the Greek Government had even fewer policy tools with which to intervene in the market and reduce the price levels and would have to put its hopes in the function of the market simply.

The rise of Syriza

The ushering of Greece in the period of the bailout program signalled the end of the post-dictatorial party system, a “perfect bipolar party system” where Conservative New Democracy and Social Democratic PASOK contested elections with few minor parties managing to emerge on the fringe of the political system (Diamantopoulos, 2003). This partisan system that emerged after the restoration of democracy in 1974 remained stable until the 2012 elections. The 2009 elections won by PASOK would be the last within the context of the old post-dictatorial partisan system.

In 2009 George Papandreou’s PASOK and Costas Karamanlis’ New Democracy were the two leading contenders for winning the national elections. The two parties’ leaders came from two influential political families with significant importance in Greece’s politics, the Papandreous and the Karamanlis. The influence of these families upon the country’s political life had been a staple of post-war Greek politics, with members of the Papandreou, Mitsotakis and Karamanlis families often having their members replacing each other as Prime Ministers or Ministers of the Greek Government. A coalition government between the two main parties had never been attempted or even speculated before the 2009 crisis.

The 2009 elections saw New Democracy running on a “fiscal responsibility” platform, while PASOK ran on expanding the social welfare and change of guard platform. PASOK won these elections by a landslide, while New Democracy suffered a historical defeat when it gained only 33.47% of the vote, down 8.40 points from the 2007 elections. New Democracy got 2,295,719 votes in that electoral battle. The result was considered catastrophic and caused Costas Karamanlis to retire from politics, but it would also be the party's best result after the 2009 crisis. Only in 2019, New Democracy was able to achieve 2,251,426 votes after many years of disappointing results. The Party could never recover its previous high level of votes; in 2004, the Party won with Premier Costas Karamanlis 3,359,682 votes. Before 2009 New Democracy’s lowest result in terms of percentage of the vote was in the disastrous 1996 when Miltiadis Evert led the Party to crushing defeat from PASOK, with the Party collecting only 38.12 per cent of the vote. After 2009 New Democracy consistently achieved lower percentages than the 1996 hallmark, and it was only able to do just barely better than its 1996 results in 2019 when the Party achieved 39.85 per cent of the vote. New Democracy was already in decline in 2009 when the crisis arrived, and its support for austerity politics during the 2009 elections cost the Party electorally. After 2009 the Party continued haemorrhaging votes continuously, despite that PASOK was in Government.

The elections might have been a landslide for PASOK, but they also showed clear signs that the Greek political system was in a state of stagnation (Pappas, 2010). On the PASOK camp, despite the 2009 victory, the Party found itself in an even more steep decline than New Democracy. The Party's vote plummeted in 2012 when it was led after Evangelos Venizelos managed to collect just 833,452 votes from 3,012,542 in 2009. All three parties that made up the Loukas Papadimos coalition government experienced a significant loss of votes. New Democracy had achieved a victory in the elections but a Pyrrhic victory nonetheless. New Democracy gathered 18.85 per cent of the vote, with its electoral share falling to 14.62 per cent, gathering only 1,119,103 votes. The right-wing LAOS found itself squeezed between New Democracy that was actively recruiting its top politicians and the rising Golden Dawn. The Party gathered only 2.9 per cent of the vote from 5.6 per cent in 2009 and found itself out of the parliament. The Party would never be able to enter the parliament again, and as of September 2015, it stopped participating in the national elections.

It was in this context of tremendous fluidity of the Greek partisan system that the rise of Syriza occurred. Syriza was formed in 2004, and it was essentially a transformation of Synaspismos, a minor left-wing party that had split from the Communist Party of Greece in 1991 (from now on KKE) (Ovenden, 2015). Synaspismos was an alliance of a diverse group of political organisations subscribing broadly to the radical and social democratic Left. Synaspismos was initially a loose coalition of parties, including the Greek Communist Party (KKE) and other parties of the Left, that ran together for the 1989 national election, the November 1989 repeat elections and the 1990 national elections. The Communist Party and its leader Charilaos Florakis were the dominant political partners of this coalition whose purpose mainly was to rally the forces of the Left in the face of the collapse of the Soviet Union and the fear of a potential electoral wipe-out of the Communist Party.

Synaspismos was formed as a coherent party only after an internal split within the Greek Communist Party (KKE) in 1991. At that time, the Communist Party of Greece was entering a period of intense internal debates about the Party's future in a world where the Soviet Union did not exist anymore. Internal factions within the Party were disputing whether the Party should retain its Orthodox Marxist orientation or move away from its orthodox positions. More importantly, factions debated whether the Communist Party should remain a separate political organisation or whether Synaspismos should instead merge into a coherent, unified party, effectively absorbing the coalition members, including the KKE. Those who challenged the Orthodox ideology of the Party were called "the renewal wing". On the 13th Congress of the Party on

February 24th 1991, left-winger Aleca Papatou faced the renewal wing candidate -and later Syriza minister- Giannis Dragasakis and won by a small margin; 57 votes against 53. After this, the renewal wing of the Communist Party, along with other minor parties of the Left, proceeded to transform Synaspismos into a unified, single party in a founding congress in 1992 (Eleftheriou, 2009, p. 5). Following this, the Communist Party proceeded to exit the alliance of Synaspismos and expelled the members of the “renewal wing”. Many of the leading figures of the renewal wing would later become ministers in the 2015 Syriza government.

Synaspismos sought to distance itself from PASOK’s social democratic politics, the Simitis era neoliberal turn, and the Communist Party’s Orthodox Marxist positions and political strategy. Squeezed between the dominant PASOK and the well-established KKE, the Party’s electoral showings before 2004 barely allowed Synaspismos to gather more than 3% of the vote and enter the parliament. The Party’s political youth was lacking compared to the Communist Party’s KNE, and thus, Synaspismos was limited in its ability to mobilise student vote (Ovenden, 2015, p. 50). Synaspismos also developed pro-EU positions in opposition to KKE and was openly pushing for a “change the EU from within” strategy. The rise of the anti-war movement in Greece between 1999 and 2003, fuelled by NATO operations in the Balkans, Afghanistan and Iraq, allowed Syriza to create links and alliances with these movements. Synaspismos was not the only Party to develop such an alliance, and Kevin Ovenden compares the Greek Party’s strategy with that of the Italian party “Rifondazione”. Synaspismos, like other radical left parties of its time, sought to express these anti-war and anticapitalist (altermondialiste) movements. Synaspismos founded the Greek Social Forum, which was part of the European Social Forum, to foster an alliance with these movements (Eleftheriou, 2009, p. 14).

In the name of that alliance, then-leader Nikos Konstantopoulos decided to transform Synaspismos into Syriza. On its Programmatic Congress of May 30th-June 1st of 2003, the Party was renamed ‘Coalition of Left, of Movements and Ecology (Synaspismos tis Aristeras, ton Kinimaton kai is Ekologias). The Party hoped to transform into a broader alliance between these anticapitalistic, environmental, and other progressive forces, criticising PASOK’s neoliberal turn under Simitis. The Party also restated its commitment to European integration but warned that the EU’s social character was under threat. The left faction soon dominated the revamped Party, and thus it sought alliances with minor left-wing Greek parties ahead of the 2004 parliamentary elections (Eleftheriou, 2009, p. 15). Synaspismos secured the alliance of minor parties such as the Maoist Communist Organization of Greece (KOE), the Renewalist,

Communist and Ecological Left (AKOA) and the Trotskyist Internationalist Worker's Left (DEA). The historical figure of the Greek left Manolis Glezos also agreed to take part in the effort, and thus the new alliance was finalised. The new alliance was named Coalition of Radical Left or SYRIZA (from now on Syriza).

Nevertheless, the electoral results for Syriza did not improve significantly; the alliance managed to secure 3.26 per cent of the vote, barely sufficient to enter the Greek parliament. The 2004 electoral share was only 0.06% increased compared to the 2000 elections. Nikos Konstantopoulos, Synaspismos' leader since 1993, stepped down from his role. A fierce leadership contest erupted that put the alliance's cohesion at risk. The leftist faction of the alliance was led by Alecos Alavanos, while Michalis Papayannakis led the centrist faction. This leadership election was a landslide for the left-wing of the Party, with Alecos Alavanos winning by the first round with 58.5% of the vote compared to 33.18% of the votes gathered Papayannakis.

The left faction within the Party placed left-wing politicians in internal committees within the Party, among them one Alexis Tsipras, a member of the Party's youth at the time of the split from the Communist Party (Ovenden, 2015). The internal conflicts between left-wingers and the central-left within the Party continued to affect the Party. Alexis Tsipras was selected by the Party to run for Athens' mayor instead of centre-left's preferred candidate Papayannakis and performed well in the local elections. The internal competition intensified; central left factions forged a group titled "the Renewal Wing" and went in 2007's Programmatic Congress to suggest that Syriza should dissolve, a proposal fiercely resisted by the Party's left-wing. Only months before the 2007 national elections, on June 2007, the Renewal Wing held its first National Conference, where Syriza's primary strategy was criticised as lacking positive proposals applicable to the present conditions. Syriza was transforming into a mere demonstration party, they alleged, an indifferent party about capturing power and falling back into "neo-communist" ideas (Bageorgos, 2007).

However, during the academic year 2006-2007, Greek Universities underwent a considerable wave of occupations. The Conservative Government of New Democracy planned to introduce a law project that would introduce private, for-profit universities in the country but was forced to withdraw its plans in the face of popular reaction. Syriza, along with other parties of the Left, openly endorsed and participated in these demonstrations. Although it is hard to estimate the exact effect of the student demonstrations in Syriza's electoral results, when in September

2007, the Party ran for Greece's general elections, it managed to increase its electoral vote. This electoral success provided legitimacy in Alavanos' strategy and enforced the left-wing turn of the Party.

Nevertheless, in what came as a surprise move, Alavanos chose to step down from the Party's leadership on the Party's 5th Congress on February 7th 2008. Alavanos endorsed the young Alexis Tsipras as his replacement for the leadership elections that followed. Alexis Tsipras ran as the left-wing candidate within the Party facing veteran politician Fotis Kouvelis who was running as the more moderate candidate. Tsipras achieved a convincing win, gathering 70.6 per cent of the vote, while the Party's left-wing also won a large majority in the Party's committee. After the internal elections, Tsipras had established his authority in the Party, and it had become impossible for the renewal wing to challenge him. For the moderates, the only solution would be to exit the Party.

Nevertheless, although the seeds of an internal division were already brewing, the party remained united ahead of the 2009 national elections. The elections that were the first with Alexis Tsipras as the leader of the Party were disappointing, and the Party experienced a decline in its vote share, capturing 4.13% of the vote as opposed to the 5.04% secured in 2007.

The turning point in the Party's history is the 2009 elections. In the face of the crisis, George Papandreou and PASOK made a complete U-turn in policy, breaking his electoral pledges. PASOK entered a period of crisis characterised by a rapid loss of electoral influence. As voters were leaving PASOK, Syriza was bound to benefit.

A wave of demonstrations and strikes erupted in the country in the Spring of 2010, in which Syriza and other parties of the radical left took an active part. The possibility for a new political alliance between disenfranchised Greeks and the Party of Syriza was created. The popularity and frequency of the demonstrations was evidence that a powerful anti-austerity front could be formed in Greece (Psimitis, 2011).

The internal divisions that had continued to plague the Party would be temporarily resolved when the renewal wing of Syriza clashed with Tsipras over the relationship between Synaspismos and Syriza. The renewal wing demanded that Synaspimos leaves Syriza and becomes once again an independent party, with Tsipras continuing to argue in favour of Synaspismos remaining part of Syriza. In June 2010, during the 6th Conference of Synaspismos, leader of the renewal wing Fotis Kouvelis, announced the group's departure. On June 27th, the

members of the Renewal Wing would proceed to form a short-lived social-democratic party named the Democratic Left.

The first signs that a political shift was about to occur appeared in the 2010 local government elections (Verney, 2012). Prime Minister Papandreou considered the result to reflect that citizens approved of his leadership and that these elections had reinforced his mandate (Verney, 2012, p. 207). For then IMF Director Dominique Strauss-Kahn, the results showed that Greek citizens had expressed their acceptance of the IMF/EU bailout (Verney, 2012, p. 214). Both had ignored the clouds that were already gathering for the Greek status quo. It was true that PASOK had avoided a heavy defeat, and although the governing Party had lost a big part of its voting share, it remained still the country's most popular Party in terms of electoral share. New Democracy, now led by hard-liner Antonis Samaras, was also on the road to recovery, and it managed to capture more votes on the local elections at a national level than it had just a year prior in the 2009 elections.

Early evidence of a crisis of Greece's bi-partisan political system started to appear. Abstention levels were significantly high, with voter participation falling below 50 per cent for the second round of the elections, including a 66 per cent abstention in the country's capital Athens (Verney, 2012, p. 210).

The forces of the radical left had also multiplied. KKE saw its electoral share rising and had a very successful performance by all accounts, remaining the dominant Party of the left-wing (Verney, 2012, p. 208). Also, Syriza had made gains in terms of electoral share despite the recent split with the Democratic Left. Left-wing party ANTARSYA (Anticapitalist Left Collaboration for the Overthrow) also recorded a significantly more robust performance than its showing in the 2009 elections, gaining up to 100,000 votes.

On May 15th of 2011, a new movement emerged in Spain; it was a loose network of citizen assemblies where people met freely to discuss Spain's political crisis. These meetings aim to articulate a counter-discourse to austerity and the neoliberal narrative on the Eurozone Sovereign Debt crisis. The movement was called the Indignados.

The idea did not take long to become transplanted in Greece, where like Spain, the Crisis was particularly severe. The Greek Indignados (from now Aganaktismenoi) met across the country on May 25th 2011, their meetings becoming a combination between a protest and citizen assembly, where anyone could participate even if they belonged to a political party, as long as they did not act or speak on behalf of their Party. The Aganaktismenoi was a complex

movement that included antiauthoritarian and autonomist movements, members of left-wing parties such as Syriza, anarchists, citizens without partisan identity and, of course, right-wingers (Sotiropoulos, 2017). Despite its ideological and spatial-geographical divisions - between the lower part of Syntagma square, which was dedicated to the Left-leaning participants and the upper part of Syntagma square, left to the right-wing leaning participants the movement was kept together. Although the movement eventually fizzled out significantly as Syriza rose into prominence, it played a crucial role in providing visibility to the anti-austerity movement and articulating new discourses and new ideas about the causes of the Greek crisis. Moreover, during the Aganaktismenoi assemblies, academics and scholars were given a platform to express non-neoclassical views on the Greek crisis, amongst them Yanis Varoufakis and Euclides Tsakalotos, that spoke during the Syntagma assemblies.

The relationship between Syriza and the Aganaktismenoi was antagonistic. Participants often did not trust Syriza members in their ranks. They often openly disagreed with Syriza's politics (Sotiropoulos, 2017, p. 92), while the Party itself did not massively participate in the Assemblies and did nothing to prevent the movement's dissolution. Syriza did pick up the mottos and the movement's demands (Sotiropoulos, 2017, p. 100), a testament to how influential the Aganaktismenoi were before the Party ultimately abandoned its anti-austerity pledges altogether following the 2015 referendum.

Alongside the Aganaktismenoi movement, large Union demonstrations shook the country throughout 2011 and 2012. Aganaktismenoi eventually joined forces with the Unions and participated in large demonstrations that eroded PASOK's position in power (Ovenden, 2015). On October 31st 2011, with his popularity quickly dwindling and demonstrations demonstrating the popular dissatisfaction with the Greek bailout program George Papandreou called a referendum on the PSI program that was being negotiated. In a prelude to things to come, Greece's Eurozone partners put significant pressure on the Government to recall the referendum. Surprisingly enough, this demand found plenty of allies in the country's interior, politicians across the party spectrum and the media denounced the referendum proposal as irresponsible. It is important to note here that Greek Capital, especially the stockholders of Greece's structural funds, had benefited enormously from the Greek bailout Program and the ECB liquidity support for Greek banks (Lapavitsas, et al., 2010, p. 368).

Angela Merkel and Nicolas Sarkozy allied with the IMF, the President of the European Commission Jose Manuel Barroso, and the President of the Eurogroup Jean-Claude Juncker to

counter Papandreou's move. They decided not to release the sixth tranche of the Greek Program and demanded that the referendum be changed from a referendum on the Bailout program to a referendum on Greece's membership in the Eurozone. EMU partners and institutions would adopt a similar position during the 2015 referendum when Greece's partners essentially delivered an ultimatum to the country; the continuation of Greece's membership in the EMU means that the country needs to continue implementing its bailout commitments.

A new coalition government was formed under pressure from Greece's Eurozone partners, who pressured the rising Conservatives to agree on a national unity government instead of causing new elections. The new Government, led by Loukas Papademos, former governor of the Bank of Greece and Vice President of the ECB, was hoped would reduce popular reaction to the bailout program. It was believed that a grand coalition government involving all the major Greek parties and led by a technocrat would not be subject to calculations of the political cost. The Papademos government was supported in the Parliament by PASOK, New Democracy, and a fringe right-wing party, the Popular Orthodox Rally (LAOS), which was even given several positions in the cabinet.

The Second Program and the 2012 PSI

The previously described developments, namely the deeper than the expected recession and the phenomenon of sticky prices, cast doubt on the Greek Program and its ability to reduce Greek debt to sustainable levels successfully. Moreover, Greece was experiencing a wave of demonstrations and social unrest that made it clear to its creditors that George Papandreou was under pressure. The Greek bailout program carried an inherent political risk; since a large part of Greek society contested it, Greece's willingness to implement the harsh austerity and neoliberal structural reforms was put in question. The political instability combined with the more profound than expected recession that Greece was experiencing meant that Greece would have to receive a new bailout loan or its debt would be restructured. European Banks, supported by France and Germany, began negotiations with the Papandreou government about a private sector involvement in the Greek bailout, which would involve a debt haircut and the exchange of Greek government bonds in the hands of private investors for new bonds. These bonds would have a reduced value, but they would also come with improved insurance policies. The negotiations for the PSI did not do much to improve the already tense relations of the George Papandreou government with its Eurozone partners, especially France and Germany, with Athens complaining that the terms of the haircut proposed were too onerous (Financial Times, 2011).

Eurozone leaders agreed on the July 21st 2011, summit to “bail-in” private debtors, using a voluntary debt exchange which was described as a “private sector involvement” (PSI). The PSI would be voluntary and involve a “reprofiling” of the debt. This reprofiling included maturity extensions and lower coupons (Xafa, 2014, p. 8). The reduction in the net present value (NPV) of Greek debt would be in total, 21 per cent, with investors being offered a menu of options involving voluntary debt exchange for par or discount bonds. The exchange would apply exclusively to bonds that matured up until 2020 and which constituted the bulk of Greek sovereign debt. However, the discount bonds that this summit had agreed on carried relatively high coupons, thus causing the actual debt relief for Greece to be minimal. According to some calculations, the proposed deal could even increase public debt (Zettelmeyer, Trebesch, & Gulati, 2013).

In the meantime, Greece’s lenders continue to erode Greek sovereignty by installing Troika technocrats in various departments of the Greek state. The aim was to increase the amount of control and overview that Eurozone or IMF technocrats had on implementing the Greek Program. The installing of these technocrats on the Greek state apparatus resulted in diminished democratic accountability and legitimacy, given that these technocrats were not elected. In July 2011, the Commission created a Task Force for Greece at the request of the Greek Government of George Papandreou. The task force’s primary objective, which Horst Reichenbach led, was to provide technical advice to the Government in the hope that it would improve the implementation of neoliberal structural reform.

The deal was subsequently abandoned, and the October 26-27, 2011, the EU summit put together a new deal that involved a significantly higher haircut of 50 per cent. The IMF indirectly supported the idea of a haircut by publishing the revised Debt Sustainability Analysis (DSA), which revised the IMF’s original projections for the Greek Program, admitting that Greece would experience a period of recession and take longer to recover than initially thought (Schumacher & Weder di Mauro, 2015).

However, just a few days later, on November 11th 2011, the social-democratic government of George Papandreou collapsed under the pressure of widespread reactions to the bailout program. After intense negotiating with his Eurozone partners, Prime Minister Papandreou sought to organise a national referendum on Greece’s bailout program. Different theories exist on whether the referendum was called to leverage Greece’s Eurozone partners to pressure citizens into accepting the bailout deal (Hîncu, 2013). Whatever the case, Papandreou’s

proposal for a referendum caused significant reactions amongst other Eurozone governments. The pressure combined with popular dissatisfaction about the impending austerity measures forced George Papandreou to quit as the prime minister of Greece. This government crisis would signal the beginning of a steep decline in terms of electoral influence for the once-dominant social-democratic Party of PASOK, a decline from which the Party would not recover.

The new Papademos government was called to negotiate a second rescue package for Greece, which was eventually agreed upon in March 2012. As a result of this agreement, Economic Adjustment Programme was replaced by a Second Economic Adjustment Programme for Greece (from now onwards, the Second Program), whose demands on Greece were stricter and more pressing (Ioannides & Pissarides, 2015, p. 358). During these negotiations, the IMF emphasised Labour market reforms, of which undoubtedly the most significant was the sharp reduction of the national minimum wage from €751 to €581. Moreover, the 2012 program further deteriorated the worker's position in the economy by substituting collective wage bargaining at the national, industry or firm level – which allowed workers a better negotiating position- with a decentralised wage bargaining system at the firm level exclusively. Employment protections concerning the termination of employment were significantly relaxed. According to the International Labour Organisation statistics, the Collective Bargaining coverage rate collapsed in Greece from 83.9% in 2008 to 17.8% in 2016 (International Labour Organization).

Given that the European financial stability facility (EFSF) was now operational -as opposed to during the negotiations for the first Program- instead of opting for a series of bilateral loans, the Second Greek Program was financed directly by EFSF and IMF loans. The IMF and the EMU member states would contribute the remaining funds of the first Program along with an extra €130 billion in order to finance the second Program, which meant that the total financial assistance towards Greece would reach €164.5 billion in total and as with the first program tranches would be payable upon satisfactory implementation of the measures agreed with the Eurozone partners (European Commission, 2021).

Greece's Eurozone partners took a series of measures to relieve Greece from the adverse effects of the First Program. The fiscal adjustment path was extended by two years, which practically meant that neoliberal structural reform would be implemented more gradually to help ease the recession that the Greek economy was experiencing. This included a reduction of the primary

surplus target for 2014 from the excessive 4.5% of GDP primary budget surplus to 1.5% of GDP and an even annual adjustment of 1.5% of GDP until a primary surplus of 4.5% of GDP is achieved in 2016 (European Commission, 2021).

The interest rates that were applied to Greece's bailout loans were lowered by 100 basis points (bps), and the maturities of both the bilateral loans from the First Program and the EFSF loans would be extended by 15 years, while interest payments on the loans would be deferred by ten years.

Finally and more controversially, Greece's EMU partners committed to returning some of the profits they made at the back of the Greek program. During the early stages of the crisis, the European Central Bank launched the Securities Markets Program (SMP), which was essentially a precursor to the QE program; the program involved purchases of government bonds in secondary markets to prevent market panic. The SMP has been deemed to have succeeded in reducing yields and volatility of government bond segments of the countries under the programme (Ghysels, Idier, Manganelli, & Vergote, 2017). When the SMP was launched, the value of Greek Government bonds was being traded into the market at 30% to 40% of their nominal value. Nevertheless, the ECB expected Greece to repay the total nominal value of the bonds; in other words, the ECB was able to recover 100% of the nominal value of the bonds at a 60 or 70% profit. These profits were shared between the ECB -which retained 20% of the profits- and national central banks according to the size of the national economy.

Although the exact amount of profits made by the ECB and national central banks are hard to calculate, they are considered substantial (Viterbo, 2016, p. 522). The Eurogroup decided that these profits should be at least partly returned to Greece but also decided that the return of these funds would be subject to Greece satisfying the EU/IMF conditionalities of the Greek bailout programs, thus adding a new means of economic pressure and leverage to force the conditions of the program on Athens. This decision further diminished Greece's sovereignty and further deteriorated the democratic deficit in the country. Essentially, the Eurozone partners had forced Greece not to restructure the Greek Government bonds that were in the hands of their private banks, then ECB proceeded to relieve private banks by buying these bonds, while the first and bailout programs meant the transfer of significant amounts of Greek Government debt from the private sector to the European public sector. Greece's Eurozone partners forced Greek governments to pay these titles according to their full nominal value and used their profits as a "sweetener" to force Greece to remain on the path of fiscal discipline, which secured that the

Greek government debt would continue to be served. Tranches of the payments linked to the return of SMP profits would be subject to Troika evaluations as with the funds Greece received as part of the bailout loans.

A necessary condition of the new agreement was that Greece would achieve enough debt relief by involving both the public and the private sector so that the country would go back in the course of achieving the goals of the first program on debt; 120 per cent debt to GDP ratio by 2020 (International Monetary Fund (IMF), 2012). In contrast to the earlier July proposal that included a menu of options, the new PSI included a single offer. The offer was subject to a 90 per cent acceptance requirement and proposed an exchange of eligible claims for a discount bond with a face value of 31.5 per cent of the original claim. The new discount claims would also include a credit enhancement, a short-term AAA-rated EFSF note worth 15 per cent of the face value of the original claim. These notes were provided via a €30 billion loan from the EFSF to Greece. Finally, the PSI included a so-called sweetener, a GDP warrant, a floating-rate Greek bond with a coupon linked to the country's real GDP growth rate. In total, investors that agreed on the PSI terms received 46.5 per cent of the face value of the original claims (European Commission, 2021).

Moreover, the new Greek government bonds were issued under English law, favouring creditors over debtors. Issuing Greek bonds under English law meant that the Greek state would find it very hard to cut these titles further, given that creditors could potentially sue Greece in UK courts. Greece was eventually given a haircut of its debt in 2012 under the debt exchange and buyback program. The program's value was significant; the total value of the debt exchange reached €205.6 billion (European Commission, 2021), while there was €30 billion of debt buyback (Xafa, 2014, p. 5). The program disproportionately affected Greek holders of Greek Government Bonds, while the European Central Bank and the EU National Banks did not participate in the restructuring. The total value of the debt extinguished by the PSI reached €106 billion, which did come, however, with a total of €38 billion of losses for Greek banks. The Greek government was obliged to recapitalise these banks, thus reducing the net debt relief to €68 billion. The PSI did allow some fiscal breathing room for the Greek government of Papademos since the interest rates payments fell significantly, but the debt remained at 157 per cent of the GDP, a still-high percentage (Xafa, 2014, p. 10).

It is worth noting here that, unlike Argentina, Greece decided to repay holdout creditors in full to avoid a legal dispute and trigger the cross-default clauses included in foreign-law bond

contracts (Xafa, 2014 p. 11). Nevertheless, the International Swaps and Derivatives Association (ISDA) decided that the Greek PSI constituted a “credit event”, but the credit default swap contracts (CDS) at the time of the PSI were only of a total value of €3 billion. As a result, the Greek PSI posed no threat of contagion to the European financial or credit sector. Overall, having affected mainly Greek holders of Greek Sovereign Debt, the PSI did not pose a significant risk for contagion to the Eurozone sector. Given that EU national central banks and the ECB refused to participate and that the ECB had bought significant amounts of Greek bonds from European private banks, it is unsurprising that Greece’s Eurozone partners were willing to agree and finance a PSI deal, although they were not willing to discuss a wider haircut of the Greek debt in its totality. The PSI damaged Greek banks, small bond owners, and Greek pension funds -delivering a further blow to the social welfare system- while despite the significant debt relief, Greece's position did not improve fundamentally. Private banks were later compensated for their losses by providing new funds to the banks, thus increasing Sovereign debt again and cancelling some of the remaining benefits of the PSI. Greece’s position in the Eurozone remained unsustainable, as nothing had been done to deal with the issue of trade imbalances within the EMU. Moreover, the second Greek program continued to impede growth and recovery.

The composition of Greek debt changed dramatically due to the PSI, the First and the Second program. It is worth emphasizing the following changes that took place in the composition and characteristics of the Greek between 2009 and 2012:

- a) By the end of 2013, Greece’s sovereign debt was principally composed of long term loans, which had been agreed upon with institutional lenders (Eurozone Governments, EU and EFS/EMS, IMF) (Lapavitsas, Flassbeck, Durand, Ethievant, & Lordon, 2016, p. 59).
- b) Greek debt was extended significantly to the future after successive reprofiling. EFSF loans were subject to two reprofiling extending their maturity to 2070 (Table 1 and Table 2). These burdened Greece with additional interest payments for an extended period equal to the extension of the maturity of these loans. The redemption profile of Greek debt demonstrates that Greece will be burdened with significant debt and interest repayments for an extended period, as well as having somehow diminished sovereignty over its economic policy. Moreover, debt repayments will increase significantly from the 2030s onwards, with the 2050s being the most challenging decade in terms of repayments (Figure 2).

- c) The payment of Bailout loan tranches has become conditional not simply upon implementing the Greek Programs' conditions but also upon the Greek governments' conforming behaviour in general. By withholding the payment of a loan tranche after the announcement of George Papandreou's intentions to hold a national referendum on the terms of the Second program and eventually forcing Papandreou to withdraw from the already announced referendum and step down, the IMF and the Eurozone reduced Greece's sovereignty drastically.
- d) The First and Second programs significantly increased the Greek democratic deficit for two reasons. Firstly, because a democratic process of the importance of a national referendum was recalled under pressure from non-democratically elected institutions such as the IMF and the European Commission, supported by powerful states such as Germany and France, with which Greece is in an unequal economic partnership. Secondly, the Greek democratic deficit was increased due to the way the Papadimos government was formed, namely as a result meant that the three political parties that participated

We observe that these conditions, namely the increased economic burden on Greek citizens and the diminishing democratic legitimacy of the program, created the conditions that fuelled the anti-austerity movement, especially the large Union demonstrations and the Assemblies of the Greek Indignados (Aganaktismenoi). The Second program would be met with resistance similar to that of the First program, and it would be widely criticised, leading eventually to the rise of anti-austerity politics and the emergence of Syriza from a minor party to a significant electoral force.

Table 1 current repayment schedule for EFSF loans to Greece (effective from 15/04/2019). Source: ESM

Tranche	Loan amount (€ bn)	Maturity
<i>Tranche A</i>	23.4	Amortisation from 2049 to 2070
<i>Tranche B</i>	24.4	Amortisation from 2049 to 2070
<i>Tranche C*</i>	9.1	Amortisation from 2049 to 2070
<i>Tranche D*</i>	3.9	Amortisation from 2049 to 2070
<i>Tranche E</i>	15.9	Amortisation from 2051 to 2070
<i>Tranche F</i>	8.3	Amortisation from 2051 to 2070
<i>PSI LM facility</i>	29.7	Amortisation from 2023 to 2042

<i>Bond Interest facility</i>	4.9	Amortisation from 2023 to 2037
<i>Debt-buy-back instalment</i>	11.3	Amortisation from 2043 to 2049
Total	130.9	

Table 2 Repayment schedule for EFSF loans to Greece after Reprofiting

Disbursement Date	Disbursed Amount (€ Bn)	Cumulative Disbursed Amount (€ Bn)	Initial Maturity	Maturity After 1st Reprofiting (Short-Term Measures)	Maturity After 2nd Reprofiting (Medium Term-Measures)
09/03/2012	34.6	34.6	Amortisation from 2023 to 2042	(No change)	(No change)
19/03/2012	5.9	40.5	2047	Amortisation from 2045 to 2050	Amortisation from 2049 to 2070
10/04/2012	3.3	43.8	2041	2048	Amortisation from 2049 to 2070
19/04/2012	25.0	68.8	2018, 2019, 2020, 2021 and 2022 (interim maturities)	Amortisation from 2052 to 2056	Amortisation from 2049 to 2070 and from 2051 to 2070
10/05/2012	4.2	73.0	2042	2049	Amortisation from 2049 to 2070
28/06/2012	1.0	74.0	2040	2045	Amortisation from 2049 to 2070
17/12/2012	7.0	81.0	Amortisation from 2044 to 2046	Amortisation from 2046 to 2047	Amortisation from 2049 to 2070
17/12/2012	11.3	92.2	Amortisation from 2023 to 2042	(No change)	Amortisation from 2043 to 2049
19/12/2012	16.0	108.2	2022, 2023, 2024 (interim maturities)	Amortisation from 2051 to 2056	Amortisation from 2049 to 2070 and from 2051 to 2070
31/01/2013	2.0	110.2	2043	Amortisation from 2051 to 2053	Amortisation from 2049 to 2070
28/02/2013	2.8	113.0	2043-2044	Amortisation from 2049 to 2050	Amortisation from 2049 to 2070
29/04/2013	2.8	115.8	2032	Amortisation from 2043 to 2044	Amortisation from 2049 to 2070
17/05/2013	4.2	120.0	2043	2050	Amortisation from 2049 to 2070
31/05/2013	7.2	127.2	(Loan repaid on 27/02/2015)		
25/06/2013	3.3	130.5	2045	Amortisation from 2051 to 2052	Amortisation from 2049 to 2070
31/07/2013	2.5	133.0	2048	Amortisation from 2047 to 2048	Amortisation from 2049 to 2070
18/12/2013	0.5	133.5	2050	(No change)	Amortisation from 2049 to 2070
28/04/2014	6.3	139.8	2054	Amortisation from 2043 to 2045	Amortisation from 2049 to 2070
09/07/2014	1.0	140.8	2053	2054	Amortisation from 2049 to 2070
14/08/2014	1.0	141.8	2053	Amortisation from 2055 to 2056	Amortisation from 2049 to 2070

27/02/2015	-10.9 (redelivery of EFSF bonds not used by HFSF) ¹	130.9 (Current outstanding loan amount)
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Table 3 Disbursed EFSF loan tranches to Greece and subsequent maturity extensions source: <https://www.esm.europa.eu/>

Overview of the release of funds under the second programme (in billion euros)				
Disbursement	Date	EFSF	IMF	Total
1	March – June 2012 / 1	74	1.6	75.6
2.1	December 2012 / 2	34.3	-	34.3
2.2	January 2013 / 3	7.2	-	7.2
2.3	January 2013	2.0	3.24	5.24
2.4	February 2013	2.8	-	2.8
2.5	May 2013	2.8	-	2.8
3.1	May 2013 / 4	4.2	1.74	5.94
3.2	June 2013	3.3	-	3.3
4.1	July 2013 / 5	2.5	1.8	4.3
4.2	December 2013	0.5	-	0.5
5.1	April 2014 / 6	6.3	3.6	9.9
5.2	July 2014	1.0	-	1.0
5.3	August 2014	1.0	-	1.0
Source: ec.europa.eu				

Redemption profile (annual repayment amounts) for EFSF and ESM loans to Greece

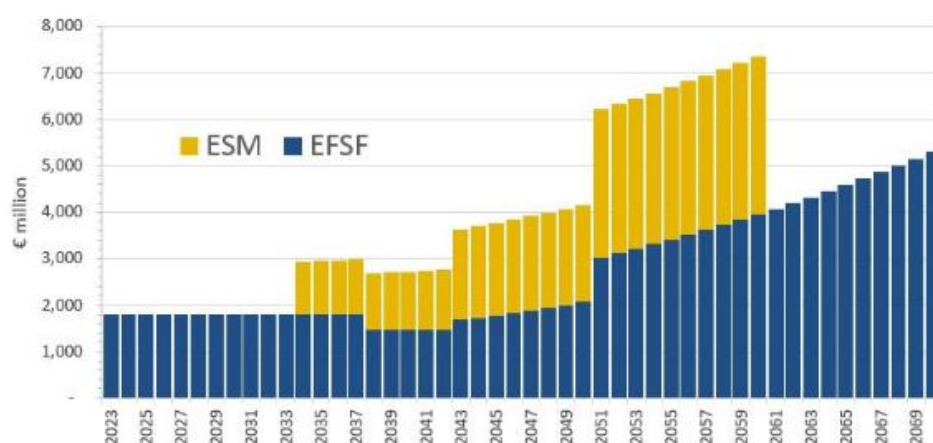


Figure 2 Redemption Profile for EFSF and ESM loans to Greece source: <https://www.esm.europa.eu/>

However, the Second Programme would not be implemented by the inherently unstable Papademos government; in May 2012, national elections were declared to Greece, with all parties participating in the national unity government suffering heavy losses (Teperoglou & Tsatsanis,

2014). The right-wing party LAOS barely missed the minimum vote share (3%) to gain representation in the Parliament. PASOK suffered a historic defeat, losing -30,74% of its vote share to gain only 13,18% of the vote. PASOK would never again recover from this defeat, and its 2009 electoral performance has never been matched or surpassed. New Democracy also suffered heavy losses, gaining a mere 18,85% of the vote -14,62% more than its 2009 performance.

Nevertheless, New Democracy did come first in the election, given how fragmented the vote was and it looked poised to form a coalition government. It is telling of the extreme instability of Greece's political system at the time that a coalition government was not formed as negotiations between parties led anywhere. Snap elections were called for June 2012, and not unlike other snap elections, it favoured the two parties that came first in the previous elections, namely New Democracy and Syriza, who had their vote share increased by 10,81%, 10,11%, respectively.

The most important outcomes of these elections were that:

- a) This time, a new coalition government was formed with the Conservatives of New Democracy, the social democrats of PASOK and the leftists of the Democratic Left (DIMAR). This minor party had been created by the "renewal wing" from within Syriza, which broke away after Tsipras' victory and ran independently in the 2012 elections. The formation of a second coalition government, formed by parties whose ideologies and electoral manifestos were not highly compatible, only for that government to implement the structural reforms demanded by Greece's lenders increased the democratic deficit in the country.
- b) Syriza became the main opposition party to the government coalition and the country's second-largest party, dominating the left side of the political spectrum. In the May and June 2012 elections, the party was put on the course to win power.

The Democratic Deficit of Greece worsened further after the 2012 twin elections, as yet another Government was forced to abandon its pledges. Antonis Samaras, the new prime minister, had rejected the country's First Program and had campaigned against the Greek bailout. During the parliament vote for the first bailout, Samaras imposed a whip on his MPs, threatening to expel from the party any MP voting in favour of the Bailout agreement. Prominent Conservative politician Ntóra Mpakogianni defied the party's leader to vote in favour of the program, only to be dully expelled from New Democracy.

Arguably, his position on the matter had already changed before the 2012 elections; pressure on Samaras and New Democracy had already been piling up from Greece's creditors and EMU partners in order to change their stance. Eurozone member states had demanded Samaras to confirm his commitment to the Greek bailout program in order for them to continue supporting Greece. Samaras was also pressured into supporting the coalition Papademos government that faithfully implemented the austerity policies demanded of Greece. Eventually, Samaras would completely change his stance and impose a whip, forcing his MPs to vote in favour of the Second Program. Even though his stance on the bailout program had already changed before the elections, the Samaras' change of policy on the issue of the bailout program demonstrated the degree to which Greek democratic processes and sovereignty had been eroded; the country's largest party had a complete shift in policy on an important issue under external pressure from non-democratically elected institutions and foreign governments.

NEOCLASSICAL APPROACHES TO THE GREEK CRISIS

The Loukas Papademos government reflected a new line of division in the Greek political system. On the one hand, established parties PASOK and New Democracy, supported by minor parties such as the right-wing LAOS and later the progressive Democratic Left, saw austerity and the Bailout program as necessary. On the other hand, Unions, the Aganaktismenoi movement, and parties of the Left, such as Syriza and KKE, had adopted an anti-austerity stance.

The debate on austerity was political and academic at the same time; with the country highly divided on the matter, neoliberal, Keynesian and heterodox economists debated intensely the best way out of the crisis. This section will discuss the ideas, academic research, and views of those economists who critically or enthusiastically endorsed the bailout programs and their policies. The section focuses primarily on those academics whose research had considerable influence on policymaking or public debate. For analytic clarity, these scholars who endorsed the bailout program had been divided into Conservative scholars, meaning those scholars who had an affiliation with the Conservative party of New Democracy or endorsed views that were neoliberal in the economic field and conservative in other policy areas. Similarly, I have also grouped scholars that had an affiliation with the social democratic party of PASOK or those that combined neoliberal views with more progressive views on social matters.

Before we analyse the debates within Syriza, the party's strategy before and after it won the 2015 elections, and the internal debates within the party, it is essential to review the economic and political ideas that dominated the status quo political parties, especially the Conservative party New Democracy and left of the centre PASOK.

By examining these views, we can better understand the economic ideas that prevailed in the two political camps that most enthusiastically supported the Greek Bail Out program and its terms. We will also review their assessment of the program, its failures, and its achievements. By comparing these to the economic ideas that emerged within the Left, we will be able to paint a more or less representative image of the Greek intellectual debate around the issue of Debt. These intellectual debates shaped policymaking and reflected the differences between ideological currents, movements and parties. By examining these academic debates, we will better understand the historical unfolding of the Greek Sovereign Debt crisis. Finally, we will close this chapter by comparing these diverging theories' relative strengths and weaknesses.

The Featherstone Theory of the Greek Crisis and other PASOK perspectives

In this chapter, we will discuss two different analyses of the Greek crisis that emerge from the political camp of PASOK (Panhellenic Socialist Movement- from now on, PASOK). The now-defunct PASOK that has transformed into the centre-left party of “Kinima Allagis” (Movement for Change) was the dominant force of Greek social democracy. The party gave Greece successive governments, starting with the first two post-dictatorial governments of Andreas Papandreou (1981-1989) and Papandreou’s third spell in government (1993-1996) (Pantazopoulos, 2020). Costas Simitis (1996-2004) two terms in the office marked PASOK’s turn to neoliberalism (Featherstone & Papadimitriou, 2008). This period has significant similarities with Tony Blair’s transformation of the Labour party in the UK. After spending five years in the opposition, PASOK returned to power when George Papandreou defeated the conservatives to restore the party to power in October 2009. A few months later, Papandreou signed the Greek bail-out program that signalled the arrival of the IMF in the country and a long period of economic recession and debt crisis. In this chapter, I will discuss two notable interpretations of the Greek crisis that emerged from within the camp of PASOK; on the one hand, we will discuss the analysis of George Papandreou’s advisor Kevin Featherstone and on the other will examine the analysis of ex-premier minister Costas Simitis. The two studies can help us understand the way of thinking that was becoming common within the party, leading to the acceptance and implementation of the Greek bail-out program.

Featherstone’s analysis of the Greek crisis is of particular interest not only because he is one of the leading scholars on contemporary Greek politics but also because of his proximity to the centres of power, having served as an adviser to the social democrat Prime Minister George Papandreou, the prime minister that led Greece into an IMF Stand-By agreement.

Featherstone, unlike conservative economists, puts less emphasis on theories of excessive fiscal stimulus -although he does attribute the crisis partly to excessive government spending. For Featherstone, the Greek crisis was primarily a crisis of Governmentality both at the European and the national level (Featherstone, 2011, p. 194).

Speaking of the European level, Featherstone claims, as many do, that the Eurosystem was ill-equipped to deal with the 2010 crisis, primarily because it lacked the capacity for centralized action and policy discretion, and thus, it lacked the ability for an overall speedy reaction to the crisis (Featherstone, 2011, p. 201). For theorists like Lapavitsas, the Eurozone’s lack of a bailout mechanism for member states and slow decision making in the face of the crisis and

the harsh treatment of member states are not a mere accident or mistake of policymaking. Instead, it is the natural consequence of the Eurozone's institutional design, a design that was purposefully conceived to reflect the interests of powerful member states, especially Germany, the interests of Capital, primarily financial and banking Capital. The Eurozone's reaction to the bailout crisis can be seen as a mere reflection of the policy priorities of the most potent agents within the Eurozone, be it Berlin or Paris or the European banking sector.

Featherstone, however, subscribes to a slightly different theory to that of faulty institutional design. The Eurozone simply lacked adequate mechanisms with which to respond to the Eurozone 2010 crisis. Surprisingly, Featherstone might partially agree with Lapavistas on his assessment of the reasons why the Eurozone lacked such mechanisms; national interest. According to Featherstone, Merkel's decision making was influenced by calculations of Germany's own interests. In the face of the crisis, the German government adopted a more narrow national perspective than a broader European perspective. In his analysis of the Greek crisis, Featherstone employs a "liberal intergovernmentalist" framework of analysis (Featherstone, 2011, p. 201). This framework of analysis dictates that liberal transnational institutions are beneficial and ought to be promoted, and on this point, it coincides with Neoliberal Theories of European Integration. However, an intergovernmentalist perspective differs in that it recognises that nation-states and governments will often act with their own interests in mind. States are often influenced in their decision making by a nation-centric perspective, and elections have a significant weight for policymakers. Liberal intergovernmentalists attempt to analyze the process of European integration by combining liberal perspectives with a more realistic view of state behaviour.

One should note that the factor Capital and various agents such as the Banking sector are entirely taken out of the causal story that Featherstone seeks to create. The state is presented mainly as a "black box" with pre-defined and set interests. The Eurozone is treated as an objectively beneficial institution, an organization that ought to have more powers transferred to it. However, further European integration is limited by state short-sightedness. Politically, this translated into the "more Europe strategy" that claimed that further transference of sovereignty and political power to Eurozone and EU institutions is the best solution to the Eurozone post-2010 woes.

Furthermore, it is worth underlining neoliberal perspectives on the Greek crisis, embarking from a different normative and philosophical basis vis a vis issues around democracy and

legitimization. For neoliberal thinkers, such as Keohane, International Organizations intervening in the domestic affairs of a sovereign state have largely positive effects on democracy. This view stems from the “special factions” theory, namely the assumption that within an economy, different groups, such as industrial or agricultural workers, state employees, and entrepreneurs, have their specific interests, as opposed to the general interest of the economy as a whole. Neoliberal theorists assume that such a class-free general interest does exist and is defined by the free market. The free market defines the optimal function of the market, and thus it also dictates the general interest of the entire economy as a whole. However, some groups are able to impose their factional interests, and by that, neoliberal thinkers often mean unions (described as we shall see in a derogatory manner as guilds) and other forms of worker representation or worker-friendly legislation. For Keohane, the intervention of an international organization like the IMF had the potential of helping to protect the general interest of the economy as a whole against such factional interests (Keohane, 2011)

In these approaches, the personal character of the leaders involved and the role of emotion in making political decisions is typically overemphasised, while structural dimensions of the crisis, especially those pertaining to class relations, are overseen. Featherstone, for example, emphasizes how hostile the German political system was towards the extension of the bailout loan to Greece and believes that a contributing factor to Berlin’s harsh stance was Merkel’s own personality; as a politician, Merkel was less bound by World war II guilt and was less timid in pursuing German national interest.

As a specialist in Greece, however, Featherstone dedicates most of his analysis to the Greek crisis of governmentality or the Greek paradoxes as he described it. For Featherstone, Greek Capitalism is a *suis generis* case, a paradoxical mixture of policies that made the Greek economy inviable and the crisis in which the Greek economy entered in 2009 inevitable. Kevin Featherstone's perspective could be described as moderately neoliberal. His political perspective seems informed by neoliberal thinking that emerged within Europe’s Social Democratic parties. His analysis shares many common assumptions with Blair’s and Anthony Giddens -another LSE scholar- New Labour politics. Featherstone led the London School of Economics Hellenic Observatory. This influential research centre published regular academic papers and opinion articles on Greek politics that aimed at influencing public and academic debates around the issue of the Greek debt. The Observatory hosted some of Greece’s most powerful politicians as speakers, especially from the centre-left and centre-right.

Kevin Featherstone was an advisor to George Papandreou, the prime minister at the helm of Greece when the Eurozone Sovereign Debt crisis started. Papandreou, as said before, was the person who negotiated, signed and implemented the first Greek bailout program. It is reasonable to assume that Featherstone's analysis has a certain degree of bias, given his own proximity to Prime Minister Papandreou. His work, however, also allows us an insight into the opinion of one influential counsellor within the power centres of Greece at the time.

Featherstone's theory on the domestic causes of the crisis claims that a set of "paradoxes" hindered the Greek economy and politics. The first paradox is to Featherstone that the Greek government system is at least in theory a prime-minister centric system, with the prime minister holding exceptional executive power. Nevertheless, the prime minister's office has no resources of its own and no budget that it can use directly. Government spending goes through ministries, and even in that case, Ministers themselves have little control over the use of these funds since ministries are fragmented in various services. Featherstone blames this on public sector bureaucracy, which he describes as "low skill, low tech and legalistic" (Featherstone, 2011, p. 196). According to him, the Greek public sector exhibited high levels of Unionism. This situation accentuated the fragmentation and uncontrolled spending in the public sector. It is worth noting here that Featherstone's claims are sweeping and broad. The correlation between government fragmentation and inefficient spending with Union participation is not proven, and *prima facie* appears completely unjustified. If there was a causal connection between Unionism and inefficient spending Featherstone should have demonstrated it concretely with empirical data. The implication is that Unionism fosters corruption and clientelism, facilitating inefficient spending. However, the causal connection between Unionisation and corruption is not established empirically. If anything, most high profile cases of public corruption in Greece in recent years involved - as we will see- high-level politicians' dealings with private companies and contractors. Although the Featherstone thesis cannot be rejected outright, much more is needed to establish the validity of his claims. Featherstone claims, perhaps not, incorrectly that the Greek public sector lacked control and coordination. Greece divided its public spending in 2009 into 14.000 separate and hard to control 'budget lines'. This fragmentation made public spending inefficient and put additional pressure on public finances.

According to Featherstone, the second paradox of Greek politics is the co-existence of clientelistic politics with liberal formal structures (Featherstone, 2011, p. 196). Featherstone describes this paradox as "disjointed corporatism", a situation in which Greek policymaking is influenced by corruption and vested interests. Featherstone brings the examples of two

scandals; the Siemens and the Vatopedi scandals. These two scandals are essential because they involved both of Greece's main parties at the time, the Conservative New Democracy and the Social Democratic PASOK. Featherstone emphasises that fact in order to show how widespread clientelistic politics were in Greece. He then proceeds to connect these two scandals with other forms of clientelism and corporatism.

The strong unionisation of public employees and the low unionisation of the private sector distorts public policy, as the former enjoy significant political influence as compared to the latter. Featherstone does not explain why the unionisation of public sector workers should be seen as unfavourable for private-sector workers. He takes that pretty much as given.

In neoliberal literature around the Greek crisis -as we shall see- it is often assumed that private-sector workers are forced to pay the taxes that finance the wages in the public sector, thus putting public-sector and private-sector employees in an antagonistic relationship.

Contrary to this common assumption, one could safely assume that the ability of public-sector unions to demand improved conditions and salaries can have a positive spillover effect on the private sector. In other words, there is no reason why public and private sector employees should be seen necessarily as antagonists. Moreover, the reduction of wages in the public sector and the reduction of the total number of public employees has not resulted in improved living conditions for private-sector workers; as the public sector reduced its salary expenditure and more Greeks became unemployed, the offer of labour increased, which contributed partly to the reduction of the price of labour (salaries) in the Greek labour market. Finally, another element of this Greek corporatism is, according to Featherstone, the fact that large businesses enjoy significant influence while small businesses are left marginalised. Greek corporatism led to the distortion of the function of Greek capitalism, distorted market competition and most importantly, made the implementation of liberal reforms impossible.

Another of Greece's paradoxes' is that the country implements rigid employment laws combined with an underdeveloped welfare system. This imbalance, Featherstone claims, contributed to structural unemployment and led to the growth of unregistered "black market-employment". Finally, Greek politics are highly statist while at the same time we observe that citizens maintain high levels of expenditure for private healthcare and education. The claim that the rigidity of employment laws is what was contributing to Greek structural unemployment is a claim that we often encounter in neoliberal political economy. However, Featherstone does not provide enough evidence to substantiate this claim. Alternative causal

explanations of Greek high structural unemployment could lie in the composition of the Greek economy and the overreliance on the service sector. Another and correlated causal explanation could lie with the unequal economic relations within the Eurozone and the effect of German competitiveness on Greek production. As we shall see in the following chapters, these causal explanations appear *prima facie* to have more evidence in their favour. Labour market flexibilization that followed the Greek bailout in 2009 also did not reduce structural unemployment in Greece.

Featherstone's analysis is crucial because it gives us insight into the prevalent ideas in PASOK's leadership team when the party emerged in power in 2009. Featherstone's analysis of the causes of the Greek crisis is different (but not incompatible) from the IMF assessment of the Greek economy. These differences notwithstanding, one can observe that his and the IMF's proposed solutions to the crisis have some significant commonalities. Both Featherstone and the Fund offered increased labour market flexibility and reduced government spending to tackle unemployment, lack of competitiveness and crippling debt. Some degree of market deregulation to improve competitiveness and lower barriers to entry were also suggested by both Featherstone and the IMF.

These commonalities should not be surprising; Featherstone and the IMF share a common acceptance of the fundamental principles of the liberal paradigm in economics. Featherstone was not the only person in PASOK with a liberal outlook on politics. In recent decades, the party had been moving towards more centrist and liberal policies -not unlike other social democratic parties in Europe. As a result, more and more members of PASOK espoused free-market policies, including top politicians and consultants. Featherstone's analysis of the Greek crisis offers insight into the degree to which these liberal ideas had prevailed within PASOK. Featherstone does mention Simitis as a shining example of a Greek politician that had tried in vain to implement liberal reforms. Simitis is presented as a politician who could have perhaps corrected some of the weaknesses of the Greek economy. For liberals within PASOK, the Simitis term remained a point of reference. Had Simitis managed to stir PASOK and Greece to a more neoliberal direction, the country would presumably have fared much better during the 2009 crisis (Featherstone, 2011, p. 198).

Prime Minister Costas Simitis, who led Greece from 1996 to 2004, moved the party decisively towards neoliberal policies, which affected the party's identity. Neoliberal ideas became gradually better received within the party. The symbols and mottos of the earlier years of

PASOK were abandoned in favour of a more centrist communication campaign. It should then come as no surprise that many within PASOK supported IMF policies of neoliberal reform as the way out of the crisis. Costas Simitis himself published his thoughts on the crisis and its causes in an influential book; his analysis (Simitis, 2016) reflects the ideas that prevailed in the neoliberal camp within PASOK and allowed us to better shed light on the thought process that led PASOK as a party to sign to the Greek bail-out deal.

The first thing to notice about the Costas Simitis analysis is that it employs specific modes of thinking that we often encounter in the Global South and especially in the Argentinean context, which can be described as the “cultural problem” discourse. This discourse blames a country's economic challenges to obscure cultural issues and ingrained attitudes that supposedly impede economic growth. Such examples usually underplay external factors to economic crises and issues around the position of a country in the global economy and over-emphasize cultural and behavioural problems. Such theories are hard to validate or falsify, and they often remain anecdotal.

Costas Simitis is no exception to this; Simitis blames the failure of the Greek bailout program- among other things- on the Fund's inability to appreciate the importance of the so-called cultural issues. For Simitis, the “poor state of the country” had not only been caused by “the misdemeanours of the governing class” (Simitis, 2016). Simitis describes governing class problems as easy to fix and believes that the real problems lie with the broader political culture of Greece, which he describes as clientelistic and “guild-based”. The term “guild-based” functions as an alternative description for what Featherstone described as Greece's rigid employment laws and high barriers for companies.

As evidence of what he describes as “the shortcomings of Greek society”, Simitis brings forward the failure to use investment funds by EU Structural Funds. This referencing of Greece's failure to use Structural Funds is a common trope among many liberal analyses of the Eurozone crisis. According to Simitis' analysis, the EU is a positive external factor providing generous funds. These funds should have aided Greece to grow into economic stability had it not been for the cultural deficiencies of the Greek society.

Interestingly, some of the reasonably well-established adverse effects of the Eurozone in the Greek economy are not discussed, which we will examine in the following chapters. Issues such as the unfavourable exchange rate between the drachma and the Euro or the aggressive German exports are not brought up by Simitis. As the Prime Minister of Greece, he had

negotiated and signed Greece's entry into the Eurozone and thus had an additional reason to address these issues.

Simitis does reflect on the causes of the Eurozone crisis. There is a European component to the crisis that goes beyond the incompetence of the southern governments, he states. One of the key causes of the crisis was -Simitis claims- "endogenous to the single-currency area". He argues that this was the level of "divergence in terms of growth rates between the North and the South" he argues (Simitis, 2016). This divergence, combined with low rates and ample credit offered to the South by French and German banks, started the vicious cycle of the crisis. Over-competitive Northern exports fueled a credit crisis in the South. Simitis does not specify here what he means by "growth rate". Assuming he refers to GDP growth rates, we empirically observe that his claim is wrong; on average, countries like Greece, Spain, and Portugal averaged higher GDP growth rates than their northern partners. Moreover, Simitis attributes rising German exports -which fueled the debt crisis in the south- merely to the German economy's higher level of development and a phenomenon of over-consumption in Greece. "Greece was spending more than it produced" is the phrasing he chooses, a motto for conservative Greek media that was used widely during the first years of the 2009 crisis.

Nevertheless, Simitis does not offer us any causal connection between these phenomena. We indeed observe high private consumption levels in Greece, especially in the years before the crisis. However, these consumption levels are not the cause for the extreme imbalances we observe in the trade between core and periphery nations in the Eurozone. The effects of low German wages and the unfavourable exchange rates between the Euro and drachma are not examined. The competitiveness of German exports is attributed to a quasi-moral and cultural failing on behalf of Greeks. We observe that Simitis ignores the economic causes of the crisis while at the same time emphasizing its moral and cultural dimensions of it. It is worth noting that these cultural dimensions are so hard to prove or disprove from a theoretical point of view. Simitis's cultural analysis of the crisis should be read as public rhetorics rather than as a causal explanation of the crisis.

Simitis evaluates the Greek bail-out program positively because he interprets it as an expression of European solidarity with Greece. Nevertheless, he criticizes the program for over-estimating the reform capacity of Greece, which, according to Simitis, was much more limited due to the country's political culture. Nevertheless, Simitis also agrees with bailout critics that the Greek

bail-out should have been prolonged and that it should have been implemented more gradually, taking into account the program's actual impact on the economy.

Overall, both the Simitis and the Featherstone analyses of the crisis lend credibility to Maurizio Lazzarato's theory on "the Indebted Man". The very establishment parties that led the country into the crisis created a discourse meant to invoke emotions of guilt and self-submission. Other party members, such as former minister Theodoros Pangalos, also developed a similar discourse aiming at passing the blame for the economic crisis to citizens. Pangalos went as far as to publish a book whose central premise was that Greek citizens and the political class shared responsibility for corruption in Greece.

The Featherstone and Simitis analyses are telling of the ideas and thought processes dominant in PASOK at the time of the emergence of the crisis. It is worth noting that Featherstone and Simitis were associated with different factions within the party of PASOK, with Featherstone having acted as an adviser to Georgios Papandreou, a politician Simitis openly and repeatedly criticized in his analysis of the Greek crisis. The differences between the two factions can be summarised as such; Simitis's policies were decidedly neoliberal, whereas Papandreou had run on a more conventional social democratic agenda, emphasizing social welfare and environmental issues. From the Featherstone and Simitis analyses of the Greek crises, we can observe that between the neoliberal and the social-democratic wing of PASOK, a consensus on the causes of the crisis had been developed. This consensus coincided to a large degree with the Troika's neoliberal perspective on the crisis, blaming the Greek predicament on excessive public spending, high labour costs and a political culture resistant to neoliberal reforms.

Simitis and Featherstone agree that neoliberal reforms would be the best solution for the country's soaring sovereign debt. It becomes evident that the Featherstone and the Simitis analyses are highly compatible with the Troika program for Greece. In such an intellectual environment, the decision of PASOK to fully endorse and implement the IMF bail-out program can be fully appreciated. Having already endorsed the neoliberal paradigm when the 2009 crisis emerged, both the leadership and PASOK membership were not entirely hostile to the ideas that underpinned the IMF program.

Conservative Interpretations of the Greek Crisis

Conservative analyses of the Greek crisis coincide in many areas with Liberal Social Democratic interpretations of the crisis, predominantly as expressed by Featherstone and Simitis. They both emphasize the existence of rigid employment and other regulation that

impede the function of the free market. These two interpretations emphasise the high levels of labour costs in Greek production, and they have strong anti-union views. Both camps are also firmly in favour of the participation of Greece in the Eurozone, while Conservative interpretations put a stronger emphasis on improving the supply side of the Greek economy in order to secure the recovery of the Greek economy.

Cypriot economist Christopher Pissarides has had significant influence within the Greek conservative camp. Winner of the Nobel Prize, an advisor to the Cypriot government during the Cypriot Sovereign Debt crisis negotiations and ultimately an advisor to the Conservative government of Kiriakos Mitsotakis in Greece, Pissarides is highly acclaimed and has had an essential role in shaping conservative perspectives around the crisis.

Pissarides and Tufts University economist Yannis Ioannides view the Greek crisis due to Greece's dysfunctional membership in European structures. The authors claim that Greece was allowed entry into the EU on mostly political grounds. (Ioannides & Pissarides, 2015). Greece's membership is presented as a benevolent act to strengthen Greece's democratic institutions following the 1967-1974 military junta. However, Greece's membership in the European Union was not economically viable due to the competitiveness gap between Greece and core EU countries. Ioannides and Pissarides blame this competitive gap on "restrictions on free trade" that had been introduced after the civil war in 1949. These unspecified restrictions on free trade hindered Greek companies, obstructed the adoption of new production technologies and thus weakened Greek exports. The authors also blame statism and overregulation for creating a "monopoly-ridden economy" (Ioannides & Pissarides, 2015, p. 350). As a result, of these policies, Greek exports were severely affected by the country's entry into the European Union. The authors go as far as to comment that Greece's membership in the European Union and the Eurozone was unsustainable, but somehow, this was ignored by the European partners. The authors do not provide any other explanation for this oversight, apart from the supposed benevolence of other European states eager to help the democratization of Greece. Ioannides and Pissarides describe the formation of an unsustainable model of Greek capitalism, one that was based on high levels of consumption, large trade deficits, and high levels of residential investment.

The authors blame this low competitiveness climate and culture of statism for the inability of Greek governments to effectively implement neoliberal reforms, thus obstructing a recovery. Ioannides and Pissarides also lament the fact that the Troika focuses too much on imposing

austerity; instead, Greece's lenders should have provided incentives for "effective structural reform" (Ioannides & Pissarides, 2015, p. 350). According to Ioannides and Pissarides, neoliberal reform would have been easier if demand was at a healthy level, namely if austerity had not caused a collapse of demand. Moreover, for Greece's bailout reforms to have had succeeded, the financial sector should have been in a position to offer credit to finance new investment, and fiscal authorities should have had resources available to promote investment in infrastructure or public-private ventures (Ioannides & Pissarides, 2015, p. 351). The authors claim that neoliberal reforms can indeed yield positive results when these conditions are present, and they mention Germany's neoliberal reforms during the period 2003-2005 as a successful example of a reform program. Ioannides and Pissarides also play down the importance of haircut; the main reason for this is that they claim that the structure of the Greek economy would simply cause a new debt crisis in the future even if all the current debt is eliminated.

Conservative commentators have been exponents of further deregulation as the only way for Greece to achieve higher GDP growth. We find within the Conservative paradigm a recurring argument that the implementation of the Greek IMF program did not deregulate enough the Greek economy enough. The Conservative approach suggests that the Greek program's goals were too modest as far as deregulation is concerned. These claims are in contradiction with the fact that under the Greek bailout program, Greek governments privatized and deregulated significant sectors of the Greek economy at a rapid pace without evaluating the long-term consequences of these measures (Papageorgiou & Vourvachaki, 2015). For Ioannides and Pissarides, reforms would lag about 3 to 4 years before their positive impact on the economy could be observed (Ioannides & Pissarides, 2015, p. 363).

Keynesian commentators, such as Yanis Varoufakis, challenged the Greek bailout program, which they deemed self-defeating. Austerity measures were bound to lead to a recession, which would cause a fall in state tax revenue. This, in its turn, would make the Greek Sovereign debt even larger compared to GDP (Varoufakis, 2018). A vicious circle is created; austerity causes recession and a decline of the GDP, which worsens the Debt to GDP ratio and reduces state income, which obliges the state to cut its expenses further to avoid a budget deficit, thus creating a loop.

For conservative and neoliberal thinkers, the austerity measures implemented by Greece did not have to lead to a recession. Had austerity been combined with sufficient cuts, the drop in

state revenue would counterbalance the losses from tax revenue, and the market would have found a point of stability (Visvizi, 2012, p. 19). This assumption leads us again to conclude that IMF programs can and should successfully deal with the debt crisis and allow countries to recover from the financial crisis, as long as a government is decisive enough to implement unpopular cuts on public expenditure.

Popular reactions play a key role in Conservative interpretations of the Greek crisis. It is assumed that various social groups, such as state employees and unionised workers, use strikes and other union and legal action. At this point, Conservative interpretations of the Crisis coincide with centre-Left neoliberal interpretations. Demonstrations, strikes, and social reactions are seen as an obstacle to neoliberal reforms and sabotaging the economy's interest as a whole. The bailout program is seen as an opportunity for Greece to implement neoliberal reforms that would otherwise be too unpopular. The crisis is seen as an opportunity to leverage European and International Institutions and a global banking crisis to impose unpopular policies. It is worth noting that undemocratic assumptions are implied by this theory, namely that there is one set of objectively beneficial policies for the economy and society as a whole, and the market should decide these policies as opposed to democratic institutions. Groups asking for better salaries and working conditions, especially in a context of rising inequalities, are seen as mere “vested interests”, groups acting against the community as a whole (Ioannides & Pissarides, 2015, p. 358). In the case of the Greek crisis, the bailout program was hailed for finally imposing on Greece a series of privatisations. The supposed delay of Greece to move forward with privatization is blamed by conservative economists as a key cause behind the crisis (Visvizi, 2012). State Companies are blamed for imposing excessive strains on the government budget due to their need to be subsidised. The example of Olympic Airways is often brought up for the large amounts of subsidies that the company received (Visvizi, 2012). Ioannides and Pissarides also emphasize that flexible forms of labour would have aided in a Greek recovery, and they lament the fact that these reforms have been resisted by unions and workers, which they describe as “disruptive, both politically and economically” (Ioannides & Pissarides, 2015, p. 356).

A key component of Conservative theories on the Greek crisis is what we can describe as the “Cultural Wars” perspective, namely, the idea that the crisis was caused by a somehow prevalent culture of left ideas that have favoured high social spending and demonstrations and rigid employment laws. Of course, this idea of culture wars is not unique to Greece. Nevertheless, Conservative academics fought this “war” of ideas particularly vigorously in the

case of Greece. Perhaps, the most influential advocate of this position has been Oxford University political scientist Stathis Kalyvas. Kalyvas, that had a long preoccupation with civil wars decided to publish a book on the Greek civil war. The rationale for his research was precisely that - according to Kalyvas- the Greek civil war was the foundational myth of the Left's "ideological hegemony" over Greece. The book sets on to criticise the actions taken by communist guerrillas and re-evaluate the actions of right-wing groups (Kalyvas, 2015, pp. 88-90).

Amongst conservative scholars of the Greek crisis, there is a strong interest in the issue of populism. Whereas for critical theorists, such as Chantal Mouffe, the term populism has a positive connotation, there is a strong tendency amongst conservative and liberal thinkers to associate populism with a crisis of democracy. In this vein, Greek conservative scholars had aimed to explain both the Greek crisis and Greece's failure to recover after the 2009 crisis based on theories of populism. Theories of populism are based on the assumption that populist movements are based upon a crude and largely imaginary distinction between the people and an "other", usually corrupt elites. Populism is presented in this literature as a simplistic perspective that divides society along a single populist cleavage that ends up polarizing society (Vasilopoulou, 2014, p. 5). Political scientists like Pappas and Aslanidis claim that Greece is a unique case in terms of populist politics in that populism was dominant in its political scene even before the 2009 crisis (Pappas & Aslanidis, 2015, p. 195).

What is more, according to Pappas and Aslanidis, decades of clientelistic relations and populism, especially as Prime Minister Andreas Papandreou exemplified them, created a "strong social bias" against the free market, liberal institutions and the need for social compromise (Pappas & Aslanidis, 2015, p. 185). The same populist politics that had impeded liberal politics in the pre-crisis period also impeded the implementation of neoliberal reform after 2009. Pappas' and Aslanidis' assumption is that since the traditional clientelistic parties of New Democracy and PASOK were unable to deliver populist policies, voters turned to new forces, namely Syriza and their conservative partners, the Independent Greeks (Pappas & Aslanidis, 2015, p. 191). This new populism that emerged after the crisis aimed at resisting structural reforms, aimed at causing a break with the EU and favoured nationalist postures in EU matters.

For Pappas and Aslanidis, due to this populist strain in Greek society, the contemporary Greek political divide is between citizens who understand the supposed necessity of the neoliberal

structural reform and those who insist “on being served by a spendthrift state” (Pappas & Aslanidis, 2015, p. 195). It is important to note that the necessity and beneficial effects of neoliberal structural reforms are never demonstrated by Pappas and Aslanidis and are simply taken as a given, although it should not have been. The results of IMF bailout programs have been at best mixed, and the Greek IMF bailout program has had destructive effects on the Greek economy.

Inspired by Pappas and Featherstone’s research, Vasilopoulou attempted to demonstrate empirically through discourse analysis the engagement of political parties in populist discourse after the 2009 crisis. Vasilopoulou et al. analyse parliamentary debates and attempt to measure the extent to which political parties engage in populist discourse based on a Blame-Shifting Index (BSI). Vasilopoulou et al. identify specific key political/social categories which are targeted by populist discourse. These include negative references to External Elites, opposition parties, the governing parties, specific interest groups, or the party system. The index in how it is constructed is hopelessly over-generalising and biased. For example, diverse agents such as the IMF, the EU, the bailout program, Germany, and France are included in the External Elites category.

What is more, negative references at these institutions are taken to be a priori populist, and negative references. This assumption is despite, for example, the extensive research on the IMF’s negative role on economic justice, or the EU’s democratic deficit, to bring just two examples. These negative references are taken to be populist with the explicit assumption that they are based on a simplistic and polarising perspective of “us” between “them”. One wonders whether a member of the parliament could potentially criticise an often-criticised institution on behalf of her constituents without that being taken as evidence of populist and over-simplistic discourse. The authors also only gather data on political party discourse. Their claim that Greece is an “illiberal democracy” whose citizens take decisions based on a simplistic populist perspective is never established since their data covers only party discourse and does not demonstrate in any way that citizens indeed endorse populism in the way they describe it.

It is also important to note that the exogenous causes of the Greek crisis, those pertaining to the structure of the EU and the Eurozone, are played down in these studies of Greek populism, with the emphasis being put on the endogenous causes of the crisis (Vasilopoulou, 2014, p. 5). It is also worth noting that in both the Vasilopoulou et al. and the Pappas and Aslanidis research on Greek populism, liberal institutions, liberalism, as well as the EU are assumed to be benign

and objectively correct political choices for the future of Greece. However, the authors make no substantial effort to substantiate why these liberal and neoliberal institutions should be seen as benign and beneficial for society and why neoliberalism should be seen as the correct answer to Greece's political and economic problems. It is also characteristic of the populism literature that criticisms towards certain elites are poorly represented as simplistic, unnuanced views, despite that the increasing divisions of income or poor practices on behalf of some of these elites are well-established. The literature on Greek populism has been acting as a supplementary theory, claiming that the Greek bailout program failed because of a lack of ownership, a lack of sufficient support and implementation of the program by the Greeks.

Pissarides and Ioannides claim that a more decisive implementation of neoliberal structural reforms would have lowered the barriers of entry and tackled the issue of the market monopolies in Greece, resulting in prices following a downward course similar to salaries and pensions. Moreover, more decisive implementation of structural reforms would have allowed Greece to improve its competitiveness, especially as Greece experienced significant losses in its Total Factor Productivity. The authors recognise that the Greek state has been investing insufficiently in education, research and development, and they seem to believe that the country could and should invest more in these areas (Ioannides & Pissarides, 2015, p. 357). Ioannides and Pissarides rightfully observe that as a result of this underinvestment in education and research, Greece is lacking behind significantly in the "knowledge content" of its exports (Ioannides & Pissarides, 2015, p. 362). The authors, however, do not explain how funds could be secured for these investments in a context of rigid austerity.

Other characteristics of Conservative analyses of the Greek crisis are a tendency to underplay the potential benefits of a deep haircut and overemphasize its dangers. This tendency is despite that, in the case of Argentina, the 2005 restructuring provided long term positive results for the economy, rendering the country's debt sustainable and releasing resources to be used in productive investment. The Argentinean negotiating tactic during the 2005 restructuring was, in fact, one of adopting a hard and rigid stance with clear and clearly demarcated red lines, supported by Nestor Kirchner's administration to proceed with a unilateral restructuring of the debt in case negotiations failed. The results of this negotiating approach were overwhelmingly positive both in macroeconomic and social terms. Despite the Argentinean case, conservative economist Miranda Xafa, when discussing whether the Greek Debt should have been cut to an extensive degree at the beginning of the 2009 crisis, under the threat of a unilateral restructuring of the debt by the Greek parliament, describes such a move as "unnecessary and deeply

coercive” (Xafa, 2014). It is worth underlining the use of the term coercive, which is meant here to elicit an emotional response but has little scientific meaning. Another characteristic of Conservative approaches to the Greek crisis is an emphasis on the long term dimensions of the Greek Program in order to explain the short and mid-term negative results of the Greek program (Papageorgiou & Vourvachaki, 2015), while at the same Conservative economists are by far the more favourable in their evaluations of the Greek bailout program. Despite their criticisms, Ioannides and Pissarides claim that Greek output was significantly improved due to structural reforms.

2009-2015 THE FULL COMPLIANCE STRATEGY

Overall in this first period of the Greek crisis, we can identify some common characteristics between the strategies of the three governments that governed Greece from 2009 to 2012 and implemented the two Greek bailout programmes, namely the governments of Papandreou, Papademos and Samaras. Despite their differences in terms of ideological alignment, the three governments shared acceptance of the bailout programme as beneficial to some degree. As we have seen, neoliberal economists in the country shared the assumption that Greece had entered into the crisis because it had been implementing antiquated procyclical policies. We have also seen how neoliberal theories on the Greek crisis assume that a tradition of statism did not allow the free market to function optimally in Greece, thus leading to the 2009 crisis. We have also seen how these claims had been endorsed by economists affiliated with PASOK and New Democracy, the two parties that governed Greece. Thus, it comes as no surprise that the two parties endorsed the neoliberal structural reforms. From the neoliberal perspective, the structural reforms that were included in the Greek bailout programmes were seen as necessary and beneficial. We saw in the previous sections how both progressive and conservative neoliberal economists believed that despite the recessionary effects of the bailout programmes, the structural reforms included in the program would eventually allow Greece to recover and rebalance its economy.

As we have seen, neoclassical economists on both sides have had some criticisms concerning the tight time frame of the bailout programme; it appears that there is a partial consensus that the measures of fiscal discipline were implemented too swiftly, aggravating the recession experienced by the Greek economy. The structural reform schedule that was part of the Greek bailout conditionalities was also tight, causing social upheaval. Another point of consensus is that some form of debt relief combined with the relaxation of the fiscal discipline would benefit the Greek economy. The debt relief that was achieved with the PSI programme was simply not sufficient.

The Neoliberal economists we have reviewed argued that Greece needs to focus on neoliberal structural reforms that would facilitate growth and investment rather than on fiscal discipline. As we saw in the previous section, neoliberal economists, both progressive and conservative, agree on the need for fiscal discipline but disagree with the very demanding goals that have been imposed on Greece goals which involve significant primary budget surpluses and extensive cutbacks on public spending. Successive Greek governments have hoped to

renegotiate or alter some of the terms of the bailout agreements. Historically this was true both for the Papandreou and Samaras governments, with both administrations focusing their strategy on convincing Greece's Eurozone partners to amicably relax their demands for fiscal discipline.

Both governments approached these negotiations with Yannis Varoufakis's strategy, aptly described as the "model prisoner" strategy. The model prisoner strategy is a variation of the prisoners' dilemma where two prisoners have to decide whether they will collaborate or confess to maximise their payoffs.

Namely, this strategy consists of the prisoner collaborating ideally with his captors without negotiating any concrete benefits in exchange for her collaboration and hoping that the guards will be lenient to her because of her model behaviour and good collaboration. The problem with this strategy is that the prisoner has no leverage since they have already collaborated and provided the guards with a confession -their only leverage in the negotiation. The model prisoner analogy captures quite well the strategy of the 2009-2012 Greek governments; in both the case of Papandreou and Samaras, minimal effort was made to use Greece's main leverage in the negotiations. The main leverage that indebted countries like Greece have at their disposal is the threat of restructuring their debt in a way that is unfavourable to creditors. One example of such an unfavourable restructuring would be Greece's holding out on debt repayments until a signed agreement on a haircut was achieved. As we will see in the chapter on the Argentinian debt crisis threatening to restructure the government's debt unilaterally can force creditors into seeking some arrangement with the indebted country. In the case of Greece, this was never attempted, although it is one of the most apparent strategies during a sovereign debt crisis negotiation. Instead, what was only attempted was the "model prisoner" strategy and one effort by Papandreou to use a future referendum as leverage in order to gain minor improvements during the negotiations for the second bailout agreement. As we will see in the following chapters, Greece would never attempt to negotiate a deep restructuring of the debt using the threat of a unilateral restructuring. Even during the Syriza government, the party avoided such a contentious negotiation. Instead, the Tsipras administration continued with the model prisoner strategy after attempting to use a referendum as leverage like PASOK before.

2012- 2015 SYRIZA’S RISE TO POWER

In this section, we will examine the period between 2012 and 2015. This period is characterised by the rising influence of Syriza in the country’s political system, culminating with the electoral victory in the 2015 elections. We will examine the internal debates within Syriza as the party attempted to implement its unclear electoral pledges and negotiate an amicable restructuring of debt with its creditors.

Within the party of Syriza, internal divisions appeared between a new left-wing group named the Left Platform that was formed around veteran Syriza politician Panagiotis Lafazanis and the group that supported the party’s leader Alexis Tsipras (Ovenden, 2015). The main issue of contention between the two groups became the issue of Greece’s membership in the EMU (Varoufakis, 2017, p. 57). Within Syriza, there was a consensus that Greece needed substantial debt relief, although different groups put forward different proposals. We shall examine the debt restructuring proposal put forward by Costas Lapavitsas, the alternative proposed by Yanis Varoufakis and finally, the debt relief strategy adopted by the party ahead of the 2015 elections.

However, the most contentious issue was that of Grexit; should Greece continue to be a member of the Eurozone or not. Unsurprisingly the leadership of the party opted for the “restructure the debt, yes, but within the Eurozone” strategy. Electorally speaking, such a choice appeared to be the more beneficial strategy; fear of the Greek economy's transition shock caused by a Grexit could turn away voters. Syriza benefited from a significant voter swing, increasing its vote share to levels never before seen by a party of the Left-wing in post-dictatorial Greece. The party also adopted an appeasement strategy towards EMU institutions and the IMF, declaring to the media that a future Syriza government would avoid “unilateral moves” on debt, by which they meant a unilateral cease of payments or restructuring. The leadership’s hope appeared to that Syriza would be able to use its popularity and democratic legitimisation to convince the Troika to concede to some debt relief.

The leader of the party, Alexis Tsipras, stated in an address to Austria’s SD party:

“Above all, we are requesting a special conference on the European debt in the entire periphery, by analogy to the 1953 London Conference for the German debt at the time, which decided to cut a large portion of it, a moratorium on the payment of interest and a growth clause (Tsipras, 2013).”

The fact that Tsipras has had to refer to a 1953 treaty that took place under the unique circumstances of the Cold War proves how rare such consensual agreements on sovereign debt defaults had been.

Moreover, from a negotiation strategy and economic policy perspective, the “restructure debt within Eurozone” strategy was ill-conceived. The First and Second bailout Programs included terms that provided Greece’s Eurozone partners with a significant tactical and strategic advantage in the case of renegotiations, including a strategically designed calendar for the disbursement of the bail-out loan tranches that allowed creditors to exercise maximum pressure on Athens.

Moreover, the two first Bail-out programs included a provision that repayment of the profits made out of Greek bonds during the Securities Markets Program (SMP) should be held out, which gave additional leverage to Greece’s creditors. What is more, during the previous Bail-out agreements, the new Greek Government Debt was issued under British jurisdiction, whereas the old debt that it was replacing was under Greek jurisdiction. This change in the jurisdiction over the new Greek debt titles meant that creditors could, additionally, exercise legal pressure on a Greek government in the case of a contested restructuring.

Finally, Greece’s Eurozone partners had another powerful means of pressure: the dependence of the Central Bank of Greece and, by extension, Greek private banks on the ECB. Greece’s lack of monetary sovereignty and control over its Central bank would prove to be highly crucial during the 2015 negotiations between the Syriza government and its Eurozone partners.

Given the significant leverages that the creditors had preemptively secured over Greece, for any project of renegotiation to succeed, the Tsipras administration would have to make excellent use of its only means of pressure; a hold out on debt repayments and eventually a unilateral restructuring of the debt. Such a unilateral restructuring of the debt or repayment holdout would have as a prerequisite an exit of Greece from the Eurozone. Unfortunately, however, Tsipras had already excluded the possibility of a unilateral restructuring of Greek Government Debt during the 2015 electoral campaign. Thus, when the Syriza government began negotiating with the creditors, Athens's primary means of pressure against its creditors were already forgone.

This preemptive abandoning of the weapon of unilateral restructuring negatively affected the negotiations that followed. In the -eventually realized- a scenario that the ECB would stop providing credit to Greek private banks, Greece would be forced to either return to a national

currency or exit the EMU in order for a new independent Central Bank of Greece to provide liquidity to the private banks or it would have to succumb abandoning the demands for a relaxation of austerity. With Syriza, however, having already excluded a Grexit from the EMU, it had similarly signalled to Greece's creditors that the party was unwilling to implement a return to a national currency in Greece. This unwillingness meant that a future Syriza government would be entirely defenceless if the ECB stopped providing credit to Greek private banks and would be eventually forced to accept the terms demanded by Troika.

Tsipras and Syriza believed that they could gain a positive outcome from a negotiation with the EMU partners based on two calculations. Firstly, they hoped they would be able to convince creditors that a loosening of austerity was a win-win situation for all the parties involved, as Greece's debt would become more sustainable. This belief in their ability to convince the EMU partners that a debt-relief would be a win-win outcome was the strategy as we shall see proposed by Yanis Varoufakis. A reflection of the strategy was the statements made by party members and Alexis Tsipras to the media expressing their certainty that eventually, other EMU members, especially Germany, would be forced to offer Greece an improved deal. This improved deal they hoped would relax the demands for fiscal discipline; the assumption was that Berlin would eventually be forced to agree on such a relaxation of fiscal discipline in order to avoid a situation in which Greece would be, due to the prolonged recession, unable to continue to service its debt to the EMU partners. What is more, it appears that Syriza and Alexis Tsipras placed significant hopes that EMU partners would be willing to grant a more favourable deal to Greece out of fear that a potential Greek default, due to the harsh conditionalities of the then program, would pose a danger for contagion to the entire Eurozone.

The second strategy is what we would describe in game theory as "the chicken game", a scenario that was often used to describe the nuclear competition between the US and the USSR. The way Anatol Rapoport described the game theory scenario, the Chicken Game involved a scenario in which two competitors are faced with mutually assured destruction if they do not cooperate. At the same time, both players are trying to convince the other side to backtrack first, accepting their demands (Rapoport & Chammah, 1966).

In other words, the scenario is one where both agents are in danger of suffering significant losses if they do not cooperate, but at the same time both agents are attempting to convince the other side that they are willing not to cooperate in order to gain the best outcome and to maximise their benefits. The analogy was that of a game where two speeding cars heading for

a cliff edge and the first one to stop loses. Both drivers do not want to die, but the one that convinces the other that they are willing to fall off the edge will win the game, as the other driver will be forced to stop. However, the Syriza calculation was misguided. Greece and its EMU partners were not in a Chicken Game, mainly because the destruction was neither mutual nor assured.

Gradually the fear of a contagion of the crisis from the periphery to the core had receded by the time Syriza was in power; Ireland exited official support in 2013, followed by Portugal in 2014, while Italy's newly elected Prime Minister Matteo Renzi committed to a program of neoliberal reforms (Xafa, 2014). The Eurozone crisis had receded significantly, and without the fear of contagion, Syriza's threats of provoking a Eurozone-wide contagion appeared toothless. Moreover, such a contagion event would require Greece unilaterally restructure its government debt and exit the Eurozone, two decisions that Syriza had pledged to its voters that it would not make.

It is worth noting that the Syriza strategy of restructuring debt within the Eurozone was widely discussed in the party and had been accepted by party members without much debate, except for some sceptical voices in Lafazanis' Left Platform, which were nevertheless toned down. It is of particular interest to reflect on why the obvious internal weaknesses of this strategy were not adequately debated. At a minimum, the Party could have opted for a more balanced strategy where an amicable restructuring within the Eurozone could have been attempted as the preferred outcome. However, the party could have, at the same time, avoided precluding unilateral decisions and could have carefully planned and prepared a Grexit from the Eurozone as a plan B. Such transparent and open preparation for a Plan B never took place neither within the cabinet nor the Party. Alexis Tsipras insisted on keeping the country within the Eurozone, and this was his primary political goal. This goal was in contradiction with the declared goal of revising the Bail-out agreements and relaxing the fiscal discipline conditionalities. The strategy as it was laid out in his speeches was to change Europe or, better put, the EMU, hoping that a Syriza victory in Greece would cause a chain reaction of progressive governments to getting elected in Europe, starting with Podemos in Spain. This hope was not wholly unfounded. A similar scenario had played out in Latin America, of course, with the advent of the "Purple Wave", a wave of progressive governments getting elected across the continent.

Tsipras' plans for a "European Spring" or a European "Purple Wave" were, nevertheless, very unlikely to materialise, mainly because the election schedule across the Eurozone meant that it

would be years before progressive governments could be elected even at a handful European states. Moreover, in the countries where elections were upcoming, polls did not show potential for progressive parties to win an electoral victory except in Portugal. If we look at Table 4 below at the Electoral Schedule in various member states of the EMU, we realize that Tsipras' hopes for a European Spring had no realistic basis. Except for Portugal, where a minority Socialist Government was formed under Antonio Costa, conservative or neoliberal parties seem to have higher chances of election in most other countries of the Eurozone core and periphery. By the 4th of March 2018, when the Italian parliamentary elections were held, Germany was governed by Angela Merkel, while French elections had given the victory to neoliberal Emmanuel Macron. Even Spain -which could be considered a natural ally for Athens given its own bail-out agreements- was governed by a conservative administration under Partido Popular's Marion Rajoy. Apart from Antonio Costa's victory in Portugal, the only other victory for the European Left would not come but in November 2019, when Podemos managed to form a coalition government with PSOE. Ironically enough, Syriza had already lost power in Greece by the time Podemos managed to come to government, further evidence of how fragile and unrealistic Syriza's hope for a European "Purple Wave" was. In July 2019, Syriza was defeated by the Conservatives of New Democracy, meaning that the progressive European coalition that Tsipras had hoped for was never to be actualized.

Table 4 Electoral Schedule on 09/2015 Source: National Election Authorities

COUNTRY	ELECTORAL DATE	OUTCOME
SPAIN	26 June 2016	Marion Rajoy PP Government
FRANCE	7 May 2017	Emmanuel Macron EM Government
GERMANY	24 September 2017	Angela Merkel CDU/CSU/SPD Gov.
ITALY	4 March 2018	Conti M5S and Liga government
PORTUGAL	4 October 2015	Costa Socialist Government

The plan for a European Spring was thus equally poorly planned, as the plan for an amicable negotiation for a restructuring of Greece's Government Debt within the Eurozone, with Syriza

had already publicly given up the only negotiating leverage he possessed. Why then was the party unable to debate the gaps inside the Tsipras' plan and debate them efficiently?

The widespread acceptance of a poorly prepared plan that did not involve planning for contingencies is evidence of dysfunctionality in Syriza's intra-party democratic process. In recent years democratic theory has underlined the importance of internal democratic processes within parties for the quality of the democratic process in a country at large (White & Ypi, 2011). Fabio Wolkenstein has argued in favour of expanding this notion of intra-party democracy in a way that it involves not merely leadership contests and primaries but also intra-party discussion and debating (Wolkenstein, 2018). Intra-party debating acts as a case in point for the importance of intraparty democratic discussion, especially regarding policy elaboration. Wolkenstein rightly distinguishes between aggregative approaches to internal democracy, consisting of various factions competing for which side will collect the more significant number of votes and deliberative processes where members discuss their different positions on policy issues. Wolkenstein rightly argues that when parties neglect deliberative processes in their intra-party function and focus entirely on aggregative processes, this tends to "silence internal opposition and cement the power of the party elite".

Syriza had begun as a coalition of different political groups and had sought to make broader alliances with social movements, demonstrators, environmental and other social groups - especially during the Alavanos' period- and this culminated in the creation of the "Social Forum" (Ovenden, 2015). Syriza's historical evolution was much different from Podemos; to be sure, Syriza had always been a conventional party with a party hierarchy and bureaucracy and had not emerged from horizontal processes in the way Podemos emerged from Indignados. Nevertheless, the party always had a horizontal component in its function, mainly in the form of efforts to create broader alliances with social movements.

Nevertheless, by the 2012-2015 period, Syriza was rapidly abandoning horizontal structures and deliberative processes, favouring a leader-centric model and aggregative decision-making processes. The evidence for this transformation lies in how the party's electoral manifesto prior to the 2015 national elections was formulated. The manifesto that came to be known as the Thessaloniki program included all of the party's key policy pledges ahead of the 2015 national elections. Despite the massive importance of this manifesto, given that the polls showed a Syriza victory in the 2015 elections, almost no internal debating took place over the program; in fact, the manifesto was circulated among member members of Syriza during the Summer of

2014 and was presented by Syriza chair Alexis Tsipras in September 2014 without internal debating and despite the internal opposition from two Syriza groups, the Left Platform and the Group of 53 (Kouvelakis, 2016).

The anti-austerity movement continued, and although the horizontalist experiment of *Aganaktismenoi* had come to an end by 2012, demonstrations and other forms of grassroots activities continued. Data on the number and popularity of demonstrations is notoriously hard to acquire. Nevertheless, the available evidence shows that strikes, demonstrations, squats and occupations remained high in the period after 2012, higher than the annual number of demonstrations in the period 1999-2009, with 2013 and 2014 being years where popular mobilizations were particularly common (Karyotis & Rüdiger, 2018) with strikes being the most common form of grassroots action, as opposed to demonstrations and occupations. (Papanikolaou & Papageorgiou, 2020).

However, Syriza continued to move in a more vertical direction, with Alexis Tsipras and a few of his close associates defining the electoral manifesto and, at a later stage, taking control of the negotiations with the Eurozone with little accountability to the Party base. Alexis Tsipras and the leadership team took decisions without consulting the broader party. Moreover, the leadership's controversial decision to continue with fiscal discipline and the Greek bailout program was taken mainly in a horizontal top-down fashion with little debating with party members -let alone voters. Tsipras' control over the party culminated in the September 2015 elections, called months after his first victory in January 2015 and after the failure of his effort to renegotiate the terms of the Greek bailout. Despite breaking his pledges for an end to austerity, Tsipras was able to expel from the party all internal opposition, including the Left Platform, along with MPs Lafazanis and Lapavitsas, prominent MP and President of the Parliament Zoe Konstantopoulou and of course Yanis Varoufakis, among others but also other prominent Syriza MPs such as Gabriel Sakellariadis. The only exception was the Group of 53, which supported Tsipras' policy turn, leading to their member Euclides Tsakalotos being awarded a position in the cabinet.

By September 2015, Syriza had transformed into a leader-centric party, with Alexis Tsipras facing no internal opposition and even managing to remain the party's Chair despite a heavy defeat in the 2019 elections. Syriza was not the only party of the European Left to undergo such a transformation in recent years. Most notably, Podemos gradually adopted vertical

structures even though the party owed its very existence to a Horizontal movement, namely the movement of Indignados.

Syriza and Podemos embodied a return of the Left Populism strategy, developed decades earlier by Ernesto Laclau and Chantal Mouffe. Left Populism was hoping to create a third alternative in the Left; disappointed with the social democratic parties and their increasing openness to the free market and sceptical of the cold-war model of communist parties, Mouffe and Laclau proposed a third way of doing Left politics. As we shall see, Mouffe had an active role within Podemos, but she never developed similar links with the leadership of Syriza.

Nevertheless, Podemos and Syriza embodied much of what the two philosophers have envisaged; both were parties with wide appeal, which were based upon broad alliances with various social movements and additionally were led by two charismatic leaders. The two parties collaborated closely and openly adopted a Left populist strategy for the purpose of winning national elections. Historically, the two parties were the two most successful in electoral terms Left populist parties in Europe. Thus, it is no surprise that Chantal Mouffe took an active interest in engaging with the two parties.

Varoufakis' Modest Proposal

Just prior to the emergence of the 2009 crisis Varoufakis was a fairly unknown advisor to PASOK chair George Papandreou; Papandreou at the time had just been elected Chair of the party as Greece was heading for the 2004 national elections. Varoufakis was one of the co-authors of PASOK's economic program, which marked the end of Simitis' era's neoliberal economics and a turn to a more decidedly Keynesian idea. Varoufakis remained Papandreou's advisor until 2006, when he distanced himself from PASOK. When the 2009 crisis broke out, he was one of the first economists to voice their criticism of the Greek Bailout program. Varoufakis gained significant visibility both in the media and at the Aganaktismenoi assemblies leading to him becoming one of the most well-known anti-austerity economists in Greece. Varoufakis' interpretation of the crisis as it was expressed in his book "The Global Minotaur" and later revised in Europe after the Minotaur was based on the following claims:

- 1) The Eurozone created a division between Surplus Countries -most notably Germany- and deficit countries, including France. Surplus Countries achieved significant trade surpluses and "export stagnation" with the Eurozone partners. German surpluses within the Eurozone were how the German economy could internationalize its activities in the

US, China, and Eastern Europe. The lack of a surplus recycling mechanism was the fundamental cause behind the Eurozone crisis in 2009 (Varoufakis, 2015).

- 2) The second cause was the eurozone's problematic architecture, and especially the fact that EMU member states have adopted a common currency and common Central Bank, their public debts are strictly separate, which, combined with the lack of a surplus recycling mechanism meant that there was no mechanism able to prevent "prevent structural fault lines from developing" (Varoufakis, 2015). As deficit countries were forced into fiscal discipline policies in order to deal with the consequences of the 2008 crisis, this set the scene for negative investment, weak demand and capital flight.
- 3) The faulty banking architecture; member states are responsible for their national banking sector without backing a national central bank and within a transnational currency union. Thus, deficit EMU member states such as Spain were forced to borrow heavily in order to prevent a collapse of their banking sector following the 2008 crisis.

Varoufakis' electoral proposal was developed by Varoufakis jointly with Stuart Holland, inspired by Varoufakis' diagnosis of the causes of the Eurozone crisis. The Modest Proposal was also drafted with the electoral advance of Syriza in mind. The Proposal is constructed so that it could be implemented without any of the EU or Eurozone treaties being altered and without any of Angela Merkel's red lines being crossed -especially on issues of debt mutualisation. Nevertheless, the Varoufakis plan included proposals that would require substantial negotiations between Greece and its EMU partners (Varoufakis & Holland, 2012). In other words the proposal was constructed with the scenario of a negotiation between a future Syriza government and its Eurozone partners in mind; this scenario was at least partly actualised in 2015.

Varoufakis and Holland admit that there are three limitations that any progressive plan for Greece would face. The first limitation is that the ECB and EFSF/ESM would not be permitted to monetise sovereign debt by backing government debt with ECB guarantees or buying government bonds in the primary markets. The second limitation was that it was improbable that surplus countries in the EMU would consent to debt mutualisation or Eurobonds. The final and third limitation was that the management of the Greek crisis could not possibly wait for the long process of further European integration and federalisation since such a project would be impossibly long term.

The plan then aims to use creatively existing institutional structures to adopt pro-cyclical, growth-friendly policies. Varoufakis and Holland propose to make use of the EFSF/ESM mechanism and funds; since the Mechanism is not currently burdened with funding the public debt of insolvent member states, its funds could be used for direct bank recapitalisations. This proposal is, of course, to tackle one of the main causes of the Eurozone crisis; unsustainable government borrowing forced by a banking crisis. The EFSF/ESM re-capitalisations would be supervised by the ECB and the European Banking Authority (EBA); the EFSF/ESM would receive equity in the recapitalised banks which could then resell it to the private sector (Varoufakis & Holland, 2012).

Moreover, Varoufakis and Holland propose to use the ECB and the EFSF/ESM mechanisms in order to lower borrowing costs for EMU governments. In order to avoid causing any conflicts with existing treaties and, more specifically, the Treaty of Maastricht, the two authors propose that the ECB would act as an intermediary between governments and the credit market but only for the part of the Government debt that equals 60% of the member state's GDP (or as the authors call it Maastricht-Compliant Debt), since the Maastricht Treaty required governments to keep their Debt up to 60% of the GDP. After purchasing credit at the private markets, the ECB would then lend these funds to the national governments; to protect the ECB from defaults, participating EMU states would have to afford their ECB debit accounts super-seniority status, while in the case of a disorderly default, these debts towards the ECB would be guaranteed by the EFSF/ESM mechanism. This ECB intermediation in government borrowing would afford significant savings to national governments since the ECB borrowing rate would be very low and, of course, lower than some EMU member states could achieve on their own (Varoufakis, *A Modest Proposal*, 2016, pp. 393-394).

Thirdly the authors propose an investment plan, which they describe as a Green New Deal for Europe. This proposal stems from the authors' correct observation that investment levels in the Eurozone have been low -due to low demand-with large amounts of capital remaining stagnating, causing deflationary phenomena in the Eurozone. The Green New Deal would be financed by the European Investment Bank (EIB) and the European Investment Fund (EIF). The EIB and the EIF are currently financed through bonds they issue, by which they collect 50% of their funds, while another 50% of their funds come from member states' contributions. Varoufakis and Holland propose that the EIB and the EIF be financed entirely by issuing bonds; to avoid a spike in the interest rates of these bonds, the ECB should publicly express its readiness to intervene in the secondary markets with as much liquidity as necessary in order to

keep the rate of these bonds in today's very low levels. Varoufakis proposes an investment program that would be approximately worth 8% of the GDP of the Eurozone (Varoufakis, A Modest Proposal, 2016, p. 395). According to Varoufakis and Holland, the EIB should focus on large scale infrastructure projects, whereas the EIF should focus on supporting Small and Medium Enterprises (Varoufakis & Holland, 2012). The investment would be distributed across the Eurozone in such a way that "counteract the internal imbalances of competitiveness and intra-eurozone (im)balance of payments" (Varoufakis & Holland, 2012). This Proposal would achieve the purpose of tackling negative investment and the issue of deflationary pressures in the Eurozone, while it would also bridge the gap between surplus members, especially Germany and Austria, that have well developed SME support policies and deficit countries where such policies are lacking. Moreover, this policy would rebalance the imbalances of payments that exist within the Eurozone, one of the key causes of the Eurozone Sovereign Debt crisis. Finally, Varoufakis proposes a European-wide food-stamps program and free access to a minimum amount of energy for households across the Eurozone (Varoufakis & Holland, A modest proposal for resolving the Eurozone crisis, 2012).

As far as the debt was concerned, Varoufakis had proposed to divide the existing Greek Government debt into four parts:

- 1) Money owed to the ECB in the form of the bonds it had purchased in 2010/11 in the context of the SMP program
- 2) The most significant slice (60 per cent of the total government debt), owed to the Eurogroup and
- 3) Approx. 10 per cent of Greek Government Debt owed to the IMF
- 4) Money owed to private investors after the 2012 PSI program, mounting at 15 per cent of total government debt.

Varoufakis proposed paying (4) private investors to avoid costly and lengthy legal battles similar to those faced by Argentina, and for similar reasons, he proposed simply paying out the remaining debt to the IMF. According to the Varoufakis plan, Greece should aim to achieve relief in (1) and (2), namely the SMP bonds and the debt owed to the Eurogroup. Varoufakis considered the SMP bonds as the weakest target due to their dubious moral nature and the Eurogroup's promises to return the profits made through these bonds. Moreover, as far (2) debt

owed to the Eurogroup countries as a result of the First and Second Programs, Varoufakis proposed a swap.

Existing debt obligations stemming from the bailout programs would be swapped with new Greek government thirty-year bonds. There would be no formal haircut, and the nominal values of the 30-year bonds would be equal to the total value of the debt exchanged. Nevertheless, the new bonds' interest rates would be linked to the rate of growth of Greek GDP (growth clause), while debt repayments would be suspended until Greece's income recovered beyond a certain threshold (that was to be decided). Varoufakis' plan was to incentivise Greece's Eurozone partners to accept the pro-cyclical policies he planned to introduce once Syriza was in government (Varoufakis, 2017, p. 114).

The strategy proposed by Varoufakis was not fully taken into account during the drafting of the Thessaloniki Program (see below- The Thessaloniki Program), with only some elements of it briefly getting mentioned, but when Syriza was elected to power in 2015, the Modest Proposal became the formal position of the Greek government during the Eurogroup negotiations of 2015 until Varoufakis stepped down as finance minister.

Evaluating the Modest Proposal, one can agree that this is a reasonably well-developed proposal that uses the existing Eurozone structures to implement corrective economic policies of Keynesian inspiration. It is true that these policies would have a beneficial effect on growth and could act to prevent a future debt crisis in some cases. The Modest proposal would also decrease discrepancies within the Eurozone to some degree.

It is hard to fully evaluate the Modest Proposal because it was not accompanied by an econometrical study of these policies' effects on growth, employment, and debt sustainability. It is hard to evaluate whether these policies would be sufficient to balance payments within the Eurozone and balance the recessionary effects of the Euro's high value and the EMU's fiscal discipline policies.

One can, however, point out that Varoufakis' plan would require significant coordination and unanimous agreement amongst Eurozone member states. Most importantly, it would require surplus member states that are clearly benefiting from the EMU's current structure to agree on a change in this structure, with the inherent risks that this involves. Surplus member states would also have to consent in the EIB and EIF investment to be distributed to favour deficit countries. Moreover, Varoufakis does not appear to tackle the issue of fiscal discipline; the Eurozone's institutional design involved neither a Government Debt bailout mechanism nor a

Eurozone private banks bailout mechanism. After 2009 the EFSF/ESM mechanism did provide bailout loans to member states facing a debt crisis, but only under strict terms of fiscal discipline. This is not a mere accident but a result of German policy and of the Ordoliberal principles that underline the Eurozone's function. By rendering member states responsible for bailing out their banks, the Eurozone's institutional design forces national governments to pursue a tight fiscal policy in order to shield their banking sector. Creating a centralised banking bailout mechanism at the level of the Eurozone would diminish the pressure on governments for fiscal discipline, something that defies both German policies on the Eurozone and the EMU's institutional design.

Finally, and most importantly, the Modest Proposal did not include any forms of leverage or means of pressure that a Greek government could use in order to get the concessions that Varoufakis' proposal required. This gap in strategy became visible during the 2015 negotiations led by Varoufakis when essentially the only leverage that the Greek side was able to use was a delay in payments of Government debt. The possibility of unilateral restructure was not entertained, not even as a threat, leaving Greece essentially wholly unable to respond when the ECB threatened to stop providing liquidity to Greek banks. Varoufakis' plan relied entirely on the goodwill of the Eurozone partners because it was not combined with credible threats and means of pressure that could be used as leverage during the debt negotiations.

[The Zoe Konstantopoulou program](#)

After the rise of Syriza to power in September 2015, Zoe Konstantopoulou was elected as President of the Greek Parliament. The position does not typically hold much power, but Konstantopoulou was able to use the resources available to her to set up a parliamentary "Truth" Committee on Greece's Public Debt (from now on, the Committee).

Konstantopoulou being a lawyer herself, sought to invite human rights specialists, lawyers, and economists to examine the legality of Greece's Sovereign Debt and, more specifically, the legality of the Debt that the country took on as a result of the First and Second Stand-by Programs.

The Committee was made by a large number of experts, although predominantly either legal scholars or public administration experts, something that affected the approach and methodology of the Committee. Amongst its members was Cephias Lumina, a Professor in Public Law and UN expert on human rights specialised in the effect of Sovereign Debt on human rights, or Maria Lucia Fattorelli Carneiro, a member of the Committee of Debt Auditing

in Brazil, Daniel Albarracin, a professor at the University of Complutense in Madrid that had developed similar initiatives vis a vis the Spanish Debt, but also Diego Borja former minister of Finance in Ecuador. Several prominent professors of Law from Greek universities also participated in the workings of the Committee (Hellenic Parliament, Truth Committee on Public Debt, 2015).

Konstantopoulou's strategy thus consisted of developing an international network of experts specialised in Debt, Human Rights and Public law with a particular emphasis on inviting experts from the Global South. The Committee thus functioned as a space for dialogue between Greek scholars that opposed austerity with their international colleagues. In that sense, the work of the Committee was valuable in fermenting international solidarity with Greece and in helping Greek experts learn from the experience of other countries. It is worth noting that these links, valuable as they were, were limited mainly to the members of an international academic and expert elite.

The committee arrived at a few points of consensus regarding the legality of the Greek Debt. The first point of consensus was that debt to the International Monetary Fund must be declared illegal because it was concluded in violation of the IMF's own constitution, while its terms violate the Greek Constitution. The Committee was referring to the fact that the IMF is obliged by its own constitution to participate in Bailout programs only when the country's sovereign debt in crisis has been rendered viable, mainly through some kind of restructuring or haircut. In 2009 the IMF's over-optimistic calculations about the effects of the austerity measures on the Greek economy. With these calculations, the Fund was able to legitimise its participation in the Greek program. Nevertheless, the Greek Government Debt was soon proven to be unsustainable as the recessionary effects of the First program were far more significant and lasted for much longer than was initially expected.

The second conclusion to which the Committee arrived was that the debt to the European Central Bank must also be declared illegal because the ECB had exceeded its powers by imposing austerity policy measures on Greece through its participation in the Troika.

The European Financial Stability Facility loans were declared as "cashless loans -in the sense that they were paid directly to Greece's creditors- and thus declared illegal. Bilateral loans that were given to Greece in the context of the First Program must also be considered illegal because they violate the procedure provided for by the Greek Constitution.

The Greek Government's debt towards private investors, which after 2009 passed to the hands of EMU members and Eurozone institutions or was restructured in the context of the PSI, was declared illegal on the basis that private lenders, especially private banks, acted irresponsibly before the crisis and did not show due diligence in the management of lending, while other private lenders, such as hedge funds, also acted maliciously. The Committee emphasises that the EU and other Eurozone governments conspired to force Greece to avoid a restructuring of public debt in order to protect financial institutions.

The Committee declared the Debt unsustainable and also emphasized that the continuation of servicing the debt put the essential human rights of Greek citizens for access to basic public goods in danger. The Committee also emphasized Greece's right according to International Law to unilaterally restructure or write off its Government Debt (Truth Committee of Public Debt (Debt Truth Committee), 2015).

The Financialization literature and the Lapavitsas Strategy

Financialization literature has entered the Greek public debate via Costas Lapavitsas' work; on the aftermath of the crisis, Lapavitsas was the academically most prominent economist arguing in favour of the Greek exit from the Eurozone, in sharp contrast with the most influential Syriza economist Yanis Varoufakis and other influential economists within Syriza most notably Euclides Tsakalotos. Lapavitsas was politically already allied with the radical Left and the party of Syriza mainly through his alliance with prominent Syriza figure Panajotis Lafazanis. At the time of the Eurozone Sovereign Debt crisis, Lapavitsas was already established as an academic in the School of Oriental and African Studies with a specialization in the study of Financialization. Lapavitsas's strong stance favouring a return to the new currency gathered significant media and public attention. Unlike Varoufakis and Tsakalotos, who entered mainstream politics and dedicated their writing and public appearances to addressing general audiences, Lapavitsas sought to develop a network of academic collaboration to develop a detailed program about a Greek "progressive exit" from the Eurozone. Lapavitsas collaborated with statistician and left-wing commentator Leonidas Vatikiotis, economist Theodore Mariolis and Constantinos Gavrielides to conduct a detailed program about how an exit of Greece from the EMU could work and even which areas and economic activities and exports should Greece focus on after the event of a Grexit in order to improve its competitiveness and trade balance. Moreover, he collaborated with other financialization scholars or Marxist theorists, most notably Heiner Flassbeck, Cédric Durand, Fredric Lordon and Stathis Kouvelakis; the aim of these research partnerships was to demonstrate the inherently conservative institutional design

of the Eurozone and the need for an exit for the EMU if Greece was to recover and progressive policies to be implemented. The central thesis of Lapavistas and his research network can be summarized by the claim that the Greek crisis is intrinsically tied to the structure of the Eurozone, a crisis that they see as a systemic crisis of European Financialization.

The Financialization literature has put significant emphasis on the institutional design of the Eurozone and the reasons behind this design. Lapavistas et al. note rightly that the Eurozone was designed in such a way as to facilitate the acceptance and function of the Euro as world money, similarly to how the mark, yen and dollar had been functioning.

To achieve this goal, the Eurozone developed a strategy to keep the Euro at a high value compared to other currencies to facilitate its function as world money. To pursue this strategy, the ECB has targeted inflation, aiming at keeping inflation, focusing exclusively on the domestic value of money and keeping interest rates low (Lapavistas, et al., 2010, p. 322).

Moreover, as part of its strategy for the Euro as world money, the Eurozone had avoided in the past allowing the ECB to acquire and manage state debt. What is more, the case of the Eurozone crisis has not directly opposed “financial speculation”. Again, this does not lie in the lack of sufficient European integration, but rather the reason is the Eurozone’s institutional design and, more specifically, the Stability Pact.

Fiscal discipline is key to the acceptability of the Euro as a global currency, and for this reason, the Eurozone adopted the Stability and Growth Pact (SGP) as one of the fundamental legal texts of the Eurozone (Lapavistas C. , et al., 2012, p. 322). With the Pact, fiscal discipline becomes obligatory for EMU members in a never-before-seen institutionalization of ordoliberal principles at a pan-European level. The Pact effectively put a significant limit on Expansionary fiscal policies, especially those envisaged by Keynesian and Heterodox economics. In the absence of a severe penalty mechanism that would oblige EMU members to adhere to the pact, the ECB’s inability to acquire state debt or limit financial speculation against state members' bonds forces governments to comply through the markets. Before the 2009 crisis, member states that found themselves at risk of a debt crisis would be forced to implement cuts in their spending since they could not rely on the ECB for assistance. Post-2009, with the introduction of the European Financial Stability Facility (EFSF) in June 2010 and later of the European Stability Mechanism (ESM) in October 2012, member states would have access to bailout funds but on strict conditionalities that include austerity measures typically.

This low inflation, high-value policy for the Euro had obviously had a negative effect on growth, especially for countries in the periphery, that by entering the Eurozone, had to face a significant loss of competitiveness towards non-EMU trade partners, such as drachmas, liras and pesetas were replaced with the much more expensive Euro. Moreover, while exports to non-EMU countries were negatively affected by the Euro's high price, the peripheral countries had also to face increased competition from the core countries, especially Germany. The Euro-as-world-money policy of the Eurozone does benefit the process of financialization and the European financial sector but has been largely damaging to the interests of Labour and has led to stagnating wages and growth.

There is significant evidence to demonstrate that within the Eurozone, the financialization of the European economy accelerated with the creation of the EMU, as evidence by the total assets held by credit institutions as a percentage of the GDP; total assets have risen in the period from 1998 before the foundation of the EMU up until the crisis with Ireland starting from 262% total assets of credit institutions as a percentage of the GDP and reaching up to 760% at 2008, while in Spain these assets were at 170% of the GDP at 1998 to reach at 309% at 2008. Overall, for all EMU member states, assets held by financial institutions rose significantly compared to the GDP, a clear sign of the accelerating financialisation of the Eurozone (ECB, 2010).

As part of its favouring low inflation policies and fiscal discipline, the EU has adopted policies that negatively affect workers' income; the European Employment Strategy has promoted flexible forms of employment and part-time and temporary work. The Eurozone itself has pressured pay and working conditions downwards; Eurozone member states' governments cannot use the tool of monetary policy to correct trade imbalances, thus increasing the importance of labour costs for competitiveness. This loss of sovereignty over monetary policy has fuelled amongst EMU member states a spiral to the bottom of salaries and working conditions (Lapavitsas, et al., 2010, p. 323).

The problem was worsened by the fact that peripheral countries joined the Eurozone with relatively high rates of exchange in the name of controlling inflation. These high exchange rates meant that peripheral countries, including Greece, lost some of their competitiveness as soon as they became EMU members.

The competitiveness discrepancy was worsened by the fact that salaries and the levels of welfare in the South were already lower than in the core countries of the Eurozone, and thus periphery countries had little room to reduce labour costs. Moreover, German fiscal policies

were unrelenting in squeezing labour, causing German wages to have been kept low, effectively stagnant for the entire period between the founding of the Eurozone and the 2008 crisis, with only minor increases in unit labour costs (**Error! Reference source not found.**) and a slow increase of the real compensation of labour (**Error! Reference source not found.**). German workers have been consistently receiving a smaller share of the output, as data regarding the labour's share of the GDP reveals (**Error! Reference source not found.**). German salaries had remained stagnant ever since the late 1990s (Lapavitsas, Flassbeck, Durand, Ethiévant, & Lordon, 2016) when Germany adopted fiscal discipline when the then-Chancellor introduced the Agenda 2010 program, a set of policies that promoted austerity and fiscal discipline and were based on the principles of Ordoliberalism. In other words, competition within the Eurozone and the need to keep labour costs low in order to retain competitiveness caused losses for Labour across the continent. As a result, the Eurozone periphery developed structural current account deficits that mirror Germany's current account surpluses (Figure 3) in the years before the 2009 crisis (Lapavitsas C. , et al., 2012, p. 13). Current account deficits in the periphery were only decreasing, and in the cases of Portugal, Spain and Italy even gave their place to current account surpluses, only after 2009 as austerity programs were implemented throughout the periphery of the Eurozone.

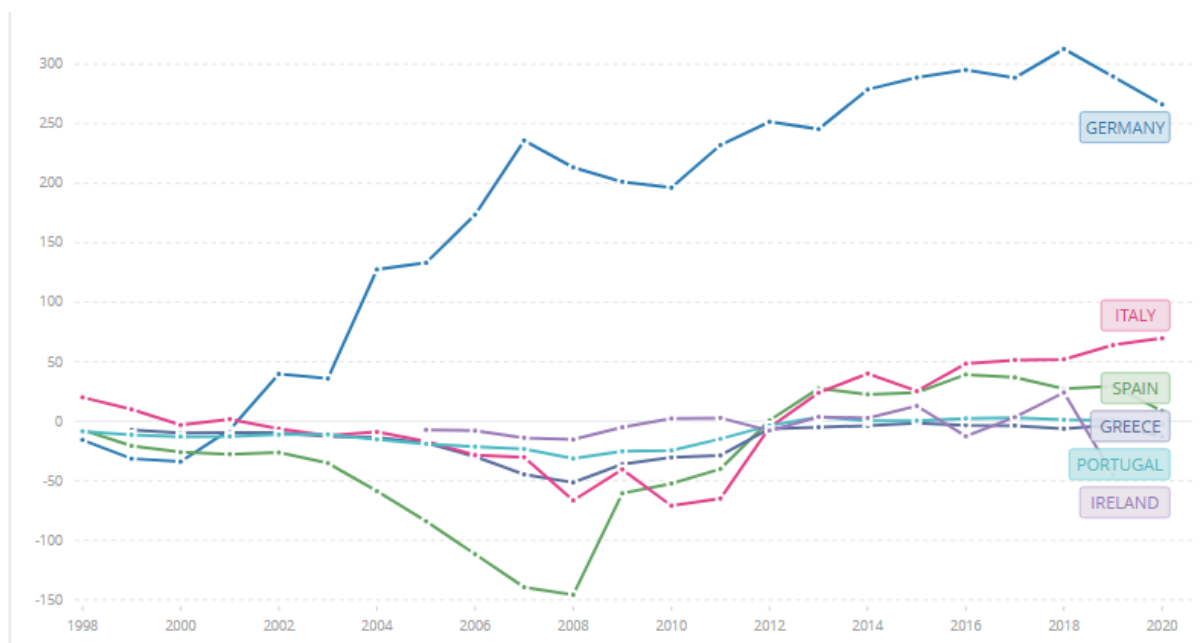


Figure 3 Balance of Payments Statistics Yearbook and data files. Source: International Monetary Fund,

As a result of the institutional design of the Eurozone, German competitiveness has become highly problematic for peripheral economies; low labour costs in Germany allowed the country

to develop structural current account surpluses at the expense of Peripheral economies that developed current account deficits. For Lapavitsas, it is essential to emphasize the degree to which this account surplus on behalf of Germany is not based on superior productivity, investment or output, areas in which German performance has been mediocre; growth he notes did not come from consumption or investment but exports (Lapavitsas C. , et al., 2010, p. 333). The takeaway from this is that German account surpluses and, consequently, German growth is based on the ability of the German political system to keep labour costs and salaries in check and on the institutional design of the Eurozone, which facilitates German exports towards the periphery. Productivity in the periphery has risen more and faster in the periphery of the Eurozone. At the same time, periphery workers did see their remuneration rise in both nominal and real terms, although their share of the output declined since productivity rose more than labour remuneration.

The Eurozone provided a boost to German competitiveness that, in its turn, allowed Germany to run a trade surplus with the rest of the Eurozone, contributing to the periphery's trade and ultimately general account deficits, even though in terms of pure labour productivity, Germany was behind Greece, Portugal and Ireland, in the years before the crisis as per the OECD productivity data (OECD, 2021). German surpluses were translated mainly into Capital exports, primarily bank lending and Foreign Direct Investments (FDIs)- the primary recipient of which was the Eurozone including the periphery (Lapavitsas C. , et al., 2010, p. 323). External holders of Greek, Spanish and Portuguese debt securities on the eve of the Eurozone crisis in 2008 were predominantly based in core countries such as France, Germany, Netherlands and Belgium (Lapavitsas C. , et al., 2012, pp. 9-10)

Thus, the periphery was confronted with a competitive Germany, whose labour costs remained low, and an influx of capital from the Core was incentivised to follow growth strategies adapted to this model. Greece and Portugal mainly adopted a model based on high levels of household consumption, while Ireland and Spain experienced investment booms mainly tied to real estate speculation (Giavazzi & Spaventa, 2010). The trade surpluses that Germany was able to achieve vis a vis the periphery, as well as the flow of credit and speculative investment in real estate from the Core to the periphery, are both essential contributing factors to the Eurozone Sovereign Debt crisis. The result of this setting was that peripheral countries amassed debt in order to finance their current account deficits fuelled by German exports. It is also characteristic

of the Eurozone that it lacks an integrated tax system or fiscal transfers between member states (Lapavitsas C. , et al., 2010, p. 322). Consequently, no mechanism existed in order to recycle even partially the surpluses accumulated by Germany at the expense of the periphery.

The institutional design of the Eurozone is reflected in the economic performance of EMU members states; inflation was indeed kept under the Stability and Growth Pact and the ECB's monetary policies, but that came at the cost of mediocre growth and significant unemployment. These phenomena are typical of highly financialised economies, and they are often combined with weak investment -with the exception of Ireland and Spain that in the pre-crisis years experienced an investment boom in the property market- and low consumption. Moreover, we note in the Eurozone economies an increase in household liabilities, a rise in household debt that is typical in financialised economies and that was facilitated by the ECB's low-interest rates policy (Lapavitsas C. , et al., 2010, p. 333). The only exception to this rise of private indebtedness was German households, which overall reduced their levels of debt.

Financialization literature claims that the causes of the Eurozone crisis relate to global financialization and Eurozone economies' financialization. The Eurozone was affected by the Global Financial crisis due to the exposure of European banks to subprime-related securities, which had become problematic after the 2007-2009 crisis in the US.

The role of the European Banking sector in the crisis provides additional credibility to Financialization interpretations of the Eurozone Sovereign Debt crisis; at the first stage of the Eurozone crisis, private European banks increased the offer of credit to periphery EMU member states (Lapavitsas C. , et al., 2010, p. 324). This flow of credit towards the periphery came to a halt when the European Central Bank launched its non-standard measures, namely measures that were aimed at supporting European banks and that went beyond lowering interest rates. Most importantly, Jean Claude Trichet, then President of the ECB, decided to expand the already comprehensive list of securities that the Bank accepted as collaterals (Trichet, 2009), with the apparent aim of accepting more “doubtable” securities and securities that had seen their market value fall during the crisis.

This choice by the European Central Bank was aimed at providing liquidity assistance to Banks without requiring anything in exchange from private banks -such as stocks, reforms or cutbacks- was consistent with Financialization theory predictions. Independent Central Banks that are under weak democratic scrutiny often act in ways that favour financial capital instead of favouring public finances. The ECB provision of liquidity through the non-standard

measures directly undermined the access to credit for European governments, increasing the risk significantly for Government defaults in the Eurozone to benefit private banking institutions. The result of this strategy is that private banks began deleveraging, turning away from long term securities and government bonds and preferring short term securities.

The result of this change in strategy on behalf of European banks was a credit shortage across the eurozone. This credit shortage meant that states in the periphery of the Eurozone could no longer rely on cheap credit to finance their current account deficits. Thus, several member states in the periphery of the Eurozone found themselves unable to continue financing their sovereign debt. The structural weaknesses of the Eurozone accelerated the crisis, as European banks all had the same access to the money markets, but governments did not have the same access to the credit markets, with the price of credit varying significantly for diverging European governments (Lapavitsas, et al., 2010).

The Financialization literature, as opposed to Conservative and neoliberal literature, emphasizes the role of the banks in the Eurozone crisis, and most specifically, they emphasize the surge in Sovereign Debt that occurred after 2007 when governments across the Eurozone had to intervene and assist their banks with liquidity (Lapavitsas C. , et al., 2010, p. 359). Governments had to issue enormous amounts of new debt under the worst possible conditions in a period when there was a credit shortage in the market. Outstanding government debt in the European markets jumped sharply as governments were forced to provide liquidity assistance at their banks (ECB, 2010). Speculation attacks and the inability of the ECB to protect member states from speculation worsened the crisis. Greece found itself in the perfect storm; the Greek government had doubted its official statistics, the country's current account deficit was significant, and finally, its bond market was small enough to be an easy target for speculative attacks.

How the EU and the Eurozone responded to the crisis reflects the class relations within the Common Market and the institutional limitations of the European institutions. The EU's and Eurozone's management of the Eurozone crisis was not a mere technical issue but rather a question pertaining to class interests. The Eurozone's strategy with the crisis can be summarised as a combination of austerity with neoliberal structural reforms aimed at cutting state expenses and unit labour costs. The financial sector of the Eurozone, on the other hand, did not have to suffer any significant losses and was primarily protected by public institutions, without any penalties (transferring stocks to the government in exchange for liquidity assistance,

restructuring or other penalties). The way the Eurozone crisis was managed was beneficial to the interests of Capital, especially financial capital. The Eurozone's bailout program had put the burden of the recovery on the working classes by cutting public expenses and reducing salaries and wages. The Eurozone hoped that members in crisis would be able to regain competitiveness and reduce their debt to sustainable levels (Lapavitsas C. , et al., 2010, pp. 325-326). Moreover, the Greek bailout program has not dealt with any of the structural causes behind the crisis, such as the competitive German exports, with Germany refusing to abandon its fiscal discipline policy.

Three alternative strategies

Lapavitsas was one of the foremost exponents in Greece of an exit from the Eurozone, with the parallel adoption of left-wing heterodox economies policies mainly aimed at improving Greek competitiveness and exports. As a member and an MP of Syriza, Lapavitsas had been a consistent spokesperson for this strategy. His position on the Greek crisis had already been formed through his academic work on the Eurozone and his critique of the other available strategies.

As we have seen, Lapavitsas considers the current Greek economic policies of neoliberal adjustment within the Eurozone a dead-end since none of the structural causes of the Greek crisis has been tackled. There was, however, a second option, one that was selected by Syriza and which Yanis Varoufakis argued for while a member of Syriza. The good euro strategy was the idea that the Eurozone could be captured from within by a series of progressive governments and reformed in a progressive direction. The good Euro strategy, in other words, hopes to put the Euro in the service of progressive policies.

Lapavitsas rejects the “good euro” strategy, a strategy that was popular within Syriza and adopted by the other prominent Syriza economist Yanis Varoufakis. The idea that the Eurozone could be reformed in order to be put in the interests of the workers misses is simply contradictory to the function of the Euro as world money. If the policies of fiscal discipline were to be abandoned, the Euro's value in the international market could collapse, and the European banking system could face challenges in international transactions. The function of the Euro as world money and fiscal discipline go hand in hand; if the latter were to be abandoned, the former could be led to collapse.

Financialization scholar Cedric Durand along with Razmig Keucheyan, claim that the institutional design was purposefully constructed to reflect the interests of Financial Capital, which has occupied a hegemonical position in Europe. As a result, the structure of the Eurozone

is such that neoliberal policies are institutionalised, while Labour is essentially excluded and not represented in the Eurozone decision making centres (Durand & Keucheyan, 2015). In other words, the Eurozone is designed with a democratic deficit as an integral part of its function in order to best play its role in supporting European financial capital. A reform of the Eurozone to a more progressive direction that would see greater integration and participation of labour would undermine the function of the Eurozone as a guardian of the financial capital.

The conservative Exit is the second alternative and one that was proposed at various points during the crisis by German finance minister Wolfgang Schauble, who offered Greek governments the option of a consensual exit of Greece from the Eurozone. A conservative exit would essentially mean Greece would exit the EMU, but the class relations that exist at the moment in Greece would remain unchanged. Lapavitsas emphasizes Greece's productive structure of intermediate technology but with higher salaries than competitor countries with similar productive structures in Asia and elsewhere. As a result, he claims that it is unlikely that the Greek Capital would be able to improve the competitiveness of Greek companies. Thus, the most likely result of Greece exiting the Eurozone would be a failure of Greece to improve its exports, investment, and production. In that scenario, Greece would be experiencing a crisis of inflation, successive devaluations, and a slow erosion of the Greek income. In Lapavitsas opinion, Greek Capital is aware of its weaknesses and thus has preferred the current strategy, namely implementing the bailout policies as prescribed by the Eurozone and the IMF.

The progressive exit plan was developed in two different reports. One more focused on Greece with empirical econometric research was developed between Lapavitsas and his long-term associate Mariolis and a more Europe-focused plan was developed jointly by Lapavitsas with Cedric Durand, Heiner Flassbeck, Guillaume Ethiévant, and Frédéric Lordon. The plan is based on two policies that a progressive government in Greece should take at the first opportunity in order for the country to escape its current predicament; these two policies are first, a restructuring of the country's sovereign debt and, secondly, an exit from the EMU and a return to a national currency, the new drachma (Lapavitsas, Flassbeck, Durand, Ethiévant, & Lordon, 2016, p. 53).

The authors recognise that there is no legal precedent of a country exiting the EMU and returning to a national currency but nevertheless, given that the right to issue one's own currency at the heart of state sovereignty, the authors believe that Greece would be able to find

a legal pathway in order to regain its monetary sovereignty (Lapavitsas, Mariolis, & Gavrielides, 2017, p. 49). The authors propose a return to a national currency -the new Drachma- combined with left-wing economic, industrial, and social policies. In the first stage, the exit of Greece from the Eurozone would cause an economic shock. The authors argue that the state should intervene to ensure that citizens, especially vulnerable individuals, have access to food and medicine and individuals and Small and Medium Enterprises with contracts denominated in foreign currency. (Lapavitsas, Mariolis, & Gavrielides, 2017, p. 52). However, the shock is assumed to be only brief, and the authors believe that after a sharp devaluation, the new Drachma would gently appreciate a new equilibrium. The new currency would devalue, which would improve the balance of trade.

A return to the national currency and the subsequent devaluation would alleviate some of the pressure on the economy, but at the same time, it would render the debt denominated in foreign currency unpayable. Cessation of debt payments and a subsequent debt restructuring would become necessary, and as a result, Greece would find it very hard to access international capital markets, while banks would also face bankruptcy. As a result, Lapavitsas proposes a policy of bank nationalisation, creating a system of public banks that would have the additional benefit of doing away with the current system of private banks. A system of public banks could be a helpful tool in correcting the excesses of financialization and use the banks to promote investment and growth (Lapavitsas, et al., 2010, p. 369). The authors also propose the introduction of a “bad bank” that would gather the non-serviced private loans that have increased in Greece in the period of the crisis; social criteria would be applied when recovering or forgiving these non-serviced debts. An additional benefit of regaining monetary sovereignty is that a future Greek government could monetise for a limited amount of time budget deficits by issuing money in order to implement expansionist policies, with an emphasis on policies that could alleviate the problem of unemployment in the country (Lapavitsas, Flassbeck, Durand, Ethievant, & Lordon, 2016, p. 65). At a later stage, this hypothetical Greek government should invest in social welfare programs and public-good provisions in order to rebuild trust in public institutions and improve household disposable income. This plan recommends a series of additional policies, such as tax reform, to make the system more proportionate, more favourable for Small and Medium Enterprises and less based on indirect taxes.

In the comprehensive program for the future of left-wing economic policy in Europe, Lapavitsas, along with Cedric Durand, Heiner Flassbeck, Guillaume Ethievant, Frédéric

Lordon, argue consistently in favour of a return to national currencies as a mechanism that allows trade partners to respond to aggressive export policies without having to rely on protectionism (Lapavitsas, Flassbeck, Durand, Ethiévant, & Lordon, 2016, p. 41). Ironically, they note that the national currency mechanism might be the one that would allow the EU to survive in the long term.

A progressive exit would also require capital controls to avoid an outflow of liquid funds and protect the banking system, as well as nationalizations of utility companies, public investment in infrastructure and especially investment in technology that would improve Greece's position in the international economy. In a clarifying statement in the public debate, Costas Lapavitsas has clarified that his proposed strategy relies on improving exports in areas where Greece has a competitive advantage and that the country should not follow a substitution of imports policy. Moreover, his strategy involved an exit from the Eurozone, but not an exit from the EU, sighting the dependency of the Greek agricultural sector on the Common Agricultural Policy (CAP) subsidies. In his report for the Rosa Luxemburg Institute, Lapavitsas, along with his associates Mariolis and Gavrielides, proposed a policy of negotiating opt-out exemptions for Greece (Lapavitsas, Mariolis, & Gavrielides, 2017, p. 49), that would allow for greater autonomy in the country's industrial and agricultural policies.

This issue of the future of Greece in the EU if the country was to exit from the EMU is perhaps the weakest point in Lapavitsas' strategy. To begin with, Greece's Eurozone partners in the past verbally threatened the expulsion of Greece from European institutions should the country fail to comply with the current bailout program. Greece's Eurozone partners almost said as much during the 2015 referendum on the debt, which they made clear was essentially a referendum on Greece's membership in the Eurozone and the EU. A punitive expulsion of Greece for restructuring its debt which is now in the hands of the Eurozone member-state governments and the ESM, could not be excluded as a possibility, although legally, there are no provisions in the EU treaties for a member expulsion.

What is more, the EU membership comes with specific policy commitments in the area of agricultural policy, trade and economic policy that are decidedly neoliberal. An EU membership imposes on members free trade that could perhaps make the efforts to balance Greece's trade harder, while EU competition rules and the EU public procurement laws (Bovis, 2012) could make it hard for Greece to implement a program of strategic nationalizations without paying substantial compensations to the private owners of the companies that are to be

nationalised. Given the extent to which important sectors of the Greek economy, such as transport and energy, have been almost entirely privatised, nationalisations that, as per EU law, would be limited and would require the payment of private investors of significant sums at a high cost for public finance. Public spending and public investment would have to be open to the free market under EU public procurement law, and as a result, the left-wing Greek government in the Lapavitsas scenario would have reduced sovereignty. Potential new free trade treaties with the USA or the ASEAN countries would be binding also for Greece and would impose new rules of neoliberal orientation on Athens, while Greek negotiators can be expected to have little influence on the outcome of these negotiations.

We can grant Lapavitsas, Mariolis and Gabrielides that they have included opt-outs in the area of agricultural and industrial policy that would presumably allow Greece to overcome the legal obstacles that EU regulation on competition and agricultural policy can pose. Nevertheless, the authors have not described in a precise manner what type of leverage the country can use to gain such an opt-out agreement, especially with the assumption that relations with Greece's EU partners will not be at the best state after the country has restructured its sovereign debt.

The Lapavitsas Grexit plan is also underdeveloped in terms of the political dimension of such a plan. A Grexit would be a tumultuous affair that would involve significant risks and would require significant degrees of popular support and democratic legitimisation to succeed

Given the risks involved with such a project and the adjustment shock period that, unavoidably, Greece would have to go through, citizens needed to be actively engaged in this process. Syriza, a conventional party that was becoming increasingly leader-centric and was organised around vertical structures, was clearly not the right vehicle for the Grexit project. Syriza proved to be risk-averse when it came to economic policy and excluded Grexit as a possibility even before it took power. Such aversion towards risk and dramatic policy change is expected by a conventional party run by career politicians since such parties are highly concerned with reelection. Syriza's top-down decision-making processes were not appropriate for a radical project such as a progressive Grexit from the Eurozone.

Indeed, experience has shown that the most dynamic and decisive resistance to austerity came from below, not the top, from the grassroots, from the Aganaktismenoi assemblies, the Union strikes and of course, from the people that mobilized during the 2015 referendum. It should be underlined that the 2015 referendum was held with explicit, direct threats of expulsion of Greece from the Eurozone if “no” won. Greek voters later defied this threat, demonstrating

that, at least in the Greek context, grassroots political movements have a significantly more significant radical potential than vertical parties. The appropriate political space to elaborate a radical Grexit plan would have been these grassroots movements, not Syriza. After Syriza's change of policy on the issue of austerity in 2015, Lapavitsas joined the Popular Unity party, headed by ex-Syriza MP Panagiotis Lafazanis. Nevertheless, Popular Unity never managed to make significant electoral gains, thus leaving Syriza, the dominant political party in the central left camp.

The Thessaloniki Program

As Syriza was rising in the polls and the chances of a victory for the party of the Left were ever higher, the party decided to issue an economic manifesto describing its key policies. The exact economic policies that Syriza would follow if they won power had not been apparent in the period before the Thessaloniki program. With prominent Keynesian economists Yanis Varoufakis and Euclides Tsakalotos co-existing with left-wing economists like Costas Lapavitsas in the same party, the exact direction of Syriza's economic program was unclear.

Threats from Greece's Eurozone partners that a Syriza election could signal an exit of Greece from the EMU and speculation over a Grexit in the Eurozone had some Greek voters worried. Similarly, the Greek Capital was concerned about the possibility of an exit of Athens from the EMU; Greek financial capital and Greek banks, especially those that had benefited from generous bailouts and ECB support in the first years of the crisis, were to suffer significant damages if Grexit was to occur. Greek Media, which is largely privatised and concentrated in the hands of few members of the Capitalist class, and as a result, most media outlets opposed strongly any scenario for an exit from the EMU.

The party appeared to be unwilling even to entertain the possibility of Grexit. Despite that preparing for a Grexit from the EMU would have been a sensible means of preparation if Greece's EMU partners insisted on continuing austerity, Syriza's leadership team excluded a priori such an event.

The economic program that was presented in Thessaloniki leaned closer to Varoufakis' "Modest Proposals" as opposed to Lapavitsas' proposals for a Greek exit from the EMU. The program adopted many elements of Varoufakis' proposal, including the idea of a Green New Deal for the Eurozone and coordinated Eurozone investment programs through the EIB and EIF (see above Varoufakis). The complexity and careful planning of Varoufakis' modest proposals were lacking, however, with the program having several gaps.

Apart from these elements that were borrowed from Varoufakis' modest proposal, the Program involves some social spending pledges; these included promises to provide free electricity to 300,000 households for up 3600 kW per year, a food stamps program, free medical care for all and a reduction in medical costs for citizens, a social housing program that involved 25,000 apartments on a subsidised price of €4 per sq. m, a rise for pensioners, a reduction in public transport costs, a tax reduction for the purchase of fuel and outright cancellation of the current property tax (known as ENFIA) which would be replaced with a tax for owners of large asset wealth, a raise in the untaxable income which would reach €12,000. More importantly, the program promised a raise in the minimum full-time salary, which would return to its pre-2009 levels of €751 (Ovenden, 2015). The program also called for an ECB quantitative easing program. The program also involved a public investment plan that would have created 300,000 new employment positions. The total cost of the program was supposed to cost €11,5, which would be financed by battling tax evasion and improving tax collection overall (Lapavitsas, Flassbeck, Durand, Ethiévant, & Lordon, 2016).

Most importantly, the program included unspecified promises for a debt restructuring that would involve the elimination of the most significant part of its nominal value and a repayment calendar that would involve a repayment holiday. The program promised to negotiate hard for a better deal on debt and for these conditions to be accepted (Lapavitsas, Flassbeck, Durand, Ethiévant, & Lordon, 2016).

The measures were criticised for being too vague and not specified enough (Kouvelakis, 2016), while Varoufakis himself described them as electoral promises and considered them over-optimistic. Varoufakis claimed that the party's communication strategy should have emphasized instead the challenging negotiations ahead and the potential for economic hardship that these negotiations could cause. Lapavitsas criticised the program for its lack of econometric measurements that would back up the goals and budgets of the program. Moreover, Lapavitsas commented that the program involved policies, such as the Green New Deal and a future ECB QE program, which were not within Greece's power to implement.

The Thessaloniki program also appeared to completely ignore the transference of sovereignty from the Greek state to the creditors that had taken place as a result of the bail-out agreements. The Stand-By agreements that Greece had signed with its creditors were problematic not simply because they required the Greek Government to make onerous debt repayments that were undermining economic growth; the Stand-by agreements acknowledged that creditors

should be consulted about almost all areas of economic policy. The Greek state had lost its ability to make decisions independently, according to its interests and the desire of the Greek public. Creditors could influence policy according to their interests and in light of their own neoliberal bias.

To give one example of how this transference of sovereignty impeded a Greek recovery, the bail-out programs involved commitments to strict fiscal discipline. Cancelling these commitments and shifting Greek economic policy to a more expansionary direction would require either the prior consent of the Troika -something that was practically impossible- or the taking of unilateral steps on behalf of Greece. Of course, such unilateral steps were strictly forbidden by the bail-out agreements and enforced with the threat of significant penalties. Worryingly, the Thessaloniki program was speaking about a balanced government budget – a potential early nod to creditors that the new Syriza administration was willing to accept some degree of fiscal discipline. This talk of a balanced budget came at a point when Greece had been running budget surpluses for several consecutive years and was evidently in desperate need of expansionary, pro-growth fiscal policies (Lapavitsas, 2014). A budget based upon a fiscal policy of contraction would undermine any chances for a genuine recovery of the Greek economy and, what is more, seemed to be oriented toward placating Greece’s creditors, an early sign of weakening of the Greek negotiating position. The weaknesses of the Thessaloniki program and Varoufakis’ “Modest Proposal” would become glaringly evident during the disastrous negotiations of 2015.

THE SYRIZA STRATEGY DURING THE NEGOTIATIONS: FROM THE VAROUFAKIS STRATEGY TO THE REFERENDUM.

By 2014 Syriza was leading polls consistently, while New Democracy was suffering heavy losses in popularity. The causes for this electoral shift are hard to identify, but it is reasonable to assume that the performance of the economy must have had an effect on New Democracy's popularity. The Second Program did not cause the deep recession that the First program caused, with the GDP decreasing by -2.7% in 2012 as opposed to -7.1% in 2012 and -10.1% in 2011. In 2013 Greece even managed to achieve very modest growth of its GDP by 0.7% . Nevertheless, the continuation of the recession throughout the 2009-2012 period and the extremely weak growth achieved in 2013 made it clear that economic recovery for Greece was a long way and confirmed the recessional effects of the bailout programs. Despite that three different governments managed the programs, based on the support of four different parties that included a large section of the political spectrum, Greece was yet to see significant positive outcomes from implementing the IMF conditionalities and the neoliberal reforms.

Moreover, the reforms implemented as part of the Second Program further changed social relations in the country in favour of Capital, leaving workers in a highly precarious position in the labour market. Moreover, the Troika was exercising significant pressure on the Greek Government to immediately implement a round of new austerity measures that would have certainly caused significant social reactions and a new recession in the country. On 29 September 2014, the Troika visited Greece in order to conduct the fifth review of the second adjustment programme for Greece. The Troika stated its dissatisfaction with Greece's progress in implementing the cuts and structural reforms. Prolonged negotiations between Athens and the Troika took place through the fall of 2014, culminating at a meeting in Paris in November 2014 between the Troika and representatives of the Greek government. The Troika refused to close the fifth review as a means of pressure, thus putting the payment of the next €7.2 billion-worth tranche of the financial assistance allocated for Greece in doubt.

Faced with a rapid loss of popularity and an increasingly negative outlook for the party's future electoral performance, Prime Minister Antonis Samaras called a surprisingly early vote for a new President of Democracy, which was initially meant to take place early in the Spring of Spring 2015. The Press reported that Samaras had aimed to secure an agreement with Greece's Eurozone partners in order to delay some of the most aggressive structural reforms in fear of sending Greece again into a new recession. Eurozone member states, especially Germany,

appeared to have taken a hardline stance and demanded a very rapid program implementation. (Reuters, 2015). After the collapse of a round of negotiations between the Samaras government and the Troika on the 26th of November in Paris, Samaras decides to call an early presidential election. According to Greek electoral law, the President of the Republic is elected by the Parliament. Failure to elect a President with an increased majority of 200 MPs (or 180 MPs in the third round) out of 300 MPs leads to the dissolution of the Parliament.

The Coalition Government had only 155 MPs, and despite intense backroom negotiations, the candidate proposed by Prime Minister Samaras Stavros Dimas gathered only 168 votes after three rounds of voting. The parliament was thus dully dissolved, and elections were announced for the 25th of January of 2015. The elections predictably gave a large victory to Syriza who gained 36.34% of the vote, a 9.5% margin from New Democracy. Syriza, however, was not able to win an outright majority at the Parliament, causing some internal criticisms for the party's mixed messaging (Kouvelakis, After Syriza's Victory, Confrontation or Capitulation, 2015). The results forced Syriza to seek a coalition government. Given PASOK's decidedly neoliberal turn and the KKE's anti-EU stance, the party allied itself with the Populist-Conservative Party of Independent Greeks. The election saw several of Syriza's most prominent academic voices getting elected in the Parliament or joining the government, such as Yanis Varoufakis, Euclides Tsakalotos and Costas Lapavitsas, thus rendering their debates from purely academic to suddenly highly political.

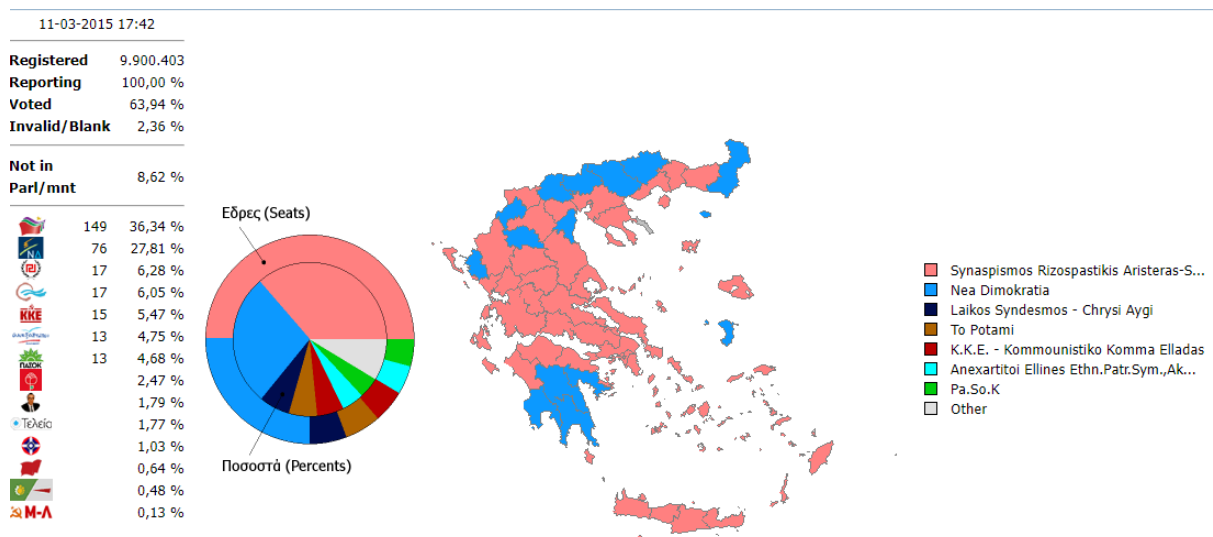


Figure 4 official election results January 2015 Source: Ministry of Interior of Greece

Immediately the Syriza government found itself confronted with a dire situation; the fifth review of the Second Program had still not been concluded, and the next tranche of the bailout

loan to Greece had not been paid. The review had remained open since September 2014, putting Greece at risk of not continuing to serve its debt. The Syriza-ANEL government, which previously had excluded a Grexit or a unilateral restructuring, was now faced with the prospect of a disorderly default.

Moreover, the Government had to face the scheduled expiry of the adjustment programme by 28 February 2015. Beyond that point and with the Second Program expiring, Greece would have to declare default on its debt unless it was able to secure a Third Bailout program.

A period of intense negotiations ensued, with Yanis Varoufakis leading the discussions with the EMU partners at the first instance. Varoufakis had been named Finance Minister in the first Syriza-ANEL cabinet after getting elected as an MP. Varoufakis' strategy included two contradictory aims:

1. Renegotiate the bail-out agreements and secure a relaxation of fiscal discipline and a debt relief
2. Keep the country within the Eurozone.

Varoufakis was aware that the ECB could stop providing liquidity to Greek banks, causing a banking crisis in the country and exacerbating economic hardship for the Greek population. As we know, the ECB threat later materialised when the Bank stopped providing liquidity to Greek banks. In such a scenario, Varoufakis planned for a parallel payment system based on the Greek Tax System IT platform (Taxisnet) to counter such a potential move. Varoufakis' plan essentially involved parallel payment systems based on future tax breaks functioning as electronic IOUs (Varoufakis, 2017, p. 66). This parallel system would allow Greece to remain in the Eurozone for as long as possible without access to ECB liquidity. The ultimate purpose of this program -which was never put to use- was to buy time for Athens to negotiate the best possible deal (Varoufakis, 2017, p. 290).

Moreover, Varoufakis' strategy involved cutting off all direct negotiations with the Troika because the Troika was not a formal institution. This tactical rather than strategic move hoped to improve Greece's negotiating position by having negotiations taking place at the highest levels, between Ministers and country leaders rather than between Greek ministers and European bureaucrats. In direct negotiation with the other political leaders, the hope was that the Greek government could hope to gain a political agreement to its proposals. Varoufakis' denial to negotiate with the Troika caused significant anger amongst Greece's EMU partners, who began to pressure Alexis Tsipras to sack Varoufakis.

Varoufakis' strategy was also for Greece to continue paying for as long as possible Government Debt and especially to make its repayments towards the IMF to avoid default. At the same time, Varoufakis made clear that Greece would not be implementing any more austerity measures or fiscal discipline measures unless a deal on restructuring the debt was achieved -and he cited IMF's economist Olivier Blanchard's criticisms of the Greek bailout programs. Varoufakis then engaged in an effort to convince Greece's creditors to accept a relaxation of austerity and a debt restructuring; he began by offering as a sweetener a partial acceptance of some of the structural reforms that Greece had previously agreed on with the Troika. These reforms that Varoufakis accepted to implement included certain privatisations, a simplification of the tax system, a liberalisation of the Greek economy, and various public sector reforms aiming to reduce the public sector wage costs and corruption. Moreover, Varoufakis proposed an automatic fiscal mechanism that would automatically implement cuts without the government's prior consent in case Greece presented budget deficits (Varoufakis, 2016).

Varoufakis also claimed that the Greek government would refuse to receive new bailout loans after the end of the Second Program. Instead of a Third Program, he proposed that €27 billion of Greek bonds that the European Central Bank had purchased during SMP (see The Second Program and the 2012 PSI above) program the 2010-2011 period be transferred to ESM directly. This tactical move would have helped to overcome the SMP and the profits the ECB made on Greek bonds due to the difference between the nominal value -which the ECB was getting back from Greece- and the market value in which it had bought them. Varoufakis had described these SMP bonds as pathetic, a "Trichet legacy" that Greece should not have to pay (Varoufakis, 2017, p. 113). The SMP bonds would effectively be swapped for a Greek Government Perpetual bond; The European Stability Mechanism (ESM) would transfer €27 billion to the ECB to redeem SMP bonds, while Greece would issue a perpetual bond with a nominal value of €27 billion. This perpetual bond would be given to the ESM in exchange for redeeming SMP bonds (Varoufakis, 2017, p. 204). The additional advantage of this proposal was that if it were accepted, it would leave the ECB without any Greek bonds in its books; that would supposedly allow Greece to qualify for the ECB's next round of quantitative easing.

This perpetual bond would be calculated as part of the Greek government passives, and they would be used to repay Greece's debt obligations. Since perpetual bonds do not have maturity dates, this transfer of the SMP bonds to the ESM would function as an indirect restructuring of Greece's debt. The Greek government's repayment schedule would have become significantly less burdensome by swapping government bonds with perpetual bonds.

Moreover, the new Greek government sought to decouple structural reforms from fiscal discipline; Syriza-ANEL were willing to go forward with the structural reforms included in the bailout programs but sought to end the fiscal discipline measures. Varoufakis based his demands and his broader strategy on his earlier work on the “Modest Proposal.”

The strategy of Varoufakis and Syriza could only be successful on the condition that it managed to secure the agreement from its Eurozone partners, the IMF and the ECB. The negotiations, however, proved to be prolonged, and Greek proposals were met with significant resistance and scepticism, especially from Germany. Time was running out since the second economic adjustment programme was expiring by the 28th of February. The Syriza-ANEL government had only been in power for a few weeks, and they were now facing a possibility of a disorderly default; without a new program and a bailout loan, Greece could not possibly continue to serve its debt. Varoufakis tried to negotiate a settlement; given that no agreement between Greece and its Eurozone partners appeared feasible before the 28th of February, he proposed that a part of the ECB profits from the SMP bonds should be used to repay an upcoming debt repayment towards the IMF on May 2015 (Varoufakis, 2017, p. 356). A March 2015 payment to the IMF of a total value of €1.5 billion was barely made, depleting government funds; after this payment was barely made, it was clear that Greece could not make the May 2015 payment on its own.

It was becoming clear that Greece could head towards a disorderly default. Thus, Eurozone member states decided to offer an interim agreement to Greece: the EMU states would make minor concessions towards Greece in exchange for some painful concessions. The Greek government had to commit that it would “refrain from any rollback of measures and unilateral changes to the policies and structural reforms that would negatively impact fiscal targets, economic recovery or financial stability, as assessed by the institutions.” (Eurogroup, 2015) In other words, the new Greek government agreed to continue with the fiscal discipline and neoliberal structural reforms as detailed in the Second Program, a commitment that was essentially busting the Syriza manifesto. In exchange for accepting these terms, the Eurogroup agreed to relax the fiscal targets, and, thus consequently, to relax the austerity measures that Greece needed to take.

5 Yanis Varoufakis Eurogroup Letter asking for the extension of master financial assistance facility agreement Source: Reuters

Dear President of the Eurogroup,

Over the last five years, the people of Greece have exerted remarkable efforts in economic adjustment. The new government is committed to a broader and deeper reform process aimed at durably improving growth and employment prospects, achieving debt sustainability and financial stability, enhancing social fairness and mitigating the significant social cost of the ongoing crisis.

The Greek authorities recognise that the procedures agreed by the previous governments were interrupted by the recent presidential and general elections and that, as a result, several of the technical arrangements have been invalidated. The Greek authorities honor Greece's financial obligations to all its creditors as well as state our intention to cooperate with our partners in order to avert technical impediments in the context of the Master Facility Agreement which we recognize as binding vis-a-vis its financial and procedural content.

In this context, the Greek authorities are now applying for the extension of the Master Financial Assistance Facility Agreement for a period of six months from its termination during which period we shall proceed jointly, and making best use of given flexibility in the current arrangement, toward its successful conclusion and review on the basis of the proposals of, on the one hand, the Greek government and, on the other, the institutions.

The purpose of the requested six-month extension of the Agreement's duration is:

(a) To agree the mutually acceptable financial and administrative terms the implementation of which, in collaboration with the institutions, will stabilize Greece's fiscal position, attain appropriate primary fiscal surpluses, guarantee debt stability and assist in the attainment of fiscal targets for 2015 that take into account the present economic situation.

(b) To ensure, working closely with our European and international partners, that any new measures be fully funded while refraining from unilateral action that would undermine the fiscal targets, economic recovery and financial stability.

(c) To allow the European Central Bank to re-introduce the waiver in accordance with its procedures and regulations.

(d) To extend the availability of the EFSF bonds held by the HFSF for the duration of the Agreement.

(e) To commence work between the technical teams on a possible new Contract for Recovery and Growth that the Greek authorities envisage between Greece, Europe and the International Monetary Fund which could follow the current Agreement.

(f) To agree on supervision under the EU and ECB framework and, in the same spirit, with the International Monetary Fund for the duration of the extended Agreement.

(g) To discuss means of enacting the November 2012 Eurogroup decision regarding possible further debt measures and assistance for implementation after the completion of the extended Agreement and as part of the follow-up Contract.

With the above in mind, the Greek government expresses its determination to cooperate closely with the European Union's institutions and with the International Monetary Fund in order: (a) to attain fiscal and financial stability and (b) to enable the Greek government to introduce the substantive, far-reaching reforms that are needed to restore the living standards of millions of Greek citizens through sustainable economic growth, gainful employment and social cohesion.

Sincerely,

Yanis Varoufakis

Minister of Finance

Most importantly, on the 18th of February, Greece's Eurozone partners gave the Greek government an extension of the Master Financial Assistance Facility Agreement, the Second Program's Agreement. Thus, the Program was extended by four months. Nevertheless, time was working against Syriza. With no concrete plans and prior preparation for a Grexit and electoral promises that Greece would remain in the Eurozone, Alexis Tsipras' negotiating hand. At the end of these four months, he was obliged to accept whatever offer it was given to him by the EMU partners or default on Greece's debt in a disorderly way. Moreover, the Eurozone had not yet used its most powerful means of pressure; ECB had been threatening to cut access to liquidity for Greek banks. On the 4th of February 2015 the ECB announced that from 11th February onwards, it would lift the waiver it had granted to marketable debt instruments issued or fully guaranteed by Greece. The waiver had allowed the ECB to accept using these debt instruments in Eurosystem monetary policy operations even though they did not meet the minimum credit rating requirements. The reason behind this decision was that a successful conclusion of the Second Programme fifth review had not been achieved, pending an agreement on the austerity measures that Greece would have to implement in order for the review to be concluded. As a result of this, Greek banks that did not have sufficient alternative collateral would have to satisfy their liquidity needs through the Central Bank of Greece, requesting central bank credit via an emergency ECB mechanism titled the "Emergency liquidity assistance" (ELA) (European Central Bank, 2015). This move put significant pressure on Greece and showed clearly that the European Central Bank was willing to limit or even cut liquidity access to Greek banks and was not afraid of potential contagion. More importantly, the 4th of February decision meant that the time for an agreement was running out at the expense of Athens. ELA funds were limited and meant to be used in emergencies only; as a result, Greek private banks would soon exhaust the limits of ELA money available to them. The dependence of Greek private banks from ELA funds rose significantly; in November 2014, Greek banks had used practically zero of the ELA funds allocated for them, but by March 2015, they had already drawn €70 billion (Lapavitsas, Flassbeck, Durand, Ethiévant, & Lordon, 2016, p. 49). The total dependency of Greek private banks from Eurosystem liquidities totalled €100 billion. The Greek banking system had been hit substantially by the political crisis combined with the free movement of Capital within the Eurozone, losing €30 billion worth of deposits between December 2014 and March 2015 (Lapavitsas, Flassbeck, Durand, Ethiévant, & Lordon, 2016, p. 48)- a fact that demonstrates how precarious were the Syriza plans for a renegotiation of the bailout agreements within the Eurozone. The dire liquidity situation of Greek banks meant that the Greek government could not count on domestic credit to finance

its operations, leading to a situation where the government had to use actives left in local government and university accounts (Lapavitsas, Flassbeck, Durand, Ethiévant, & Lordon, 2016, p. 50).

If the ECB was to cut access to liquidity for Greek private banks, the Syriza-ANEL government had no concrete Plan B fully prepared and ready for immediate implementation to deal with the ensuing banking crisis. Even less, Syriza had planned for emergency measures such as a unilateral restructuring of Debt that it could use as leverage. The Government's only Plan B was a 2012 Varoufakis plan for the Parallel System of Payment, but even these plans were largely theoretical, and the bureaucratic mechanisms had not been put in place in advance. The Syriza government had made some tentative plans for the event of the ECB refusing to support Greek private banks with liquidity. Yanis Varoufakis had secretly advised Syriza to use these SMP bonds as leverage and unilaterally write them off if the ECB cut liquidity to Greek banks. He calculated that writing down these debts would provide additional grounds for the Bundesbank legal challenge to Draghi's QE program; Varoufakis had hoped that the threat of writing off the SMP bonds would have been enough in order to deter Mario Draghi (Varoufakis, 2017, p. 79). The Problem with this strategy was that Greece's leverage was too weak. While the ECB could bring the Greek economy to a halt, Greece could only hope that Draghi would be afraid of Bundesbank reactions in case of an SMP write down.

Most importantly, writing off the SMP bonds would not provide any means to counter the ECB's cut of liquidity. Varoufakis had planned a parallel exchange program, but this was only to be temporary. Ultimately, Syriza had pledged to the Greek public to keep the country in the Eurozone under any circumstances. There could be significant political and legal risks in breaking this pledge. Varoufakis' private discussions for a return to a national currency could have never materialised in a concrete plan for this very reason. The party was kept hostage by its own pledges. If the conflict between the ECB and Greece was to escalate, Draghi had the upper hand since he could theoretically withhold from supporting Greek banks for as long as necessary in order to force Athens into capitulation. In the end, although Varoufakis used the threat of writing down threat several times during the negotiations, at least according to his own account of events (Varoufakis, 2017, pp. 203-205), and even seemed to have some positive results at moments, the deterrent was simply not strong enough to stop the ECB.

By the end of February, the Greek government had achieved an extension of the second program that gave Athens some additional time for negotiations but was also put under

significant pressure to conclude the negotiations due to the ECB decisions. Moreover, the primary means of pressure that the Greek government was hoping to leverage, namely the fear of contagion if Greece defaulted on its debt, did not appear to have the desired effects.

After the payment of the March instalment to the IMF, the negotiating position of the Greek government was dire. Default was looming since the government could not possibly make the May 2015 instalment payment to the IMF. The four months extension of the Second Program was close to expiring, while Greek banks were in danger of running out of liquidity. The weakening position of Athens was reflected in the negotiating team; after months of pressure to sack Varoufakis, Tsipras decided to add Euclides Tsakalotos in the negotiating team, effectively taking control of the negotiations away from Varoufakis. Greece's Conservative Head of the Central Bank of Greece, Giannis Stournaras -a former politician consistently favouring the bailout programs and neoliberal structural reforms- helped Greece to avert the immediate crisis. Stournaras instructed the government that Greece could use the funds available according to its Special Drawing Rights in the IMF to pay the €750 million worth of May 2015 instalment. The payment went through successfully using Greece's SDR funds, only gave Tsipras a few more weeks within which he had to come to an agreement with EMU partners; the extension of the Second Program was to expire on 30 June 2015. Following the May 2015 instalment repayment, intense negotiations took place at the top level between Greece and its Eurozone partners. With Greece accepting the majority of the demands of the EMU partners, a deal was finally on the horizon. On the 22nd of June 2015 the Guardian reported that Greece was ready to make major concessions in the negotiations (Inman, 2015). It appeared that the Syriza-ANEL government was ready to accept the vast majority of the austerity measures that the EMU partners had demanded. Athens had tried to propose alternative measures in order to raise revenue, including taxing high incomes, but these were dully rejected in favour of more Capital-friendly measures, such as pension cuts and VAT tax raises.

An agreement was so close that Tsipras' decision to hold a referendum came as a complete surprise. The decision was announced on the 26th of June 2015, and it was met with immediate hostility by other Eurozone member states. Greece requested an extension of the Second Program so that the referendum could take place in an environment of stability, but this was not granted to Greece and the program dully expired on 30 June 2015.

Moreover, given the decision by the Eurogroup not to extend the Second Program further, the European Central Bank, similarly, decided on the 28th of June 2015 not to increase the amount of liquidity available to Greek banks via the ELA (European Central Bank, 2015). This decision immediately put the Greek private banks in a highly fragile position, and the Greek government was consequently forced to impose capital controls. This dual blows and the fact that Syriza had done little to prepare Greece for these eventualities created the perfect conditions for an economic shock with the country's supply chains, and imports even considered at risk.

There is much speculation about why Alexis Tsipras chose this moment to hold a referendum on what would be the third bailout programme. If indeed his purpose was to consult the public, the timing could not have been worse. At this late stage, the Greek public had to choose whether to accept the bailout agreement or suffer an economic shock. Moreover, if the public voted no to the third bailout agreement, Greece was in danger of defaulting on its loans and exiting the Eurozone disorderly. The government could have organised a referendum at any point during the lengthy negotiations with the Eurozone partners. Had the referendum being organised at an earlier period, Greeks could have instructed their government to write down the debt or rejecting the bailout agreement without risking a disorderly Grexit.

Varoufakis famously claimed that Alexis Tsipras called the referendum and campaigned in favour of the “No” to the Third program offer, but genuinely he wanted citizens to vote “Yes”, thus taking the blame for signing the deal off him and describes how Tsipras was in fact disappointed with the result. Another interpretation was that Tsipras was repeating the George Papandreou strategy, namely trying to leverage the result of a referendum in order to gain a better deal. Varoufakis, on his side, proposed to Syriza to set up in motion his plan of parallel payments while he finalised a Plan X, namely a plan for an orderly last-minute exit from the Eurozone (Varoufakis, 2017, p. 458). The fact that a plan for a Grexit was only finalised at this late stage shows that the Government was poorly prepared for a conflict with the EMU partners.

During the referendum, Greek media embarked on a terror-mongering campaign taking the never-before-seen step of directly advising Greeks to vote in favour of the Third Bailout agreement. Given that Greek media are owned by a small number of business people, the media's support for “Yes” can be considered reflective of Greek Capital's decidedly pro-Eurozone stance. This stance should come as no surprise if we consider that some media owners had also invested in the Greek banking sector, making the continuation of Greece's Eurozone membership essential for keeping their banks solvent.

Greek polling companies consistently presented Yes enjoying the same or greater support than No, while at the same time Greece's EMU partners threatened in the media that a victory for "No" would mean the end of Greece's membership in the Eurozone. These threats were a repeat of the Sarkozy strategy only three years ago (see The Second Program and the 2012 PSI above), when the President of France warned George Papandreou that if he wished to hold a referendum at all, it should be on Greece's EMU membership.

Moreover, the referendum question was complicated, unclear to such a degree that it paved the way for abusive interpretations of the referendum result;

"Should the draft agreement submitted by the European Commission, the European Central Bank and the International Monetary Fund to the Eurogroup of 25.06.2015 and consisting of two parts, which make up their single proposal, be accepted? The first document is entitled 'Reforms for the completion of the Current Programme and Beyond' and the second 'Preliminary Debt sustainability analysis'?. Those of the country's citizens who reject the proposal of the three institutions vote: IT IS NOT APPROVED/NO. Those of the country's citizens who agree with the proposal of the three institutions vote: APPROVED/YES.

The question was highly complicated and unnecessarily technical; citizens could have been asked about the wider political direction of Greece's fiscal policy. The question could have been on whether Greece should continue with fiscal discipline and the structural reforms as proposed by its EMU partners, as well as whether the Government should restructure the debt or not. The referendum should, also, ask citizens if they would be willing for Greece to exit the Eurozone in case negotiations for a better bailout agreement failed.

Such a question would include the political dilemma that Greece was facing in its entirety. Rather than discussing one specific proposal for a new program, Greeks could have been asked whether they agreed to continue with the fiscal discipline and liberalisation policies. Should citizens have voted "No", the government could not have negotiated a Third Bailout agreement that involved fiscal discipline and liberalisation policies. Moreover, such a direct question would have solved once and for all whether Greeks were willing to sacrifice Greece's EMU membership in case that the EMU partners refused to agree on a program that did not involve austerity and neoliberal reforms. Such a referendum would have provided a clear and transparent democratic mandate to the government for specific measures.

Instead, the Syriza-ANEL government decided upon an over-specific question that allowed them later on to interpret citizens' position on the Eurozone freely; Tsipras freely interpreted

that Greeks' had given him a clear mandate to keep the country in the Eurozone. Such a mandate could not have been extracted if one reflected on the fact that the Greeks had been told directly that a vote for "No" would be a vote for Grexit (Crespy & Ladi, 2019). Moreover, the Syriza-ANEL government was able to interpret the results as a rejection of that specific bailout agreement but not as a rejection of austerity in general; in the name of keeping the country in the Eurozone Syriza would sign a different agreement, an agreement which nonetheless included fiscal discipline and neoliberal structural reforms.

Despite this unfavourable political and economic environment, the referendum's result was a triumph for No; on the 5th of July 2015, 61.31 per cent of votes went for no as opposed to 38.69 per cent for yes (Figure 5 below). The message was a clear rejection of austerity. This result was seen as a triumph for Syriza and Alexis Tsipras personally. It was clear that the party was enjoying significant popularity amongst the Greek people, as demonstrated by statistics on the public's trust in the Greek government (Figure 6 Trust in government Total, Per centage, 2006 – 2020 Source: OECD).

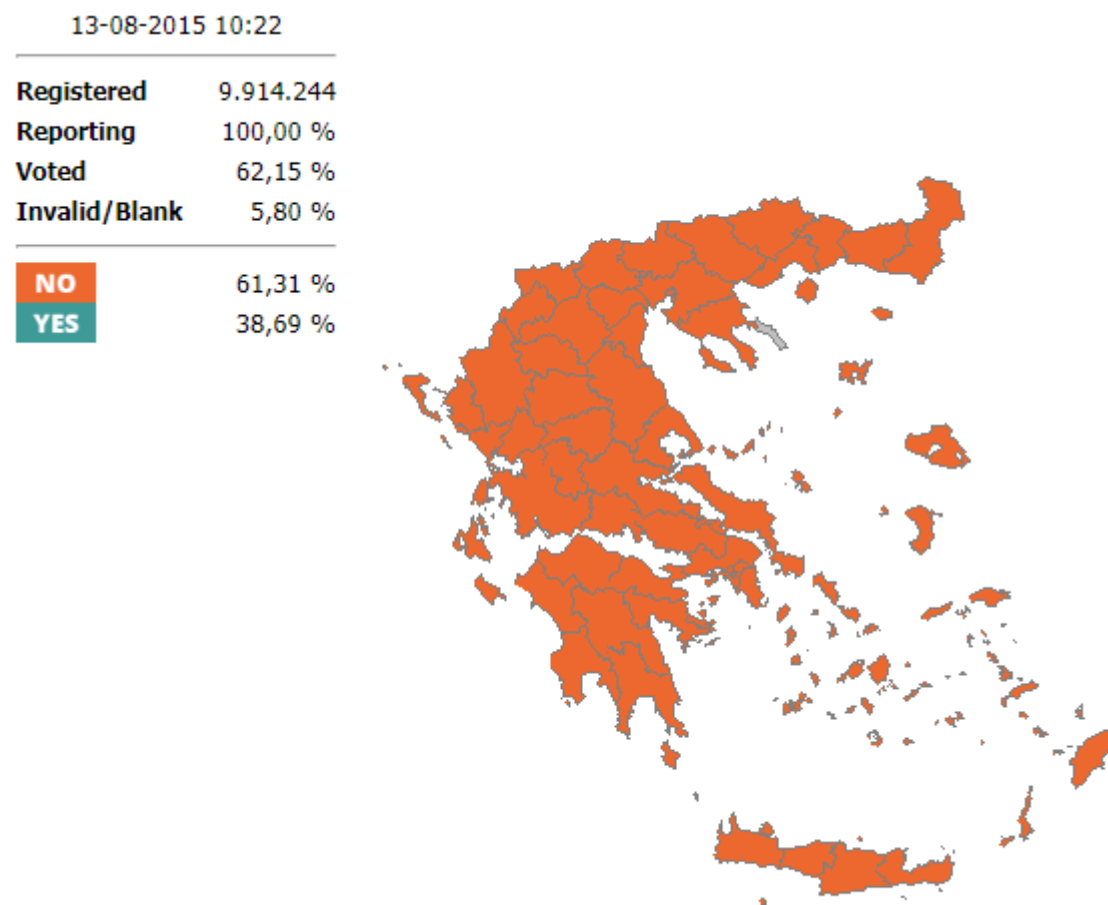


Figure 5 5 July 2015 national referendum results. Source: Ministry of Interior

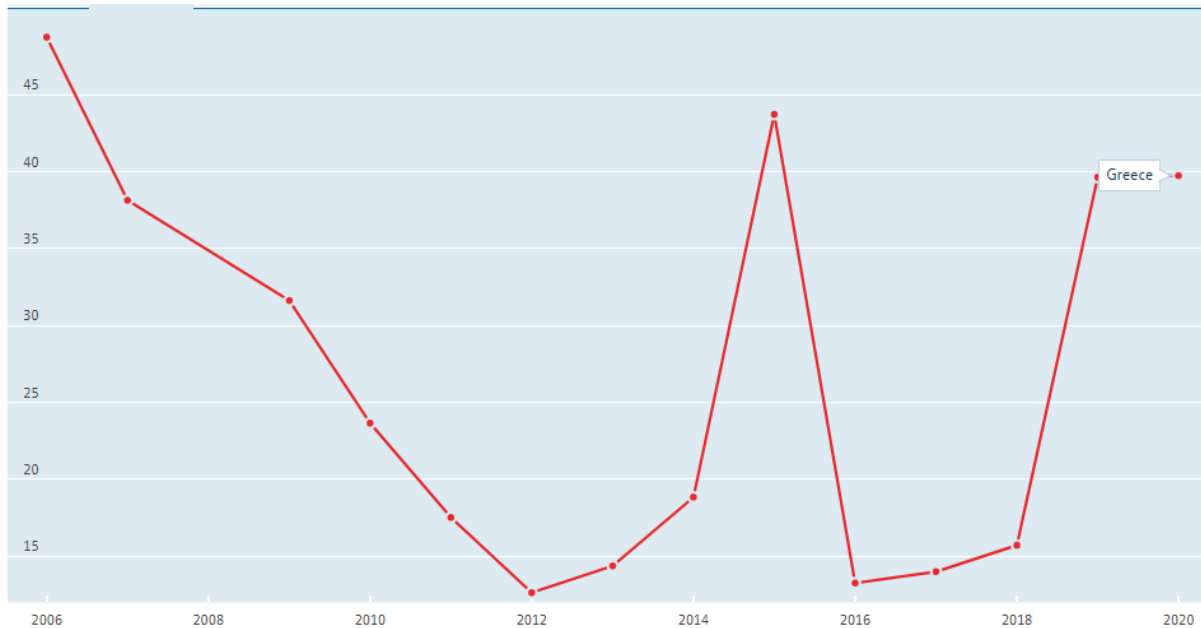


Figure 6 Trust in government Total, Per centage, 2006 – 2020 Source: OECD

Whatever the motivations of Syriza-ANEL behind calling the referendum, the historical events that transpired after the 5th of July results showed a significant gap between the grassroots and the Syriza leadership. The grassroots had voted “No” in order to end with the politics of austerity in the country despite credible threats of expulsion of Greece from the Eurozone and an economic shock. The leadership team of Syriza-ANEL was, on the contrary, willing to accept a continuation of austerity politics and was unwilling to take any risks in what Greece’s EMU membership is concerned.

The Greek referendum demonstrated clearly that grassroots was the source of dynamic resistance to austerity politics at this particular point of the Greek crisis, while the political elites were more willing to accept fiscal discipline. Moreover, the grassroots appeared more ready to accept the economic shock of a Grexit in order to break from austerity, whereas the political elites were highly wary of the political costs.

On the 8th of July 2015, only three days after the referendum vote Alexis Tsipras agreed on a Third Program that was essentially identical to the same version of the program that had just been rejected in the referendum. The Third Program obliged Greece to implement significant cuts, adopt a policy of fiscal discipline and introduce neoliberal structural reforms that would worsen the working conditions for Greek labour and increase the share of growth taken by Capital. The Greek government made a formal request for stability support from the ESM on

8 July 2015. The ECB and the European Commission positively assessed the request, citing once more the risk of contagion by a Greek disorderly default (European Commission, 2015).

The Eurogroup agreed to provide a short-term bridge loan to avoid a Greek default on 20 July 2015, and a political agreement was reached on the Eurogroup of 14th August 2015. On 19th of August 2015, the Greek government signed a new Memorandum of Understanding with the European Commission and a “Financial Assistance Facility Agreement with the ESM. The Third Program would provide €86 billion in financial assistance to Greece for the period 2015-2018. The conditions of the program included further fiscal discipline, significant cuts in public spending, further liberalisation of employment and other laws and more humiliatingly, the Syriza-ANEL government was forced to either recall all the social welfare spending measures it had announced or to implement cuts of equal value in other areas of Government spending.

The agreement created a new wave of breakouts from Syriza, with Varoufakis, Zoe Konstantopoulou and Lafazanis along with Lapavitsas forming their own breakaway parties. Syriza returned to the previous strategy of other Greek governments, namely the Model Prisoner strategy hoping for concessions down the line.

Alexis Tsipras called national elections for September 2015, which Syriza won, leading to a new coalition government with the ANEL. The reasons for this victory can be interpreted in many ways. Syriza had the momentum of the referendum victory, and its opponents were in disarray. Moreover, citizens might not have been fully aware of the contents of the Third Bailout Program. Syriza ran the elections with promises that it would fulfil the obligations set by the Program, but its government would finance the budget surpluses by taxing the rich and putting the burden of the adjustment on Capital instead of Labour.

Examining the available statistics for the Syriza era, we note that income inequality fell gently during the Syriza years (Figure 8 Income Inequality in Greece Source: WID), along with a Gini Index improvement (Figure 7 Gini Index Greece Source: World Bank). However, the World Inequality Database lacks at this moment Wealth Inequality data that could give us a complete image. If we compare the evolution of income inequality with other OECD countries, income inequality did decline gently in Greece, as was the case for other Eurozone members. However, Greece remains one of the most unequal EMU countries [Figure 9 Greece Income Inequality (with Euro area countries highlighted).] Income inequality between the top 10% and the bottom 50% also decreased in the years of the Syriza government, but this decrease was gentle and cannot be described as structural (Figure 8 Income Inequality in Greece Source: WID).

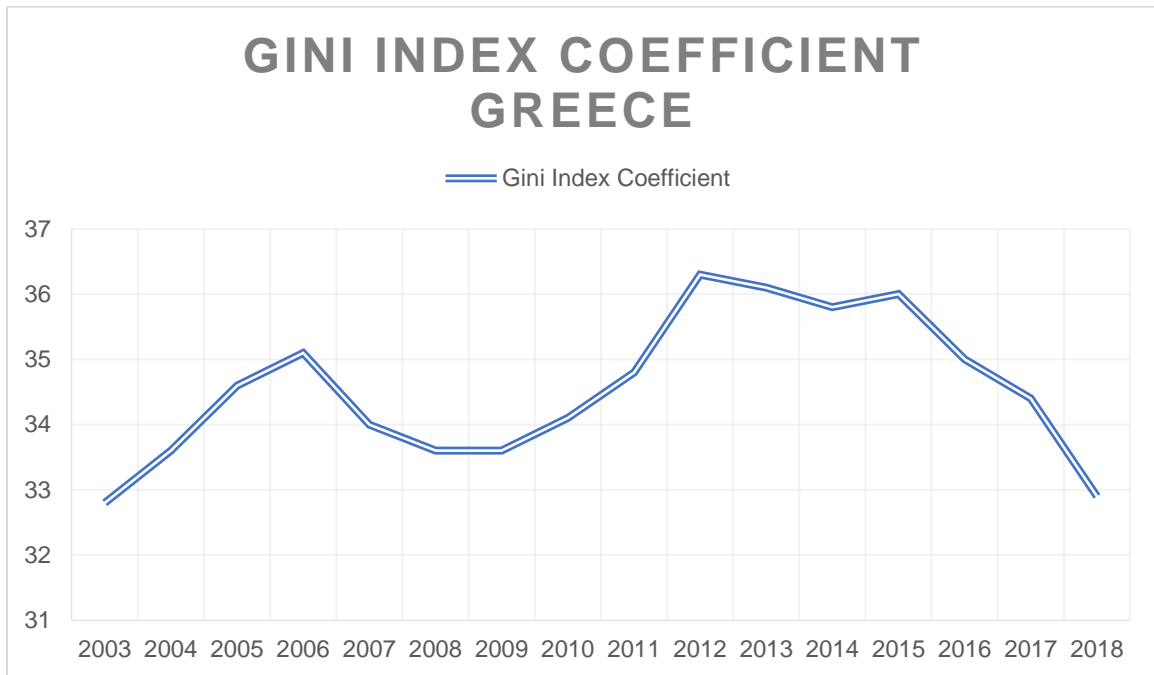


Figure 7 Gini Index Greece Source: World Bank

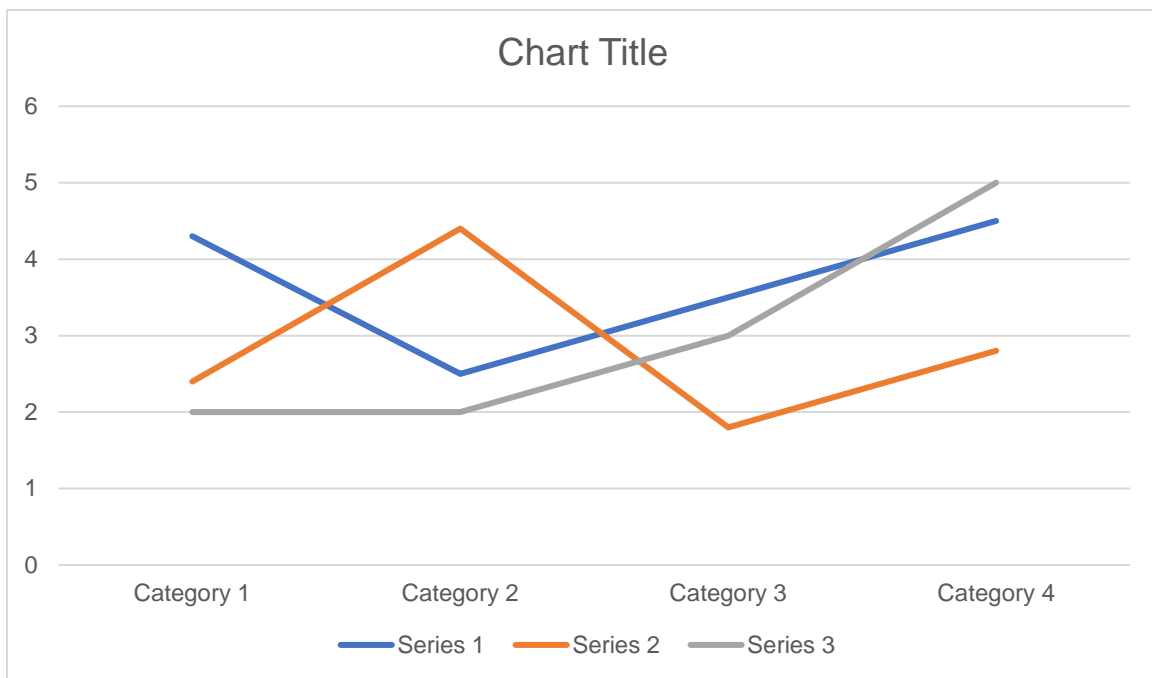
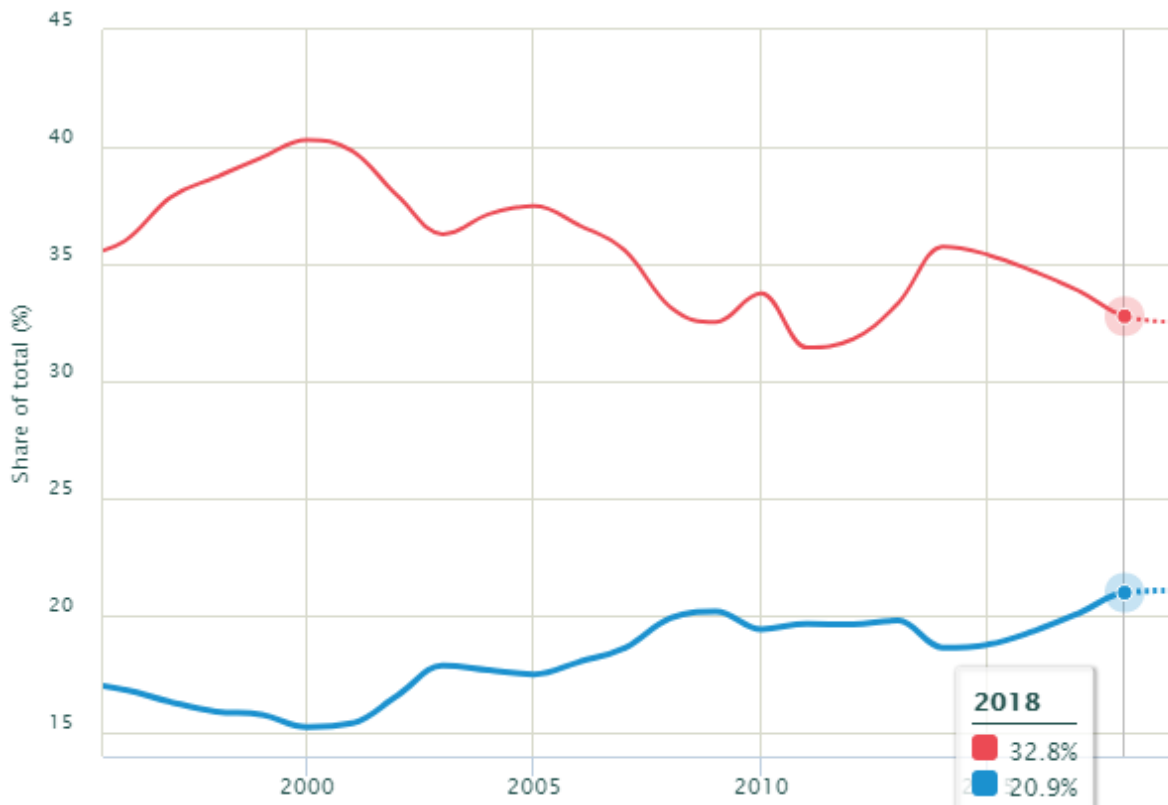


Figure 8 Income Inequality in Greece Source: WID

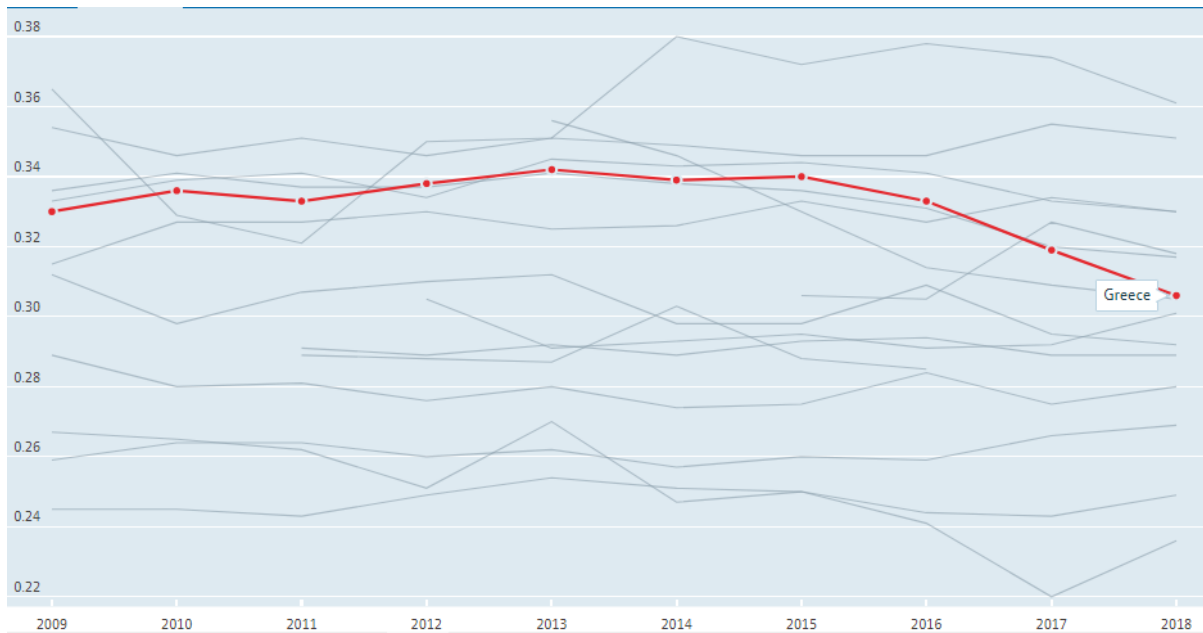


Figure 9 Greece Income Inequality (with Euro area countries highlighted).

Poverty during the Syriza years did decrease in what is perhaps the most important achievement of the Syriza government (Figure 10 Greece Poverty Rate Source: OECD), a reduction following trends in the Eurozone as we moved away from the 2009 crisis. Tax on Corporate Profits in Greece remains significantly low, with the Syriza government adopting an ambivalent strategy in this area of policy, at first raising and then lowering the Tax rate. Overall, Greece's Tax on Corporate Profits is far below the OECD average (Figure 12 Tax on Corporate Profits as compared to the OECD Average (Black) Source: OECD), demonstrating that the Capital indeed was not forced to contribute to the fiscal adjustment in Greece during the Syriza years.

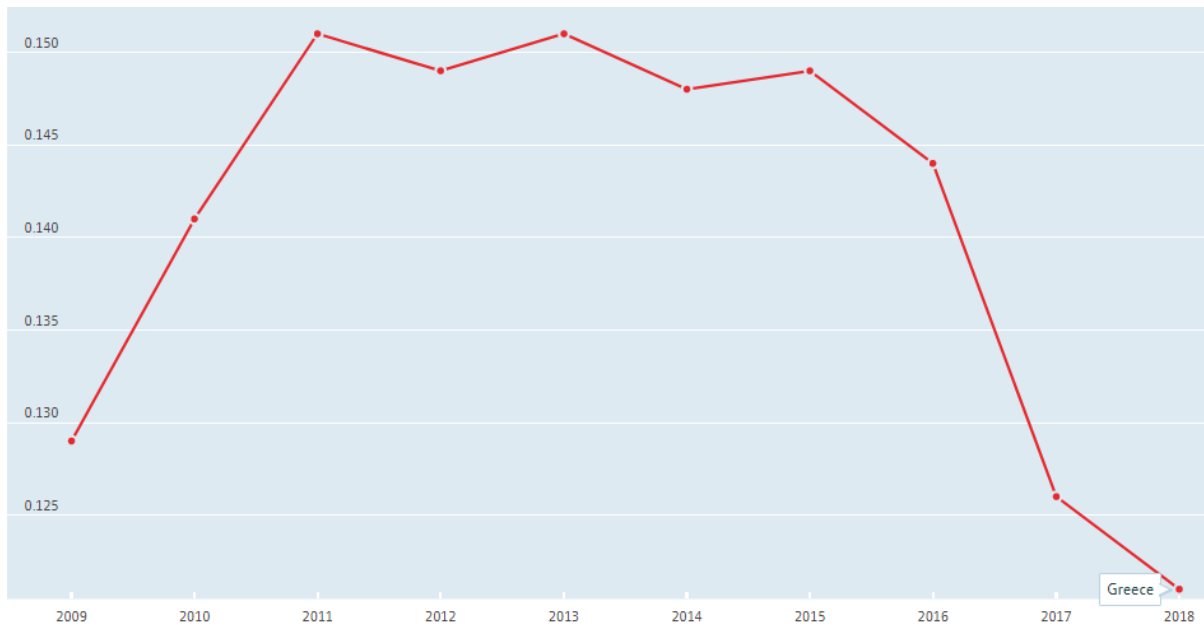


Figure 10 Greece Poverty Rate Source: OECD

Moreover, Greek public spending did not improve during the Syriza years despite Greece being in urgent need of pro-growth public spending; in fact, during the Syriza government, public spending declined gently (Figure 13 Greek Public Social Spending as % of GDP with Euro Area countries Highlighted Source: OECD below) in accordance with the fiscal discipline policy the country was following.

Moreover, household debt remains one of the highest in the Eurozone, with Greek households remaining significantly indebted after the 2009 crisis (see below Figure 14 Household Debt as % of net disposable income with Euro Area Highlighted Source: OECD). Most importantly, none of the structural issues that lead to the 2009 crisis was corrected. The General Government Debt as a per centage of the GDP continued increasing as the fiscal discipline measures had inhibited growth in the country. The balance of trade was, also, not substantially rebalanced despite the fall in labour costs.

The Syriza experience that implementing a worker-friendly fiscal discipline program is particularly challenging. More importantly, the Syriza case demonstrated that implementing a program of fiscal discipline within the context of a neoliberal institution such as the Eurozone is almost certain to hurt labour interests and benefit Capital. The 2015 negotiations of Syriza with the EMU partners demonstrate the importance of monetary independence in debt crises. Countries that find themselves engulfed in debt crisis need to use tools of monetary policy in order to recover from the crisis successfully. This was particularly true for Greece, whose principal creditors were after 2009 its EMU partners, with whom Athens was in an unequal

economic relationship. The Syriza experience also demonstrates clearly that when it comes to radical policy changes -that are often necessary for debt crises- they are much more likely to be endorsed by the grassroots instead of the elites.

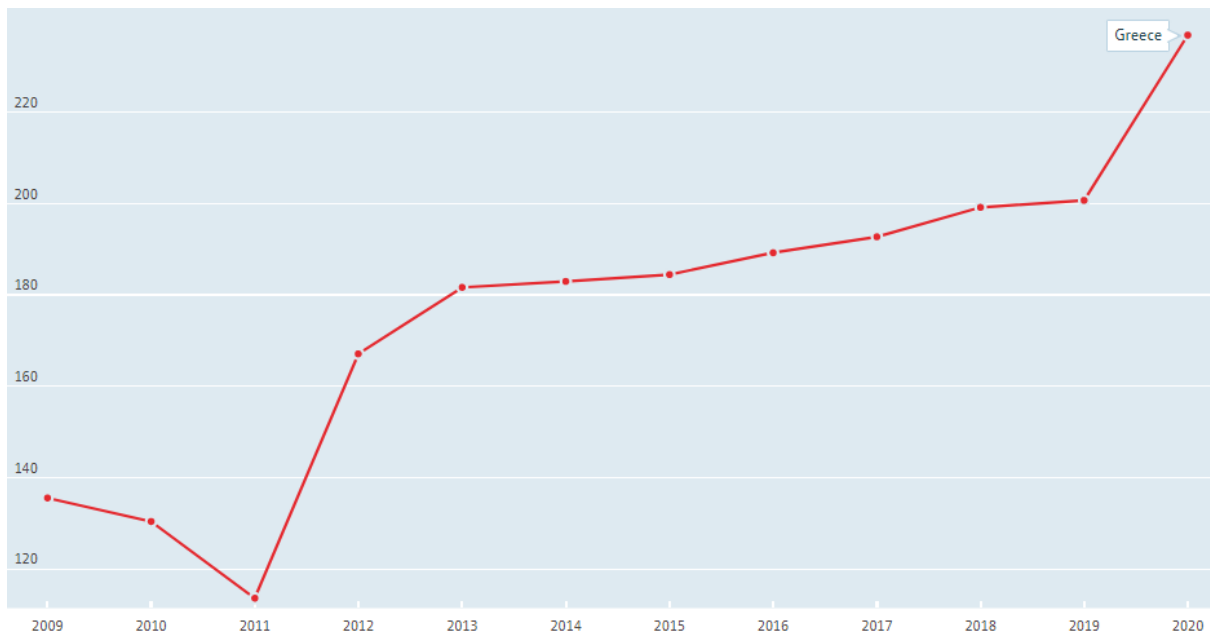


Figure 11 General Government Debt Source: OECD

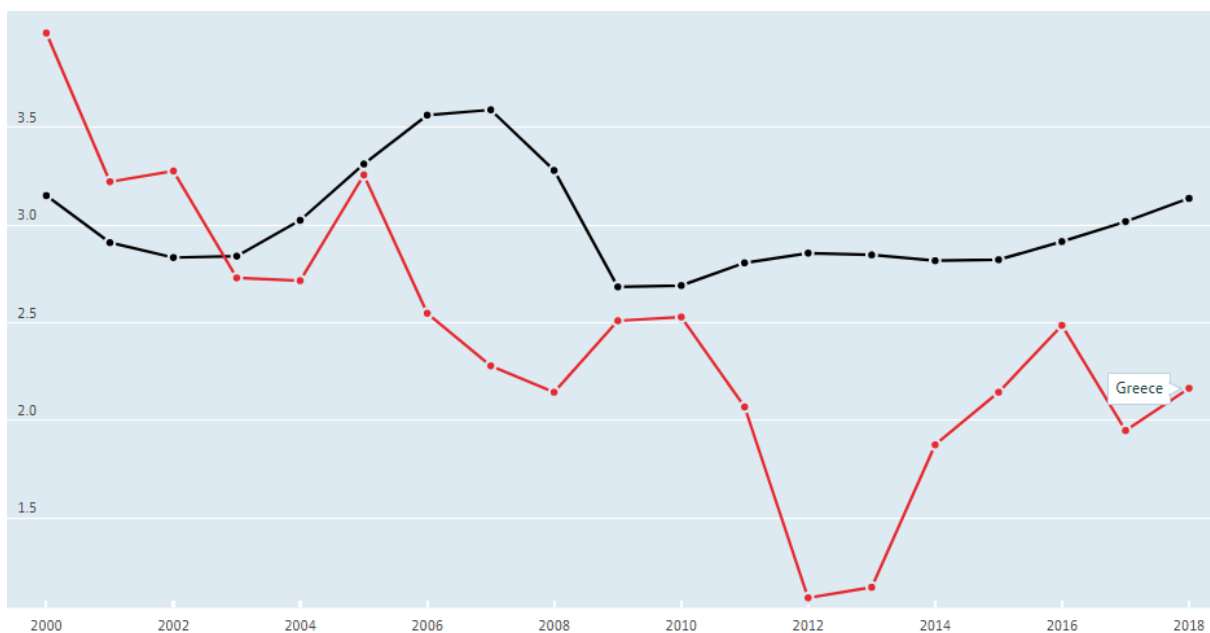


Figure 12 Tax on Corporate Profits as compared to the OECD Average (Black) Source: OECD

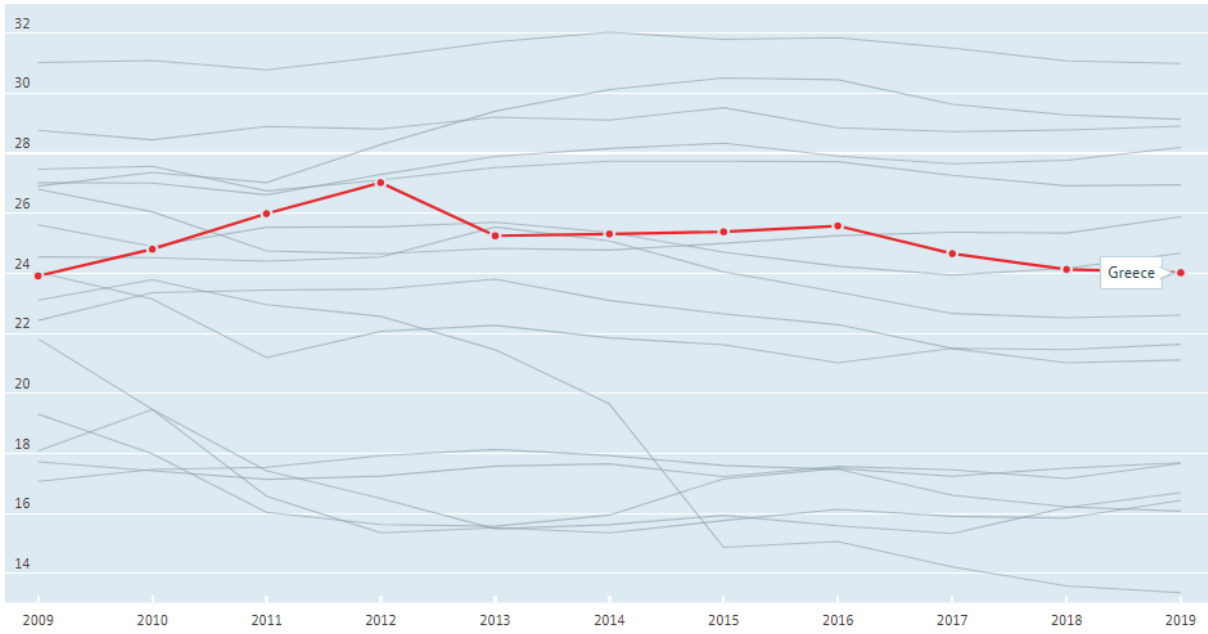


Figure 13 Greek Public Social Spending as % of GDP with Euro Area countries Highlighted Source: OECD

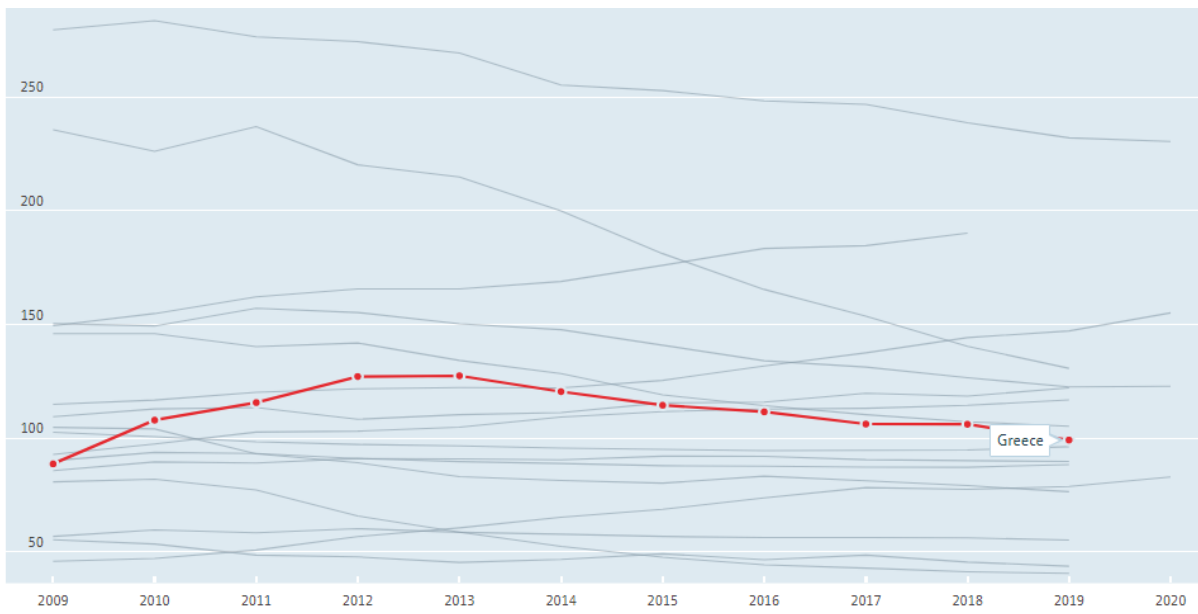


Figure 14 Household Debt as % of net disposable income with Euro Area Highlighted Source: OECD

CONCLUSIONS ON THE GREEK CASE

In this chapter, we have tried by examining the evolution of the Greek Debt crisis to draw certain conclusions about the Greek Debt crisis.

- The IMF-EU bailout did not develop adequate policies to address the structural weaknesses of the Eurozone discussed above. The leading causes of the Eurozone crisis were either only partially addressed through neoliberal policies at the expense of labour or not addressed at all. To solve the imbalances in trade between the Core -especially Germany- and the periphery, the EU-IMF bailout programs mainly aimed at bringing labour costs down in the periphery leading to a race to the bottom, for worker remuneration in the Eurozone, which given the already established competitiveness differences did not solve the issue. The “Euro as world-money” policy was not addressed, while no significant reform of the European banking sector took place. The Financialization of the Eurozone economy was similarly not addressed.
- Neoliberal thinkers from both progressive and conservative neoliberalism have put forward partial analyses of the crisis that ignore the structural dimensions of the Eurozone crisis while over-emphasizing the supply dimension of the crisis. As a result of this partial analysis of the causes of the crisis, neoliberal thinkers tend to be overly positive in their evaluation of the IMF-EU Greek bailout program, while failures are blamed either on the reform schedule -which is deemed too ambitious- or on lack of implementation and ownership of the reforms.
- Neoliberal theorists tend to overlook the source of competitiveness differentials within the EMU which are often taken to be caused by inefficiencies in the supply and the function of the free market. The class dynamics reflected in the competitiveness divergence between EMU core and periphery are almost entirely ignored in neoliberal perspectives of the Greek crisis.
- The Causes of the Eurozone crisis are intrinsically connected with the unequal economic relations developed between the Eurozone core and periphery. Similarly, EU and EMU institutions managed the crisis to overburden peripheral countries rather than tackle the crisis's structural causes. The Eurozone crisis reflected the hierarchical relations between EMU members and the class dimensions of the EMU.
- Although often naturalised in European Integration literature, the EMU institutional design does reflect class dynamics and the interest of European capital. More

importantly, the EMU institutional design has facilitated the Financialization of European economies.

- The EMU has functioned before and during the Eurozone crisis in ways that are not consistent with EU integration literature, namely as a transnational organization in the process of transformation towards a common European polity. On the contrary, it appears to have functioned as an institutional instrument for the interests of European capital, and especially Capital in the EMU core countries.
- The idea that the Euro or the Eurozone consist in any sense a European Commons is not supported by the evidence and does not reflect the actual situation. Citizens of EMU countries have very little democratic control over the ECB and its policies.
- Moreover, the EMU and the EU have seen their democratic deficit worsen during the crisis. We found evidence in support of Wendy Brown's thesis, namely that the management of the crisis led to the creation of a new European authoritarian neoliberalism.
- In accordance with the theory proposed by Maurizio Lazzarato in his work on the “Indebted Man” we found evidence that during the management of the crisis, we saw the frequent use of a discourse that aimed to blame the crisis on workers' allegedly over-generous pay and high public spending on social welfare.
- Certain conclusions can be suggested about the factors that affect the willingness of citizens to challenge austerity. Prima facie, in the Greek case, the closer we are to a crisis event and a deep recession, the greater the willingness to challenge austerity *ceteris paribus*. The extent of the recession also appears to contribute to the willingness of citizens to absorb the shock. Finally, the extent of citizen democratic participation and their proximity to the decision-making process also contribute positively to the willingness of citizens to absorb the transition shocks related to a contested negotiation with the creditors.
- In the case of Greece, the grassroots appeared to have been more willing to adopt radical policies and absorb an economic shock to break with austerity and debt as opposed to the political elite, including the leadership team of Syriza. The grassroots, horizontal politics and union strikes were also found to be crucial in creating an ample anti-austerity movement in Greece.
- The Interim Agreement and the entire renegotiation project that Syriza undertook demonstrated that Greece has very little space for negotiations without a significant

unilateral restructuring of Greece's Government Debt due to the schedule and size of debt repayments.

CASE STUDY II: THE ARGENTINEAN DEBT CRISES 1983-2005

INTRODUCTION

This chapter is dedicated to the case of Argentina and the series of debt crises the country experienced in the post-Dictatorial period. The Chapter focuses on Argentina's relations with the IMF and the Creditors and seeks to analyze the effects of this relationship on the Argentinean economy and democracy. The following chapter examines the events related to these debt crises, from the restoration of democracy to the Kirchner administration (2003-2007). The Chapter seeks to identify the key strategies employed by the different Argentinean governments in their efforts to tackle the problem of Argentinean debt. This chapter will seek to compare its results with the results of the previous chapter on Greece.

Moreover, we will contrast the theories on the debt we reviewed in the theoretical section of this thesis with the empirical evidence in the case of Argentina and examine which theories coincide with the empirical evidence presented in this chapter. Argentina's debt crises occupy a significantly larger period than the Greek Sovereign Debt crisis, while the country's first Standby Agreements with the IMF date back to 1958. In this sense, Argentina is interesting for the purposes of this thesis for the variety of strategies and economic policies implemented by Buenos Aires to render the country's debt sustainable. Argentina also presents a fascinating case because its 2005 Restructuring of the Debt remains an exceptional case of highly successful debt crisis management. Moreover, despite its prolonged engagement with the IMF, Argentina is also the country that most successfully concluded contested, non-amicable negotiations with the Fund and Creditors during the Kirchner administration's 2003-2005 restructuring negotiations. In a clear case of what Wendy Brown defines as authoritarian Neoliberalism, the Argentinean debt crisis begins with the neoliberal policies implemented during the Civil-Military Dictatorship. In what follows, we will examine Argentina's efforts to manage the crisis until the -at least temporary- resolution of the crisis some 20 years later during the Kirchner administration.

Table 6 Argentina: History of Lending Commitments as of August 31, 2019 (in thousands of Special Drawing Rights (SDRs)). Source: IMF

Facility	Date of Arrangement	Expiration Date 4/	Agreed Amount	Amount Drawn	Outstanding Amount
Standby Arrangement	Jun 20, 2018	Jun 19, 2021	40,714,000	31,913,710	31,913,710
Standby Arrangement	Sep 20, 2003	Jan 05, 2006	8,981,000	4,171,000	0
Standby Arrangement	Jan 24, 2003	Aug 31, 2003	2,174,500	2,174,500	0

Standby Arrangement of which Supplemental Reserve Facility	March 10, 2000 January 12, 2001	January 23, 2003 Jan 11, 2002	16,936,800 6,086,660	9,756,310 5,874,950	0 0
Extended Fund Facility	Feb 04, 1998	Mar 10, 2000	2,080,000	0	0
Standby Arrangement	Apr 12, 1996	Jan 11, 1998	720,000	613,000	0
Extended Fund Facility	Mar 31, 1992	Mar 30, 1996	4,020,250	4,020,250	0
Standby Arrangement	Jul 29, 1991	Mar 31, 1992	780,000	438,750	0
Standby Arrangement	Nov 10, 1989	Mar 31, 1991	736,000	506,000	0
Standby Arrangement	Jul 23, 1987	Sep 30, 1988	947,500	616,500	0
Standby Arrangement	Dec 28, 1984	Jun 30, 1986	1,182,500	1,182,500	0
Standby Arrangement	Jan 24, 1983	Jan 23, 1984	1,500,000	600,510	0
Standby Arrangement	Sep 16, 1977	Sep 15, 1978	159,500	0	0
Standby Arrangement	Aug 06, 1976	Aug 05, 1977	260,000	159,500	0
Standby Arrangement	Apr 15, 1968	Apr 14, 1969	125,000	0	0
Standby Arrangement	May 01, 1967	Apr 14, 1968	125,000	0	0
Standby Arrangement	Jun 07, 1962	Oct 06, 1963	100,000	100,000	0
Standby Arrangement	Dec 12, 1961	May 16, 1962	100,000	0	0
Standby Arrangement	Dec 12, 1960	Dec 11, 1961	100,000	60,000	0
Standby Arrangement	Dec 03, 1959	Dec 02, 1960	100,000	100,000	0
Standby Arrangement	Dec 19, 1958	Dec 02, 1959	75,000	42,500	0
Total			81,917,050	56,455,030	31,913,710

Table 7 Greece: History of Lending Commitments as of April 30, 2018 (in thousands of Special Drawing Rights SDRs). Source: IMF

Facility	Date of Arrangement	Expiration Date 4/	Amount Agreed	Amount Drawn	Amount Outstanding
Extended Fund Facility	Mar 15, 2012	Jan 15, 2016	23,785,300	10,224,500	9,040,633
Standby Arrangement	May 09, 2010	Mar 14, 2012	26,432,900	17,541,800	0
Total			50,218,200	27,766,300	9,040,634

ARGENTINA AND THE IMF

In the post-war period, Argentina had not immediately joined the transnational economic institutions that were built by the West, including the GATT agreements, the IMF and the World Bank. The economic policies pursued by the Government of Peron, such as the state monopoly of exports, the pursuing of a trade policy based on bilateral agreements, and the centralization of the financial system, were at odds with the liberal policies that the Western transnational economic institutions imposed on member states. Peron himself described his opposition to Argentina's participation at the IMF citing his fear that Argentina's membership to the Fund could lead to a loss of monetary and economic sovereignty. In a message from his exile in 1967, Peron stated:

“ Here are some of the reasons, apart from many others, why the Justicialist Government of the Argentine Republic did not join the International Monetary Fund. For us, the value of our currency was decided by our country [...] we established the changes [of its value] according to our needs and interests (Peron, 1967).”

Argentina's policy towards the Fund changed in 1955 when during the Dictatorial regime of General Aramburu, under the advice of structural economist Raúl Prebisch, Argentina shifted its economic policies towards a liberal and conservative direction (Belini & Korol, 2020, p. 243). Under Aramburu's economic plan, Argentina joined the IMF in 1956, hoping that its membership at the Fund would allow access to loans from the International Bank for Reconstruction and Development (IBRD) and the World Bank. This strategy did not pay off; eventually, Argentina would receive significantly smaller loans than other comparable countries like Brazil or Mexico, with the Eximbank guaranteeing a loan of only US\$100 million, far below Argentina's needs in investment -which was estimated by the U.S. economic mission to be around US\$1.200 million. Upon entry at the IMF, Argentina would implement its first program of liberal reforms; under the guidance of Prebisch and his influential report on the Argentinean economy titled “Informe Preliminar,” the Dictatorial regime aimed to introduce reforms that would align Argentina with the liberal policies that the IMF demanded of its members.

To establish the need for such reforms, the “Informe Preliminar” put forward an analysis that claimed that the Argentinean economy was impeded by critical weaknesses of government economic policy under Peron. The Informe Preliminar emphasized four “errors” of Peronist economic policy:

- 1) The control over foreign trade that the state was exercising had been discouraging primary-sector production. These policies weakened Argentinean exports, thus causing the country not to generate sufficient foreign exchange to finance the current needs of imports.
- 2) Industrial policy under Peron had focused on developing the less capital intensive light industry while neglecting “basic industry” causing Argentinean imports to increase.
- 3) Moreover, the Peronist administration had failed to pursue policies that would increase Argentina’s energy production; fuel imports further exacerbated the country’s problems with the availability of foreign exchange.
- 4) Membership in U.S. aligned international organizations such as the IMF was seen as a prerequisite for attracting foreign investment and credit, especially from the U.S. Argentina’s membership in the IMF is underpinned by unequal economic relations.
- 5) Finally, the expansionary fiscal policies during Peron’s administration and especially the wage increases above the levels of productivity, combined with a lax credit policy and high public sector deficits, led to significant inflationary pressures. Despite the acute inflation, Argentina had maintained the exchange rate unaltered, causing the peso to become overvalued, distorting agricultural and industrial production incentives (Belini & Korol, 2020, p. 243).

Based on the Informe Preliminar, the Dictatorial regime introduced a series of policies to lessen state control over the economy, liberalise the markets, and reduce labour costs. The Argentinean Dictatorship implemented policies that cancelled state control over prices to achieve these policy goals. At the same time, deregulatory legislation initiatives were taken to reduce limitations to capital flows from and to external economies and the system of Multiple Exchange Rates depending on the nature of the transaction (“cambios multiples”) was abandoned. Moreover, the Government introduced a new set of deregulation initiatives as far as the banking sector was concerned, known as the “reforma financiera 1957”; the reform terminated the nationalization of bank deposits and allowed banks to provide credits using their deposit. The reforms created an economic environment of negative interest rates and banking instability. At the same time, the country also applied for loans with Eximbank and the International Bank for Reconstruction and Development (IBRD). The Regime also adopted anti-inflationary policies such as reducing the offer of credit in the interior, hoping that a more controlled inflation rate would help Argentina attract Foreign Direct Investment. Finally, the project involved massive terminations of contracts in the public sector to reduce state

expenditure. This policy alignment with the IMF was rewarded in the form of a standby agreement; in 1958, Argentina would sign its first standby agreement with the Fund. The 1958 Standby agreement marks a change of Paradigm in the relations between Buenos Aires and the IMF from the earlier position that Peron had formulated. Argentina began a long period of dependency on the IMF, with the Fund acquiring significant influence over the country's fiscal and monetary policy. This period of dependency and IMF influence over the country would last up until the arrival of the Kirchner administration in power. From these earliest stages of Argentina's relations with the Fund, specific critical characteristics of already begun to emerge:

- IMF has been functioning as an external agent imposing liberal and free-market policies on Argentina
- The IMF's recommended policies for Argentina typically include deregulation of financial flows, fiscal discipline and low inflation policies, combined with interventions in the country's monetary policies.
- IMF's recommended policies tend overall to favour Argentinean Capital at the expense of Argentinean Labour.
- Finally, Argentina's motivation to engage with the Fund and implement its policies was to improve its access to the international credit markets.

After the change of policy towards the Fund in 1958, Argentina made a series of standby agreements with the IMF in the period between 1958 and the arrival of the Civil-Military Dictatorship; Stand-by agreements were signed in 1960, 1961, 1965, 1967 and 1972, drawing on the country's SDRs. The common cause behind these IMF loans to Buenos Aires had been reductions in the country's international reserves, brought about by a decline in Argentinean exports -with the two phenomena often being connected. These standby agreements were also characterized by a low credit Quota ratio, with credit ranging between 25% and 58% of the value of the Quota drawn, whereas post-1976 loans would range between 78% and 525% of the Quota.

With the return of Peron in power, Argentina distanced itself from the Fund once more. The last Peron administration would be able to limit the Fund's influence on Argentinean policy-making when in 1974, Peron was able to use its trade surpluses to pay its obligations to the Fund. Nevertheless, the arrival of the military Dictatorship, also known as Proceso de Reorganización Nacional (from now on, the Proceso or the Civil-Military Dictatorship) -which

replaced the Isabel Peron administration- reversed this policy course towards independence from the fund and the international credit markets.

The Proceso Dictatorship brought about an era of authoritarianism and violence in Argentinean politics that claimed approximately thirty thousand victims. As a result of this authoritarian governance, the regime was able to implement, against all opposition, a harsh fiscal discipline program that aimed to free price fluctuation -abandoning state control over prices- and freeze salaries once again. The military regime presented a policy programme that was described as the “stabilization programme” to submit a demand in 1976 for a standby agreement to finance this programme (Belini & Korol, 2020, p. 380). The International Monetary Fund signed on August 1976 the standby agreement allowing an almost immediate release of US\$180 million in special drawing rights. The ‘76 stand by agreement came with a set of conditions consisting of policies that Argentina should implement; for this reason, the 1976 agreement was considered the first IMF programme into which Argentina entered. This assistance that the Fund provided to the Dictatorial regime was crucial for the regime’s survival. It was not the first time that the International Monetary Fund had provided financial assistance to an Argentinian Dictatorship. However, given the severity of the human rights violations committed by the 1976 Dictatorship, the provision of assistance on behalf of the Fund dealt a blow to the hopes for a quick return of democracy in the country. More importantly, it becomes clear that a form of authoritarian liberalism begins to emerge in the early history of the relationship between the IMF and Argentina. This version of Argentinian authoritarian liberalism used the Argentinian military’s brutal force to impose IMF compatible policies, especially in the economic field. Wendy Brown has argued that Neoliberalism has experienced an authoritarian turn in recent years. In the case of Argentina, we see evidence of such an authoritarian turn at an early stage in the history of Neoliberalism already since 1976. It should be no surprise that neoliberal authoritarianism emerged earlier in the global South and Argentina and other Latin American countries. This is consistent with a subordinate position that the global South occupies in the world economy; human rights violations and oppression are generally less visible in the international public sphere than similar violations in the Global North. The IMF was able to collaborate with brutal Dictatorships in Latin America and beyond without facing significant scrutiny due to this lack of visibility.

The stand by agreement facilitated the issuing of a private bank loan towards Argentina from American, European, and Japanese banks with a total value of US\$1,000 million. From 1976

onward Argentinian sovereign debt began to spiral out of control until an adverse international economic context and the Malvinas War brought Argentina to the brink of default.

Between 1976 and 1980, Argentina would not ask for any further assistance from the Fund as improved access to commercial bank loans would replace IMF funding. Moreover, during this period, the embargo policy imposed on the Argentinian Dictatorship by the Carter administration complicated access to International Monetary Fund's assistance.

Before 1983 Argentina benefited significantly from flows of capital stemming mainly from the petrodollar surpluses of transnational banks (Boughton 2001, p. 267). Between 1978 and 1980, Argentina's borrowing was reduced, and the country did not ask the IMF for any loans until the advent of the crisis of 1982. At the same time, during the Carter administration, access to international loans and economic assistance became harder for Argentina; the U.S. was applying a sanctions policy against the Argentinean Dictatorial regime that involved denying Buenos Aires access to credit either via the World Bank or the International Bank for Reconstruction and Development. Similarly, military and economic aid to Argentina was cut. The policy of sanctions towards Argentina would change with the election of Reagan at the position of President in 1981. Reagan's anti-communist politics lead to a reevaluation of the U.S. relations with the Argentinean Military junta and a softening of the sanctions.

By 1981 the Argentinean Sovereign Debt had augmented significantly, partly due to the IMF loans and continued to increase throughout the era of the civic-military Dictatorship. In 1981 Argentina's external debt was equivalent to five years worth of exports, and when the Malvinas War broke out in 1982, Argentina was forced to withhold payments of its Sovereign debt. Developments in the international sphere were also worsening the outlook for Argentinian debt. From 1980 onwards, the Federal Reserve decided to increase interest rates to control inflationary pressures in the U.S. economy, provoking a significant increase of interest rates in international financial markets. This policy change had a particularly negative effect in Latin America since various countries in the region had increased their borrowing during the petrodollar era. Latin American states were forced to seek sure term credit in order to refinance their debt, but by 1982 this policy became unsustainable. When Mexico declared in 1982 its inability to pay the interest rates on its sovereign debt, a regional economic crisis erupted, negatively affecting Argentina (Belini & Korol, 2020, p. 393). The combination of the Dictatorship's extensive borrowing, the rise and international interest rates and the lack of new sources for international credit after the crisis in Mexico severely undermined the Argentinian

economy (Belini & Korol, 2020, p. 396). Moreover, the Dictatorship designed and implemented an economic model that failed to deliver sustained growth. The regime’s economic model included the financialization of the Argentinean economy and financial investment as a critical source of profits, along with Economic Rent. Finally, an integral part of the economic model was the recurring transference of funds abroad (Castellani & Schorr, 2004). The accumulation model established during the Civil-Military Dictatorship era – which remained essentially unchanged in the post-dictatorial era- was characterized by recurring debt crises and steep recessions. Debt payments became during this period particularly onerous, with annual debt payments climbing as high as 7 and 8% of the GDP. Throughout the 1981-1982 period, Argentina faced a severe decline in GDP, a collapse in consumption and a decline in salaries. Overall, the Dictatorship left the economy of Argentina in shatters, having followed an unsustainable model of development based on deregulation, authoritarian Neoliberalism, and financialization; by 1983, GDP per Capita had fallen an approximate 20% as opposed to 1975. Industrial production had also declined by approximately 12%, reflecting Argentina’s shift towards a more financialized economy model. The Dictatorship increased income inequalities and favoured Capital, with the labour income share declining from 45% in 1974 to 26% in 1983 (Seggiaro, 2015, pp. 60-61).

Private banks that held Argentinean Government Debt demanded that Argentina sign a new adjustment programme with the IMF. The Fund became a mediator between private banks and the Argentinean Government essentially. In 1983 the IMF approved two loans of a total of US\$1120 million in exchange for a programme of policies that would reduce the fiscal deficit of Argentina, boot hyperinflation under control, improve Argentina’s exports and reactivate the economy (Brenta, 2013, p. 154). The U.S. government ordered its executive director at the Fund to vote against the loans to Argentina. Argentina did not borrow from the Fund during the term of such sanctions.

Table 8 Argentina and IMF Adjustment plans, credit usage, and agreements. 1957-June 1982 Source: (Brenta, 2011)

Adjustment Plans	Agreements with the Fund			Type of Conditionalities
	Launch	Approval	Completion	
March 1957 “Miniplan” without explicit announcement	19-Apr-57	Undefined	Gold tranche and 1st tranche Credit	Unconditional/Weak Conditionalities
30-Dec-58	04-Dec-58 24-nov-59	03-Dec-59 23-Nov-60	Stand by	Strong Conditionalities

(termination June 1962)	09- Dec 60 22- nov- 61 06-jun-62 18-mar-63	08-Dec-61 21-Nov-62 05-Jun-63 17-Jul-63	(extension agreement in 1962)	
October-December 1965 “Miniplan” without explicit announcement	13-Dec-65	Undefined	2nd. credit tranche	Stabilization program
March 13 1967 (termination Jun-Sept 1970)	01-May-67 15-Apr-68	30-Apr-68 14-Apr-69	Stand by	Strong Conditionalties
Oct 1971-January 1972 “Miniplan” without explicit announcement	01-Mar-72	Undefined	Compensatory	No
June 1975 April 02 1976	June 1975 20-Oct-75 26-Mar-76	Undefined Undefined Undefined	Gold Tranche Petrol Supply Compensatory Quota	Unconditional Policy evaluations Policy evaluations
Termination Feb 81-Jun 82	06-Aug-76 15-Sep-78	05-Aug-77 15-Sep-78	Stand By Stand By	Strong Strong

Table 9 Argentina and the IMF, Adjustment plans, credit usage, and agreements. October 1982-2001 Source: Brenta, 2011 (Brenta, 2011)

Adjustment plans	Agreements with the Fund			Observations
Launch	Approval	Completion		Type
Oct-Dec 82. Medidas previas	24 -Jan-83	September 1983	Compensatory	Fund suspends agreement
	24 -Jan-83	Undefined	Stand By	
Oct-Dec 1984. “Medidas previas” Miniplan	28-Dec-84	Feb -85	Stand by	Fund suspends repayments
	28-Dec-84	Undefined	Compensatory	

14/06/1985 “Plan Austral” November 12 87 “Australito”	12 -jun -85 23-Feb-87 23 -Jul-87	27 -March-86 Undefined 01-jun -88	Compensatory Stand By Stand By	Renewed agreement of December 1984 Fund suspends Repayments
	Mini-adjustment plan to release disbursement of October 1987			
	26-Feb-88	Undefined	Compensatory	
“Plan Primavera” August-88 Break of Feb -89	No			World Bank denies payments
Jul – Nov 1989 “Plan B.B.”	10-nov-89	31 -March-91	Stand By	The Fund released only 45% of the Quota.
Apr-91 “Plan de C onvertibilidad” Terminations Dec-01	29 -Jul-91 31 -Mar-92 12 -Apr-96 04-Feb-98 10 -Mar-00 12 -Jan-01 21-Aug-01	30-jun -92 30-Mar 95 05 -Apr-96 11 -Jan-98 10-Mar-00 09 -Mar-03 11 -Jan-02 December 01	Stand By Extended Facilities Extended Facilities, Amplification Stand by Extended Facilities Stand By Stand By Increase Stand By Increase The Fund suspends Payments	

The Government does not launch the Adjustment Program	24 -Jan-03 20-Sept-03	31-Aug-03 January 06	Stand By	Transitory agreement, the Argentinean Government cancels debt towards the Fund.
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RETURN TO DEMOCRACY AND THE RAÚL ALFONSÍN ADMINISTRATION (1983-1989)

With the restoration of democracy, the new Government and its finance minister Bernardo Grinspun put together an economic plan aiming at helping the Argentinean economy to recover from the difficult position the Proceso dictatorship had left it; the economic programme consisted of a set of expansionary monetary and credit policies. Grinspun was a Keynesian economist who had been part of President Arturo Illia's administration. During that period, Grinspun had overseen the elaboration of expansionary Keynesian policies, and this experience informed his ideas and policies for managing the debt crisis. Grinspun saw the crisis of the Argentinean economy through a Keynesian lens, namely as a crisis of demand due to the high levels of unemployment and collapse of incomes (Pesce, 2006). Grinspun proposed an increase in real wages by 8%, combined with measures of price-freezing aimed at controlling inflation. Finally, Grinspun sought to increase the Government's tax revenues by tackling tax evasion and increasing the tax rates for higher incomes. Moreover, Grinspun actively sought to "de-financialize" the Argentinean economy and direct investment toward the country's industrial production (Rapoport, 2020). Moreover, Grinspun intervened in the banking sector with policies to improve liquidity and avoid bank insolvency. The policies introduced brought changes in the capital adequacy regulations, which became significantly more lenient, and provided banks with compensatory loans to make up for the damages banking institutions had suffered (Rossi, 2021, p. 38) Alfonsín had already pronounced these objectives as part of his electoral campaign. He stated during the presidential campaign in 1983:

"We want to increase the purchasing power of the people, this will increase actual demand, the increase in demand will generate the need to increase production, and to increase production we will have to take new employees, and thus we will restart the productive apparatus of the Nation. However, there is only one way to achieve a significant increase in the purchasing power of the real wage – not the nominal wage, which the next day is absorbed by the increase in prices – from the outset: to end the current financial system. The institutionalized usury in Argentina is over."

Grinspun promised that the over-emphasis on Finance that had taken place during the military junta would be reversed, and the economy would be re-oriented towards productive activities. Grinspun estimated that Argentina's debt problems were mainly a political problem (Schvarzer, 1997) and could thus be resolved through political negotiation. Grinspun's strategy

calculated that it would be in the advantage of Argentina to negotiate directly with the creditors rather than the IMF, which had in the past used its political leverage and the leverage of the U.S. in order to protect creditor interest. Grinspun was faced with the refusal of the banks that held Argentinian debt to grant relief on payments. Argentina's creditors demanded, instead, that the country must sign a new standby agreement with the IMF -as a means of avoiding insolvency.

Nevertheless, Grinspun's policies were not compatible with the restrictions that external debt had imposed on the Argentinian economy; the high levels of its sovereign debt, the significant imbalance of its public accounts and the high level of inflation had severely affected government finances, making the funding of an expansionary program particularly challenging. The issue of external debt became a vital issue for Argentina; without some solution to the high levels of debt, the country could not implement the policies necessary to escape its financial crisis.

Grinspun's main aim in the negotiations was to force creditors to agree that debt repayments would be subject to the growth of Argentinean exports. The proposal was based upon the fact that Argentina had been dependent on exports to finance its government debt. Similarly to Yanis Varoufakis' Keynesian plans for Greek debt, Grinspun sought to implement an automatic mechanism that would grant Argentina some relief from repayment when exports were weak. Varoufakis' plan for Greece was instead an interest rate that would be automatically adjusted according to GDP growth. Such measures are characteristic of Keynesian management of debt crises since, typically, Keynesians seek to avoid significant disruptions of the economic status quo and risky policies and opt for cooperative management of the crisis, where debtor and creditor mutually seek growth-friendly strategies in order to render debt viable and serviceable.

Not unlike Varoufakis' proposals, Grinspun's proposed policies were rejected by the creditors -and their national governments- who opted for a hardline approach. The Argentinean administration thus decided to engage with other Latin American nations to coordinate their actions and seek a common solution to the debt crisis that was affecting the region. The idea was sound since Latin American countries were all subject to similar debt dynamics and common causes; Latin American countries could combine their leverage to achieve a more favourable deal on their Government debts. Such alliances of debtors were also attempted during the Eurozone Sovereign Debt crisis, where Eurozone periphery countries attempted several times to create an alliance, most notably when Syriza in Greece and Podemos in Spain

sought to launch a pan-European front against austerity. Later, Yanis Varoufakis attempted an anti-austerity front across Europe but this time on a voter level rather than a country-level, when he attempted to create a pan-European party, the Diem25. These efforts had significant limitations due to issues of coordination. Several actors within each indebted country and several separate governments have to consent to a single coherent strategy for such an alliance to be functional.

Within Argentina itself, such consensus was not a given and then-presidential adviser Raúl Prébisch was against the idea. Nevertheless, Buenos Aires was able to ally with Brazil, Colombia, Mexico, Ecuador, Peru, and Venezuela; these countries drafted a letter together requesting dialogue with the G7 countries about the issue of debt to find a formula to provide debt relief to over-indebted countries in Latin America. The indebted countries arrived at the so-called Cartagena Consensus. During a multilateral meeting, participating countries aimed to put forward a narrative of the debt crisis from the debtors' perspective; this took the form of emphasizing how high international interest rates had caused the debt crisis in the Global South. Moreover, the participating countries argued in favour of the principle of co-responsibility, namely of the shared responsibility between advanced and emerging economies in dealing with the then-financial crisis; both sides should contribute to the recovery process. The Cartagena Consensus marks one of the most prominent cases of Global South countries collaborating to change a dominant discourse. Global North discourses about the Tequila crisis came from a Global North perspective, and such discourses were adopted and elaborated by the IMF, informing the conditionalities and policies that the Fund demanded of Latin American countries in need of financing. From the debtor's perspective, these discourses focused on creating what Lazzarato described as an indebted subjectivity. Latin American states focused on fiscal discipline and internal factors rather than the international and structural causes of the Tequila crisis. The coordinated efforts by the eleven governments that took part in the Cartagena Consensus to put forward an alternative discourse demonstrate the importance of discourses in shaping Subjectivities and policy and lend additional validity to the Lazzarato theory of the "Indebted Man".

The UCR government was also additionally concerned about the legality of Argentina's Sovereign Debt, given that a large part of it had been issued by the Military Junta, with some of the funds helping to finance the regime's dirty war on the Argentinean population. Nevertheless, under significant pressure from the creditors would never materialize into actual law until the Congress voted for the historical Law 23.854/1990 (Congreso De La Nacion

Argentina, 1990) several years later, according to which the executive branch of the Argentinean state “rejected” the payment of those debts that corresponded to the uses of the fiscal years 1976,1977,1978,1979,1980,1981,1982 and 1983.

Similarly, Grinspun hoped that Argentina’s international partners in the Global North would be lenient towards the new democratic Government and grant some debt relief. The assumption was that international creditors would not risk the stability of the fragile Argentinean democracy and would try to support the democratization procedure by relieving some of the debt payments Argentina was facing (Manzo, 2011, p. 16). President Alfonsín summarized Argentina’s position during the Cartagena Consensus meetings. He clarified that only the legitimate part of the debt would be repaid. As far as Argentina’s debt was concerned, he argued that nominal rates should be rapidly reduced, international banks should provide new loans at preferential rates, and debt payments should be extended. Finally, the IMF should review its conditionalities, replacing conditionalities that emphasize fiscal discipline with conditionalities that promote growth. Most importantly, the Argentinean President asked that the IMF consider raises in the international interest rates as it had happened with the Tequila crisis and review fiscal targets and conditions accordingly (Alfonsín, Consenso de Cartagena, 1985).

Nevertheless, the international creditors refused to engage in direct negotiations with the UCR administration, frustrating Grinspun’s efforts for a consensual solution to Argentina’s debt problem. This revealed a significant weakness of the Grinspun negotiating strategy, namely that a consensual agreement with the creditors depended mainly on the goodwill of the former. This weakness was accentuated by the fact that Argentina, much like Greece during the 2015 negotiations, had not been actively preparing for a default on its debt and unilateral restructuring in case the negotiations failed.

In response to the failure of the creditors to engage in negotiations, Argentina announced the temporary suspension of debt repayments and refused to use its already depleted international reserves for the payment of accumulated interests (Bouzas & Keifman , 1988). One of the country’s largest creditors, Eximbank, announced that no additional credits would be provided to Argentina, thus making refinancing Argentina’s existing debt impossible. In the face of the possibility of an Argentinean default, Argentina’s Latin American partners and the U.S. and Eximbank reached an agreement for a bridge loan to give time to negotiators to achieve a solution. The loan worth US\$ 400 million was agreed upon on March 31 1984 (Rossi, 2021) involved significant solidarity from the rest of the Latin American states that had now been

exposed to significant risk to support Argentina. We observe that a similar bridge agreement was made during the 2015 negotiations between Greece and its creditors; the bridge agreement was meant to avoid a Greek default and continue the negotiations. Both the Greek and the Argentinean bridge loans demonstrated clearly that in both cases, creditor banks and the IMF were willing to take some measures to avoid a default, including bridge loans; this is evidence that the default of government debt is an efficient means of pressuring creditors. We can assume that the threat of a default would have been even more credible if Argentina and Greece had made adequate plans for such an eventuality to minimize the economic shock. However, the commonalities do not stop there since both the 1984 Argentinean bridge loan and the 2015 Greek bridge loan did nothing to improve the negotiating position of the two indebted countries. Since both Argentina and Greece were unwilling to take unilateral measures and restructure their debts in case an agreement could not be reached, bridge loans only served to extend the negotiations at the expense of the two indebted countries.

Argentina used the time gained by the bridge loan attempting to engage the IMF mainly through verbal arguments to convince the Fund to adopt a “common sense” approach. Buenos Aires presented a formal letter that demonstrated how Argentina could not continue to follow the current repayment plan, which had become unrealistic, while it argued that a reduction of incomes risked causing a recession.

The IMF unsurprisingly rejected this petition simply restating its belief that Argentina should focus on fiscal discipline and that the Fund estimated that it was not possible to retain fiscal discipline if salaries were to be indexed to inflation; given that Argentina had experienced fast-paced inflation, this amounted at a significant wage cut in real terms.

Under pressure and without an amicable agreement, they had hoped the Alfonsín administration would approach the IMF to sign a new loan. Internal divisions appeared again as the Head of the Central Bank, García Vázquez, pressured the President to strike a deal with the IMF. It was clear that part of the Argentinean political elite wanted to avoid a conflict with the IMF at all costs. The negotiations were concluded in December 1984 when a new agreement was reached for a loan of US\$1182 million. This new standby agreement would come at the cost of the usual IMF conditionalities, namely recessionary measures in fiscal discipline. The Fund would eventually declare that Argentina did not meet these conditionalities and poorly implemented the agreed policies (Brenta, 2013, p. 154).

The new deal put extreme pressure on Argentinean finances. Machinea and Juan Sommer calculate that the interests in Government Debt represented 5.1% of GDP between 1984 and 1987, while the Argentinean government budget was additionally burdened by the policies of subsidizing Argentinean companies, safeguarding against exchange rates risks (Ortiz & Schorr, 2006). Ortiz and Schorr demonstrate that both the serving of the debt and the subsidizing of Argentinean companies were financed by reducing workers' share in Argentinean output, which the two authors calculate at 13% of GDP for the period (80 billion dollars). The Fund conceded that wages would be indexed according to inflation, but in the exchange for significant fiscal and monetary discipline that undermined whatever gains workers would make from the indexing, it also required a substantial depreciation of the real exchange rate. The negotiations between the Fund and Buenos Aires were tense, with changes occurring at the last moment when the IMF found that the planned 14% monthly increase in wages was excessive. This disagreement would bring the negotiations to a halt; Argentina was now on the verge of a default. The international creditors agreed once again to provide assistance to Argentina; another bridge loan was issued in 1985 with a total worth of US\$8 billion, this time with the participation of the U.S., the World Bank, the Inter-American Development Bank (IDB), the Paris Club, the creditor banks and the IMF itself.

Argentinean Capital had been re-organized during the Civil-Military Dictatorship; new influential conglomerates and transnational companies emerged during the dictatorial regime. These companies enjoyed significant leverage over the state on matters of economic policy, posing an obstacle to the proper function of Argentinean democracy. The model of capitalist accumulation that emerged during the 1976-1983 dictatorship was in accordance with more expansive tendencies in global capitalism; namely, it was a form of accumulation based on financial investment and transnational companies (Basualdo, 2020, p. 19).

The erosion of Argentinean democracy continued as non-elected agents within and outside the country continued to pressure the newly elected UCR government to abandon its democratically approved pledges. The Administration began engaging in regular but informal negotiations with groups that represented Argentinean capital, most notably a group of nine large industries, also known as G9, the Industrial Union of Argentina (UIA) and the Business Council of Argentina (Consejo Empresario Argentino CEA). These organizations that represented different conglomerations of Argentinean capital had acquired significant influence and power during the Civil-Military Dictatorship; their return as partners of the Argentinean Government was clear evidence that the issue of debt was weakening the nascent

Argentinean democracy and reinforcing the remaining clusters of the dictatorial state apparatus. In the context of the debt crisis, Argentinean Capital held significant leverage and was able to shape policy in areas such as investment and taxation (Novaro, 2019). The transformation of Argentinean Capital during the dictatorship years meant that Argentinean businesses were no longer supporting expansionary, demand-boosting policies. Argentinean businesses had focused primarily on accessing foreign markets, taking advantage of low labour costs and the weak labour protection policies that the dictatorial regime had implemented.

Moreover, Argentinean businesses had acquired during the dictatorship era significant levels of liquidity to such a degree that Non-Financial Companies began providing credit through a parallel credit market known as the inter-business market (“interempresario”). At the same time, after the 1982 crisis, Argentinean Capital fled the country en mass (Basualdo, 2020, pp. 27-28). These new conditions concerning Argentinean Capital meant that the businesses were no longer oriented toward the domestic market but rather towards foreign markets; Grinspun’s policies of increasing Argentinean wages in order to stimulate domestic consumption were no longer particularly beneficial for Argentinean Capital, leaving Grinspun without the support of the powerful business conglomerations.

However, the absence of a deal with the IMF appeared to be a blessing in disguise for Grinspun’s economic plans. Without an agreement with the Fund, the Finance Minister enjoyed some freedom in implementing his economic strategy. Grinspun’s policies were primarily inspired by past economic policies that have been partially successful in Argentina and, more specifically, the policies that fell under the “substitution of imports” mode (Pesce, 2006). Grinspun strategy aimed at implementing these policies anew while adopting them in the situation that had been established in the country in the 1980s, as far as the debt was concerned and Argentina’s large balance of payments deficits (Aruguete, 2004).

Grinspun implemented policies aimed at increasing industrial production and also worker wages -to correct both the supply and demand-side weaknesses of the Argentinean economy. As is typical of Argentinean Keynesianism, Grinspun attempted to establish guidelines on the fluctuation of prices and public tariffs while he re-established state control over prices in some industrial goods. The exchange rates were also brought under state control, while interest rates were lowered (Rossi, 2021, pp. 37-38). Despite his pro-growth policies, Grinspun was forced to adopt some forms of fiscal discipline, involving a hike in taxes and public tariffs as well as cuts in public expenses. Nevertheless, his budget-balancing was overall in a progressive

direction, focusing on Argentina’s excessive military spending and avoiding cuts in sensitive policy areas such as food-stamp programs, education, and healthcare. Moreover, the Central Bank introduced new measures, such as reducing risk to investment requirements and a new set of regulations governing financial markets to halt speculative activities. The Government attempted to incentivize banks to funnel this additional liquidity into investment and production.

The Grinspun policies did enjoy a partial success, and by the end of 1984, Argentinean GDP per capita had increased by 2.6%. Other indicators such as employment, real wages and private consumption had also improved. Final consumption -which includes both household and government consumption- rose to US\$ 214 million from US\$205 million (the values are in 2015 U.S. Dollar (Table 10 Final consumption expenditure (constant 2015 USUS\$)) while unemployment declined by 0.7% in 1984 (Table 11 Unemployment, total (% of the total labour force) (national estimate)).

Table 10 Final consumption expenditure (constant 2015 USUS\$)

	1983	1984	1985
Argentina	205,909,108,076.8	214,472,620,545.1	197,215,976,529.6

Source: World Development Indicators

Table 11 Unemployment, total (% of the total labour force) (national estimate)

	1983	1984	1985
Argentina	4.2	3.5	5.3

Source: World Development Indicators

Argentina managed to retain its trade surplus for 1984 in goods and services (Table 5), but the fiscal deficit remained high at 10.4 points of the GDP (Rapoport, 2020), while the inflation rate remained high overall.

Table 12 External balance on goods and services (current USUS\$)

	1983	1984	1985
Argentina	3,447,293,429.6	2,241,000,056.6	4,830,000,122.0

Source: World Development Indicators

Moreover, the UCR administration had been unable or unwilling to replace high-level Central Bank personnel collaborating with the dictatorial regime. High-level technocrats that had designed and implemented the disastrous financial reform of 1977 were still retaining their

places within the Central Bank; these were important technocrats such as Pedro Camilo López, Elías Salama, Daniel de Pablo, René De Paul, Jorge Rodríguez and Enrique Bour. These caused two different sets of problems. Firstly, it meant that the process of democratization was in an abysmal state within the Banking system, with collaborators still holding significant influence over the country's financial policy. Secondly, the presence of dictatorship-era staff -who were characterized for their radical neoliberal views and political conservatism- meant that frictions and conflicts between the Ministry of Economy -run by Grinspun- and the Central Bank were bound to arise. These frictions would create significant problems in policy coordination.

It is important to note that the 1977 plan was set by the head of the Central Bank of the Dictatorship Adolfo Diz; Diz represented an extreme case of Latin American authoritarian Neoliberalism. He had been a high-level technocrat for the IMF, where he was director of the Centre for Latin American Monetary Studies, while previously he had been a student of Milton Friedman, who supervised his PhD at the University of Chicago.

In many ways, Diz's career was typical of other Latin American authoritarian neoliberals, such as the infamous Chicago Boys in Chile; Diz, like the Chicago Boys, had studied at the University of Chicago and was linked with Milton Friedman. What was unusual about Diz was the high-level positions he had occupied in an international organization, namely the IMF, where he had also been representative of Argentina in the Fund. Diz's spell as Chair of the Central Bank during the dictatorial regime demonstrates the links between the Fund and a brutal dictatorial regime; these links culminated in the IMF's financial assistance. Both the presence of Diz's staff in the Central Bank and Diz's collaboration with the Dictatorship demonstrate that after the collapse of the Civil-Military regime, Argentina had been ushered in an era of what Wendy Brown describes as authoritarian Neoliberalism. This authoritarian Neoliberalism was perpetuated mainly due to the actions of the Argentinean Capital, the state apparatus and the IMF.

The Central Bank of Argentina, under the leadership of this group of economists, continued several of the military regime's finance policies, directly undermining Grinspun's policies. Most notably, the Central Bank continued to finance the fiscal deficits left by the Dictatorship by making advanced payments via its Monetary Regulation Account, thus undermining the negotiating position of the Alfonsín administration (Rossi, 2021).

The dead-end in negotiations led President Alfonsín to re-evaluate his strategy, while his administration had initially aimed to develop relations with social-democratic governments in

Europe in the hope of their support for their Keynesian policies. However, in September 1984, Alfonsín visited the United States as part of his “realistic turn” in strategy. During that visit, a change in Argentina’s confrontational policies towards the IMF was formalized. The Argentinean Government sent a formal letter to the IMF announcing the withdrawal of its previous demands for debt relief and stating its readiness to agree on a new program with the Fund. The Ronald Reagan administration was particularly keen to see Argentina entering an IMF program; the U.S. administration followed a Whip and Carrot strategy to achieve this. The “Carrot” was the promise that a program with the IMF, endorsed by the U.S. treasury, would act as a guarantee for the financial markets that Argentina’s debt was repayable and the Government trustworthy. The Whip element of the strategy was that the U.S. would use this vote of confidence in the Argentinean economy as a means of pressure, asking Argentina to implement the IMF agreements to continue enjoying U.S. support in economic matters. In the context of this collaborative relationship, Washington agreed to keep some elements of the new Standby agreement hidden; the two countries agreed to keep the fact that the Argentinean Government was planning to introduce state control at the prices of certain goods, a policy that Argentinean capital opposed vehemently, confidential (Massano, 2018).

The Alfonsín administration temporarily managed to stabilize the Argentinean economy by mid-1984, with the price index falling to a 12% monthly rate and salaries increased, improving the purchasing power of Argentines (Novaro, 2010, p. 203). This improvement facilitated the negotiations for a Standby agreement with the IMF.

In December 1984, a Standby agreement was signed between Argentina and the IMF for a US\$1,419 million loan. Another loan was added as part of the deal, a compensatory loan worth US\$ 270 million. The compensatory loan aimed to assist Argentina in dealing with its declining exports (Table 12). Argentina agreed to reduce its fiscal deficit through fiscal discipline and monetary contraction, while the country promised to undertake a liberalization program of the financial sector (Sommer & Machinea, 1992).

The program, nevertheless, did not have the desired results; as part of the monetary contraction, Argentina increased rates. Inadvertently, this hike in rates caused a new wave of inflation, thus undermining the Government’s deflationary efforts. A devaluation of the Argentinean peso and the liberalization of the financial sector caused a further increase in nominal rates, causing productive activity to decline. The Government’s effort to implement the IMF agreement had

done very little to help the country escape the post-dictatorial financial crisis, but what is more, the measures caused a new wave of recession and inflation.

The peso's devaluation produced a rise in nominal interest rates and thus caused a rise in inflation, while Argentinean Capital, especially the agro-exporting Capital, adopted behaviours that undermined the Government's plans. The primary sector used the oligopolistic structure of Argentinean domestic markets to manipulate prices, circumventing Grinspun's price freezes. These practices caused further increases in inflation while private companies transferred their profits abroad, fuelling the Capital flight phenomenon instead of reinvesting in production. Gross fixed capital formation continued downward throughout the UCR administration era (Figure 15).

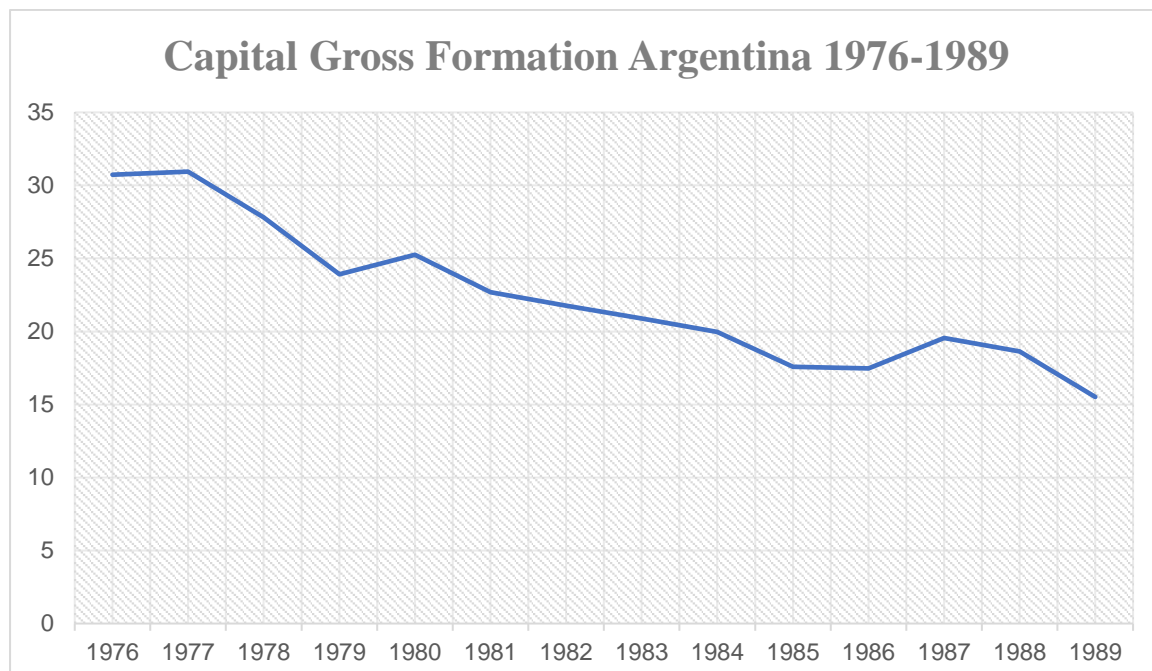


Figure 15 Gross fixed capital formation 1976-1989 source: The World Bank

Grinspun's economic policies were inspired mainly by Argentines experience with Keynesian policies that have yielded positive results in the post-war era. Grinspun aimed to stimulate the internal market by improving Argentinean households' purchasing power and disposable income. This strategy faced many obstacles, most notably the significant burden that servicing the debt posed for Argentinean public finances, leaving little room for public investment while undermining confidence in the Argentinean economy. To serve its enormous debt, and given that the UCR administration was unwilling to consider a unilateral elimination or restructuring of the country's debt, Argentina was dependent on agricultural exports and the

foreign reserves these exports generated. However, the Agricultural export sector was oligopolistic, controlled by large companies, thus giving significant leverage to the Argentinean Capital over the Government. Argentinean Agroexportive Capital was not interested in the profits that could be generated domestically but preferred to keep worker wages low to capture foreign markets. The profits made through exports would then be taken abroad, and throughout the 1980s, Capital flight from Argentina remained significant (Rua & Zeolla, 2018).

“EL PLAN AUSTRAL”

Grinspun’s efforts to renegotiate Argentina’s Sovereign Debt were met with failure. The IMF and the private banks holding Argentinean Government Debt formed an alliance ahead of the negotiations, efficiently pressuring the Argentinean Government into continuing servicing its debt without any debt relief and restructuring. Grinspun’s alliance with other Latin American countries did indeed provide some positive results (Rossi, 2021). Nevertheless, the Argentinean Government was ultimately unable to achieve any significant results in their negotiations with the IMF due to their unwillingness to restructure Argentina’s sovereign debt unilaterally.

Internal divisions within the UCR administration combined with the survival within the state apparatus of elements affiliated with the dictatorial regime eroded Argentinean democracy and the country’s negotiating position. Eventually, the democratically approved UCR pledge to end IMF contractionary policies was abandoned, and Argentina returned to austerity policies. Nevertheless, in the context of price volatility, the IMF’s program augmented the recessionary and inflationary pressures the Argentinean economy was experiencing.

This Macroeconomic deterioration and the internal conflicts between the finance minister Grinspun and Central Bank president Enrique García Vázquez led President Alfonsín to replace his minister of Finance. In February 1985, Grinspun, which had promoted expansionary policies, was replaced by Juan Vital Sourrouille, a technocrat with no affiliation to any parties. The Government also decided to replace the head of the Central Bank, García Vázquez, with Alfredo Concepción.

The Sourrouille economic plan focused heavily on controlling inflation, without success as inflation remained high, while the supply-side of the Argentinean economy also suffered a decline with industrial production and employment both falling. To add to an already complicated situation, provinces within the Argentinean Federal Structure began issuing bonds, thus further increasing public sector debt (Belini & Korol, 2020, p. 400).

The new economic team was completed with engineer Adolfo Canitrot as Secretary of Economic Coordination and Mario Brodersohn as Secretary of Finance. The economic team then arranged price and tariff increases in an attempt to improve relative prices and create the conditions for the implementation of an anti-inflationary program. The economic situation worsened markedly during the first half of the year; the pace of inflation accelerated to levels of 30% per month, industrial activity fell, and unemployment remained at levels close to 5%

of the EAP. With their budget overwhelmed, some provinces opted for the issuance of bonds, which highlighted the sharp deterioration of the monetary situation. Under the failure of the initial attempts to control inflation, the Government decided to implement a policy of *shock*.

The Plan that was named Plan Austral for the new monetary unit it introduced was a policy of deflation, focused on fiscal discipline, and avoiding price increases. The Plan involved both Orthodox policies, namely neoliberal structural reforms and fiscal discipline, and heterodox policies, typical of the Argentinean policy environment, such as state control of prices. The plan Austral was based upon fiscal discipline policies that Argentina's creditors demanded of indebted countries in the Global South.

The United States developed a set of policies in order to tackle the Latin American Debt crisis. These policies that came to be known as the Baker plan, named after James Baker, Secretary-General of the U.S. Treasury, included neoliberal policies as remedies to the crisis. These policies were not only coherent with the Treasury's neoliberal orientation in 1985 but also highly compatible with U.S. financial interests in the region; this is because the plan did not involve any debt relief -despite the demands of Latin American countries- but instead asked indebted countries to adopt Washington Consensus policies. These included policies such as the liberalization of the financial markets, flexible labour policies and free trade policies and policies that incentivized foreign direct investment. From an Argentinean perspective, especially from the viewpoint of Keynesian or left-wing economists, the Baker Plan aimed principally at serving U.S. interests. The plan would protect U.S. banks from any restructuring of Latin American Government Debt. It would also create investment opportunities for U.S. companies to take advantage of the liberalized financial, domestic and labour markets (Brenta, 2021, p. 126).

The Baker Plan was presented in an IMF meeting in Seoul on October 08 1985. According to the Plan, Latin American governments were asked to reduce the presence of the State in the economy and implement free-market reforms. The plan put its emphasis decidedly on the Supply side of the economy and thus asked Latin American governments to incentivize investment by granting tax breaks to companies. Entrepreneurship was supported through flexible labour policies and the liberalization of prices to allow companies to improve their profit share. Latin American governments were asked to adopt finance-friendly policies and free-trade policies, two policies that would be particularly beneficial for U.S. businesses (Brenta, 2021, pp. 126-128). The U.S. and the IMF would pressure Argentina to adopt these

policies as part of a new IMF program, rejecting almost in their entirety the Grinspun proposals with the exception of some concessions around price policies. The new economic team would thus develop the Plan Austral under the influence of the Baker Plan, whose policies it largely adopted.

Firstly, the plan involved a commitment of the Government that it would no longer monetize its fiscal deficits; Argentina effectively promised the creditors and the IMF that the central Government would not instruct the Central Bank to issue money to finance the country's deficits (Forcinito & Estarellas, 2009, p. 38). This promise was also a promise that Buenos Aires would follow a policy of fiscal discipline since, without the ability to monetize its fiscal deficits, in case of an imbalance in the current account, the Government had no other choice but to implement austerity policies. Most importantly, the plan Austral saw the introduction of the new monetary unit, the Austral, replacing the Peso, with one Austral valued at one thousand pesos. The hope was to create a more trustworthy currency with a more stable value that would help curb inflation.

In order to control inflation but also protect the purchasing power of workers ahead of the expected recession, the Government decided to combine the fiscal discipline measures with a price freeze and heterodox policies of deindexation (Boughton J. M., 2001, p. 90). More specifically, the plan involved freezing the prices in certain goods -except fresh food (Massano, 2018)- salaries and pensions (Forcinito & Estarellas, 2009, p. 38). The public tariffs that had only recently been increased would remain at their new increased level. Regulated interest rates would be decreased from 30% monthly to 4% for deposits and 6% for loans, hoping that the new rates would reduce inflation. Primary-sector exports would be subject to increased taxation -a strategy that meant that government revenue was highly dependent on revenue from exports of primary goods. The new currency, Austral, had its exchange value towards the dollar fixed at $US\$ 1 = 0.80\#$ (Austral), something that represented a significant increase compared to the Peso that was valued in May 1985 at $US\$ 673$. Other measures included the closure of Banks (Bank Holiday) to avoid a Bank run. The Austral would be pegged to the U.S. dollar, a risky policy choice that benefited the interests of Capital since it shielded business and investors from currency risks but which entailed significant dangers for the Argentinean economy. For the policy to be sustainable, Argentina would have to run a very low inflation rate (Boughton J. , 2001, p. 90), requiring significant fiscal discipline and contractionary measures. In other words, pegging the Austral to the Dollar was a policy that helped Capital mitigate currency risk at the expense of workers' income.

The most complicated and thorny issue was Argentina's Sovereign Debt, which remained too large to be sustainable. The U.S. Treasury and the IMF did not want Argentina's external debt to be restructured, and thus they adopted the solution of restructuring the internal debt. A similar solution was adopted during the Greek PSI program; both programs affected mainly the domestic market protecting the owners of external debt from damages at the expense of the domestic economy.

The plan received the support of the IMF and the U.S. Treasury, who recommended fiscal discipline programs as the best strategy for recovering Latin American economies. Similarly, Argentinean entrepreneurs and Argentinean Capital, in general, endorsed the new policy, while the country's largest union, the country the Confederación General del Trabajo (CGT), declared a series of strikes. The program's relative success in controlling inflation allowed the Unión Cívica Radical (UCR) government of Alfonsín to win reelection with a triumphant 43.58% electoral share. In contrast, their primary opponents, the Peronist Partido Justicialista, won only 24.49% of the vote -although it is worth noting that the Dissident Peronists managed to gather 10.52% of the vote, significantly limiting the chances of P.J. winning elections. The division within Peronism notwithstanding, it is undeniable that the UCR's shock economic policies did gain some approval amongst Argentina's citizens.

The program did achieve some positive results, primarily in reducing inflationary pressures. The Consumer Price Index increased at 5% in September 1985 compared to approximately 30% in July 1985 -although 5% was still above the targets set by the Stand-By program. Economic activity began to recover after an initial decline, while the fiscal deficit was reduced from 11.3% to 3% of GDP in the third quarter of 1985 and 2.2% in the fourth. With a rise in economic activity also came a slight improvement in the levels of employment.

The gap between the value of the official dollar and the informal dollar that one can purchase in the domestic Argentinean black market also closed from 30% to 4%, a sign that *ceteris paribus* can be interpreted as an increase in the trust that citizens put in the Argentinean economy (Gerchunoff & Llach, 1998).

Real wages experienced a decline due to fiscal discipline measures, although the effects of this decline were partially mitigated by the fact that inflation was also reduced. The income distribution became less unequal compared to the dictatorial period. Nevertheless, income disparities were not reduced to their pre-dictatorial levels. The restructuring of domestic debt combined with the lowered inflation and lower interest rates made government debt servicing

less onerous. This reduction in the cost of servicing the debt was a significant relief for Argentinean public finances given that in the previous period, the high inflation rates had led to accelerating the turnover of Argentinean debt securities, increasing the cost of access to credit for the Argentinean Government.

Despite these positive results, inflation remained high even if lower than the previous years, forcing the Government to freeze salaries and prices (Massano, 2018). The higher than expected inflation meant that the pegging of Austral to the Dollar became unsustainable, and Austral began to devalue rapidly in the International Markets. The plan of Argentina to Argentinean businesses took advantage of the upheaval in the market caused by inflation and the state control of the prices of certain goods to engage in speculative activity, such as withholding the supply of certain goods in order to artificially inflate their prices or the hoarding of assets denominated in U.S. dollars (Forcinito & Estarellas, 2009, p. 39).

Even more critically, Argentinean exports were hit by a global decline in the prices of primary goods, on which Argentina depended significantly (Belini & Korol, 2020, p. 410). The agricultural sector -a sector that was particularly important for Argentinean exports- saw its profits decline, causing the “crisis of the countryside” (Crisis de Campo) in 1986. The agricultural sector pressured the Government to grant relief to agricultural companies from the export levies. The agricultural sector took advantage of the importance that the sector had for government finances in order to pressure the Government into, on the one hand, abolishing or diminishing the export levies and, on the other hand in, liberalizing prices -which would lead to significant increases in the prices of food domestically. Agropescarian companies and their institutional platform, the Sociedad Rural Argentina (SRA), emerged from this confrontation with the Alfonsín administration, reinforcing its position in the Argentinean public sphere. An alliance was forged between the SRA companies and some of Argentina’s most prominent media outlets, which were expressed in public advocacy in support of agricultural companies (Lastra, 2020).

It is important to note that the agricultural sector and the SRA had developed essential links with the Dictatorial regime of the Proceso. During the Alfonsín administration, the SRA retained its strategic role in Argentinean political and economic life. The SRA began functioning as a pressure group, taking advantage of the importance of agricultural exports for the financing of Debt to demand the continuation of the neoliberal policies of the Dictatorship era. The agricultural sector would continue to push for policies favouring Argentinean Capital

and the large food export companies. We can observe thus that Debt became an instrument of pressure not only for foreign capital but for Argentinean capital too. Industrialist Capital also tried to pressure the Government for more business-friendly measures; the Plan Austral and the fiscal discipline it entailed had increased tariffs and taxes for Argentinean businesses but had also limited government spending from which industries benefited directly (Massano, 2018). Moreover, frozen prices meant that industrial companies could no longer transfer increases in their production costs to the final price, limiting their profitability. As a result, a brief alliance was formed between the largest union of Argentina, the CGT and the Union of Argentinean Industrialists (UIA), with the UIA openly supporting CGT industrialist action.

The higher value of the Austral also contributed to the fall in Argentinean exports; the decline in Argentina's competitiveness negatively affected the balance of reserves of the Central Bank of Argentina (BCRA), making serving the country's debt even more challenging. The substantial debt payments the country was obliged to make further worsened the country's fiscal deficit.

In April 1986, the UCR administration decided to lax some of the measures taken during Plan Austral, allowing "unfreezing" rates, wages, prices and tariffs. The Government replaced the frozen prices policy with a regulated fluctuation price mechanism (Massano, 2018). Credit policy was liberalized, while the Government also lowered some charges and tariffs on exports while the Government also increased monetary issuance.

The immediate result of these liberalization measures was an increase in inflation, which reached a 5% monthly rate by July 1986 compared to a 2% monthly rate in February 1986. In 1987 inflation rose to a 131% annual rate, while GDP growth was mediocre, reaching 2,6% (Brenta, 2021, p. 129). In other words, Argentina was facing a situation of weak growth and high inflation.

Increasing frictions between Unions, the Industrialists and the Government led to industrial action, while the Peronist political camp escalated its criticism of the UCR policies (Belini & Korol, 2020, pp. 408-409); Massano blames the escalating social tensions on the fact that the price freeze policies were lifted. With salaries and prices frozen, both Capital and Workers had little room for negotiations and conflict. However, with the liberalization of the wage/price freeze, the two classes found themselves at odds over the issue of wealth distribution. For Brenta, the social tensions emerged from the preservation of the inequalities and the wealth

transfer from workers to Capital that had taken place during the Dictatorship (Brenta, 2011, p. 129).

By 1987 the difference between the official dollars that Argentines could buy via the legal avenue and the dollar's value in the informal markets had reached 43%, while inflation now climbed above 7% (Massano, 2018). The trade liberalization policies that the Argentinean Government had adopted also led to a rise in the value of imports decreasing Argentina's trade surpluses and thus further deteriorating the sustainability of Argentinean debt. An environmental disaster that saw Argentinean industrial zones flooded decreased production, hitting Argentinean exports.

The deterioration of public finances forced Buenos Aires to enter a new round of negotiations with the country's creditors. The worse than expected financial results made it necessary that Argentinean debt would be restructured in some way to secure that Argentina would be in a position to serve its debt. At the same time, the country would need additional financing given the decline of Argentinean exports and the overall deterioration of the Argentinean balance of trade.

Argentinean creditors, private banks, the IMF, the Paris Club, the World Bank and the International Development Bank, adopted a common stance towards Buenos Aires, with creditors acting en bloc. The terms that were agreed upon were particularly onerous for the Argentinean Government. As it is customary, Buenos Aires sent a letter of request for a new standby agreement; by January 1987, a new memorandum would be agreed with the IMF. However, the memorandum was conditional upon Argentina agreeing with the banks and securing programs with the World Bank and the Paris Club (Brenta, 2021, pp. 132-133). Banks, themselves, arrived at separate agreements with the Argentinean Government, including "trigger clauses"; these trigger clauses prescribed that if Argentina defaulted on its debt to any of the private banks, all the other agreements would collapse. The mechanism was a safeguard against future efforts to restructure or renegotiate the debt and gave private banks significant leverage over Argentina.

As part of the new standby agreement, Argentina was forced to adopt Baker Plan policies, including neoliberal structural reforms in the public and financial sector and further liberalization of the country's international payments and trade policies. The role of Unions in the economy was also to be weakened. The agreement also included the usual mix of privatization and deregulation but, most importantly, forced Argentina to adopt an "open

doors” policy towards foreign capital and imports (Brenta, 2021, p. 132). The policies that Argentina was forced to adopt were once more supply-side heavy and aimed at stimulating public and private investment.

Moreover, the Stand-By Agreement brought an end to the brief liberalization of prices and wages. The UCR government was forced to change policy course one more time, reversing the liberalization of prices and wages it had introduced only a few months earlier. The Baker Plan policies were introduced as part of a new government plan. The new program, launched on January 25 1987, would be described as the “Australito”, for the similarities with the earlier “Plan Austral” (Brenta, 2021, pp. 129-130) and included the following policies:

- Tax and tariff hikes to improve state revenues, combined with a tax reform of provincial and federate taxes and a rise in fuel prices
- A mandatory savings scheme
- A significant devaluation of 1 U US\$\$ = 1.535 #, fixed in this exchange rate until May 1987 (Massano, 2018).
- The introduction of a free exchange market for capital transactions and a reduction of regulated interest rates to 3% for deposits and 4% for loans
- A new wave of price and salary freezes (expected to last until June 1987) and freezes in pensions, family allowances, and the level of the minimum wage (Massano, 2018).
- Reduction of the role of the state liberalizing more areas of the economy and growth of the private sector, including the privatization of the National Telecommunications Enterprise (ENTel), the Sociedad Mixta Siderúrgica Argentina (SOMISA) and the Aerolíneas Argentinas.
- Deregulation of the Oil sector
- Alignment of international and domestic prices

The Australito Plan created a new paradigm in Argentinean post-dictatorial economic policy, dominating Argentinean politics during the 1990s. This Paradigm saw the state as an obstacle to Argentinean competitiveness and proposed deregulation and privatization initiatives. The new Paradigm also favoured the process of financialization of the Argentinean economy and the deregulation of the banking sector (Forcinito & Tolón Estrelles, 2009, p. 40). The Australito Plan did bring about a reduction of Consumer Price Index inflation to below 5% per month, but only for a brief period since by July 1987, the CPI inflation broke the barrier of 10% per month.

One beneficial effect of the Australito Plan was that the IMF agreed to extend to Argentina a trigger clause that linked growth with the program's goals; a similar trigger clause had been granted to Mexico, and Argentina could take advantage of this new development. On August 23, the Executive Board of the IMF approved the standby request. As part of the agreement, the Fund was to disburse US\$1,400 million to Argentina plus additional compensatory funds meant to cover the country's falling exports, but the Fund failed to provide the entirety of the funds. Overall, Argentina received US\$614 million as part of the stand-by agreement and the compensatory funding (Brenta, 2021, p. 132).

Argentina negotiated with creditor banks, the Federal Reserve and the U.S. Treasury following the IMF stand-by agreement. Argentina was in need of restructuring debt maturity of US\$30 billion, whose maturity date had expired in 1987, as well as significant surcharges. This debt was particularly onerous because it involved debts that had been refinanced as part of the 1985 debt restructuring and debts that had been accumulated due to the nationalization of private debt. In April 1987, an agreement was reached with private banks in order to restructure the US\$30 billion and a reduction in surcharges, agreeing to restructure US\$25,300 million across 19 years and the remaining US\$ 4,200 million across 12 years. Argentina was also given 6 and 7 years of grace, respectively. Private banks agreed to provide new loans to the Argentinean government worth US\$1.95 billion (Brenta, 2021, p. 137). 92% of private banks became signatories to the new agreement, whereas smaller banks offered an exit instrument to facilitate the process. Argentina secured a deal with the Paris Club in May 1987, restructuring or refinancing maturities of capital and interest between April 30, 1987, and June 30, 1988, with a total value of US\$2,156 million.

Due to the decline of Argentinean exports, Argentinean foreign currency reserves had been depleted. The World Bank and the International Development Bank agreed to provide Buenos Aires with US\$715 million in loans. Again, however, the unequal relations between Argentina and its creditors led to a diminished final payment compared to what was initially agreed. The World Bank only provided a total of US\$571 million, given that Argentina had to pay US\$223.75 million for amortizations, interest and commissions. In comparison, the net disbursement to the IDB was negative, given that Argentina had to pay US\$192 million to the Bank from which it received US\$169 million, leaving a deficit of - US\$23 million.

The UCR government was, above all, unwilling to risk default and thus continued to serve with regular payments the country's unsustainable debt. Argentina depleted its international

reserves and increased its external debt by 17% in 1987. Argentina was taking on new debt in order to repay old debt. Noemi Brenta comments that this new debt which was worth US\$51.8 billion, was equivalent to eight years of exports (Brenta, 2021, p. 136).

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Congelan los precios desde el lunes con los valores del miércoles pasado • Salarios y tarifas, luego de los aumentos de junio, quedarán inmovilizados • Rige el austral como moneda argentina: 1 equivale a 1.000 pesos • Anuncian que no habrá emisión monetaria para financiar el déficit fiscal ni para el crédito • Se respetan las condiciones pactadas en depósitos a plazo fijo y préstamos constituidos hasta ayer • Las tasas reguladas serán del 4 y del 6 por ciento • Mantienen el mercado financiero libre • Continuará el lunes el feriado bancario; su duración será resuelta entre hoy y mañana



ALFONSIN: LA REFORMA ES PARA SALVAR LA DEMOCRACIA

LA C.G.T. ANTICIPO SU OPOSICION

(INFORMACION EN LAS PAGINAS DOS A TERC)

ARGENTINA RECIBIO EL CREDITO PUENTE

(INFORMACION EN LA PAGINA QUINCE)

Ilustración 1 The Journal Clarin announces the launch of the Plan Austral

Faced with the failure of the Australito plan, the UCR government decided to take corrective measures that became known as the second Australito in October 1987; the second Australito transferred further the costs of the adjustment to Argentinean workers. The Second Australito decided to freeze prices and tariffs after a period of constant increases. Salaries were frozen as well, but to a lower level than tariffs and prices, which meant that worker wages were reduced in real terms. The government also introduced modifications in real estate taxation, profits and financial transactions, and a “forced savings scheme”. The foreign exchange market split was institutionalised between a regulated dollar market for commercial purposes and a free market for financial purposes (Massano, 2018). Unlike the previous Plans, the Second Australito was

voted by the Senate, where UCR sought consensus with Partido Judicialista -in exchange for approving P.J. proposals in what labour law was concerned.

In September 1987, the UCR government lost by a significant margin at the hands of the Peronist “Partido Judicialista”, losing the majority in all provinces except for Cordoba and Rio Negro. In total, the Peronist PJ gathered 41.29% of the vote as compared to UCR’s 37.24% (Dirección Nacional Electoral, 1987). Moreover, President Alfonsín was facing an internal challenge to his authority within his party, given that his internal critique Eduardo Angeloz won the party’s significant victory in the province of Cordoba. Angeloz represented the more economically orthodox voices within the UCR party that pushed for privatisations and fiscal discipline. In 1989 Angeloz would eventually run with the UCR ticket for the Presidential Elections.

The weakened UCR government was faced with a new challenge; the prospect of the country being unable to make its international payments. In 1988 the UCR party was entering the electoral campaign, but the Central Bank of Argentina (BCRA) reserves were so low that Argentina was at grave risk of not being able to continue serving its debt. The IMF, on its part, was sceptical about providing new loans to Argentina, given the slow pace of privatizations and structural reforms and the failure of Argentina to achieve the inflationary and fiscal targets. The Argentinean economy's recession because of the “australito” measures and the upcoming general elections increased the political risk of the agreement.



Figure 16 New York Times covering the Sourrouille negotiations in Washington. The editor wrote how Argentinean representatives delivered a “warning that the price of failure [of the negotiations] will be a suspension of its debt payments abroad. Eventually, Argentinean payments to the IMF went into arrears on January 26th 1988.

In January 1988, Minister of Finance Juan Sourrouille and the President of the Central Bank Luis Machinea travelled to Washington for urgent negotiations; Argentina sought that the IMF would revise the program's targets; the fiscal deficit was expected at 4.5% of the GDP and beyond the agreed targets. IMF Director Michel Camdessus rejected the demand and instead increased pressure on Buenos Aires, warning the Argentinean government that the Fund could not finance the extensive Argentinean deficit. On January 26, 1988, Argentina could not make a scheduled payment to the IMF for the first time, thus going into arrears to the Fund. This was not the first time that an Argentinean IMF program had failed to help Argentina recover - although, from the Fund’s perspective, this was due to Argentinean performance and not due to the design of the programs. Argentina had three stand-by arrangements approved by the Fund in January 1983, January 1985, and July 1987. Argentinean administrations made ten drawings, of which only three were made upon the initial approval. The other seven drawings were the results of a modification of the original commitments through a waiver or a new Letter

of Intent (Boughton J. M., 2001, p. 206 n.153). However, the 1988 crisis was critical because private banks were highly unlikely to extend any new loans to Argentina at that time, thus creating a financing gap that the Fund itself would have to cover. On the IMF's board of Directors, two positions were formed, one headed by Australian C.R. Rye, who argued against a new revision of the Argentinean program mainly on the basis that it would set a dangerous precedent; C.R. Rye was supported by the British representative T.R Lankester, and G.A. Posthumus of the Netherlands (Boughton J. M., 2001, p. 90). On the other side, other creditor countries sided with the German representative Guenter Grosche who asked for a revision of the program to be accepted due to the specific circumstance in which Argentina found itself.

Faced with this new situation, the IMF agreed to provide a bridge loan of US\$500 million to Argentina on the conditions that President Alfonsín would implement a new adjustment program with measures of harsh fiscal discipline. The implied promise was made that Argentina would be granted some debt relief as part of this agreement (Boughton J. , 2001, p. 90). In a blow to transparency, some terms of the agreement concerning the extent of the austerity remained confidential; although the new agreement required Argentina to bring its fiscal deficit down to 2%, it was publicly stated that the budget deficit would be reduced only by 2,7% (Boughton J. M., 2001, p. 90)

According to the new agreement, the Argentinean government undertook the obligation to continue the same neoliberal policies with new structural reforms and fiscal discipline measures. Disbursement of the bridge loan in March 1988 allowed Buenos Aires to continue serving its government debt for the first quarter, but by April -having not received fresh funds- Argentina found itself in arrears towards commercial banks and the Paris Club (Brenta, 2021, p. 141). New agreements were reached with the IDB and the World Bank for new loans, but once again, these loans had a net negative (IDB) or were very small (WB) as compared with Argentina's needs; the World Bank loan was US\$139.9 million, as compared to US\$3 billion of interest payments that were already in arrears (Brenta, 2021, p. 141). In the context of Alfonsín's strategy of avoiding a default, Argentina continued serving its debt despite the shortage of foreign exchange reserves, taking advantage of the maximum legal limits concerning debt repayment arrears. By continuing to serve the debt, Argentina was further weakening its negotiating position since the country was depleting its foreign exchange reserves which were necessary to finance Argentina's international trade. In a further blow at the UCR's strategy on debt, the IMF did not provide the debt relief that had been promised to Alfonsín. The new program delivered the same results as the previous programs: a failure to

contain inflation, averaging 20% per month and an excessive fiscal deficit. The IMF insisted on blaming the program's failure on the Argentinean government and proceeded to suspend disbursements. Argentina was heading for the 1989 elections, and the country was facing the very real danger of a disorderly default now very present. Urgent negotiations were undertaken by Alfonsín and Camdessus that led to the creation of the Spring plan (Plan Primavera).

The Plan Primavera was a disinflation program and included similar measures to the Austral plan (Kamin & Ericsson, 2003, p. 188). The measures included were devaluation by 11,5% and an increase in public rates. Price controls were eliminated for almost all goods (Brenta, 2021, p. 141) and were replaced by an agreement with the Industrial Union of Argentina (UIA) and the Chamber of Commerce (Cámara Argentina de Comercio) (Belini & Korol, 2020, p. 413).

The Primavera Plan coincided with international developments that affected negatively Argentinean financial stability. The increase in interest coincided with a rise in interest rates in the international markets (Belini & Korol, 2020, p. 415), causing real exchange rates to increase; this increase in rates also augmented the cost of servicing the Argentinean Sovereign Debt and subsequently contributed to an increase in the country's fiscal deficit (Kamin & Ericsson, 2003, p. 188). As part of the Primavera Plan, companies were given tax credits, while wages and the labour market were further liberalised, causing salaries to remain significantly behind inflation rates. Measures were taken to incentivise the Argentinean economy's financialization further by introducing three different markets: an intermediary foreign currency market for manufacturing, the primary sector currency exchange market, and a foreign financial exchange market (Belini & Korol, 2020, p. 413). Speculative Capital also benefited from the Primavera Plan, taking advantage of the exchange rates -which were frozen- and the higher interest rates to make significant profits before fleeing out of Argentina (Brenta, 2021, p. 142). In February 1989, the Argentinean Central Bank floated the exchange rate for financial transactions causing sharp depreciation of the peso, while inflation climbed to 198% per month in July 1988 (Kamin & Ericsson, 2003).

The program did succeed in diminishing inflation, although at the cost of sending the Argentinean economy into a recession. However, the unsustainability of the Argentinean debt made markets pessimistic about the long term prospects of the Argentinean economy -made worse by the higher interest rates. The risks emerging from the country's debt caused significant capital flight, currency devaluations and hyperinflation in 1989 reached 3,046%

annually (World Bank, 2021). With the Primavera Plan having essentially failed and the IMF insisting in pressuring Argentina for new fiscal discipline measures, an agreement between Buenos Aires and the Fund seemed improbable, thus further deteriorating Capital flight.

The economic woes of Argentina weakened the Argentinean democracy significantly, as the government was under pressure from multiple fronts, while the continuous austerity and the breaking of the electoral pledges further weakened Alfonsín. It is hard to establish a causal connection between the poor economic performance of the UCR administration and its inability to bring forward the process of democratization. Nevertheless, it is reasonable to assume that the administration's declining popularity and the state of economic crisis *ceteris paribus* further weakened the political will of the Alfonsín administration to come to a conflict with various para-military, para-police and "deep-state" groups that had supported the Military Junta. The administration's inability to effectively purge the state apparatus from officials, technocrats, and other agents or had taken part at the dictatorial regime further complicated the process of bringing the perpetrators of the dictatorship to justice. Thus, it should not be seen as an accident that the UCR administration eventually passed the controversial "Fullstop Law" (Ley de Punto Final) that shielded members of the Military Junta from persecution and liberated those members of the regime that had been already in prison. Law 23 492 prescribed:

"The extinction of criminal proceedings for alleged participation, to any degree, in the offences 10 of Law No. 23,049 and for those linked to the establishment of violent forms of political action."

Article 10 of Law No 23.049 was the article used to bring the members of the Military junta to justice, and its suspension meant that judicial procedures against Junta personnel would similarly be suspended. The Ley de Punto Final was a significant blow to the democratization process because it secured impunity for the members of the Dictatorship and broke the pledge UCR had made in the pre-electoral period to seek Justice against the perpetrators of human rights abuses.

The Law was partly an effort to appease those elements of the Military that were still aligned with the former Military Junta and its ideology. Nevertheless, on April 15th 1987, elements of the Military revolted against the Government, seeking the absolution of the few remaining officers that were still being prosecuted due to their cases not being considered to be included in the scope of Ley de Punto Final. The revolt that took place in Campo de Mayo, an infamous centre of torture and repression, was met with popular resistance and large pro-democracy

demonstrations. Despite the arrest of the mutiny leaders, a few days later, the UCR administration passed the law known as “Ley de Obediencia Debida” that satisfied many of the pro-dictatorship groups' demands. The weak response to this mutiny demonstrated the degree to which the continuing Debt crisis had eroded the democratic stability of the country; the UCR administration weakened by abandoning its Keynesian pledges and implementing under pressure from the creditors and the IMF a series of unsuccessful fiscal discipline plans. Although other factors certainly played a role in shaping the government's policy towards the former dictators -such as for example, the control Alfonsín had over the army or lack thereof-, the continuous economic crisis, declining electoral influence and pressure from the IMF and substantial debt payments further weakened the process of democratization in Argentina.

The rapid devaluation of the Austral in the summer of 1989 -that the BCRA did not have enough reserves to contain- causes prices to rise with the devaluation rate. Argentina entered a period of hyperinflation. In May 1988, Presidential elections took place in Argentina which the Peronist PJ and their candidate Carlos Menem were able to win by a 10% margin easily.

Plan Austral, Plan Australito and Plan Primavera are paradigmatic in demonstrating the deleterious effects of the debt crisis for Argentinean democracy. The three economic plans exemplify how the Global North uses debt as leverage to pressure countries in the Global South to adopt economic policies that reproduce unequal economic relations. From the analysis that took place in this chapter, we can extract the following conclusions:

- Similarly to the Greek Bail-out programs, the Plan Austral, Plan Australito and Plan Primavera were the product of an unequal economic relationship between Argentina and a powerful economic partner in the Global North. In the Argentinean case, this partner was the United States, who also exercised significant influence over the IMF and creditors of the Argentinean government, whereas in the Greek case, the powerful partners imposing unequal economic relations on Athens were mainly the Eurozone core countries.
- Plan Austral, Plan Australito and Plan Primavera demonstrated Argentina's subordinate status in the Global Economy, especially vis a vis the United States. The U.S. Government acted in the case of Argentina with the interests of U.S. creditors and businesses in mind and at the expense of Argentinean interests.
- Like the Greek Bail-out programs, the three Plans were successful from the creditors' perspective since the economic measures they contained protected creditors to a

significant degree from losses and especially from a debt restructuring. The Plans, however, did not succeed in providing a viable and long-term solution to the Debt crisis for Argentina, similar to how the Greek bailout programs failed to render Greek debt sustainable in the long term.

- Weaknesses within the Argentinean democracy were instrumentalized by Foreign Capital -mainly foreign creditors- and Argentinean Capital (Sociedad Rural Argentina and Unión Industrial Argentina)

FROM THE CARLOS MENEM YEARS (1989-1999) TO THE CRISIS OF 2001

The victory of Carlos Menem marked a historical occasion in Argentinean history. The Peronist political camp was back in power after suffering significant repression during the Dictatorship. The peaceful transition of power also marked a significant milestone for the process of democratization.

The Carlos Menem electoral pledges were centred around the issue of financial speculation. Menem promised to refocus the Argentinean economy around productive activities instead of financial speculation, especially industrial production.



Ilustración 2 The Cover of the Carlos Menem Electoral Manifesto for the 1989 elections. "From Speculative Argentina to Working Argentina", read the subtitle. Source: The Manifesto Project

Menem's "Productive Revolution" promised a change of course from the Plan Austral policies. While Plan Austral had liberalised financial Capital flows, Menem promised that only productive Capital would find Argentina's doors open. Parasitical Capital -as the electoral manifesto puts it- would no longer be allowed to make extortionate profits at the expense of the Argentinean economy. The Electoral manifesto also promised a reduction of social inequalities and an increase in the offer of employment by the reorganization of Argentinean production.

The electoral pledges were unspecific enough not to oblige the Menem government to follow any specific policy direction; whether his "productive revolution" would have a Keynesian or a neoliberal character is hard to discern when looking at the original manifesto pledges (Brenta, 2021). Nevertheless, there is a clear divergence between the Manifesto that makes no mention of neoliberal policies (Luca Gardini, 2007, p. 811) and the policies implemented after the election of Carlos Menem. The neoliberal direction of the new Government came at odds with some parts of the Peronist electoral base and the history of the Peronist political camp as a whole. Peronism, throughout its history, had stood for Keynesian economic policies. Under pressure from the financial crisis and the mounting debt, the Menem administration moved away from these traditions. Carlos Menem rejected the measures that Peronist governments had implemented in the past, such as price freezes, fiscal expansion and regulation of the financial and currency exchange markets and instead opted for full adoption of the Washington Consensus policies (Marshall, 2008).

As part of this neoliberal turn Menem named as his finance minister an influential business person Miguel Ángel Roig who acted as the vice-president of Bunge & Born, a dominant company specialized in agricultural exports. The move to appoint Roig was evidence of the influence that the Agro-exporting sector of the economy enjoyed in the country, but it signalled the first time in Argentinean history that a company rather than a person was effectively given the Ministry of Finance. Upon Roig's death in July 1988, the new Vice President of Bunge & Born Néstor Mario Rapanelli was named the new Minister of Finance of Argentina. Thus, Menem's economic policy was handed over to one private company, essentially privatizing economic policy, despite the apparent conflicts of interest between the members of the company and the role of the finance minister.

Menem's first economic measures included a severe devaluation of Austral by 170%. At the same time, later, Austral's exchange rate with the U.S. dollar was fixed at the new lower value

(Belini & Korol, 2020, p. 443), a policy that favoured Capital, especially those sectors of Argentinean Capital that either held funds abroad or planned to flee Argentina. Salaries were raised but to a level that was less than hikes in taxation and tariffs and inflation, thus meaning that in real terms, Argentinean workers lost income and purchasing power. The Menem government also embarked on a program of privatizations, privatizing the public airlines Aerolíneas Argentinas, the National Company of Communication (Empresa Nacional de Telecomunicaciones ENTEL) and the country's rail system.

In September 1989, only a few weeks after their electoral victory, the Menem administration introduced law 23.697, titled the “law of the financial emergency” (Ley de Emergencia Economica). The First Article of the new law set the political direction it would take:

“Article 1 - This law exercises the emergency policing power of the State to overcome the situation of collective danger created by the severe economic and social circumstances that the Nation suffers (Senate of Argentina, 1989).”

The Law introduced new state of emergency powers to the state and the police forces, aimed at containing and suppressing civic unrest in the light of the continuing economic crisis. Moreover, the law introduced several policies aimed at cutting down on state expenses; this was achieved predominantly by abandoning a series of subsidies for the manufacturing, mining and export industries. The law also introduced a series of deregulation initiatives that aimed to liberalise the goods and services domestic market and liberalise the country's external commerce. Capital and financial markets were also deregulated. The law also introduced a freeze in new public sector hirings for one hundred eighty days to reduce government expenses and introduced reforms in the Central Bank of Argentina to strengthen trust in the Argentinean banking sector (Senate of Argentina, 1989).

Law 23.697 was a significant setback for the democratisation process in Argentina, as the new emergency powers allowed the executive branch of power to pass a significant amount of urgency decrees from 1989 to 1994, effectively circumventing the legislative branch of power.

The Menem administration continued to implement the same policies that had dominated the UCR administration era; decidedly within the neoliberal paradigm, these policies focused on incentivizing the further Financialization of the economy, privatising state companies and cutting down on public expenses. Menem's policies were, in many ways, a mere continuation of the policies that the Alfonsín cabinet had in coordination with the IMF implemented in the 1984-1989 period.

Nevertheless, the measures taken by Menem gained him the support of the IMF. Argentina and its new government were rewarded for the “economic emergency” policies with a new IMF Stand-By agreement which was signed only a few weeks later, on November 10th 1989, offering Argentina SDRs 736 million -although Argentina would eventually only be able to draw SDRs 506 million. As part of these improved relations between Argentina's international economic institutions, the World Bank had already extended a loan to Argentina to assist the government in implementing an austerity program that involved a public sector adjustment, significant reduction of the public sector size and extensive privatizations (World Bank, 1989).

Despite the newly improved relations with the country's creditors, however, it was becoming clear that the issue of debt remained a severe obstacle for the Argentinean economy. Debt repayments were still unsustainably high, and Argentina's creditors were unwilling to consider any form of debt relief (Brenta, 2021, p. 152). Moreover, the Press revealed that the Government was preparing a convertibility regime. The Plan was eventually withdrawn after the reactions of the financial sector and the BCRA. However, the leaking of the Plan in the Press caused a run against the Austral and a rapid devaluation of the currency. The state of the Argentinean economy caused nervousness in the markets and led to hyperinflation and a sharp devaluation of the Austral. With interest rates in Argentina reaching a 700% monthly rate, the country entered a period of hyperinflation.

Faced with the disastrous results of its economic policies, the Menem administration decided to replace the Ministry of Finance Rapanelli with a political figure. Antonio Erman González, the new Finance Minister, elaborated a new set of policies to tackle the phenomenon of hyperinflation that came to be known as the “Bonex Plan”.

The Bonex Plan marked a continuation of the orthodox neoliberal policies that the Menem had been implementing since its elections. Heterodox policies such as the price freeze were lifted, and the exchange market was deregulated, while the Austral would be allowed to fluctuate freely. The Bonex Plan also included a contractionary monetary policy, of which the most important and most controversial measure concerned bank deposits. The Bonex Plan included an obligatory conversion of fixed-term deposits into government bonds at an interest rate of 6% (Belini & Korol, 2020, p. 446). Given the low-interest rate, the new policy was equivalent to a deposit haircut and caused significant economic losses. The Bonex Plan also included measures to increase government revenue, such as tariff hikes and VAT increases, while public expenditure was cut across the state apparatus. The Central Bank of Argentina also limited its

“redescuentos” policies, namely the liquidity assistance the BCRA provided to private financial entities facing transitional liquidity problems. The Bonex Plan succeeded in controlling inflation, and in April 1990, Argentina had successfully exited the first hyperinflation crisis - although inflation remained high. The Austral’s value against the U.S. dollar was appreciated. These results came at the cost of plunging the Argentinean economy into a recession, with GDP contracting by 2.5% in 1990. Moreover, the results of the plan were transitory. As the Menem administration relaxed fiscal discipline, Argentina returned to a fiscal deficit.

THE SWIFTGATE SCANDAL AND THE ERA OF DOMINGO CAVALLO

In January 1991, a scandal involving a U.S. company would cause a major political crisis in Argentina. Swift was a U.S. based company specializing in foodstuff and in particular in the production and packaging of meat. Swift was a company that belonged in two privileged sectors; firstly, Swift belonged to the group of U.S. based companies that have invested in Argentina during an era that Buenos Aires was looking to attract Foreign Direct Investment. Secondly, Swift was an agro-exporting company, and more specifically, a company focused on exporting fresh meat, a good of strategic importance for Argentinean exports. Agro-exporting companies had enjoyed significant influence in Argentina since their exports helped build up the foreign reserves needed to serve the country's debt.

Swift applied to the Argentinean government for a tax break in order to purchase new machinery. The application in and itself demonstrated that Foreign Direct Investment in Argentina benefited from the subsidies and other forms of support that the Argentinean government had put in place to improve Argentinean production, thus putting in doubt Argentina's net benefit from these FDIs. Swift's application was met with the demand for a bribe on behalf of state officials. Swift proceeded to complain to the U.S. ambassador to Argentina, Terence Todman. Todman raised the issue with Washington and Menem's administration. Above everything else, Carlos Menem's diplomacy has aimed to establish a new privileged relationship with the U.S. The end of the Cold War and the international dominance of the U.S. played a crucial role in Menem taking this decision, as did the beliefs prevalent amongst the members of the new government and the Peronist elite. The foreign policy advisor and enfant-terrible of the Menemism, Carlos Escudé, formalised the Menemist approach to International Politics with the term "peripheral realism" (Realismo Periférico). The International Relations current of Realism inspired Peripheral Realism, a movement in International Relations scholarship that flourished in the U.S. and viewed International Politics as the outcome of relations of power between Nations. Escudé criticised the Alfonsín administration for having adopted an anti-U.S. stance, a choice that culminated in the disastrous Malvinas War (Escudé, 2009). During the Alfonsín administration, according to Escudé, Argentina adopted policies hostile towards the United States, as it made attempts to enrich Uranium and develop Ballistic missiles in collaboration with Iraq. The strategy proposed by Escudé and followed by Menem mainly consisted of demilitarising Argentina and following a bandwagon strategy toward the U.S (Escudé, 2009).

While Menem had placed significant importance upon the U.S.-Argentinean relations, Washington was also able to positively or negatively affect Argentina’s relations with the IMF (Belini & Korol, 2020). The deterioration of relations with the U.S. posed a significant political and economic risk for Argentina, given the country’s need for IMF support to avoid a default. Thus, it was no surprise that Menem decided to replace González with the then Foreign Minister Domingo Cavallo.



Figure 17 Pagina12 reporting on the Swiftgate Scandal Source: Pagina12

Cavallo’s appointment marked another step back for Argentinean democracy; Cavallo had actively collaborated with the Dictatorial regime at the highest level, having served as a member of the cabinet and even being named the President of the BCRA in 1982 (Fantin & Schuster, 2011). Cavallo was yet another technocrat from the era of the Military Junta who managed to return to a public position despite Argentina’s return to democracy. Cavallo’s appointment marked a continuation of the Dictatorship’s neoliberal economic policies, the same economic policies that had thrown Argentina into a protracted debt crisis. From an ethical

perspective, Cavallo's appointment was yet another step in the direction of impunity. With the main perpetrators of human rights violations during the Civil-Military Dictatorship already shielded from judicial proceedings and imprisonment thanks to the Ley de Punto Final, the continuing appointment of collaborators in government positions meant that even relatively high-level members of the dictatorial regime could continue with their political careers without any consequences. The degree of impunity was particularly grave in Cavallo's case because the new Minister of Finance had avidly supported the regime. Cavallo was a leading member of the Fundación Mediterránea, a neoliberal think tank and research centre that openly endorsed the military regime and its policies. This endorsement was not limited to the regime's economic policies but included the dictatorship's oppressive politics and human rights violations. The Fundación Mediterránea described the severe human rights violations that were taking place during the dictatorship in the name of "social order" that Cavallo's think tank deemed necessary (Fantin & Schuster, 2011). Applauding these more violent aspects of the dictatorship made Cavallo's appointment particularly problematic for the Argentinean democratisation process. It is characteristic that both the Peronist PJ and the more Centrist UCR awarded former collaborators and members of the dictatorial regime with high-level positions in their governments; the impunity and political rewarding of members of the Dictatorship were shared between the two dominant parties.

Cavallo's tenure as the Head of the BCRA was controversial from an economic policy perspective mainly because of his policy regarding the liquidation of private company liabilities denominated in foreign currencies to the national currency (known as the Circular A137) (Fantin & Schuster, 2011, p. 10). The policy was announced within days of Cavallo assuming his role, and it favoured Argentinean Capital at the expense of public finances. The program involved a debt transfer from private companies to the State, a policy that augmented Argentina's Government Debt and contributed to the debt crisis in which the Dictatorial regime had thrown Argentina. Moreover, many of these loans denominated in foreign currency had been issued to facilitate Capital flight from Argentina (Heredia, 2019, p. 136). Thus, Cavallo's dictatorship-era policies were rewarding those Argentinean Capital sectors fuelling the Capital flight phenomenon.



A LAS ENTIDADES FINANCIERAS AUTORIZADAS PARA OPERAR EN CAMBIOS Y CORREDORES DE CAMBIO:

Ref: Circular OPERACIONES CAMBIARIAS Y MOVIMIENTOS DE FONDOS Y VALORES CON EL EXTERIOR - CAMEX - 1 - 26

Nos dirigimos a Uds. y por su intermedio a los sectores interesados, para comunicarles que en concordancia con las pautas de política establecidas por las autoridades económicas, se ha dispuesto implementar un régimen especial de seguros de cambio aplicable a los préstamos en moneda extranjera ingresados y negociados en el mercado de cambios con anterioridad al 6.7.82 y que se encuentran vencidos o a vencer.

Este régimen tiene por objetivo mejorar el perfil de la deuda financiera externa privada a la vez que procura atenuar los perjuicios que provocaron a prestatarios locales, por el mantenimiento de obligaciones en moneda extranjera, las devaluaciones dispuestas para la moneda Argentina.

Dentro de estos lineamientos existe la finalidad de distribuir los vencimientos de los nuevos seguros de cambio con una limitación aproximada de Dls. 600 millones por trimestre, lo que inevitablemente determinara que este Banco no siempre preste conformidad a las prorrogas propuestas, sobre todo en el mediano plazo, y deba convenir con los deudores locales los ajustes pertinentes.

El sistema no lleva implícito que en las operaciones, sobre todo de largo plazo, los deudores cuenten con conformidad expresa de uno o mas acreedores, los que podrán variar o complementarse, sin que ello altere el contrato de seguro de cambio que se formaliza con este Banco.

1. Alcance de las disposiciones

Son aplicables a los préstamos financieros en moneda extranjera que personas físicas o jurídicas hubieran ingresado y negociado en el mercado de cambios con anterioridad al 6.7.82 y que se encuentran vencidos o a vencer, registrados en el Banco Central a través de la encuesta permanente de obligaciones con el exterior.

Image 1 The Circular A 137 developed during Cavallo's term as Head of the BCRA. The A137 was a form of nationalization of private liabilities, favouring significantly Argentinean Capitalists, many of whom had taken out foreign-currency-denominated loans as a method of sending their Capital abroad.

Domingo Cavallo adopted orthodox monetary and fiscal policies upon becoming the minister of Finances. The most notable was perhaps the Law of Convertibility (Ley Convertibilidad), a law that introduced the dollarization of the Argentinean economy. The Law N° 23.928 -or "Convertibility of Austral" Law as was its formal title- was sanctioned on the 27th of March in 1991 as a matter of urgency, and its effective implementation started immediately, on the 1st of April 1991. The Law prescribed that the value of the U.S. Dollar would be set in ten thousand (10.000) Australs, which constituted a small devaluation from the then market value of the Austral (Argentinean Ministry of Justice, 1991). Most importantly, the new Convertibility Law obliged the Central Bank of Argentina (BCRA) to maintain U.S. dollars or Gold reserves for

100% of the monetary base. This requirement introduced a contractionary monetary policy in Argentina. In the same direction, the Argentinean Government instructed the BCRA to restrict its “redescuentos” policy -a policy under which the BCRA could provide emergency assistance to private companies facing transitional liquidity problems.

Table 13 1989-2001 Argentinean GDP, CPI and Fiscal Deficit (as % of GDP) Source: Belini, C., & Korol, J. C. (2020)

Year	GDP (annual rate)	Consumer Price Index Inflation	Fiscal Deficit (% of GDP)
1989	-6,9	3079,5	-7,8
1990	-1,8	2314,0	-4,7
1991	10,6	171,7	-1,4
1992	9,6	24,9	-0,4
1993	5,7	10,6	-0,01
1994	5,8	4,2	-1,7
1995	-2,8	3,4	-2,9
1996	5,5	0,2	-3,2
1997	8,1	0,5	-1,5
1998	3,8	0,9	-2,4
1999	-3,3	-1,1	-4,5
2000	-0,8	-0,9	-3,3
2001	-4,4	-1,1	-7,0

Moreover, Cavallo strengthened the autonomy of the Central Bank, a policy that is typical of neoliberal economics. This policy had two goals firstly, to strengthen the credibility of the Argentinean banking system and secondly, to stop future Argentinean governments from adopting a more expansive monetary policy. By introducing a legal reform on BCRA's independence, Cavallo aimed to institutionalize neoliberal institutional designs. A similar process occurred with the EMU in Europe, with the founding treaties of the Eurozone consisting of neoliberalism institutionalised.

The Ley de Convertibilidad deprived Argentinean governments of the tool of Monetary policy. The government could no longer devalue or appreciate the Austral vis a vis the dollar and could no longer use monetary financing to finance the government deficit. As a result, Cavallo's policies indirectly institutionalized fiscal austerity as the only means effectively available for an Argentinean government to balance its budget. Apart from austerity, Cavallo's monetary policies incentivized a new wave of privatizations and external Debt as two sources of financing for the country's deficit.

The Ley de Convertibilidad successfully put inflation under control, and indeed significant decreases in the inflation rate can be observed in the years following the introduction of the Law (Table 13). At the same time, the country was able to continue serving its Sovereign Debt (Belini & Korol, 2020, p. 451). Argentina benefited from an influx of foreign capital, which the Law facilitated significantly by shielding them from currency risk. Nevertheless, this came at the cost of a continuing recession; although the recession was less severe than in the previous years (Table 13), Argentina would continue to experience a negative GDP growth rate throughout the 1990s. The anti-inflationary policies of Cavallo, similarly to the other anti-inflationary measures taken by the UCR administration, hurt economic growth. More importantly, fixing the exchange value between the Austral and the U.S. Dollar caused monetary overvaluation. The residual inflation combined with a lack of improvement in the supply-side of the economy would render the Austral overvalued. This chronic monetary overvaluation harmed Argentinean exports by decreasing the country's competitiveness (Belini & Korol, 2020, p. 451). For Argentina to retain its competitiveness towards the U.S., given the overvalued peso/austral, the country would have to achieve inflation rates lower than the U.S. as well as higher increases in productivity (Marshall, 2008, p. 350); Argentina did not achieve these demanding goals, and thus the country's external trade -on which serving the country's debt depended heavily- suffered.

The Ley de Convertibilidad increased Argentina's financial vulnerability (Marshall, 2008, p. 351). Having renounced the capacity of printing money and giving up control over domestic interest rates, the Menem administration had no other way to continue serving its debt but by achieving fiscal surpluses. Given the overvalued peso, the Argentinean government could rely less on trade surpluses to serve the country's debt; the PJ administration had to also achieve primary budget surpluses through cuts in public spending and increases in tax revenues (Marshall, 2008, p. 351). The new policy was tested in two different financial crises in 1992 and 1994. In 1992 a run against the newly established Peso (Beker & Escudé, 2008, p. 13) forced the Argentinean BCRA to use a provision of the Ley de Convertibilidad that allowed the Central Bank to sell its reserves in dollars at a lower price than the market price in order to stop speculative attacks against the Peso. Defending the Peso against speculative attacks of this kind came at a high cost, thus testing the long-term viability of the Convertibility. The more challenging test would come, however, in December 1994, when the value of the Mexican peso declined rapidly, causing a banking and financial crisis that came to be known as the "tequila effect" (Ffrench-Davis, 1997), during which 30% of Argentina's international reserves were lost, bank deposits declined by 18%, and 48 banks were closed (Damill, Simpson, & Salvatore, 2003, p. 15). The Law had brought about dramatic changes in the banking sector of the Argentinean economy. The BCRA has not only lost its capacity to print money, but the Bank had a limited capacity to provide loans to private banks -a policy that was intended to avoid the creation of deficits. The BCRA's ability to intervene in a potential crisis as the lender of last resort was now reduced (Marshall, 2008, p. 351). With the advent of the "tequila effect," the Argentinean banking sector was vulnerable, and many Argentinean banks could not absorb the damages they suffered during the crisis. The Argentinean banking sector was transformed radically, with foreign banks dominating the domestic market. After the crisis, the BCRA increased the minimum capital requirements and other regulatory burdens, which further deteriorated the position of Argentinean banks (Marshall, 2008) and accelerated the transformation of the Argentinean banking sector.

This transformation was primarily welcomed in Argentina since foreign banks were perceived as inherently more stable. Argentinean Banks were highly dependent on external financing, and thus financial crises would tend to cause systemic banking crises. Financial crises would cause a diminishing of foreign capital flows and increased interest rates, while the BCRA was limited in its ability to act as a lender of last resort (Marshall, 2008).

The entry of foreign banks into Argentina was seen to circumvent this problem since large foreign banks would not typically face credit rationing during the financial crisis. Thus in times of crisis, these banks could provide liquidity to the Argentinean market, while they would typically not be in need of the BCRA to act as a lender of last resort on their behalf (Marshall, 2008, p. 352).

Cavallo's monetary policies were combined with an extensive deregulation initiative, especially the deregulation of the import market, a reduction of tariff-based protectionist measures. Moreover, Cavallo adopted a free-market approach to Argentina's external trade, a policy choice consistent with the administration's neoliberal orientation.

Argentina participated in the Mercosur transnational organization, a Common market formed by Argentina, Brazil, Uruguay and Paraguay. Mercosur imitated some of the EU's institutional design, aiming to adopt a common external tariff similar to the EU's common external tariffs. The Mercosur common tariff was eventually introduced in 1995. Menem's foreign policy had looked toward the U.S. for economic support and cooperation.

Nevertheless, Argentinean exports, a significant part of which consisted of foodstuff, were competitive with the U.S. Thus, Argentina began to look for its regional trading partners to boost its exports (Luca Gardini, 2007). After a long process of rapprochement between Argentina and Brazil, Cavallo embarked on negotiations -as the foreign minister of Argentina- with the foreign minister of Brazil, Francisco Rezek, in June 1990, preparing a plan for regional integration in Latin America in the model of the European Union. The Cavallo-Rezek negotiations resulted in the Buenos Aires Act of 6 July 1990, signed by Carlos Menem and the then President of Brazil, Fernando Collor. The Buenos Aires act, the fruit of Cavallo's strategy, set the basis for the later structural design of the Mercosur. The act prescribed that macroeconomic policies should be coordinated between the two countries and that a "linear and automatic reduction" of customs tariffs should be adopted, along with the elimination of all non-tariff barriers (Luca Gardini, 2007, p. 818). The linear and automatic reduction of tariffs consisted of a system of automatic reductions brought about progressively without further negotiations according to an agreed calendar.

In the meantime, negotiations with Paraguay and Chile commenced with the purpose of expanding the treaty to other countries in the region. In November 1990, Brazil and Argentina finalised their common market by signing the Economic Complementation Agreement No. 14 (ACE-14) of November 1990. On 26 March 1991, Argentina, Brazil, Uruguay and Paraguay

signed the Treaty of Asunción that expanded the newly formed common market and formally launched the Mercosur. The fundamental principles of the Mercosur were similar to the Buenos Aires act and belonged to the same neoliberal economic paradigm. The fundamental pillars of the Mercosur were the free circulation of goods, services, and production factors (article 1 of the Treaty), as well as the elimination of all tariff and non-tariff barriers among the member states, the adoption of a common external tariff and common trade policy towards third countries, including in international economic forums (Luca Gardini, 2007) Finally, member states were expected to coordinate macroeconomic policies -towards a neoliberal model and harmonise their legal framework (Treaty of Asunción, 1991, p. 822).

The creation of Mercosur would, eventually, create new difficulties for Argentina. The overvalued Austral and later the overvalued Peso would harm Argentinean competitiveness vis a vis its regional neighbours, especially Brazil (Marshall, 2008, p. 351).

In other areas of policy, Cavallo adopted measures typical of the Washington Consensus. The government embarked on a program of privatisations. Privatisations had taken place during the UCR administration, but during the Menem administration, the companies privatised were of very high financial value and of strategic importance for the function of the Argentinean economy.

Amongst the companies privatised were the States Gas companies, Ports, the Highways, the Buenos Aires subway system (Subte), the state-owned petrol company Yacimientos Petrolíferos Fiscales (YPF), the steel production company Mixta Siderúrgica Argentina (SOMISA), the National Mortgage Banks, while the National Bank of Development (Banco Nacional de Desarrollo) was liquidated. There was an attempt to privatize the assets of the National Atomic Energy Commission (CONEA) (Belini & Korol, 2020, p. 452). Cavallo's wave of privatisation raised US\$ 10.000 million and an additional US\$ 14.000 million in foreign debt securities but are considered not to represent the real value of transferred assets (Brenta, 2021, p. 452).

THE BRADY PLAN AND MENEM'S STRATEGY TOWARDS THE DEBT

In the context of the Argentinean rapprochement with the United States, the Menem administration chose to join the Brady Plan, a plan developed by the Secretary of the Treasury Nicholas Brady to deal with the recurring debt crisis in the Global South. The Plan was the product of the newly established U.S. hegemony in the Global Economy. Argentina was looking to improve its economic relations with Washington and, more importantly, to normalize its relations with the creditor banks (Olivier, 2010, p. 241).

The Brady Plan was a crucial moment in the history of Argentinean Debt as Argentina's participation in the Plan would cause a significant increase in the country's government debt. The Brady Plan is crucial for the goals of this chapter since, similarly to the First Greek Bailout Program, the Plan included a change in the composition of Argentinean Government Debt. With the Brady Plan, the debt owed to private commercial banks was exchanged with Brady Bonds, achieving a slight debt relief of the Argentinean Debt. However, according to the Brandy Plan, Argentina would have to back these bonds with U.S. Treasury 30-year-zero-coupon bonds. The financing for purchasing these bonds would come partly from IMF funds - provided via a Stand-by agreement- and partly from Argentina's foreign exchange reserves. At the same time, Argentinean assets, especially public utility companies, acted as guarantees for the new Argentinean Brady Bonds.

Argentina embarked on negotiations for its version of the Brady Plan – different countries adopted different ad hoc versions of the Plan according to their circumstances- in early 1992. A Working Committee was set, consisting of the representatives of eleven commercial banks. The committee was tasked with negotiating the restructuring of the commercial-bank debt through a “Brady transaction (Olivier, 2010, p. 242)”. An agreement was reached during the Inter-American Development Bank (IDB) meetings in the Dominican Republic after two days of negotiations on April 7, 1992 (Brenta, 2021, p. 165). The agreement that was reached prescribed the exchange of Argentinean debt towards commercial banks with discount and par bonds. More specifically, Argentinean debt would be exchanged with:

1. A thirty-year collateralized discount bond - with a discount of 35% compared to the nominal value, with a floating interest rate equal to the LIBOR (London Interbank Offered Rate) plus 0.8125% per annum. Interest payments would be collateralized in an amount equal to twelve months (Olivier, 2010, p. 243)

2. A thirty-year collateralized par bond, exchangeable for 100% of the nominal value of the existing claims with an initial interest rate of 4% per annum, increasing annually and capped at 6%. Similarly to the discount bonds, interest payments would be collateralized in an amount equal to twelve months.

In total, US\$ 30.000 million worth of loan contracts with commercial banks were included in the Argentinean version of the Brady program (Nemiña, 2012, p. 74). The deal was favourable to commercial banks but afforded only limited debt relief to the Argentinean government. In accordance with April 7, 1992 agreement Argentina issued three different types of Brady Bonds; firstly, it issued a Floating Rate Bond with a total value of US\$ 8.466 million with floating interest rates. Pending Interest payments on the Argentinean Government Debt were converted into the Floating Rate Bond, while the capital of the loan contracts was converted into Par Bonds (US\$12.652 million) and Discount Bonds (US\$ 4.297 million). These bonds were guaranteed by a 30 year zero-coupon U.S. government bond (Brenta, 2021, p. 166), while debt contracted with German banks was guaranteed by the Credit Institute for Reconstruction bonds (Kreditanstalt für Wiederaufbau) of the Federal Republic of Germany.

The Argentinean program benefited significantly U.S. banks that had exposure to Argentinean debt. With Argentina's entry into the Brady Plan, the Government debt owned by these banks, the payments of which were in arrears, was exchanged with U.S. and German government bonds. Argentinean Government Debt had lost anywhere between 70% and 82% of its nominal value (Calcagno & Calcagno, 2000), a decline in value much larger than the haircut that the discount bonds afforded Argentina. The interest payments of the Argentinean Government Debt were already in arrears when Argentina entered the Brady Plan. Argentina's interest arrears were above US\$8.000 million, reduced from about US\$10.000 million due to the cancellation of external debt as part of privatization contracts the Menem administration had signed (Olivier, 2010, p. 242).

On June 23, 1992, Domingo Cavallo informed creditor banks about the exact terms offered by Argentina in exchange for their agreement for the exchange of debt. On top of the Brady Bonds, banks would also share lucrative cash payments of a total value of US\$700 million as a "sweetener". Given the largely favourable conditions of the Plan creditor, 320 commercial banks signed the debt-restructuring contracts on December 6 1992 (Brenta, 2021, p. 165).

In total, the Argentinean Government debt towards Banks was dramatically reduced to US\$1.240 million from US\$ 28.439 million before the exchange in 1993. Nevertheless,

Argentina's government debt in bonds increased from just US\$6,2 million in 1989 to US\$31.200 million in 1993 and continued increasing for the rest of the decade before reaching its peak height in 1990, US\$57.615 million (Brenta, 2021, p. 165). Moreover, to finance its Brady Plan, Argentina had to pay US\$3.840 million. A large part of these funds came from the IMF loan facilities extended to Argentina due to the 1992 standby agreement with the Fund that accompanied Argentina's Brady Plan. In other words, Argentina's participation in the Brady Plan did not provide the country with any significant debt relief and, similarly to the Greek PSI program, pushed obligations to the future. In both the case of the Brady Plan and the case of the Greek PSI, creditors were forced to restructure Argentina's and Greece's debt, respectively, because in both cases, the ability of the two countries to continue serving their debt was in jeopardy. We must underline, of course, that at the moment of Argentina's entry into the Brady Plan, Argentina's debt payments were already in arrears; thus, in the Argentinean case, creditors had more substantial incentives to accept a debt restructuring. It is nevertheless worth underlining that despite the immediate danger of a disorderly Argentinean default, the Menem administration was still unable to achieve a beneficial amicable agreement with the country's creditors.

The IMF funding would come with conditionalities like other IMF programs; the conditionalities included neoliberal reforms, privatisations, and fiscal austerity. Thus the participation in the Brady Plan acted as a form of external reinforcement of Domingo Cavallo's policies. Similar to how the IMF acted in the Greek case, the Brady Plan essentially acted as external leverage to force a consensus on the necessity of neoliberal policies; Argentina's participation in the Brady Plan guaranteed that even if Cavallo's neoliberal policies were to be challenged democratically, as they were eventually, Argentina would still be obliged to continue with their implementation. The function of the Brady Plan in Argentinean Politics is similar to how the Greek Bailout Programs acted in the case of Greece when subsequent Greek governments broke their electoral pledges and continued the implementation of the IMF conditionalities. The Brady Plan was a case of "amicable" debt reliefs, namely debt restructuring that takes place with the initiative or collaboration of the creditors. These "amicable" debt reliefs reproduce the unequal relations between the creditors and the indebted country and, in the cases of Argentina and Greece, granted very little debt relief to both countries. Similar to the case of the Greek PSI, the Argentinean Brady Plan did not render the debt sustainable; both did achieve, however, in extending and increasing the amount of influence that creditors had over policy. The Brady Plan also has significant commonalities

with the First Greek Bailout Program in that it shielded private banks, especially private banks based in creditor countries, and especially creditors based in developed economies in the North.

Argentina's Participation in the Brady Plan also had a consequence that the country implicitly but clearly accepted the legitimacy of the loan contracts issued between the Dictatorial regime and foreign banks. This part of the debt was particularly onerous given its lack of democratic legitimacy and transparency. Moreover, repayment of these loans raised severe ethical concerns since the regime used the funds to finance its police-state operations, including severe human rights violations such as torture and forced disappearances. Indeed, the issue of the legitimacy of the debt issued by the Dictatorial regime was never brought up again by the Menem administration, and effectively, Argentina continued to serve the debt behind by the Dictatorial Regime.

The new Standby agreement with the IMF also demanded from Argentina an exceptional annual primary surplus of US\$3,000 million for three years, without taking into account income from privatizations, thus requiring from Argentina exceptional degrees of fiscal discipline.

The Menem administration had committed to achieving primary budget surpluses, while the pegging of the Austral -and later Peso- to the Dollar had hurt Argentinean exports. Indeed from 1992 to 2000, Argentina registered a trade deficit for the first time in the post-dictatorship era (World Bank, 2021). This prolonged period of trade deficit was a destabilizing phenomenon for an economy with a history of trade surpluses and a robust exporting sector, especially in the agricultural and fishery (agropecuaria) exports category. With the adoption of policies of fiscal discipline, the stability and expansion of the Argentinean economy became dependent on the country's external position. The Argentinean government relied on foreign exchange inflows to increase the monetary base and stimulate demand (Nemiña, 2012, p. 75).

By restoring relations with the country's creditors and adopting liberal reforms, the Menem administration hoped to attract Foreign Direct Investment with which it was hoping to counter the decline of Argentina's exports. Although FDIs did increase overall by the end of the Menem administration, FDI net inflows as a percentage of the GDP only increased gently, while in 1993, Argentina even experienced a decline in FDI net inflows as a % of the GDP. Overall, FDI net inflows remained a small percentage of the GDP, accounting for 1.299% of the GDP in 1990 to their brief highest point at 8.461% of the GDP in 1999 before collapsing to 0.806% during the 2001 crisis -remaining at a low level as a percentage of the GDP to this day (World Bank, 2021). Moreover, with the increase in FDIs, so increased profits remission

and the volatility of speculative capital flows (Nemiña, 2012, p. 75). Finally, it is worth noting that a significant part of the FDI Argentina attracted during the Menem administration was concerned with the privatization of public companies or the acquisition of Argentinean private companies by foreign companies (Schorr & Wainer, 2018). Thus, whereas FDI during the “developmentalist (desarrollista)” period of the Argentinean economic history (1958-1973) financed productive activities, leading to the development of the significant Argentinean export sector (Rougier & Odisio, 2017), FDI during the Menem administration did not incorporate new productive capacities and did not improve the productivity of the Argentinean economy in any significant degree (Schorr & Wainer, 2018, p. 134). The main consequence of the inflow of FDI in this period was the greater concentrations of Capital in the domestic level.

Since FDI were not sufficient, the Menem administration relied on issuing new debt as the primary source for foreign exchange inflows; Sovereign Debt significantly throughout the Menem administration (Nemiña, 2012, p. 76). The global economic environment facilitated Argentina’s access to credit, as the global trend for more significant deregulation of financial flows, combined with the higher interest rates offered by Argentinean bonds, facilitated the country’s access to credit (Brenta, 2021, pp. 169-170). External indebtedness thus became the primary source of foreign exchange inflows (Nemiña, 2012), thus leading to a rise in the real interest rates in Argentina as compared to the international rate. The average real interest rate between 1994 and 2001 amounted to 13.28% per annum (Nemiña, 2012). Throughout the 1990s, Argentina’s Government Debt continued to burden government finances, raising questions about the country’s solvency. Interest payments increased exponentially throughout the 1990s, absorbing an ever more significant percentage of Government spending, and when Menem left the Presidential Palace, interest payments amounted to 17.275% of Government expenditure (World Bank, 2021).

During the Menem years, Argentina moved away from the agro-exporting production model toward a more financialized model. This change in economic policy is reflected in the sources of reserve accumulation in Argentina during the Menem administration. Government borrowing and profits from the privatisations of public companies are the primary sources of foreign reserve accumulation during this period. In contrast, Argentinean Financial and non-Financial companies had negative contributions, transferring their reserves abroad. During the 1992-1998 period, privatizations and public borrowing contributed US\$ 22.132 million to the country’s foreign exchange reserve, while Non-Financial Private Companies (NFCs) made a negative contribution of approximately US\$900 million. Private Financial Companies also had

a negative contribution in this period of US\$5.700 million (Henaio, 2004). With the advent of the 1998 financial crisis in emerging economies, the negative contribution of private companies increased, forcing the government to take on exceptional amounts of new debt. As the Financialization of the Argentinean economy advanced, Financial Companies and their practices of transferring capital and profits abroad proved to be a significant burden on the Argentinean balance of payments. The large domestic companies that had managed to occupy a dominant position in the Argentinean economy during the Dictatorship era began transferring their assets to foreign Capital. The empirical evidence shows clearly that foreign companies started investing in the Argentinean exporting sector while domestic companies focused on their most profitable activities. Most importantly, a strong tendency can be observed for domestic companies to invest in highly liquid assets abroad, reinforcing the outflow of Capital from Argentina (Castellani & Schorr, 2004).

Menem's Argentina presented phenomena typical of countries in a state of subordinate financialization, namely high levels of structural unemployment, financial instability - with the economy experiencing years of growth and years of sharp economic decline- and combined sudden outflows of Capital and Capital flight. The emergence of structural unemployment was combined with the stagnation of average salaries as a percentage of the GDP (Castellani & Schorr, 2004, p. 61). This stagnation continued throughout the Menem administration, while the growth rate of average salaries remained below the GDP growth rate and domestic sales (Castellani & Schorr, 2004). In other words, Menem's policies further worsened the relative position of Labour as compared to Capital. The Menem era had clear winners in both domestic Capital and Foreign Capital active in Argentina and clear losers in Argentinean Labour.

The solvency of Argentina came into question when the already high real interest rates increased further in reaction to the Asian 1997 Financial Crisis and the Russian Financial crisis of 1998. When in 1998, the Brazilian Real devaluated sharply, it caused Argentina's trade balance to worsen further, sending the economy into a recession (Frenkel, 2002, p. 44). The convertibility framework had increased Argentina's exposure to the volatility of international capital movements, and thus, the ensuing worsening of the international conditions regarding liquidity and credit availability significantly impacted Argentina's macroeconomic performance.

Under the weight of a new debt crisis in 1999 and a continuing recession, the PJ entered the Presidential elections. After ten years of Peronist rule, the Peronist camp split with the former

Finance Minister Domingo Cavallo -who had left the government over corruption-related issues- running as an independent candidate. The UCR, on the other hand, gave the presidential ticket to the former Mayor of Buenos Aires, Fernando de la Rúa, a politician known for his implementation of spending cuts during his term as a Mayor.

THE DE LA RÚA ADMINISTRATION

De la Rúa's won the 1999 elections in the context of an economic press and with the public discourse dominated by fears of full-blown financial collapse. The discourse dominating the Press was alarmist, lending support to a harsh implementation of an IMF adjustment program to avoid an economic catastrophe. The National Press was dominated by stories about an impending economic collapse if Argentina did not adopt a program of fiscal discipline (García & González, 2011). The ability of sectors of Capital to reproduce the kind of Subjectivity that Lazzarato described as the Subjectivity of the Indebted Man is evident in this case; despite two decades of fiscal discipline, Argentinean voters were asked to back yet another program of fiscal discipline supposedly to avert a complete economic collapse of the country. The De la Rúa economic program was vague enough despite the crucial financial circumstance (Burst, et al., 2020). De la Rúa's program promised to tackle the issue of unemployment. To achieve this goal, he pledged policies of neoliberal inspiration, such as subsidies for companies to hire the unemployed instead of welfare spending and deregulation policies. Even more importantly, the De la Rúa manifesto promises to improve access to credit for Small and Medium enterprises. Many of his policies relied upon the state facilitating access to loans or providing state guarantees for loans to enable investment. Domingo Cavallo ran as an independent candidate on an outright neoliberal platform, a novel phenomenon in a partisan system that had been primarily dominated by the two largest parties, the UCR and PJ. The fluidity of the political system at this era presents significant similarities with the fluidity of the Greek political system after the 2009 crisis. In both cases, the alignment of voters along partisan lines began to decline as subsequent governments tried and failed to find a sustainable solution to the debt crisis.

After ten years of Peronist political rule, De la Rúa managed to win the 1999 elections by a landslide, taking advantage of the break-up of the Peronist vote between the PJ candidate Eduardo Duhalde and the candidature of Domingo Cavallo. De la Rúa's first minister of finance was the former head of the BCRA during the Alfonsín administration José Luis Machinea. Machinea's analysis of the crisis in which Argentina was finding itself was that the Menem administration had abandoned fiscal discipline ahead of the 1999 elections in the hope of pleasing voters and thus, what was needed was the implementation of budget cuts. Brenta points out that this increased spending ahead of the elections amounted to a mere US\$1,430 million, which on its own was by far the most important source of the primary budget deficit that Argentina was presenting. One cause for the deficit was the decline of economic activity

that Argentina experienced in the 1998-1999 period leading to a fall in state revenue by 4% in 1998 and 9% in 1999. Debt repayments augmented by US\$1,600+ million, having risen to US\$8,200 million in 1999 from US\$6,600 million in 1998. Serving Argentina's Government Debt continued to put an increasing strain on the budget, as the interest rates increased by 17% in 2000, adding a further US\$1,430 million in debt repayments in 2000 (Brenta, 2011, p. 173). However, Argentina's budget cuts did not suffice to render the Argentinean debt more sustainable, causing Machinea to introduce a new set of taxation and austerity measures known as the "impuestazo". These measures included increasing indirect and direct taxation and cuts in public employee salaries and local government spending (Noriega, 2010). It is worth underlining here that despite neoliberal economics' small-state and pro-business discourse, the IMF Stand-by programs in Greece and Argentina were accompanied by significant increases in taxation, including indirect and VAT taxes that disproportionately affect the lower-income percentiles. This functions as evidence that IMF programs prioritise above everything else debt repayments, even if this comes at the expense of economic growth and thus debt sustainability. The Machinea "Impuestazo" had predictably recessionary effects on the Argentinean economy. For the first time since 1994, BCRA reserves began to decline. The UCR administration was still committed to the Convertibility Plan (Brenta, 2021, p. 174), which included the principle that in the case of a decline of BCRA reserves, the monetary base should also be reduced proportionately. A vicious circle was thus created with the reduced monetary base, increasing interest rates, causing a slowing down of the economy and thus causing a decline in the levels of BCRA reserves subsequently.

Políticas

El acceso al crédito

Las firmas de menor tamaño relativo se caracterizan por sus dificultades en acceder al crédito, y por las altas tasas y cortos plazos que deben enfrentar cuando lo logran. El Estado tiene un rol a cumplir en este campo que debe plasmarse en una estrategia integral que contemple tanto a la oferta como a la demanda de crédito PYME.

- Desde el lado de la oferta se aumentará la provisión de crédito a mediano y largo plazo a través de una serie de medidas entre las que se destaca, por su importancia, la reforma del Banco de la Nación Argentina, institución que tendrá como objetivo primordial la asistencia al sector. Esta reforma del BNA que propone la Alianza implica terminar con el uso político que se le ha dado para beneficio de los amigos del poder de turno y transformar este banco, que no será privatizado total ni parcialmente en un verdadero instrumento de asistencia a las empresas pequeñas y medianas del interior del país. El BNA actuará como institución amortiguadora en los momentos de crisis, y como instrumento de transición hasta tanto los bancos privados que han ingresado recientemente al mercado se integren a la política crediticia regional. Es fundamental potenciar su estructura y corregir las desviaciones en su funcionamiento, para transformarlo en lo que era en sus orígenes: un Banco preponderantemente dirigido a la pequeña y mediana empresa rural y urbana. Para ello, la Alianza promoverá la modificación de su Carta Orgánica con las siguientes medidas: por un lado, los créditos a empresas PyMEs deberán canalizar no menos del 85% de los préstamos; por otro, se establecerá un límite al monto de dichos préstamos.
- Se retomará y ampliará la iniciativa de subsidiar la tasa de interés activa para los préstamos a las PYMEs con fondos presupuestarios, distribuyendo el subsidio entre los bancos de acuerdo a la menor tasa activa propuesta.
- Se dará impulso a instrumentos como la factura de crédito, el cheque diferido, la emisión de Obligaciones Negociables y el capital de riesgo mediante estímulos impositivos, y se promoverá el desarrollo del leasing para bienes de capital, que aunque es un instrumento muy utilizado en otros países, aquí no se ha difundido por obstáculos de tipo normativo - legal a los que daremos adecuada resolución.
- Del lado de la demanda, se promoverá la instrumentación de un sistema de garantías eficiente y operativo, con apoyo del sector público.
- Teniendo en cuenta que un problema usual, también desde el lado de la demanda, es la presentación de la información requerida por las entidades financieras para el otorgamiento de un préstamo, se desarrollará un sistema de consultoría, subsidiando parte del costo de la compra de servicios que se efectúe dentro de un listado de profesionales habilitados a ese fin por el Estado. Al mismo tiempo, se implementará en consulta con el sistema financiero la elaboración de un esquema de presentación simplificada.

Figure 18 De la Rúa's Manifesto ahead of the 1999 elections. Source: Manifesto Project

With the arrival of the new UCR cabinet in government, two monetary policies were open to the De la Rúa government in its effort to deal with the crisis, namely the solution of the devaluation and dollarization. Basualdo (Basualdo E. , 2002) and Castellani & Schorr (Castellani & Schorr, 2004), claim that these two policies were supported by different sectors of Capital active in Argentina. These sectors became separated into two opposed camps. On the one hand, the dollarization camp pushed for a more substantial commitment of the Argentinean government to the Convertibility Plan. This Camp proposed the dollarization of Argentina, taking the Peso out of circulation, a plan that came to be known as the “ultimate phase of the Convertibility Plan” (Castellani & Schorr, 2004), a phrase that insinuated that dollarization would be the logical conclusion of the Convertibility Policies. If the Argentinean government were to introduce a dollarization plan, the BCRA effectively would lose its monopoly over currency issuing in the Argentinean territory. According to Basualdo and Castellani & Schorr, the dollarization policy would benefit foreign Capital that had made

investments in Argentina since a devaluation would cause their recently purchased assets in the country to become devalued (Basualdo E. , 2002). Still, it would also benefit those companies that have purchased public companies and assets during the Menem privatisation initiative in the 1990s. The policy of dollarization would also benefit the financial sector, domestic and foreign Financial Capital that was active in the country (Castellani & Schorr, 2004), while it would also facilitate Argentinean companies planning to transfer funds abroad. On the other side -Basualdo claims- were those elements of Argentinean and Foreign Capital that had invested in the Argentinean exporting sector. Argentinean exports were set to increase significantly in the case of a devaluation, thus securing an increase in profits for these companies (Basualdo E. , 2002, p. 15; Basualdo E. , 2020, pp. 28-30).

Salvia contests Basualdo's claims, offering an alternative account of the internal debates within sectors of Capital on the issue of monetary policy. Salvia analyses primary sources and documents -mainly speeches- given by company owners in Industrialist fora such as the UIA (Unión Industrial Argentina) and concludes that -contrary to Basulado's assumptions- dollarization was the preferred policy option for all sectors of Capital active in the country at that period. Instead, he claims that if there was a dispute, that was a dispute on fiscal rather than monetary policy. Salvia claims that the financial sector pushed for the implementation of fiscal discipline, the reduction of government spending and the regularization of government debt payments to secure Argentina's access to the international money markets. The manufacturing, agropescarian and construction sectors, on the contrary, pushed for policies that would improve the country's competitiveness, mainly through state subsidies to exporting companies and tax breaks. It is essential to underline that the lack of support for the devaluation policy in public discourses on behalf of enterprises does not mean that such support for this policy did not exist. It is also important to note that important media conglomerates such as the Conservative journal "La Nacion" -which represented some sectors of Argentinean Capital- spoke against dollarization, even if this opposition did not translate into outright support for devaluation.

Whatever the actual positions of the different domestic and foreign Capital sectors in Argentina, it is not unreasonable to observe that the new UCR administration was increasingly faced with the need to choose between the devaluation and dollarization policy. It is also reasonable to observe that De la Rúa bet heavily on the dollarization policy, a choice that was translated in the later appointment of Domingo Cavallo as his Finance Minister.

The continuation of the Convertibility Plan policies meant that Argentina continued to rely on suppressing unit-labour costs in order to retain its competitiveness; the De La Rúa government followed policies that increased unemployment and reduced workers' salaries. The IMF further reinforced these policies, which had signed a Stand-by agreement with the Menem administration in 1996. The 1996 agreement included significant austerity measures and neoliberal structural reforms in the form of conditionalities that the UCR administration was obliged to implement. These conditionalities were later amplified by the extension of a facility mechanism in 1998. They included strict budget surplus rules that involved federal government spending and local and regional government spending (Brenta, 2011, pp. 281-285). FMI had been pressuring Argentina to adopt flexible labour policies since 1995, a process that culminated in the 2000 adoption of new employment legislation. The law was introduced to improve Argentina's competitiveness and the competitiveness of domestic goods; it was assumed that such an improvement in competitiveness would help prevent a devaluation of the overvalued Argentinean Peso. The new law caused company profits to increase, but at the cost of increasing employment precarity and an increase in unemployment, namely from 6,9% in 1993 to 18,4% in 1995, remaining at high levels for the rest of the 1990s.

The UCR government had to face Argentina's unsustainable foreign debt and was, additionally, left without the IMF stand-by agreement payments due to the Asian and Russian financial crises (Brenta, 2011, p. 280). To be sure, this was the culmination of a highly unequal partnership between Argentina and the Fund; between 1989 and 2001, Argentina paid back the Fund more than it received with the exception of 1993, 1995 and 2001 (Brenta, 2011, p. 286). By the time the De la Rúa government came to power, the IMF's role in Argentinean politics was not that of a lender on which Argentina could rely to avoid a financial crisis -since the country was paying back to the Fund more than it was receiving via its Stand-by agreement. Instead, the role of the Fund was to act as a disciplinary mechanism, an outside force that imposed neoliberal policies under the threat of a disorderly economic collapse should Argentinean governments fail to implement the harsh conditionalities (Brenta, 2011, p. 280).

By December 2000, Argentina was faced with the prospect of a default, and thus the IMF intervened not by offering a loan but by providing an emergency fund -to be made accessible in case it was needed- of US\$40.000 million; the Fund would contribute US\$ 13,500 million, while the World Bank and the International Bank for Reconstruction and Development (IBRD) would contribute US\$ 4,800 million. Moreover, Spain would intervene with a sum of US\$1,000 million; the motive behind this intervention was to protect Spanish private companies that had

invested in Argentina, especially during the great liberalization and privatization initiatives during the 1990s. Spain's intervention showed that unequal economic relationships between the South -in this case, Argentina- and the North -in this case, Spain- were being reinforced and strengthened via the IMF Stand-by programs. Spain's willingness to commit significant funds in loans for Argentina showed how highly Madrid valued the lucrative investments that Spanish companies had made in Argentina.

However, neither the IMF nor the Argentinean government was willing to change course on the issues of fiscal discipline and the subject of Convertibility. In the meantime, the policies that the Fund and Argentina had agreed on as part of the Stand-By agreement were producing recessionary effects. Despite Argentina's achievements in securing primary budget surpluses, Argentina's Government Debt had not been rendered any more sustainable, with primary budget surpluses not sufficient to cover the ever more onerous debt repayments. The poor economic performance of the Argentinean economy put the country's economic policies in question, as well as the Convertibility Plan itself. Minister Machinea was thus replaced by De la Rúa with the former Peronist Finance Minister Domingo Cavallo as a signal to the markets that Argentina was willing to continue on the path of convertibility and fiscal discipline.

Given Cavallo's personal commitment to the Convertibility Plan, the appointment of Cavallo signalled Buenos Aires' continuation of Menem's monetary policies. The presence of Cavallo in the UCR cabinet reflects similar developments in the Greek crisis, where fiscal discipline and neoliberal economics continued to be implemented despite the change of governments, while politicians and cabinet members were appointed above party affiliations. This consensus from above has a negative effect on the quality of democracy since voters can elect different parties but have the same policies implemented. However, in the case of Cavallo's participation in the De la Rúa administration, these adverse effects did not reach the levels observed in Greece, where party pledges were repeatedly overturned.

Cavallo's strategy was entirely consistent with the IMF stand-by agreement; his policies consisted mainly of yet another round of fiscal discipline and austerity measures. By 2001, the workers' income share had collapsed. Cavallo was given emergency powers to tackle the crisis, which he used to implement the debt swap of June 1, 2001. The swap involved exchanging old bonds with a total value of US\$28,715 million with new titles with a total value of US\$30,431 million (Damill, Frenkel, & Rapetti, 2005, p. 208). The swap, which was described as the "mega-swap" or "mega-canje", added a total of US\$53,000 million in principal and interest

repayments to be made until 2031 (Brenta, 2021, p. 176). The “megacanje” was highly unfavourable to the interests of the Argentinean economy and especially of Argentinean workers. Except for the creditors, the program was beneficial to the private banks that acted as intermediates – namely Banco Francés, Galicia Bank, Santander Bank, HSBC, Chase-JP Morgan, Salomon Brothers-Citigroup that benefited from US\$150 million in commissions (Fair, 2017).

Nevertheless, from the Argentinean point of view, the megacanje burdened the country with higher debt and interest repayments and paved the way for default, with the Argentinean country-risk rating reaching 1,000 points (Brenta, 2021, p. 177). An analysis of the public discourse reflected in the principal media platforms of the time was dominated by evaluations that were either favourable to the swap or critical evaluations that nevertheless refused to criticise the neoliberal model and chose to attack the government’s management of the crisis (Fair, 2017). The public discourse data collected by Fair show clearly the hegemony of the neoliberal discourse in the media. Fair also establishes that the Argentinean banking sector argued strongly in favour of the swap program, revealing the sector's role in shaping Argentina’s management of the debt crisis.

In an effort to gain the trust of foreign investors and achieve the harsh IMF conditionalities, the UCR administration passed the “zero deficit law” (Ley 25.453 or Ley de Déficit Cero), a mechanism that involved automatic cuts in public spending, including in pension-spending in cases of primary budget deficits (Ministerio de la Justicia y Derechos Humanos, 2001). The Law was essentially an effort to circumvent the democratic process and institutions such as the Senate to establish an extra-democratic “express fiscal discipline” mechanism independent of the Argentinean government. Similar instruments were proposed in the Greek case and function as evidence that the Fund’s bail-out programs negatively affect the ability of citizens to influence policymaking through democratic processes. The Law of Zero Deficit included Article II, which introduced a new tax on debit and credit bank account operations, and Article IV prescribed significant cuts in local government funding. Finally, Law 25.453 included harsh salary and pension reductions (Ministerio de la Justicia y Derechos Humanos, 2001).

The new law was rewarded with a new IMF loan of a total of US\$6,300 million which would become “available immediately,” in Stand-by Credit on September 7th, 2001, while it pledged further loans, including US\$1,240 million at an unspecified later date in 2001 (International

Monetary Fund, 2001). The Fund proceeded to praise the new Law, the tax increases and fiscal discipline and re-affirm the IMF's support for Argentina's Convertibility Plan.

Nevertheless, Argentina's fundamental macroeconomic indicators were worsening, including GDP growth which was expected to be negative, and interest rates that had increased to 8.7% by the time the credit extension was announced International Monetary Fund, 2001). Predictably the new wave of fiscal discipline caused state revenue and employment to collapse and GDP growth to decline even further (Brenta, 2021, p. 177). What is more, the Argentinean banking system was beginning to show signs of fragility, with bank deposits declining by US\$6,000 million, of which 80% concerned a decrease in the assets of private banks (Cafiero & Llorens, 2002, p. 3).

It was becoming clear that Argentina was headed for a major crisis and the Argentinean government began preparations for a new swap plan. This second swap was evidence that creditors were now significantly reducing Argentinean sovereignty to secure the payment of the bond titles. The new semi-voluntary swap prescribed that Argentinean bond-holders would exchange US\$42.000 million in titles -that were trading well below their nominal value- for bank loans of equal value, albeit with lower interests. Moreover, these loans were guaranteed by Argentinean government tax income (Damill, Frenkel, & Rapetti, 2005, p. 208). Again, like previous Argentinean swaps and the Greek haircut program, the 2001 second swap benefited primarily the creditors that were able to secure a return on their government debt titles -whose market value was significantly lower than their nominal value.

The second swap did not render Argentinean government debt any more sustainable, while primary budget surpluses did not significantly improve Argentina's situation. Argentina had plunged its economy into a recession in order to achieve these surpluses. Still, by 2001, the achieved primary budget surplus represented only 10% of the interest on Argentinean Government Debt, with interest repayments consuming 20% of Argentina's fiscal spending (Brenta, 2021, p. 178). In contrast, the capital flight from Argentina and withdrawal of deposits continued to intensify despite the swap programs and the new IMF Stand-By credit (Damill, Frenkel, & Rapetti, 2005, p. 208).

THE 2001 CRISIS, THE CORRALITO MEASURES AND THE “ESTALLIDO”

By December 2001, Argentina was heading for a major financial crisis, while the policy of Convertibility was being doubted as a sustainable policy option for the country. The IMF had already expressed its preference for the Convertibility Plan; this preference was not a mere policy recommendation. It was essentially a condition sine qua non for the payment of the IMF credit tranches as per the Stand-By agreements. The Convertibility regime had mixed if not negative results for the Argentinean economy in terms of GDP growth and exports. The Fund's heavy-handed insistence on the continuation of the policy acts can, thus, not be considered to be motivated by the IMF's evaluation of the best interests of the Argentinean economy. Indeed, the Fund's insistence on the Convertibility regime functions as evidence that the IMF acted in that case in the interest of creditors and Capital and not in the interest of the recovery of the Argentinean economy. The Convertibility Regime was, as we have seen, particularly beneficial for Foreign Investors that had purchased assets during Argentina's privatisation programs in the 1990s, as well as foreign investors that sought to repatriate profits.

According to Minister Cavallo's account of the events, the IMF had been pressuring the Argentinean government to completely cede its monetary sovereignty and adopt a full dollarization policy (Cavallo, 2006). The IMF was particularly concerned about BCRA reserves and had been pressuring the UCR administration to adopt a dollarization policy should the reserves of the BCRA be reduced by more than US\$2,500 million. The IMF, for its part, was growing increasingly concerned about the political support for further fiscal discipline measures (Cavallo D. , 2004, p. 147). Cavallo himself attributed the crisis to the excessive pre-electoral spending by the Menem administration ahead of the 1999 elections and the refusal of provincial governments to contribute to the austerity efforts (Cavallo D. , 2004, p. 143).

In October 2001, the governing UCR party was heavily defeated in the Senate elections at the hands of the Peronist PJ, with a 15% margin. The Partido Judicialista had undergone significant transformations during its time in the opposition. Eduardo Duhalde had managed to recover politically from the defeat in the 1999 Presidential elections, marginalising the more neoliberal elements in the PJ, namely the supporters of the former President Menem or “Menemistas” (Zícari, 2016, p. 14), as well as, the third camp within the PJ the Frente Federal Solidario (FFS). The FFS was an informal alliance between provincial governors from the Argentinean periphery whose members came from various ideological backgrounds (Giménez, 2008). opposed Menem's policies and the Buenos Aires-centric alliance that had brought Duhalde in

power (García N. B., 2016, p. 40). Among the FFS members was the governor of the province of Santa Cruz, Néstor Kirchner, that would later become President of the country.

Nevertheless, despite their victory, the PJ itself had also registered a decline in their electoral share (Zícari, 2016, p. 16), just one that was smaller than the governing UCR's decline. The Argentinan political system was entering a period of fluidity and change, similar to the one that the Greek political system entered after 2009. Both dominant parties experienced a decline, with the UCR suffering a crushing defeat. At the same time, the PJ was divided and in a period of instability, as evidenced by the emergence of the Frente Federal Solidario, Domingo Cavallo's abandonment of the party and later Menem's rapid political decline, from dominant President to defeated primary candidate in the hands of Néstor Kirchner. In Greece, this period of fluidity translated into the emergence of new parties and, most notably, the electoral rise of the former minor party Syriza. In Argentina, the political fluidity that was produced as a result of the 2001 crisis was mainly translated into changes within the Peronist Camp, with the PJ undergoing a significant ideological shift. Eventually, this period of political changes would translate into an electoral strengthening of Argentinean Conservatism combined with the electoral marginalization of the UCR.

The defeat of UCR and the impending return to power of the Peronist PJ made the IMF change its position towards Argentina. Duhalde argued for fundamental changes in Argentina's economic model, a new alliance between workers and productive Capital and warned that Argentina would experience civil unrest if nothing were to change in terms of economic policy (Zícari, 2016, p. 18). Although Duhalde had not openly argued in favour of the devaluation policy option

Duhalde had been speaking out against Financial Capital and favoured instead an economic model based on industrial production (Castellani & Schorr, 2004, p. 75). Given that the Convertibility Regime had been crucial in the financialization of the Argentinean economy and detrimental to the country's industrial exports, such statements put the future of the Convertibility Regime in question. Meanwhile, PJ affiliated Union leaders Rodolfo Daer, and Hugo Moyano openly spoke against the Convertibility policies, calling for their reversal and for the future PJ government to adopt a devaluation policy.

Despite having been an avid supporter of the Convertibility policy, Domingo Cavallo began arguing to the IMF in favour of a new monetary policy, one that would see the Argentinean Peso pegged not to the dollar exclusively. Instead, the Peso would be pegged to a basket of

currencies “consistent” with Argentina’s foreign trade (Cavallo D. , 2004, p. 143), a policy presumably motivated by the devaluation of the Brazilian Real that was hurting Argentinean exports.

It was becoming clear that the Argentinean political system was changing its stance in the dollarization vs devaluation dilemma and that a critical electoral majority was being constructed for the second policy option, a majority led by the PJ, supported by influential Unions such as the Argentinean CGT and endorsed by sectors of the Argentinean Capital, sectors that were to stand to benefit from the devaluation policy. The IMF took notice of this change in the Argentinean political climate and threatened to discontinue the payment of the tranches of Argentina’s Stand-by agreement loan (Cavallo & Cavallo Runde, 2017, p. §34)

While the policy change on the monetary issue appeared imminent, the IMF moved preemptively to punish any efforts to devalue the Peso. Thus, even though the Argentinean government had achieved significant primary budget surpluses over a long period, as per the Stand-by agreement’s conditionalities, the Managing Director of the Fund Horst Köhler decided to delay the payment of US\$1,300 million that was due in November 2001 (Cavallo & Cavallo Runde, 2017, p. §33). The loss of reserves accelerated, reaching US\$5,995 million in November, a historical record in Argentinean economic history (Salvia, 2011, p. 122). To avoid a bank run, the Argentinean government announced restrictions on the maximum withdrawal amounts from banks and temporary exchange controls on financial transfers abroad. Moreover, the BCRA announced the optional dollarisation of deposits and credits to lower the demand for dollars and the reduction of deposits (Brenta, 2021, p. 180). These measures would be named “the corralito” and would become a painful event in Argentinean collective memory. In the harsh conditions that the corralito imposed on Argentines' everyday lives, the “depositors movement” emerged (Schilman, 2004, p. 358) to defend citizens’ deposits, motivated by a lack of confidence in the political system as a whole. The Argentinean economy was essentially functioning without cash -given that withdrawals had been capped at US\$250- producing recessionary effects for the Argentinean economy. Moreover, the "corralito” created a tendency for Argentines to turn towards the informal economy (Busso, 2010). Under increasing pressure, Argentina was forced to declare a unilateral default on its US\$100 billion external debt (Wu, 2019)

Finance Minister Domingo Cavallo claimed that these measures were taken because IMF Deputy Managing Director Ann Krueger demanded the Argentinean government Cavallo &

Cavallo Runde, 2017, p. §33). Cavallo claims that Argentina complied fully with the Fund's demands, and thus there was no valid reason for the IMF's suspension of the Argentine program, which he blames on the changing policy priorities of the new Bush administration - which sought to toughen its stance towards countries in debt crises (Brenta, 2021, p. 180), as well as the international economic climate (Cavallo D. , 2004).

Nevertheless, we know from the Greek case of 2015 that the IMF and other creditors would act preemptively to if they believe that a lender-country is considering a default or any other unilateral measures not previously accorded with the creditors. Such preemptive measures consisted in the Greek case of provoking an impactful banking crisis in Greece when the European Central Bank decided not to increase the level of Emergency Liquidity Assistance available for Greek banks. In the case of Argentina, these preemptive measures took the form of discontinuing the Argentinean program, thus forcing Argentina to declare a default and impose banking restrictions and Capital controls.

The Argentinean Government's reaction to the suspension of the IMF program is paradigmatic of the political impotence that Buenos Aires was finding itself vis a vis the Fund. The UCR administration, like the Menem administration before it, had opted for a strategy of full compliance with the Fund in the hope of attracting FDIs and securing Argentina's access to credit. This strategy ultimately did not pay off, and now the UCR administration found itself at an impasse; IMF conditionalities had thrown Argentina into a recession, and Stand-by credit had caused the Argentinean debt to increase to unsustainable levels. Despite having implemented the harsh conditionalities of the Stand-By agreement, the De La Rúa administration had also lost the goodwill of the Fund on the issue of dollarization and the country's macroeconomic performance, which the Fund blamed on the Argentinians. De La Rúa and his cabinet, however, still depended on the release of the tranche of the Stand-By loan in order to avoid a disorderly default and a potential collapse of Argentinean banks.

The Argentinean government took a series of initiatives in order to regain the favour of the IMF and secure IMF funds. These initiatives consisted of a wave of shock austerity measures that introduced new cuts in salaries, pensions, and local government funding. These measures were essentially identical to all the previous rounds of austerity measures that had failed to stabilise the Argentinean economy, evidence of the Fund's prioritisation of creditor over debtor interests. The Senate rejected the new austerity measures, a sign that the consensus over neoliberal economics in Argentina had ended.

In the meantime, social protests erupted in Argentina as a result of the increasing improvisation, the corralito measures, fears over the safety of deposits and the proposed austerity measures; the protests escalated in civil unrest during the 19th and the 20th of December 2001. The social movement that emerged from the events that were described as the “Estallido” of 2001 was highly heterogenic. Apart from the Unions -that had led strikes traditionally-, the “Estallido” saw diverse social groups joining forces to seek not the satisfaction of a specific demand but fundamental changes in the function of Argentinean democracy (Scribano & Schuster, 2001). Unions called a widely participated strike on the 13th of December 2001, while a “confederation” of social groups, activists and organizations emerged the National Front for the Struggle Against Poverty (Frente Nacional de Lucha contra la Pobreza -FRENAPO). The FRENAPO was a grassroots organization that became increasingly influential, participating in social protests and organizing meetings where political and economical alternatives for Argentina would be discussed. The increasing popularity of the FRENAPO was a sign of the challenge that Argentina’s neoliberal consensus was facing. Other forms of participation in the 2001 social protest included workers take-over of factories in the face of mass firings (Hadad, Comelli, & Petz, 2012). The FRENAPO’s experiment with grassroots politics, assemblies and direct democracy culminated in a plebiscite referendum-consultation that took place during the 14, 15, 16 and 17 of December 2001, where approx. 3 million Argentinean citizens voted in favour of a draft proposal put forward by FRENAPO asking for a social welfare program and a public program of investment in employment of a total value of US\$11,401 million that would be financed by imposing taxes on Banks, Super-market chains and other large companies. Notably, the FRENAPO made efforts to quantify its program and back it up with concrete public finance data and policy proposals (Abramovich & Vázquez, 2007).

The 2001 social movement had a negative rather than a positive orientation, in the sense that the diverse movement was united about what it rejected; the UCR administration, the neoliberal consensus, the Menem and De la Rúa policies, the “corralito” (Normay & Teubal, 2007). The movement did not articulate a positive alternative (Rebón & Encina, 2020). Nevertheless, the grassroots mobilizations that took place in the country were enough to destabilise the neoliberal political consensus that had dominated Argentina in the post-dictatorial period. Similar to the Greek movement of “Aganaktismenoi” 2001 saw many Argentinean citizens opting for a blank vote during the October 2001 Senate elections; from a total of 24,883,991 registered voters, an impressive 10,218,924 did not choose any of the candidates, while the parties of the Radical

Left saw their electoral share to approx. 1,400,000 votes (Ouviña, 2008, p. 75). The political system of Argentina was entering a phase of delegitimisation and fluidity. The 2001 demonstrations saw the emergence of Assembly politics, a form of organization that had been predominant amongst Argentinean feminist groups (Bellucci & Creusa, 2019). 2001 marks the first widespread experiment of Argentinean citizens with Assembly grassroots politics (Hadad, Comelli, & Petz, 2012). During December 2001 and January 2002, several “neighbourhood assemblies” (asambleas barriales) emerged across Argentina. Participation was high and ranged on average from 150 persons participating weekly per assembly to 20 persons (Hadad, Comelli, & Petz, 2012). These assemblies aimed at recuperating and reclaiming the urban space, something that is reflected in their organization at the neighbourhood level. These assemblies proved to be a fertile space for the organization of social protests that involved mobilizations, “cacerolazos”, a form of protest characteristic of Latin American countries that involves hitting pots and pans, protests against precarious housing (llaverazos), but also “escraches” a form of demonstration that is typically Argentinean Faur & Elizagaray Estrada, 2019). The “escraches” involve demonstrators gathering outside the house of someone against whom the demonstrators wish to express their disapproval. It was most notably used in the post-dictatorial era to demonstrate the impunity of dictators (Kaiser, 2002). In the 2001 Estallido, such escraches were organized against politicians, bankers, privatised companies and members of the Justice System.

The De la Rúa administration responded with strict police measures to the demonstrations. The authorization to the Argentinean security forces, which still bore the dictatorial regime's legacies, to exercise high levels of violence against demonstrators predictably to several citizens getting killed or suffering grave injuries. The violent suppression of the 2001 demonstrations was a paradigmatic case of authoritarian liberalism, as described by Wendy Brown. The De la Rúa administration did not hesitate to draw on elements of the dictatorship, namely the culture of authoritarianism and impunity developed in the ranks of Argentinean security forces during the era of the Dictatorial regime. This culture was used to facilitate the efficient oppression of citizens and ultimately protect Argentina’s Convertibility Regime policies even though these policies had lost their popular support and democratic legitimisation. De la Rúa declared a state of emergency intending to suppress protestors in the face of social protests. The increasing authoritarianism of De la Rúa backfired, and he was forced to leave the Presidential Palace, the “Casa Rosada” on a helicopter marking the end of the period of neoliberal consensus in Argentina.

FIVE PRESIDENTS IN ONE WEEK FROM RAMÓN PUERTA TO NÉSTOR KIRCHNER.

The era that followed the De la Rúa administration marks a period of turbulence, political change, and a period in which Argentina achieved the best macroeconomic results. This macroeconomic success was made possible due to Argentina's 2005 Debt restructuring (from now on, the 2005 Canje). The 2005 Canje remains the most successful debt restructuring case in the entire period covered by this work's empirical research. It becomes essential thus to examine what were the key determinants that led to this successful management of the debt problem after a period of constant debt crises that had bedevilled Argentina ever since the Civil-Military Dictatorship.

After De la Rúa's escape and de facto abandonment of his presidential position, Ramón Puerta was elected provisional president by the Senate of Argentina, thanks to the majority that the PJ had achieved in the Senate during the October 2001 elections. Puerta's election was due to legal reasons since 48 hours had to pass before the Legislative Assembly could vote on a new President. The Legislative Assembly was called into session on the 23rd of December when Adolfo Rodríguez Saá was voted provisional president, while elections were called for March 2002 (Raus, 2019, pp. 76-77). Rodríguez Saá's administration focused its efforts on completing Argentina's exit from the Convertibility regime and managing Argentina's provisional default and temporary suspension of debt payments.

In the meantime, the political system in Argentina was in a period of flux. This political flux was translated not in a realignment of the partisan system -as was the case in Greece after 2009- but rather a period of radical changes within the Peronist party of PJ. This particular form of political flux in Argentina represents the country's political structure and the important levels of voter alignment that the PJ enjoys in Argentina. This can be partly attributed to the pluralist composition of the two main Argentinean parties of the era, the PJ and the UCR, combined groups with highly diverse political and ideological affiliations. (Torre, 2003, p. 663). Moreover, from a comparative perspective Argentina's Presidential political system, Federal political structure contributed to political changes taking place within the dominant political parties, rather than political parties declining and being replaced by new formations (Kemahlioglu, 2012). And even though Argentinean bi-partisanship suffered a decline throughout the 1990s during the era of neoliberal consensus, in the end popular rejection of neoliberal policies did not take the form of an en mass abandonment of the political parties that

had implemented these policies -as was the case in Greece. Instead, voters expressed their discontent with the neoliberal consensus through giving their support to an emerging ideological camp within the party of the PJ, a camp that would later become known as “Kirchnerism”,

As part of these internal changes in the PJ, the division between Peronist Senators elected in Buenos Aires (known as the Bonaerense camp) and Provincial Governors became deeper. Usually, Buenos Aires Senators would have increased influence on internal decision-making, but the PJ's crisis opened the road for new political forces within the party. As the Santa Cruz Governor, Néstor Kirchner emerged as a third competitor to Rodríguez Saá and Carlos Menem, that were already in open competition for dominance within the PJ. The period after the 2001 crisis is characterised by significant UCR weakness, which as the foremost exponent of neoliberal policies in Argentina, found itself unable to contest the PJ for the Presidency. Of course, the UCR had to face competition from Carlos Menem, who, also, was in favour of neoliberal economic policies, thus competing with UCR for the same pool of voters. Ahead of the 2003 elections, significant political struggles occurred within the PJ instead of between the UCR and PJ.

Rodríguez Saá was under increased pressure due to the issue of the temporary Default; the IMF signalled that it was willing to “work extensively with [Rodríguez Saá’s] government” intimating that potentially the Fund would be willing to support Argentina with new credit (Raus, 2019, p. 79), something that would signal a continuation of neoliberal policies in the country.

Once more popular demonstrations proved the deciding factor in Argentina’s politics, on the 28th of December of 2001, a new wave of large scale popular demonstrations was unleashed, with some demonstrators entering the Presidential palace of the Casa Rosada. Rodríguez Saá had to quit his post; as a result, Rodríguez Saá became the second President that had to quit his position due to civil unrest.

The social protest had taken three primary forms at this period: neighbourhood assemblies, pickets, and worker-managed occupation of factories. Protestors belonged to diverse social classes, ideologies and political groups and were motivated by different motives. Ana Dinerstein sees Neighbourhood Assemblies that emerged in Buenos Aires after 2001 events as a reflection of the broader delegitimisation of the political system tout-court, with the assemblies functioning as an experiment of horizontal politics and direct democracy at a tie

that representative democracy was discredited (Dinerstein, 2003, p. 197; Harman, 2002). These neighbourhood assemblies crossed over with assemblies from other regions, forming the so-called “interbarriales” that saw thousands of delegated participating in Sunday meetings (North & Huber, 2004). This popularity, however, is not to say that these Assemblies were unfettered by internal divisions and disagreements about how and who should organize these horizontal events; radical left groups had obviously a significant contribution to the organization of these assemblies due to their experience and resources (López Levy, 2003, p. 107). Nevertheless, the presence and influence of these groups caused frictions with these participants that felt patronised by the increasing influence of the Left in the Assemblies and rejected not just bourgeois politics but political parties in general (Harman, 2002), including those of the Left.

Assemblies were a form of reclaiming urban space (Colectivo-Situaciones, 2002, p. 166) and recovering the action of communication (Dinerstein, 2003, p. 196), a form of articulation of ideas and debates between citizens, and acts of solidarity, as it is often the case with such popular assemblies. Naomi Klein wrote in the press to express the view that the Argentinean assemblies’ main weakness was the fetishization of horizontalist politics; this, according to Klein, led Argentinean assemblies to reject the adoption of any broader programme on how to tackle Argentina’ economic crisis. This attitude, according to Klein, limited the political relevance of the assemblies (North & Huber, 2004), which combined with an ideology that was hostile towards politicians and political parties tout-court reduced the Assemblies, according to Harman, into a largely negative movement that concluded that “they are all the same” and “nothing can be done”. These criticisms, notwithstanding, the 2001 Argentinean Assemblies created a new horizontal political space, similar to the one created by the *Aganaktismenoi* in Greece. These horizontal political spaces escaped political parties’ control, even if some of these assemblies were attended by Peronist activists or PJ sympathisers. Like the *Aganaktismenoi* the Assemblies opened a space for discussing new ideas and heterodox policies. The situation of flux that Assemblies created allowed for new political forces such as *Kirchnerismo* to rise in the country and challenge the neoliberal PJ, UCR consensus.

Recovered Enterprises was the second most common form of protest at this period. The “Recovered enterprises” phenomenon was essentially a reaction of Argentinean Labour against the propensity of the Argentinean business Capital to move profits and Capital abroad, exacerbating economic crises. In 2001 several Argentinean businesses had declared bankruptcy, but as the Argentinean economy began to stabilize, Argentinean capital began to return ahead of the upcoming recovery of the economy (Sattin, 2003).

A third very prominent form of protest were the pickets, a form of social protest that emerged from the rising numbers of unemployed in Argentina; the unemployed did not have access to conventional forms of class struggle such as striking, thus forming picket lines and blocking economic production was a way to organize the struggle of the financially marginalised (Lapegna & Hanson, 2018). The Argentinean “piqueteros” became emblematic of the 2001 mobilizations. The pickets had emerged as a form of struggle during the Menem administration, as the administration’s neoliberal policies created large numbers of precarious workers and unemployed. The Cutral-Co and Plaza Huincul pickets in 1996 and the picket in General Mosconi and Tartagal opposing the privatisation of the State Petroleum company Yacimientos Petrolíferos Fiscales (YPF) and the loss of jobs it provoked became the models for later “piquetero” mobilizations (Wolff, 2007). During the 2001-2002 crisis, the piqueteros numbers increased significantly (Masseti, 2006) and thus their political influence, forcing Presidents Duhalde and Kirchner to engage and directly negotiate with them. The pickets included various groups with diverse ideological alignment such as; a) the anarcho-syndicalist or anti-capitalist groups (“unemployed workers movements” or MTDs—for example, MTD Teresa Rodriguez or MTD Anibal Veron or the Movimiento sin Trabajo- Movement without Work), b) groups that belonged in the Radical Left (Polo Obrero-Workers’ Foundation, the Movimiento Territorial de Liberacion-Territorial Liberation Movement linked to the Communist Party; c) the Corriente Clasista y Combativa-Class Struggle Current linked to the Maoist Partido Comunista Revolucionario), and d) finally Peronist unionists (North & Huber, 2004, pp. 977-978). The piquetero mobilizations led to significant concessions and the implementation of welfare policies and further contributed to the fluidity of the Argentinean political system. With the large numbers that the pickets were able to draw and their culture of hostility towards the political class as a whole, the electoral preferences of the piqueteros were very hard to predict; no political party or candidate could count on the unequivocal support of the piqueteros. The radicality of the popular demonstrations that took place after the 2001 crisis has been challenged, with some scholars calling into question whether these demonstrations posed a “coherent ideological and material alternative to neoliberalism” (North & Huber, 2004, p. 981). Nevertheless, even if, eventually the movement was divided (Masseti, 2006), demobilised or even “co-opted” according to some scholars (Wolff, 2007; Kaese & Wolff, 2016), there is no doubt that the piquetero movement forced political parties to negotiate directly and engage with piquetero organizations and managed to challenge the neoliberal consensus that had dominated Argentina. The piqueteros challenged the entire party spectrum, refused to support any of the

status-quo parties and actively sought to create a movement that would function as a political alternative (Schuttenberg, 2018, p. 158). By mobilizing a critical mass of Argentines and popularizing a discourse of structural critique against neoliberalism and the entire Argentinean partisan system, the piqueteros contributed to voter dealignment and party delegitimation.



Image 2 Archive Image of the Pagina12 reporting on the 1997 Tartagal y Mosconi pickets. Source: Pagina12

After Rodríguez Saá's fall, the Senate voted as the new President of Argentina Eduardo Duhalde, who would govern until the original De la Rúa term before calling for national elections for 2003, elections in which Duhalde committed not to participate. The Duhalde administration reflects the changing balance of forces within the political system. Undoubtedly, the Duhalde administration did not seek a direct confrontation with the IMF and did not intend to overturn Argentina's unequal relations with its debtors. In fact, Duhalde sought credit and assistance from the IMF, and the Fund, due to the implementation of fiscal austerity policies from his administration, expressed its willingness to assist Argentina (Raus, 2019, p. 81). Duhalde's choice for Minister of Finance, Roberto Lavagna, who oversaw implementing this fiscal discipline program, reflected the continuation of neoliberal policies in the country. Duhalde also proceeded to implement a new wave of cuts in provincial government spending,

under pressure from the Fund. The cuts in provincial government spending had a particularly negative effect on Argentinean society, given that a lot of the social welfare programs were being provided by Provincial governments. Duhalde also sought and gained the support of Argentinean Capital, giving the influential position of the Ministry of Production to the President of the Argentinean Union of Industrialists (UIA) José Ignacio de Mendiguren. Duhalde's government also completed the abandonment of the Convertibility Plan, arguing in favour of devaluation as opposed to the dollarization policies that Menem was proposing at that time (Raus, 2019, pp. 82-84). The devaluation monetary policy served Duhalde's plans to turn the Argentinean economy towards industrial and agricultural production; Duhalde's economic plan was based upon promoting primary and secondary exports and relying less on the services especially on the financial sector.

Duhalde's government most crucial task was perhaps the administration of the "pesification" of the economy, namely the transition of the economy and especially of the banking sector in the post-Convertibility era. The exchange rate issue in which the conversion of debts and deposits from dollars into pesos became a thorny issue, deeply tied into Argentina's class dynamics, with small depositors, workers, and financial and exporting corporations having diverging interests on the issue. Eventually, the "pesification" of the economy took the following form: deposits would be changed in equivalence of 1,4 peso for 1 dollar, but debts would be specified with a 1 dollar for 1 peso ratio. This policy had a high cost for the Argentinean government since it had to cover the additional 0.4 pesos that banks were asked to provide depositors for every dollar deposited. This decision benefited significantly Argentinean Capital, mainly exporting Argentinean Capital, whose debts became denominated in pesos but whose income continued to be in dollars -due to their exporting activities (Sevares, 2005, p. 77). Basualdo, Lozano and Schor, in their seminal empirical study of the effects of the devaluation and pesification in company profitability, calculated that companies operating in Argentina made a total of US\$13,132 million in profits, of which US\$9,154.2 million was the result of the increased exports, and US\$3,977.8 were the result of debt in U.S. dollars being changed into Argentinean pesos (Basualdo, Lozano, & Schor, 2002). In total, the companies that the Basualdo, Lozano and Schor study had analyzed had appropriated a 9% of the Argentinean GDP, of which a 30,2% was appropriated by foreign conglomerates, 27% from transnational companies and 22,2% from local groups, leaving 14,6% for associations. In other words, the devaluation and pesification policies had a strong class dimension to them, benefiting Argentinean Capital but also foreign Capital in the country. The Basualdo, Lozano

and Schor empirical study thus brought to surface some of the weaknesses of the Duhalde policies, namely that it did nothing to improve the position of Argentinean workers vis a vis Argentinean Capital, while it also left untouched the subordinate position of Argentina towards foreign Capital, especially Capital from the Global North.

Nevertheless, economic activity benefited from the pesification as private debts became more sustainable and released Capital for productive investment. Finance Minister Duhalde officially brought the era of Convertibility to an end when he announced the convertible Peso would be allowed to fluctuate freely vis-a-vis the dollar, and the BCRA would only intervene in cases of acute fluctuations.

As far as the banking system is concerned, Argentina eased back into the normal function of its institutions after the original plans for exchanging deposits with Government Bonds (Soibelzon, 2008, p. 6) -known as Plan Bónex II- was abandoned due to strong reactions by the banking sector. Thus, the Argentinean government opted for a gradual opening of the “Corralito” capital control measures.

Duhalde’s unwillingness to challenge Argentina’s relations with its creditors became increasingly evident as his administration began negotiations for an extraordinary credit from the IMF. The Fund demanded further cuts in public spending to agree to such a loan (Soibelzon, 2008, p. 8), while Duhalde made sure to guarantee to creditors that Argentina would renegotiate its debt responsibly, a statement meant to signal that Buenos Aires would avoid imposing unfavourable terms to the creditors (Raus, 2019, pp. 85-86). In a short period after the fall of De la Rúa, Argentina appeared to have returned to the path of neoliberal policies with the debtors' influence over the country fully restored. The demand from below for a policy change had been ignored. The IMF continued to put significant pressure on the Duhalde government, and IMF officials’ statements in the Press made relations between the Fund and Buenos Aires tense (Soibelzon, 2008, pp. 10-11). The Duhalde government was under significant pressure due to the approaching maturity of debt repayments towards the World Bank, the IMF and the International Development Bank. Significantly, the Debt payments towards the World Bank could not legally be postponed. Duhalde’s strategy regarding the country’s Debt was to secure a two or three-year prolongation of the debt repayment program and to secure credit from the IMF so that Argentina could begin payments towards private creditors anew (Soibelzon, 2008). This strategy -which belongs in the Amicable Renegotiation paradigm- presents many similarities with the strategies followed by previous Argentinean governments and Greek

governments in the period we examined. As in previous cases, the paradox of the Duhalde strategy is that it required both IMF credit and the IMF to accept a prolongation of debt repayments.

Most importantly, even if Duhalde were successful in his strategy, Argentina would have continued to implement the same mix of policies that the IMF had required during the previous administrations. Duhalde would have to continue implementing fiscal and monetary austerity with very little fiscal space to finance public investment. Duhalde sought consensus with the UCR to pass new austerity measures in the face of the IMF's harsh negotiating stance. Once more, during the post-dictatorial period, a consensus from above was established between the PJ and UCR to implement neoliberal policies and reproduce the country's subordinate relationship to the IMF (Raus, 2019, p. 95).

Duhalde's strategy did give some fruit as he managed to secure US\$694 million in credit from the Interamerican Bank for Development (BID) for social programs in Argentina, programs that were of course outweighed by the fiscal discipline measures adopted by his government, especially in what the provincial funding was concerned. In June 2002, the Duhalde government appeared to be close to a deal with the IMF to manage the thorny issue of the "pesification" successfully.

Nevertheless, the extreme fluidity in which the Argentinean political system was in made it impossible for a new neoliberal consensus from above to be established. The "piqueteros" launched a new wave of demonstrations, and the Argentinean state apparatus -still bearing many of the institutional traditions of the dictatorship era- responded with violence. The new wave of repression caused the death of two *piqueteros*, Maximiliano Kosteki and Darío Santillán, on the 26th of June (Belini & Korol, 2020, p. 505) when police opened fire against demonstrators; their deaths provoked widespread repudiation of the Duhalde administration and increased the uncertainty about the outcome of the 2003 elections. The IMF, on its part, hardened its negotiating position, as indeed it did in several other cases we examined in this chapter, ahead of the upcoming elections (Raus, 2019, pp. 95-99). As part of its hardened negotiation tactics ahead of the 2003 elections, the IMF informed Argentina that any new stand-by agreement would have to be transitional (Brenta, 2021, p. 187).

The Fund would wait before it would proceed to sign a new Stand-by agreement, claiming that it was hoping to sign "a multi-year IMF arrangement after the election in late April 2003 of a new government" (IMF, 2003). In other words, the Fund avoided extending any long-term

credits to Buenos Aires to maximize pressure on the new administration and use that pressure as leverage for a continuation of neoliberal policies in Argentina. Indeed in January 2003, the Executive Board of the Fund signed an eight-month transitional stand-by agreement with the Duhalde administration of a total value of SDR 2,170 million (about US\$2,980 million). The purpose of the transitional Stand-By agreement was to cover for all payment obligations to the IMF through August 2003 (Manzo, 2012, p. 78). The transitional Stand-by agreement of 2003 was yet another Stand-by agreement whose purpose was largely to avoid an Argentinean default on its payments towards the Fund, thus undermining the Argentinean economy with new debts. Most importantly, this transitional Stand-By agreement functioned as a means of pressure on the new Argentinean government. The Fund pre-empted the result of the 2003 elections, which seemed likely to reflect the general rejection of neoliberal policies in the country. By providing exclusively transitional funding, the Fund aimed to put pressure on the new Argentinean government since the new President would be faced with the prospect of default only after a brief period after they won the elections. We have to take into account here that debt towards the IMF is particularly hard both legally and politically to restructure or erase. The Fund was aware that the need to make payments towards the Fund would put Buenos Aires under significant pressure. This pressure was very likely to force the new Argentinean government to accept IMF conditionalities and thus the continuation of neoliberal policies in the country, irrespective of the result of the 2003 elections.

As the 2003 elections were upcoming, the rivalry between Duhalde and Menem, running on a “dollarization of the economy” platform, became more intense. By October there were four candidatures that appeared to be ahead in the polls; José Manuel de la Sota, Carlos Menem, Adolfo Rodríguez Saá and Néstor Kirchner. Originally, Néstor Kirchner occupied a difficult position in the electoral race as he was relatively lesser known than his opponents. He was a governor of a reasonably peripheral province, far from the traditional centres of power of Buenos Aires and Cordoba. At the same time, due to the support he would later receive from Duhalde, Kirchner was still considered part of the partisan establishment from the piqueteros movement (Schuttenberg, 2018, p. 162).

Kirchner’s candidature profited from the structure of the political struggle within the PJ. As Carlos Menem’s candidature improved its performance in the polls and De la Sota seemed to poll poorly, Duhalde turned to the lesser-known Kirchner as a candidate with better chances of beating Menem. (Raus, 2019, p. 111). This alliance was despite that Kirchner and Duhalde had

found themselves in different camps within the PJ in the past and that the Buenos Aires sections of PJ were sceptical against Kirchner.

The 2003 Presidential campaign took place in the context of the social demonstrations that had taken place in the previous year. A solid anti-establishment discourse had been installed in the country, and this is reflected in the 2003 campaign. Movimiento Popular and Rodríguez Saá spoke of refounding the Republic in its manifesto whereas Kirchner's Frente Para La Victoria spoke of constructing a new country. The alliance that supported the candidature of Carlos Menem, the alliance of the Frente por la Lealtad and Unión del Centro Democrático, adopted an aggressive "law and order" discourse that promised to declare war on delinquents and restore social peace. Given that social demonstrators had often been portrayed as "delinquents" during the 2001-2003 demonstrations, Menem's electoral campaign was particularly inflammatory (Burst, et al., 2020). Elements of the Piquetero Movement working together with parties of the Left created the alliance named after one of the banners of the demonstrations: "Que se vayan todos" (Raus, 2019, pp. 101-102). The campaign's public discourse and high polarization act as evidence that Argentina was ahead of a paradigm shift as far as its partisan politics were concerned.

During this campaign, Kirchner managed to construct a new ideological camp within Peronism, one that would later become known as "Kirchnerism", which sought to represent those sectors of the PJ that were critical of the neoliberal turn the party had taken after the Menem administration. Kirchner targeted Neoliberal Menemism in one of his first public discourses during the Campaign (Raus, 2019, p. 113). The Kirchner campaign also raised issues around the Dictatorship and endorsed the motto "memory, truth and justice", referring to the fact that the perpetrators of the Civil-Military Regime had not faced justice to the fullest extent and were essentially enjoying impunity out of prison. The Kirchnerist discourse also adopted a more left-leaning set of demands around social justice, inclusion, and human rights (Porta, Santarcángelo, & Schteingart, 2019, p. 129).

All candidates except Kirchner favoured a deal with the IMF, principally Menem, who openly argued in favour of dollarization and a deal with the Fund, but also current president Duhalde who entertained the fears of Argentines by stating that without a deal everything would be harder (Raus, 2019, pp. 89-90). The economic program proposed by the Kirchner campaign consisted of implementing a mix of heterodox policies with Keynesian policies to boost domestic demand. Kirchner's economic policies focused on developing Argentinean industrial

production and stimulating exports instead of Menem’s emphasis on financial services. Most importantly, the Kirchner strategy was focused on recovering the financial sovereignty of the country of international creditors to make these policies possible. This recovery of financial sovereignty consisted mainly in solving the country’s Government Debt issue in a sustainable and long-term manner so as for the country to recover its fiscal sovereignty from the IMF.

Kirchner’s electoral program was in some sense a return to the economic policies that PJ had adopted during the early years of its history when Peron led it. Heterodox economic policies, policies of industrialization and promoting exports had been staples of the Peronist economic program in the pre-dictatorial period. Moreover, as we saw earlier, Peronism and Peron himself were sceptical of the IMF and the potential loss of sovereignty that engaging with the Fund could cause.

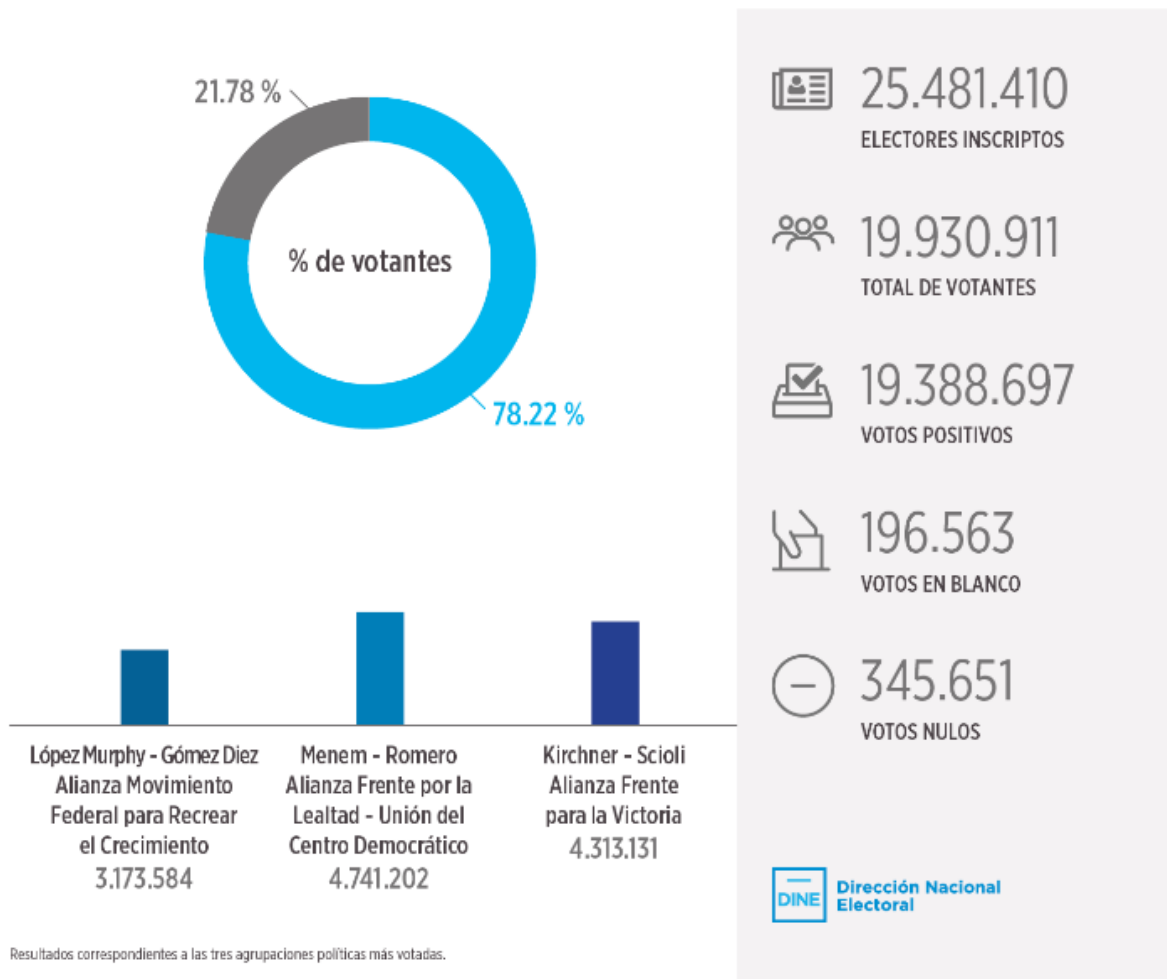


Figure 19 Results of the Presidential Elections of 27th of April 2003. Source: DINE

Thus it comes as no surprise that in April 2003, on the first round of the Presidential elections, the Kirchner candidature performed very well, managing to gather more than 4 million votes

occupying second place. The 2003 elections were not free of controversies, a symptom of the collapse of the cross-party consensus. The 2003 elections were run under the Lemas law, which permitted multiple candidates from the same party or alliance to run at the same elections (Cheresky, 2004), a tactical move on behalf of the Argentinean Congress that drastically improved the chances of the Kirchner campaign. Menem still managed to win more votes than Kirchner in the first round, but polls on the second round were prognosticating a heavy defeat for Menem and a large majority for the Santa Cruz candidate. Menem might have been able to gather significant support in the first round, but there was now a critical majority rejecting his candidature and the neoliberal policies he was proposing for the future of Argentina.

When Kirchner was elected President of Argentina, not unlike Alexis Tsipras, he was faced with the immediate problem of an ongoing Debt crisis that needed to be tackled urgently. It is fair to mention that the Kirchner administration had several advantages compared to the Syriza administration. The most important of these advantages was that the country was already in a transitional default and the economy was in a point of stabilization at the time that Kirchner assumed power (Pucciarelli & Castellani, 2019, p. 135). Thus, the previous administrations had already absorbed the shock effect of default. Nevertheless, a fall-out with the IMF and the creditors in the upcoming negotiations would cause the expulsion of Argentina from the international credit markets at least from some and could have other destabilising effects such as a sharp devaluation. The prospect of a sharp devaluation following a unilateral restructuring of Argentina's Public Debt would cause significant concern among Argentinean households.

Like Alexis Tsipras, Kirchner had to operate in a political system in flux where a wave of new social movements held significant influence. These social movements characterised by an anti-establishment ethos, horizontal organization and anti-neoliberal ideology acted as a pressure group for Argentina to break with the endless cycle of Debt and challenge the neoliberal policies that the IMF had been imposing in the country. The Kirchner administration knew that the anti-neoliberal demands of the 2001 social movements were widely popular, and if the new administration adopted neoliberal policies, the popular discontent would be significant. It could not count on party loyalty on behalf of these groups that rejected establishment parties as a whole. When Syriza came into power, Greece also experienced an explosion of grassroots movements.

Nevertheless, the peak of social mobilizations in Greece was in 2012, and by 2015 when Syriza came to power, social movements had partially demobilized, especially the Assemblies of

Aganaktismenoi that had emerged during the first years of the crisis. A significant difference between the Kirchner and Tsipras administration is that the former had to face significant pressure from popular mobilizations against neoliberal policies. The popular mobilizations acted as a deterrent to any thoughts of a capitulation to the IMF's demands and as a means of securing support for a more combative negotiating strategy towards the lenders.

There were other exogenous factors at play when the Kirchner administration assumed power, such as the favourable international economic environment, most notably due to the rise in the price of commodities as well as the robust growth in the Latin American and Caribbean regional GDP (World Bank; OECD, 2022) throughout the Néstor Kirchner term (2003-2007).

Despite these positive exogenous factors, however, the successful recovery of the Argentinean economy in the 2003-2007 period began with the restructuring of the Argentinean debt. Negotiations with creditors started almost immediately after Kirchner assumed power. In the past, the IMF had been used by creditors as a means of pressure. For Argentina to have access to IMF and World Bank credit, the country should be servicing its debt to foreign creditors. Protecting creditor interests, especially those based in the Global North, are fully repaid by Argentina had been a vital concern of the Fund in its dealings with Buenos Aires. IMF Stand-by agreements and foreign owners of Argentinean Government Debt had developed a synergy. For Argentina to have access to the international credit markets, a Stand-by agreement with the IMF was considered a prerequisite, and for the IMF to sign such an agreement with Argentina, the country should guarantee that creditor interests will be respected.

The Nestor Kirchner administration broke this vicious cycle by making an economic plan that did not require access to the international markets of credit or a new IMF Stand-by agreement. With Buenos Aires not seeking a new IMF deal, the creditors lost their most efficient means of pressure. Kirchner kept Roberto Lavagna in his position as Finance Minister due to his rigid negotiating stance against the IMF during the Duhalde administration. Even if Lavagna was less favourable to expansionist policies such as salary increases, then Kirchner, Lavagna and Kirchner agreed on the necessity for Argentina to re-nationalise or regulate the public companies privatised during the previous administrations (Pucciarelli & Castellani, 2019, pp. 136-137). Lavagna and Kirchner took advantage of Argentina's newly founded monetary independence; Argentina adopted a "weak peso" policy that boosted Argentinean exports. At the same time, some initiatives were taken to regulate the financial sector by implementing restrictions on transactions using foreign currency and establishing the obligatory liquidation

of foreign exchange earnings (Damill & Frenkel, 2013; Pucciarelli & Castellani, 2019, p. 137). However, despite the positive effects of these policies, the Argentinean economy was being impeded by the unsustainably high debt. A debt restructuring seemed inevitable, but if Argentina proceeded in this restructuring in unfavourable terms, as were the terms of the Megacanje in 1998 or the terms in the 2012 Greek PSI, Argentina would only set itself up for a new period of economic dependency and weak growth.

A RIGID NEGOTIATOR: THE KIRCHNER STRATEGY

The first encounter of Kirchner with the IMF was only a few months after he assumed power. On the 23rd of June 2003, the Director of the IMF, Horst Köhler, arrived in Buenos Aires for direct negotiations, a sign of how concerned the Fund was about Argentinean negotiating tactics. The eight-month agreement that Argentina had made with the IMF in January 2003 was coming to an end, and Argentina would have to either sign a new deal with the Fund or restructure its debt to avoid a disorderly default. September 2003 was a key date since Argentina was due to pay a US\$ 2,900 repayment to the Fund, a repayment instalment that legally was obligatory and could not be postponed (Manzo, 2012, p. 78).

Within the Argentinean negotiation team, two teams were formed, one around the president of the BCRA, Alfonso Prat Gray, who had been the Head of the Central Bank since 2002. Prat Gray had more modest goals for a lower level of debt relief. On the contrary, Lavagna and Kirchner argued in favour of a restructuring of approximately 65% of Argentina's Government Debt and the inclusion of GDP growth clauses in the new bonds. Eventually, the Kirchner-Lavagna line became official government policy, and Prat Gray got replaced by Martín Redrado as head of the BCRA (Pucciarelli & Castellani, 2019, p. 148). Kirchner's ability to impose his policy on a debt against the Head of the BCRA is evidence that the Argentinean government had recovered its democratic sovereignty, with the recently elected government able to implement its electoral pledges despite disagreements from BCRA bureaucrats and the IMF.



Image 3 Köhler's historical visit to Buenos Aires and the face to face negotiations with Kirchner, as reported by Pagina12. It is telling that the journal chose to include the word "Threat" in its front cover, hosting a statement of Jorge Casaretto addressed at the Director of the IMF. Source: Pagina12

Even at this early stage, Kirchner showed some critical elements of his strategy. The Argentinean government set red lines over which it was willing to adopt a more hostile stance towards the IMF and the creditors. These red lines were that a) the reserves of the BCRA would not be used to pay for the maturity of the US\$ 2,900 million; b) Argentina would not increase its fiscal surplus above 3 per cent of GDP in 2004; c) no tariff increases would be allowed to privatized enterprises before the end of the transition agreement; (d) nor would the banks be compensated in that period for the losses suffered after the outbreak of the crisis (Manzo, 2012, p. 78). These red lines protected Argentinean foreign reserves ahead of the negotiations, with the eye in a future restructuring of the Debt. Kirchner wanted to avoid a situation in which the

BCRA would have been left without foreign reserves in order to repay debt. Indeed, such a scenario played out during the 2015 negotiations between creditors and Greece, when Athens used all available resources to avoid defaulting on its debt payments, thus significantly worsening its negotiating position.

Despite the hard-line of Buenos Aires, the IMF agreed to release the last tranche of the January program of a total value of \$US 1,050 million that the Argentinean government would use to pay its obligations towards multilateral organizations until the end of August 2003. As the crucial date of September 2003 was fast approaching, the Fund badged and sent a new negotiating mission in Argentina. The IMF recognised that the economic policies of the Kirchner administration were already having a positive effect on the Argentinean economy and admitted that the new President appeared to enjoy high levels of approval amongst the public (IMF, 2003). Nevertheless, the Fund expressed its disappointment on Argentina's abandonment of "structural reforms", by which the Fund meant the neoliberal reforms that had been agreed with previous governments. Kirchner made it clear in no uncertain terms that he was unwilling to follow these policies, which he described as one of the causes of the recent crisis, and affirmed that the country would firmly abandon the monetary policies of the 1990s (Manzo, 2012, p. 78).

Ahead of the September 2003 deadline, Argentina proposed a significant restructuring of its debt towards Multilateral institutions; the default would involve a write-off of 75% of the defaulted bonds, while Argentina committed to making repayments of a total value of up to 12,750 million pesos for 2004. To finance these payments, Argentina would set a fiscal surplus target for 3% of the GDP. The IMF and creditor organizations, on the other hand, demanded a US\$ 16,000 million of repayments that would be financed by a primary surplus of 3,5-4% for 2004, while they also demanded that Argentina would use BCRA foreign currency reserves to make these payments.

At this crucial juncture, the Kirchner administration decided to default on its debts towards the IMF. This move was qualitatively different from the transitional default of 2001; in 2001 has defaulted on payments under the weight of a crisis and lack of means of payments while the De la Rúa administration had no concrete plan to exit the crisis, and instead, it hoped to secure another Stand-by IMF agreement. The "Kirchner default" on Argentina's debt towards the IMF and transnational organizations as part of a coherent strategy to protect BCRA foreign currency reserves. These reserves would be crucial as they could be used to finance the already planned

restructuring of Argentinean government debt, and secondly, to guarantee the stability of the Argentinean economy. Most importantly, the willingness of Argentina to unilaterally restructure its debt even towards multilateral organizations -something that was significantly harder as opposed to restructuring debt towards the private sector- was a message of decisiveness. Expectedly, this move by the Kirchner administration forced creditors to accept Argentinean demands.

Within 44 hours and 55 minutes, the IMF and the creditor organizations had capitulated, accepting the Argentinean terms for a 3% GDP ceiling for the debt repayments for 2004, with the payments for subsequent years to be left open for future negotiations. The only significant concession that creditors managed to extract was that Argentina agreed to recognise them the status of “privileged creditors”, namely that payments to these creditors would be prioritised over other creditors, especially those of the private sector (Manzo, 2012, p. 79).

Nevertheless, once the restructuring of Argentina’s debt towards the international and multilateral organizations found a solution -even if provisional- the thorny issue of the upcoming restructuring of Argentina’s debt towards the private sector caused serious frictions with the creditors, the G7 and the IMF exercising exceptional pressure on Argentina (Nemiña, 2011, p. 106).

On the 23d of September 2004, in the Dubai Assembly, Minister of Finance Lavagna presented the Argentinean proposal for the restructuring of Argentina’s debt towards the private sector, a restructuring that would come to be known as the 2005 Canje (Brenta, 2021, p. 201). Argentina proposed the restructuring of US\$ 103,000 million worth of obligations, of which approximately 65% to 80% would be written off. Argentina would benefit from a three year period of grace while repayments would take place under a new thirty-year long repayment schedule (Manzo, 2012, p. 80). The new bonds would include GDP growth clauses.

The first step the creditors took was to create the «Comité Global» or GCAB as was its acronym managing to forge an alliance amongst the different groups of creditors that, according to GCAB representative Nicola Stock, represented creditors whose titles were a total of US\$ 37,000 million (Nemiña, 2011, n. 21). G7 members immediately expressed their support for the GCAB and demanded that Argentina's future restructuring have a minimum requirement of 80% acceptance on behalf of the creditors to be declared valid (Nemiña, 2011, p. 106). At the same time, Argentina managed to secure verbal support from the members of the G15, as well as public support from the President of Brazil Lula.

The second step that creditors took was to use the restructuring agreement that Argentina had just achieved with the IMF and the multilateral organizations as a means of pressure. Despite that all the fiscal targets of the 2003 restructuring had been achieved, the IMF repeatedly refused to issue a favourable report on the progress of the Argentinean program (Manzo, 2012, pp. 81-82). This put the entire restructuring deal with the IMF on air, while relations with the Fund became only more tense as hardliner Anne Krueger replaced Köhler in his position as Director. Krueger significantly hardened her stance and continued to refuse to issue a positive report on the Argentinean program (Nemiña, 2011, p. 101).

Under these circumstances, Argentina declared a new default on its payments towards the Fund and asked the BCRA to block Argentina's account in the Fund -another case in which the crucial role of the BCRA in Argentina's renegotiations efforts was proven. Eventually, the Fund was obliged to issue a positive report, approving of the Argentinean progress on the program.

Nevertheless, the ascendance of Spanish right-winger Rodrigo Rato at the position of the Directorship of the IMF further complicated the relations with the Fund. Rato adopted an even harder stance towards Argentina again, refusing to finalize the agreement review (Manzo, 2012, p. 82). Argentina changed its negotiating tactics and moved to a strategy aiming at isolating the IMF from the upcoming private sector restructuring. Thus, Argentina continued making payments to the Fund as per the 2003 agreement and demanded that the IMF not involve itself in the process of restructuring.

The U.S. Senate, the IMF, G7 and the GCBA continued their efforts to delay the restructuring. Nevertheless, Argentina had managed to convince some of the "institutional creditors", namely those creditors that owned US\$ 25,000 million or more in Argentinean debt. By making small concessions adopted for these creditors, such as including inflation clauses or permitting foreign banks based in Argentina not to inscribe the restructured debt as part of their losses, Argentina managed to gain their support gradually.

On the 12th of January of 2005, Lavagna presented the Argentinean offer; Buenos Aires would consider the restructuration offer approved as long as 50% of the creditors agreed. This decision further verified the rigid and inflexible stance that the Kirchner administration had adopted in the negotiations since the 50% goal was relatively low and much lower than the 75% or 80% that creditors had demanded. In the meantime, the Argentinean Senate passed the law 26.017, which became known as "ley cerrojo". The Law prescribed that any future debt restructurings

would have to be approved by the Senate (Senado y Cámara de Diputados de la Nación Argentina, 2005). Law 26.017 was essentially an institutional barrier to any future efforts to impose neoliberalism from above, in case a future government decided to follow a policy of rapprochement with the creditors and the IMF. The law demonstrated that democratic processes and transparency are vital tools in the struggle of countries to escape debt traps.

AFTER THE CANJE

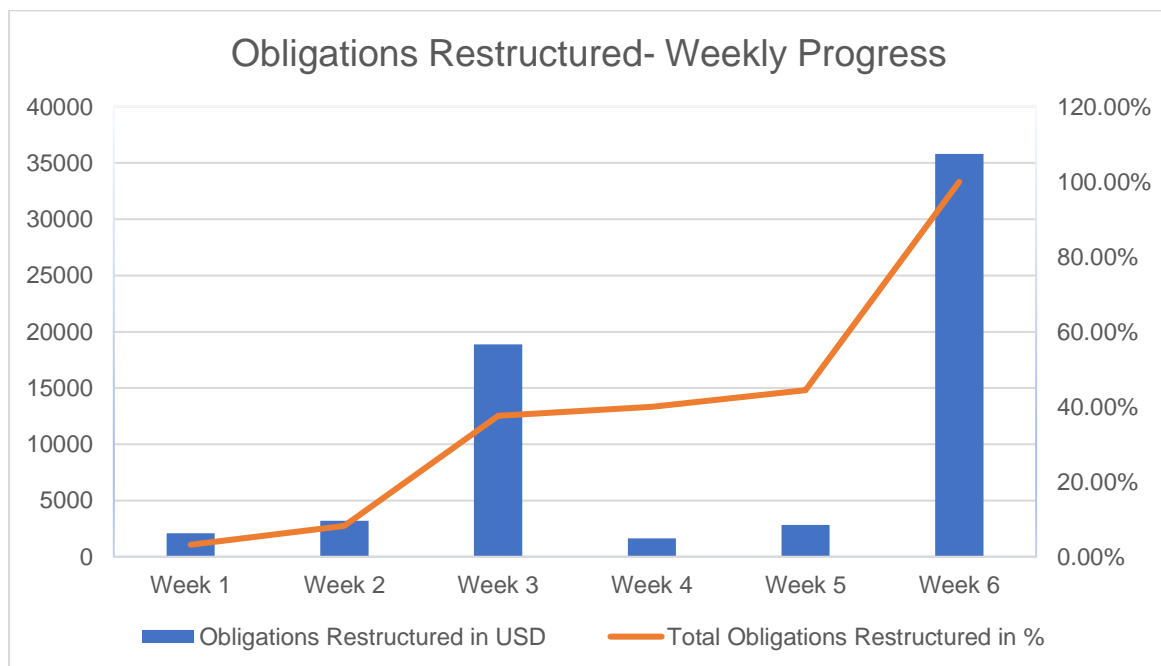
Thanks to this hard-line approach and willingness to restructure the debt with or without the accord of the creditors and the IMF, the Argentinean government was able to negotiate a genuinely viable restructuring of the Argentinean debt. The negotiation strategy of Argentina was, in fact, simple if highly efficient. Under the new Kirchner strategy, Argentina could afford to simply extend an offer that was essentially a “take-it-or-leave-it” offer. The offer was formally made on the 12th of January of 2005. The tactic was highly efficient given that Argentina was facing a multitude of creditors, whose sheer numbers could overwhelm any effort for negotiations. The offer concerned the restructuring of a total of \$81,800 million in debt and \$2,100 million in interest payments in the period between 31-12-2001 and 31-12-2003 (República Argentina, 2005). The maximum amount of new debt to be issued in the context of the restructuring would be US\$ 38,500 million if less than 70% of the creditors accepted Argentina’s offer, while the sum would be increased to US\$ 41,800 in the case participation in the program was equal to or higher than 70%. In both scenarios, the new bonds would include a GDP growth clause, while the new debt would be issued in a variety of currencies (Brenta, 2021, p. 201).

Figure 20 The offer of the 2005 Canje as it was communicated to the creditors on January 2005. Source: argentina.gob.ar/economia/finanzas/deudapublica/canje2005

Bono	Emisión (En miles de millones)		Descuento	Cupón Anual	Vencimiento (año)	Amortización (comienza año)	Observaciones												
	Escenario I (1)	Escenario II (2)																	
Par	U\$S 10.0	U\$S 15.0	0%	Creciente	2038	2029	<ul style="list-style-type: none"> • Cupón 1.33% los primeros 5 años; 2.50% del año 6 al 15; 3.75% del año 16 al 25; 5.25% en adelante • Pagos de amortización semestrales e iguales 												
Descuento	U\$S 20.2	U\$S 18.5	66.3%	8.28%	2033	2024	<table border="1"> <thead> <tr> <th>Año</th> <th>Cash</th> <th>Capit.</th> </tr> </thead> <tbody> <tr> <td>1 al 5</td> <td>3.97%</td> <td>4.31%</td> </tr> <tr> <td>6 al 10</td> <td>5.77%</td> <td>2.51%</td> </tr> <tr> <td>11 al 30</td> <td>8.28%</td> <td>0.00%</td> </tr> </tbody> </table> <ul style="list-style-type: none"> • Pagos de amortización semestrales e iguales 	Año	Cash	Capit.	1 al 5	3.97%	4.31%	6 al 10	5.77%	2.51%	11 al 30	8.28%	0.00%
Año	Cash	Capit.																	
1 al 5	3.97%	4.31%																	
6 al 10	5.77%	2.51%																	
11 al 30	8.28%	0.00%																	
CuasiPar	\$ 24.3	\$ 24.3	30.1%	3.31%	2045	2036	<ul style="list-style-type: none"> • Capitalización del cupón de interés durante los primeros 10 años • Pagos de amortización semestrales • El capital se ajusta por CER 												

(1) Aceptación menor o igual al 70% (2) Aceptación mayor al 70%
 Nota: Para los bonos emitidos en otras monedas consulte el Suplemento del Prospecto con su Custodio

Figure 21 Source: Oferta de Canje – Anuncio Final 18 de Marzo de 2005



The 2005 Canje achieved its goals to a significant degree and was hailed as a success. From a total of US\$ 102,566 million of eligible debt and interest payments in arrears, Argentina's obligations were reduced to US\$ 35,261 million, a difference of US\$ 67,305 million. Moreover, Argentina's debt in foreign currency was diminished significantly, replaced in part with debt denominated in pesos (Brenta, 2021, p. 201), thus relieving the country's foreign currency reserves; of the new debt that was issued as part of the restructuring more than 40% was denominated in pesos (Belini & Korol, 2020, p. 523). This 65,6% reduction, a significant amount that relieved the Argentinean economy of the burden of debt and gave sufficient space to the Kirchner administration to implement an industrial policy, a public investment package and social welfare policies. Of a total eligible debt of US\$ 81,836 million, US\$ 62,318 million was restructured, meaning that the participation of creditors reached 76,15% of Argentina's total eligible debt (Manzo, 2012, p. 85). Argentinean risk premiums significantly fell from 6700 points to less than 800 after the completion of the 2005 Canje; by June 2005, Argentina's credit was rated at B- category by S&P with a "stable outlook". One of the key arguments against a profound restructuring of the Debt thus had been defeated in practice. The International Credit markets had not expelled Argentina, and as soon as Summer 2005, the country could reaccess credit on favourable terms.

After the successful completion of the Canje, Kirchner decided to repay the rest of Argentina's obligations with the IMF by making an exceptional payment of US\$ 9,810 million, thus aiming at regaining full independence from the Fund. The choice to repay the IMF -and thus reduce the Fund's influence on the country- was hailed by the vast majority of the Argentinean population. Criticisms from the Conservative camp were concerned that the Cane and the strenuous relationships with the IMF would lead Argentina to become isolated from the international credit markets (Brenta, 2021, p. 205). Indeed this was the primary rationale behind the country's return to the IMF during the Macri administration. Nevertheless, this concern was unfounded as the country enjoyed improved credit ratings following the 2005 Canje. Moreover, Argentina was able to take intra-state credit from organisms such as the BCRA, the ANSES (Administración Nacional de la Seguridad Social), or the Banco Nación at a lower rate and more flexible conditions compared to the IMF credit (Brenta, 2021, p. 197).

► A puro rock

Festivales desde las sierras a las playas.

CLARIN ESPECTACULOS



► Verano porteño

Habrà 200 ofertas de cultura en la Ciudad.

P.42



► Rojo caliente

Sigue la polémica de Falcioni y Pusineri.

P.49

► POR DECISION DEL PRESIDENTE KIRCHNER

Se le pagó al FMI y empieza otra etapa

► El Gobierno canceló ayer la totalidad de la deuda con ese organismo. Así gana autonomía para decidir el rumbo que le quiera dar a la economía. Igual, el país seguirá afiliado al Fondo. La ministra Miceli dijo que ahora la estrategia estará destinada a recuperar las reservas usadas para pagar y mantener el dólar alto. P.3

Claves para la economía que viene

► Cómo queda ahora la deuda. Qué pasará con los impuestos, las tarifas y los precios. Los pasos del Gobierno para sostener el crecimiento en 2006.

Cómo se hizo para pagar los US\$ 9.530 millones

análisis

EDUARDO VAN DER KOOP
Una presión menos y nuevos desafíos

► ESTADOS UNIDOS

Eligen a los 50 mejores robots de la historia

► Lo hizo una afamada revista tecnológica. Ganó un auto que se maneja solo y cruzó un desierto. Segundo quedó el dibujo animado Astroboy, que despertó el interés por la robótica en Japón. P.32



EL MAS POPULAR. ARTURITO, DE "LA GUERRA DE LAS GALAXIAS".



FABIAN GASTARENA

La diversión fue salir de compras ► Los turistas de Mar del Plata, en un día sin sol, invadieron la peatonal San Martín (foto), los negocios, restaurantes y cines. Los comerciantes dicen que la gente se mostró dispuesta a gastar más que otros años. P.36

► SIGUE EL ESCANDALO

Abren un sumario por títulos truchos

► En la Universidad de La Matanza citaron al decano de Ingeniería, a un secretario y hasta a un ex funcionario de Educación. Se investiga el convenio firmado con una fundación para ofrecer cursos en España. P.34

► ENTRE RIOS

Más cortes de ruta por las papeleras

► Lo hicieron de manera sorpresiva, ayer, vecinos de Gualeguaychú. Es parte del boicot turístico a Uruguay por el proyecto de instalar esas fábricas sobre el río. P.39

FRASE DEL DIA: SADDAM HUSSEIN, EX LIDER DE IRAK, A SUS ABOGADOS: "SI ME CONDENAN A MUERTE PREFIERO QUE SEA CON UN ESCUADRON DE FUSILAMIENTO". P.25

Image 4 Clarin announcing the full repayment of the IMF by decision of President Kirchner. It is worth noting the positive coverage of the story by the prominent conservative newspaper of the country. Source: Clarin

The IMF at that period was looking at minimising its exposure and agreed to end its presence in Argentina. The Kirchner Presidency had recovered significant degrees of economic sovereignty from the Fund, bringing the IMF’s involvement in Argentina to an end after decades of Stand-By Agreements. The early repayment of the IMF allowed Argentina to recover economic sovereignty and the Kirchner administration from designing its economic plan free from IMF conditionalities. BCRA international reserves fell following the payment from US\$ 29,000 million to US\$ 19,500 (Pucciarelli & Castellani, 2019, p. 148). Nevertheless, the Central Bank was able to rebuild its reserves quickly, and by September 2005, the BCRA had managed to return its reserves to their pre-Canje levels. (Brenta, 2021, p. 205).

When we break down the debt restructuring according to the jurisdiction in which the debt was denominated, we observe that creditors whose debt was denominated in UK or German law were the least likely to participate in the 2005 Canje. This should come as no surprise since UK law on credit is particularly favourable to creditors, and creditors had significant chances of legally challenging the restructuring. In case of the Greek crisis, the IMF and the country’s creditors agreed to the PSI restructuring program because the new bonds that would be emitted as part of the program would be in UK law. The case of the 2005 Argentinean Canje provides us with empirical evidence that denominating debt in the UK law allows creditors to take advantage of the unequal North-South relations and use the Commonwealth legal system to enforce their interests on indebted countries.

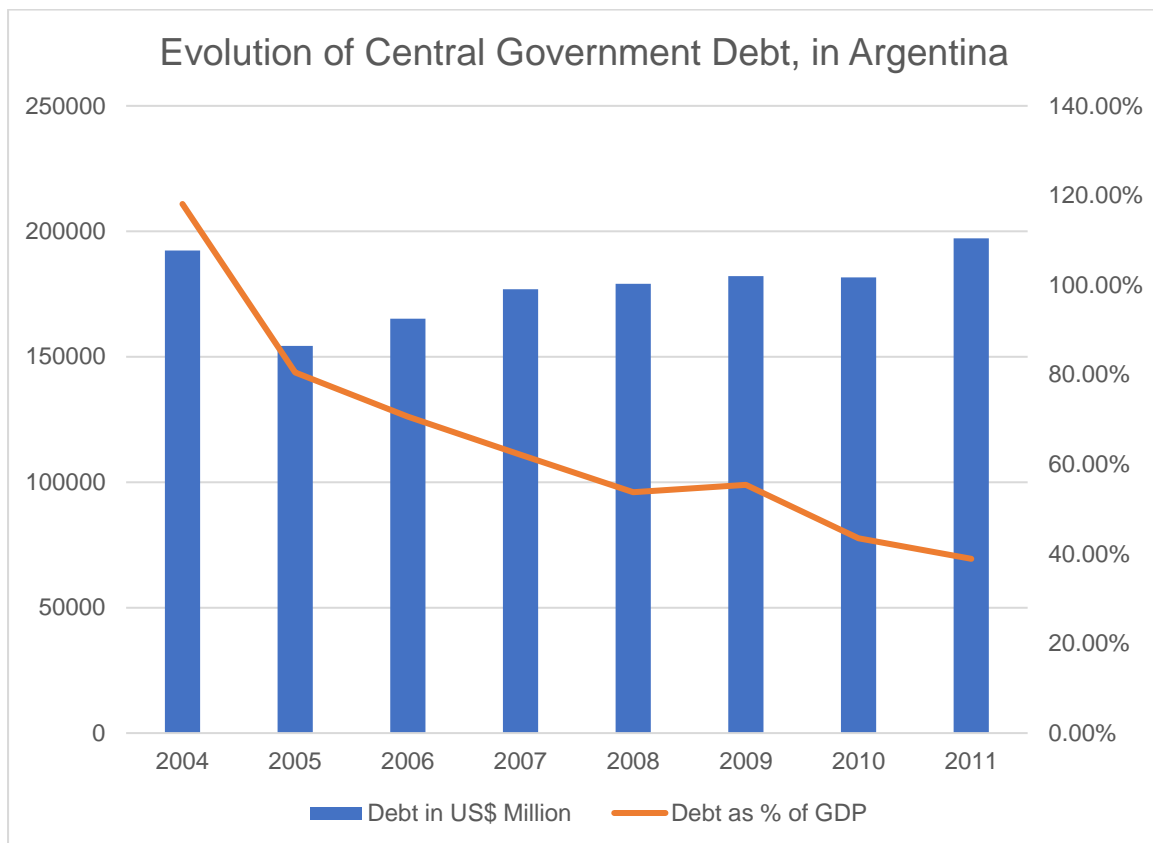
Figure 22 Restructured Obligations per Jurisdiction

Obligations Restructured per Jurisdiction (in million USD)			
Original Jurisdiction	Amount of Obligations Restructured (in million USD)	Total Obligations (in million USD)	% of Eligible Obligations
Argentina	9,344	10,833	86.25%
New York	29,362	36,011	81.54%
UK	10,223	15,032	68.01%
Germany	11,025	17,194	64.12%
Japan	1,693	1,793	94.42%
TOTAL	62,318	81,836	76.15%
Source: República Argentina Oferta de Canje – Anuncio Final 18 de Marzo de 2005			

Finally, it is worth observing that the efficiency of the Kirchner negotiating tactics is reflected in the weekly evolution of creditor participation in the restructuring. The more significant increase in creditor participation can be observed in Week 3 and Week 6 of the offer, with weeks 1, 2, 4 and 5 showing very little increase in creditor participation. These data can be interpreted, *ceteris paribus*, as reflecting creditors testing the decisiveness of the Argentinean government. Weeks 3 and 6 were crucial for confirming to creditors that the Argentinean government was willing to go ahead with the restructuring program irrespective of their participation. The Canje of 2005 had its critics both from the Left that was pointing out that the Government Debt was still high as a percentage of GDP compared to the Convertibility era, while to serve the restructured debt, Argentina would have to achieve significant surpluses (Sánchez, 2005). If Argentinean exports were insufficient to generate the surpluses demanded, the danger was that the burden would fall on Argentinean citizens since the government would have to secure a primary budget surplus.

Eventually, however, the Argentinean Government Debt was put on a sustainable path throughout the Kirchner administration and subsequent PJ administrations under Cristina Kirchner. Data on Argentinean confirm that the following the Canje of 2005, despite Argentinean Central Government Debt rising in nominal terms, the GDP growth achieved by Argentina under Kirchner's expansionist policies rendered the debt unquestionably sustainable reaching a historical low of 38.9% of the GDP by 2011.

Figure 23 Source: Argentina.gob.ar



The successful management of the issue of Debt and the Canje 2005 gave the Kirchner administration both the fiscal space and the political independence to implement heterodox and progressive economic policies (Pucciarelli & Castellani, 2019, p. 135). Significant funds that would have been otherwise dedicated to debt repayments were released and became available for investment and expansionary policies. Combined with the devaluation of the Peso, these investments and expansionary policies lead to a stimulation of the domestic market and an improvement -if temporary- of Argentinean competitiveness.

In other economic areas, the Kirchner economic strategy signalled a return to heterodox social democratic policies, a policy of industrialization and promotion of the exportation sector. This change in economic paradigm was combined with policies that aimed and partly achieved a better income share for workers and some measures of poverty alleviations. At the same time, the Argentinean government introduced some tax measures that affected Argentinean exporting Capital, thus financing social projects and implementing redistribution policies, including improved pensions and social welfare for families. Some of the most notable welfare projects of this kind were the program known as “Asignación Universal por Hijo (AUH)” (Pucciarelli & Castellani, 2019, p. 132) and the influential program titled “Heads of the

Household” aimed at tackling the issue of unemployment (Ministerio de Trabajo, Empleo y Seguridad Social, 2002). These policies nevertheless stopped short of tackling the issue of inequality in the country. Local currencies that had been adopted as means of dealing with the consequences of the 2001 crisis are also considered to have contributed positively to the growth of local economies, especially in the poorer Argentinean North (Sbatella, 2011) but were eventually phased out during the Kirchner administration. The success of these quasi-monies was an added benefit of Argentina’s recovery of its monetary sovereignty and its ability to flexibly adapt monetary policies to stimulate growth following the end of the Convertibility Regime. Public spending increased by 82%, with a significant part of that spending going to infrastructure investment (Pucciarelli & Castellani, 2019, p. 138). The minimum salary (salario mínimo vital y móvil-SMVM) was also increased by 50% in nominal terms and minimum pensions. Overall, the Argentinean economy grew by 52% between 2002 and 2007.

The Kirchner industrial policy played a significant role in the Argentinean recovery. Even if his policies came short of anything that would resemble a de-financialization project, the industrial production recovered significantly during the Kirchner presidency. The devaluation of the Peso boosted Argentinean exports, while the “pesification” of company debts provided significant debt relief for enterprises, improving the chain of payments in the domestic market (Pucciarelli & Castellani, 2019, p. 135). What is more, this recovery was reasonably favourable to Labour and Argentinean workers; by 2012, the participation of workers in the industrial added value reached increased by more than 4% as opposed to its pre-crisis levels in 1997, while real salaries in the industrial sector rose by 40% compared to their 1997 levels (Porta, Santarcángelo, & Schteingart, 2014). Due to the favourable international prices, labour-intensive industrial production grew significantly in this period (Belini & Korol, 2020, p. 521). Evidence of the more worker-friendly turn in policy is also the inversion of the relationship between employment and productivity; during the 1990s, productivity rises had decreased employment. During the Kirchner administration, this was reversed with rises in productivity, leading to new employment positions, causing a decrease of unemployment from 22.5% in 2003 to 9% in 2007 (Pucciarelli & Castellani, 2019, p. 139). These expansionary and social welfare policies reduced inequalities in Argentina, with the Gini coefficient falling from 0,533 in 2002 to 0,468 in 2007 (World Bank, 2022). Other evidence of worker-friendly changes in the structure of the Argentinean economy was the decline in informal employment. These positive results notwithstanding, the Kirchner industrial policy did not fully overcome Argentinean development challenges.

We should not underestimate the Kirchner economic strategy's limitations, observing that the problem of hyperinflation reappeared in 2007 when inflation rose to 25%, partly due to Argentina's dependence upon exporting primary materials to foreign markets. The rise of commodities prices (Belini & Korol, 2020, p. 503) due to increasing demand from China and Brazil had an inflationary effect on the domestic markets (Pucciarelli & Castellani, 2019, p. 144).

Argentinean competitiveness and exports declined as the positive effects of the devaluation of the convertible Peso gradually disappeared, and international relative prices made Argentinean exports less competitive. In areas of production such as the processing industries (metal and chemical processing), as well as in industries that were natural-resource-intensive real salaries of workers did rise, but the percentage of the income generated in these industries fell – reflecting the class dynamics between Argentinean Capital and workers in these sectors (Porta, Santarcángelo, & Schteingart, 2014).

The Kirchner strategy led to a virtuous circle of GDP growth and higher public revenue -which increased by 84% in real terms (Pucciarelli & Castellani, 2019, p. 144), thus creating the fiscal space for further expansionist policies that further stimulated economic activity. This virtuous circle simultaneously rendered Argentinean debt increasingly sustainable as it continued to decline as a percentage of the GDP.

CONCLUSIONS ON THE ARGENTINA CHAPTER

Argentina was the second empirical case we examined in this thesis. The Argentinean Debt Crisis, the legacy of the authoritarian neoliberal policies of the Civil-Military Dictatorship, was significantly prolonged, covering a period from 1983 to 2005. Consecutive Argentinean governments attempted a variety of different approaches to the debt crises, of which, as we have seen, they can all be satisfyingly described by the three categories we have established: the Full Compliance Strategy, Amicable Renegotiation Strategy and the Contested Renegotiation Strategy. Moreover, in this chapter, we examined the compliance of the theories we examined in the first section with the empirical evidence from the Argentinean case. The Argentinean sequence of debt crises can be separated into four periods (Brenta, 2021, p. 147). The overture of the crisis lies undoubtedly in the Civil-Military dictatorship of 1976-1983. Despite the lack of popular support for such policies, the Dictatorial regime implemented neoliberal policies, thanks to a never-before-seen level of suppression and human rights violations that claimed the lives of some thirty thousand Argentinean citizens. The administration of the economy by the Regime created a mountain of external debt, five times larger compared to Argentina's 1976 external debt. The crisis was deepened with the continuation of many of the neoliberal directions in economic policy during the first democratic administration of President Alfonsín. The Alfonsín period also marks the entry of the IMF into the country; from this period onwards, IMF conditionalities will form a large part of the policies implemented in Argentina. The second period is the Menemist period from 1989 to 1999, characterised by the deepening of neoliberal policies, the financialization of the Argentinean economy, and the full compliance of Buenos Aires to IMF demands. The third period we studied was the interval period between De la Rúa's election and the electoral victory of Kirchner. This period is characterised by a deep delegitimization of Argentinean neoliberalism, social struggles and oppression on behalf of the state apparatus. The failure of neoliberal policies to provide a viable solution to the Argentinean debt crises lead Argentinean governments to seek an amicable renegotiation with the IMF and creditors but with no success. Finally, the fourth period of Nestor Kirchner marks the period of contested negotiations, when Argentina managed to render its debt sustainable in terms of its ratio to the GDP. At the same time, it also managed to achieve various other economic goals, such as high levels of GDP growth and reduction of poverty. These positive results were made possible by recovering Argentina's monetary and economic sovereignty and a hard-line approach to debt negotiations.

This hard-line approach consists of setting clear red lines during the negotiation and a willingness and preparation to walk from the table of negotiations without a deal.

The period between 1983 and 1989 marks the introduction of neoliberal policies and the establishment of the IMF in Argentina. The Alfonsín administration briefly attempted to introduce Keynesian policies during the Grinspun tenure at the Finance Ministry. Nevertheless, President Alfonsín's unwillingness to engage in contested negotiations with the creditors or restructure Argentina's debt unilaterally left his administration extremely vulnerable to the creditors' demands. This unwillingness left Argentina without leverage on the negotiating table when Alfonsín and Grinspun's attempted to secure debt relief from the Creditors via amicable renegotiations. Creditors were able to impose on Argentina their demands, namely an outright rejection of any debt relief, and force Argentina into a Stand-by agreement with the IMF. Creditors hoped that the IMF would act as an enforcer of their interests in the country. The Alfonsín administration thus marks the beginning of the synergy between the IMF, creditors and the U.S. The fact that a significant part of the country's debt was in the hands of foreign creditors based in the Global North reinforced this synergy. The Alfonsín defeat at the negotiating table was the beginning of the IMF's long-term presence in Argentina and the adoption of a neoliberal approach in the management of the Argentinean debt crisis. The key elements of this approach to the Argentinean Debt crisis were a restrictive fiscal and monetary policy, deregulation and privatisation policies and close involvement of the IMF in the elaboration and implementation of policies. The introduction of the Austral was part of another pillar of the Argentinean debt crisis's neoliberal management, reducing monetary sovereignty. Under pressure from the IMF, Argentina gradually ceded ever-larger parts of its monetary sovereignty, committing to an overvalued peso policy and fixed exchange rate policies that aimed to remove the ability of Argentinean governments to fluctuate the value of the Peso.

The period of 1989-2001 is characterised by an intensification of neoliberal policies in Argentina, inherited from the Dictatorial regime that governed the country between 1976 and 1983 (Seggiaro, 2015, pp. 58-59). Except for the brief period of Grinspun's term as Minister of Finance, both UCR and PJ administrations continued in the same policy direction that the dictatorial regime had placed Argentina. A veritable consensus from above on neoliberal economic policies was established in the country. The two dominant parties of PJ and UCR and the Argentinean bureaucracy supported this consensus from above. The implementation of neoliberal policies in Argentina for so long and despite widespread dissatisfaction was reinforced by the IMF, creditors and creditor countries, especially the U.S. This alliance of

creditors used IMF Stand-By agreements as a means of pressure in order to impose harsh conditionalities on Argentina. These conditionalities imposed on the country a neoliberal economic model that was based upon the following pillars; a) deregulation of the markets (including financial markets) and facilitation of foreign investment c) an extensive program of privatisation and a general withdrawal of the state from the economy and d) a strong or overvalued peso monetary policy (Seggiaro, 2015, p. 58).

A vital element of this neoliberal consensus in Argentina was the voluntary ceding of economic and later monetary sovereignty. This ceding of economic sovereignty took the form of handing over significant powers to the IMF to define and invigilate Argentinean economic policy, while Argentina willingly abandoned monetary sovereignty during the Convertibility Regime. We notice that a similar ceding of economic and monetary sovereignty took place in Greece in the years before the 2009 crisis, especially as Greece applied to and later joined the EMU. Within the context of the EMU, Greece willingly handed over control of its Central Bank and monetary policies, while its fiscal policies were significantly limited by the Stability Pact and later by the EU bail-out agreements. In both the Argentinean and the Greek cases, this voluntary ceding of sovereignty had catastrophic results from a macroeconomic perspective. In the Argentinean case, the IMF prioritised creditor interests and the interests of the U.S. over the interests of the Argentinean economy. In the Greek case, the EMU's policies and institutional design were such that it favoured the interests of the countries in the core of the Eurozone, and the interests of European financial capital, at the expense of the Greek economy.

Given that the Argentinean economic model originated in the dictatorial regime, it is no surprise that the post-dictatorial era was marked by a significant degree of authoritarianism. We saw how bureaucrats and members of the BCRA who served under the dictatorial regime became important exponents of neoliberal policy. We also saw how the Argentinean state weakened by the consecutive debt crises, abandoned its efforts to bring the perpetrators of the Dictatorial regime to justice. The legacies of the dictatorship became painfully evident when the Argentinean deep state and security forces reacted with significant degrees of violence to widespread protests during the 2001 crisis, causing two Presidents to quit their posts. Another authoritarian aspect of Argentinean neoliberalism was the "consensus-from-above" that was established in the country and allowed PJ and UCR administrations to implement neoliberal policies, largely unaffected by popular pressures. This neoliberal consensus, combined with IMF Stand-by agreements and the large set of conditionalities they included, had as a practical

consequence that the Argentinean electorate had little input in shaping the country's economic policies.

The Menem decade offers us a paradigmatic case of neoliberal policy implementation in the Global South in which we observe the implementation of fiscal austerity and monetary contraction, combined with deregulation initiatives and liberalization policies, including liberalization of capital flows. Menem policies towards the Debt follow within the "full compliance" category since the Menem administration shared the same neoliberal economic paradigm as the IMF. Menem's strategy on Debt was thus almost entirely identical with that of the IMF, namely the government aimed to render the debt sustainable by following fiscal and monetary restrictions, cutting public spending and privatising public assets. The Menem administration also planned to improve the relationship between Government Debt and GDP. Menem's government hoped to achieve growth by FDIs and private investment by deregulating the economy, incentivising investment in the service sector and encouraging the financialization of the economy. The Argentinean secondary sector suffered greatly due to the overvalued peso monetary policies and the fixed exchange rate with the dollar. Thus the Menem era is a period in which the Argentinean economic policies prioritise and favour the services sector. Menem's era also deepened the neoliberal consensus; Menem's party, the PJ, traditionally represented the Argentinean central-left and had a long history of endorsing Keynesian and heterodox economic policies; in other words, the PJ was the party that Argentinean voters would turn to when they wanted to challenge liberal and later neoliberal policies electorally. During this period, both the UCR and the PJ agreed on the necessity of implementing neoliberal policies; this meant that Argentinean voters who opposed this policy direction could not turn to any of the two major parties. Argentina's political system was bipartisan, so Argentinean voters had little chance of affecting economic policy via voting.

Menem's policy focused on improving relations with the U.S. and the IMF to secure lines of credit and improve Argentina's credibility in the eyes of investors. The ultimate aim was that Argentina would attract Foreign Direct Investment that would allow the country to grow despite the fiscal and monetary contraction policies implemented by the government and help Argentina expand its foreign currency reserves. However, the government's strategy of adhering to creditor demands did not succeed in rendering the country's sovereign debt sustainable, and they also failed to secure a full recovery of the economy from the 1980s crisis. During the Menem administration, Argentina experienced years of economic growth followed

by steep recessions, an economic performance that reflects the subordinate position of Argentina in the global financialised economy.

The Law of Convertibility was a unique case of a sovereign state willingly denouncing its monetary sovereignty, limiting its ability to develop and implement monetary policies. It was the first time in the post-colonial period that a large and diversified economy like the Argentinean would adopt a currency board (Marshall, 2008, p. 351). The choice of Argentina to peg the Austral and later the Peso allows us to extract parallels with Greece's membership of the Eurozone. In both cases, Argentina and Greece gave up on their economic sovereignty in the context of a broader governmental strategy for attracting Foreign Direct Investment, increasing Capital inflows to the country, and easing access to the International Credit Markets. In his thorough analysis of the discourse put forward by the Menem administration, Fair demonstrates that the President and his government, in their speeches and public discourses, tried to establish a discursive equivalence between the following ideas. On the negative side, social welfare policies were associated with domestic corruption, isolation, communism and authoritarianism, and (Argentinean) backwardness and inflation. Thus past Peronist policies in the area of economic policy where the state played an active role in incentivizing exports and securing some moderate redistribution are now associated with backwardness, the isolation of the country, and eventually inflation and a weak peso.

Fair also demonstrates that the Menem administration discourse sought to establish a positive equivalence between liberalism, the free market, globalization and international integration with such positive words as progress, evolution, future, and democracy. Again there is an effort to establish a connection between globalization with economic stability, a play on the collective trauma of hyperinflation. The policy of dollarization was presented as a policy for economic stabilization, which would take Argentina out of its backward present and render it more progressive, modern, and free. One cannot fail to notice the subtle suggestions of cultural inferiority of Argentina as compared to the Global North. Fair identifies the Menem discourse in the following series of equivalences:

"Welfare state = communism = authoritarianism = totalitarianism + isolated economy = backward = closed = inflation = bureaucracy = fiscal deficit = corruption = past = failure versus liberalism = democracy = freedom (to choose and consume) = plurality (of ideas) + free market = efficiency = stability = growth + globalization = international insertion = integration into the world = modernization = progress = evolution = progress = future ."

In both countries, the voluntary abandoning of monetary sovereignty was legitimised with references to the economic stability and resilience that the new monetary policy would bring. In both the Greek and the Argentinean cases, the new monetary policies were accompanied by promises of better governance, a change of society and politics closer to the models observed in more advanced Capitalist economies. Past traumas with inflation or hyper-inflation were referenced in both cases.

For Neoliberal Argentinean economists, the Convertibility Plan would help control the inflation problem by opening the Argentinean market to international competition; pegging the peso to the dollar would force Argentinean governments to avoid devaluation policies and would allow cheaper imports (Novaro, 2010, p. 240). The assumption was that the inflation problem of Argentina was caused by distortions in the function of the free market, caused by the “heterodox” economic policies that were part of Argentina’s political traditions, such as price subsidies, controls on exported goods and frequent devaluations. The other aim of the Convertibility Plan was to restore trust in the Argentinean national currency with the hope that a strengthened Peso would make it easier for Argentina to attract Foreign Direct Investment. Neoliberal Argentinean economists had seen FDIs as a critical source for investment and development for the country (Petrecolla & Lousteau, 2001), even though the Convertibility Plan made it very easy for foreign investors to repatriate profits and local businesses to transfer capital abroad during crises. Both of these phenomena, the repatriation of profits and Capital flight, became significant problems that ultimately led to the 2001 crisis and eventually in the abandonment of the Convertibility regime.

The Convertibility Plan was based upon Neoliberal theories on the State and Democracy; according to the Neoliberal paradigm, the State is seen as prone to succumbing to the electoral demands of pressure groups instead of pursuing the general interest of the economy. Thus certain economic decisions, especially those about the monetary and banking policies, should be left to technocrats. In the Argentinean case, the Convertibility Plan was the most extreme expression of this perspective, with the Argentinean state voluntarily abandoning its monetary sovereignty and the ability to define its monetary policy. In the case of Greece, this voluntary denunciation of monetary sovereignty was even more severe with the country’s entry into the EMU. Greece’s membership in the EMU also saw the Greek state willingly abandoning its monetary sovereignty with disastrous effects for the Greek trade of balance. Of course, the Greek case is more severe since the country’s EMU membership also involved a voluntary handing over of the ability to define banking policy. In both countries, the willing abandonment

of monetary sovereignty led to the 2001 financial crisis -for Argentina- and the 2009 crisis -in the case of Greece-, while Greece experienced additional difficulties when the ECB refused to increase Emergency Liquidity Assistance funding during the events of 2015.

It is particularly important to observe that in both countries, the abandoning of monetary sovereignty was legitimised under promises, on behalf of political parties and the business class, of greater economic stability, lowered inflation and economic growth as a result of FDIs. In both the Greek and the Argentinean cases, we observe the strength of ideas of economic stability in convincing citizens to abandon democratic control over monetary policy. Similar ideas were employed during the Greek crisis in 2009 to legitimise the Greek Stand-By programs, namely the idea that if Greece abandoned the IMF program and its conditionalities, the country would face economic disaster.

Maurizio Lazzarato had argued that relations of Debt are underpinned and reproduced through a “guilty Subject” or Indebted Man subjectivity; Maurizio Lazzarato’s theory claims that the Indebted Man ideology aims at moralizing debt and convincing the indebted subjects that they are responsible for their state of indebtedness due to their moral failings. In the Greek case, we observed how such an ideological mechanism was indeed put in mission, mainly on behalf of political parties, media, and Greek and European Capital. In the Argentinean case, despite a strong presence of Indebted Man subjectivity in the country's public discourse, we also observe that fear of economic instability and inflation plays an essential role in legitimizing and thus reproducing debt relations. The fear of economic instability is based upon a conservative ideology that associates inflation and economic instability with social spending, poverty and cultural inferiority. The ideology that was established in Argentina in this period was not purely based on culpability in the way it was described in Lazzarato’s Indebted Man, but a certain shifting of blame does indeed take place. The economic crisis is not attributed to the position of Argentina in the international economy and its Subordinate model of Financialization but rather on excessive spending on behalf of citizens, on populism, or on the lack of productivity on behalf of Argentinean workers. This fear of instability could help explain popular tolerance towards neoliberal policies for a very large period, namely from 1983 to 2001.

Like Greece’s entry into the EMU, the Convertibility Plan acted as a tool of reactionary income redistribution, transferring income from Labour to Capital. With Argentina unable to devalue the Austral or Peso in order to recover competitiveness, wage suppression became one of the most reliable mechanisms for Argentina to improve its competitiveness in the international market

(Castellani & Schorr, 2004, p. 63). Similarly, within the context of the Eurozone, wage levels and worker remuneration became one of the most important factors deciding a country's competitiveness within the Eurozone. With the introduction of the Euro, unit labour costs became a key determinant of competitiveness. Thus, stagnated German wages significantly boosted German exports to other members of the Eurozone. Similarly, under the Convertibility Plan, Argentina had to rely on keeping labour costs low to retain its competitiveness, with the additional factor that Argentinean exports were of crucial importance for the country's foreign currency reserves and ability to pay government debt. In other words, keeping labour costs low had a significant effect on the stability of the Argentinean economy.

The De la Rúa term was a continuation and an intensification of the Menem-era policies. Despite the change in government, the same policies continued to be implemented, thus eroding the ability of Argentinean citizens to affect policy democratically. The return of Domingo Cavallo in the position of Minister of Finance in the UCR administration symbolised the consensus from above that had been established in Argentina over the necessity of the continuation of neoliberal policies. A crucial element of this consensus-from-above was the IMF's influence over policy-making in the country. We have seen in this chapter how the Stand-by agreements between the Fund and Argentina reproduced the unequal economic relations between Argentina as a country belonging to the Global South and creditors based on the Global North. In the post-dictatorial period, Argentina diligently implemented the Stand-by conditionalities and other IMF policy recommendations. Despite, however, the country achieving primary budget surpluses, lowering labour costs, deregulating its economy, pegging the Austral and Peso to the US dollar and engaging in a wave of privatizations, the country's government debt was not rendered sustainable. At the same time, the Argentinean economy experienced only very brief periods of GDP growth followed by periods of recession.

The IMF Stand-By agreements did not prove to be beneficial for the Argentinean economy. However, they did favour foreign Capital that purchased privatised assets and was able to repatriate profits abroad quickly, Argentinean Capital that sought to move funds overseas and of course, the country's creditors that involved important Banks from Global North countries. The Fund's heavy-handed pressures on Buenos Aires to continue with the Convertibility Plan and later to adopt full dollarization -despite the negative results that pegging the Austral and Peso to the dollar had had for the Argentinean economy- emphasises the Fund's prioritisation of creditor interests over the interests of the Argentinean economy. The Fund, also, throughout this period, drew significant benefits in terms of debt repayments from Argentina. The Fund's

institutional-bureaucratic interests in securing these profitable repayments can partly explain the Fund's management of the Argentinean crisis. Finally, the Fund acted often in harmony with U.S. interests in Argentina, a fact that is not surprising given that the U.S. has the largest vote share within the Fund. The period of 1983-2001 saw a significant increase of U.S. influence in the country, despite Argentina exiting the Dirty War period, during which severe and extensive human rights violations were perpetrated. The United States foreign policy towards Argentina was significantly influenced by the issue of Debt; Argentinean governments sought a rapprochement with the U.S. in the hope of receiving IMF credit, while Washington used the influence that the Fund had on Argentina to force the country to adopt policies that were beneficial to U.S. economic interests, most notably the policy of dollarization. The role of the IMF in the Greek and the Argentinean crisis confirms the theoretical points made by David Graeber about the primary of the relations of Debt. Argentina's debt crises can be seen not as the mere expression of Argentina's subordinate position in the global economy but actually one of the fundamental causes of this subordinate position. We have remarked that both the Greek and the Argentinean crises involve significant ceding of monetary sovereignty to catastrophic results. The pressure on Argentina on behalf of the IMF to dollarize its economy shows that creditors will put pressure on indebted nations to cede their monetary sovereignty and adopt these monetary policies that best serve creditors' interests. This evidence lends credibility to Graeber's idea of the function of money as IOUs and the link between credit and money; determining Argentinean monetary policy was one of the highest creditor priorities. Finally, we also identified certain common tactics that the Fund implements towards countries that attempt to renegotiate their debt in an amicable or a contested manner. These tactics include preemptive refusal to release funds and agreed loan tranches, refusal to approve program evaluation reports and efforts in destabilization.

Graeber's theory on the function of debt becomes relevant during the Kirchner era, the last period we examine in this investigation. The Kirchner administration began with the issue of debt and money before it could intervene in any other area of Argentina's domestic and foreign policy. Credit relations underpin other social and political relations, while credit and money are two phenomena intrinsically connected; these are some of the conclusions of Graeber's anthropological investigation. In the case of the Kirchner administration, we see that the prioritization of restructuring in a sovereign manner the country's debt and recovering monetary sovereignty allowed the Argentinean government to successfully escape the debt trap that had plagued the country for decades.

The Duhalde administration is a case in point of this intrinsic relation of credit and money. Duhalde, like Kirchner, followed a devaluation policy for the Argentinean peso. The two administrations had several policies in common, such as their policies of industrialization and the turn towards industrial exports. However, the difference between the Kirchner and Duhalde administration lies in their policies over debt; Duhalde's strategy towards Debt belonged in the amicable renegotiation category, whereas the Kirchner strategy belonged in the contested renegotiation category. Duhalde, as we saw, aimed to achieve a new Stand-by agreement with the IMF and continued with the policies of fiscal restriction, as demanded by the Fund. As a result, Duhalde implemented policies of fiscal restriction in an effort to find common ground with the IMF. The pesification of the Argentinean economy and the implemented austerity benefited Argentinean Capital at the expense of workers.

COMPARING THE GREEK AND ARGENTINEAN CASES: STRATEGIES FOR EXITING A DEBT TRAP

In both, countries the voluntary abandoning of monetary sovereignty was legitimised with references to the economic stability and resilience that the new monetary policy would bring. In both the Greek and the Argentinean cases, the new monetary policies were accompanied by promises of better governance, a change of society and politics closer to the models observed in more advanced Capitalist economies. Past traumas with inflation or hyper-inflation were referenced in both cases.

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monetary sovereignty, with disastrous effects on the Greek balance of trade. Of course, the Greek case is more severe since the country's EMU membership also involved a voluntary handing over of the ability to define banking policy. In both countries, the willing abandonment of monetary sovereignty led to the 2001 financial crisis -for Argentina- and the 2009 crisis -in the case of Greece-, while Greece experienced additional difficulties when the ECB refused to increase Emergency Liquidity Assistance funding during the events of 2015.

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anthropological investigation. In the case of the Kirchner administration, we see that the prioritization of restructuring in a sovereign manner the country's debt and recovering monetary sovereignty allowed the Argentinean government to successfully escape the debt trap that had plagued the country for decades.

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We have observed that the debt crises in both countries caused a significant degree of political fluidity, by which we mean voter dealignment, drastic changes in voters' preferences and high levels of abstention. This political fluidity is accelerated in times of social mobilization and protest. In both countries' cases, we saw the popularity of parties and politicians decline rapidly, while minor protest parties or political alliances managed to increase their popularity significantly. The main difference between the Greek and the Argentinean cases was that changes in the Argentinean political system occurred *within* its dominant parties, leading to the rise of *Kirchnerism* within the PJ. In contrast, in the Greek case, we had a complete restructuring of the political system, especially on the central-left and left sides of the political spectrum.

By the analysis of From the empirical evidence that preceded these conclusions, we observe that the Argentinean and Greek debt crises demonstrate significant similarities. Debt crises in both countries took similar courses. We can extract a theoretical model about the five temporalities of a prolonged debt crisis by examining and categorising these similarities. These five temporalities consist of what we have described as a "debt trap".

1. Early crisis; typically, during this time, events unfold quickly as a country tries to contain the immediate effects of the crisis and avoid a disorderly default. During this

time, a country is usually very weak from a negotiating point of view, and governments typically retort to external help -such as IMF credit-rather than debt-restructuring to avoid a disorderly default. Social protest might be reduced during this period, as events unfold too quickly for unions and citizens to organize protests on time. As the information on the causes and events that led to the crisis are still scarce, the ideology of citizen-culpability -as described by Lazzarato- and the fear of instability play a significant role in influencing popular attitudes towards the crisis. At this stage, the primary policy response is to adopt fiscal and monetary restriction policies under pressure from the creditors and cede parts of its sovereignty. As a result, the country typically experiences an acute recession of these policies.

2. Late Crisis; typically, during this period of the crisis, a country has unsuccessfully managed to tackle the debt crisis with the help of external funding, such as IMF Credit or Eurozone emergency credit. The country would typically require new funds or a new stand-by Agreement, thus increasing creditors' influence over the country's policy-making. At the same time, the country continues to implement fiscal and monetary restriction policies, but at this stage, the recession is less acute than the first phase. The prolongation of the crisis typically will undermine dominant discourse and the ideology of citizen-culpability, while fear of instability will retain a decisive role in affecting citizen behaviour at this stage.
3. Stability in Stagnation; at this period, the country is not faced with the immediate threat of a disorderly default or inability to continue with debt repayments. Nevertheless, serving the country's debt continues to be a significant obstacle to growth, retaining a significant part of the state's revenues, thus limiting the available funds for investment and stimulating demand. Due to the size of the country's debt and the need for refinancing the old debt with new debt creditors and transnational institutions such as the IMF retain significant influence over the country's policy, thus continuing to impose policies that are more in the interest of the creditors than in the country's recovery. Typically, at this time, social mobilizations subside as citizens become accustomed to a lower-income share and higher levels of unemployment.
4. Recurring crises; this stage refers to new crises that might emerge while the economy has not yet fully recovered from the initial crisis; examples would be the hyperinflation crisis, the Tequila crisis. These crises are often triggered by events that occur outside of the country -for example, a crisis in other emerging economies. Recurring crises demonstrate the fragile state of the economy, the weak recovery from the previous

crisis, the fragility of the banking system. These recurring crises provoke popular reactions as dominant ideologies become less convincing while citizens' faith in neoliberal policies is shaken.

5. Collapse, contestation, recovery; at this stage of a debt trap, a collapse of the economy is brought about due to the prolonged debt crisis. This collapse could be triggered by a variety of factors, endogenous and exogenous, that either cause the country to fall into disorderly default or make the disorderly default so imminent that the country has to take emergency measures. This stage typically presents high levels of recession, poverty and unemployment. The confidence in the banking system is challenged, and capital controls have to be imposed to avoid a bank run. Creditors and the IMF will usually intervene in an effort to avoid a complete cessation of debt repayments. Typically they will offer emergency credit on the condition of additional economic sovereignty transferred to them. At this junction, a country has the option to return to the strategy of amicable renegotiation, thus prolonging the debt crisis yet again and continuing the vicious cycle of indebtedness. The other option is to go down the path of contesting the debt, strategically holding out debt with the intention of entering a contested negotiation for the restructuring of the country's debt. If the country is sufficiently decisive during the negotiations and prepared to walk away without a deal from the negotiating table, then the chances of walking away with a substantial haircut and significant relief on debt payments increase. If the restructuring deal is beneficial enough, then the country in crisis recovers significant amounts of funds that were being diverted towards debt payments. These funds can now be used for investment or to stimulate demand. The country will also recover some economic sovereignty and can thus shape its economic policy to the needs and interests of its economic development, not the creditors. Typically, there will be significant support from below during the contestation period, as citizens rally around the flag and the cause of emancipation from debt.



Exogenous Factors during the Management of the Greek and Argentinean Crises by the Tsipras and Kirchner administrations

	Social Movements	Status of Government Debt	Monetary Sovereignty
The Tsipras Administration	Demobilized	Debt being serviced	No monetary sovereignty (ceded to EMU)
The Kirchner Administration	Mobilized	Debt in temporary default	Monetary Sovereignty recently recovered (end of Convertibility)

Model	Debt Repayments	Economic Policy	Examples
Full Compliance Strategy	Utmost prioritisation of Debt Repayments. Efforts to create trust and goodwill with creditors to secure amicable debt relief.	Attract FDIs, lower unit labour costs, deregulate markets, privatisations	Papadimos Administration, Samaras Administration, Menem administration, Alfonsin administration II*, De la Rúa administration

Amicable Renegotiation Strategy	Prioritisation of Debt Repayments. Negotiating debt relief on the basis of a win-win outcome for both creditors and debtors.	Implement IMF conditionalities and neoliberal policies, but with minor corrections and counterbalances to stimulate demand and ease social pressures(social welfare programs).	George Panadreou Administration, Alexis Tsipras Administration, Alfonsin Administration I*, Duhalde administration
Contested Renegotiation Strategy	Debt Repayments halted, pending a restructuring agreement	Industrialization policies, promoting exports, public investment, policies stimulating demand	Kirchner Adiministration
			*Alfonsin Administration I= during Grinspun's tenure, Alfonsin Administration II= after Grinspun's tenure

A THEORY OF DEBT CRISES

The Thesis deals with the Problem of Debt and, more specifically, the Prolonged Sovereign Debt Crisis. The specific question is why do countries appear unable to exit these prolonged crises and by exiting we mean: render their debt sustainable, regain their democratic sovereignty and achieve economic recovery. This question is tackled through the use of an interdisciplinary approach that combines critical theory with political economy.

To tackle this question, I separated the dissertation into two parts, a theoretical part where I discuss theories of Debt and an empirical part where I engage in historical research of the Debt Crisis in Argentina between 1983 and 2005 and in Greece in 2009.

In this thesis, we sought to study the phenomenon of Sovereign Debt Crises in the era of Neoliberalism. In particular, we examined two cases of severe and prolonged Sovereign Debt Crises, namely the cases of Argentina and Greece. These two case studies allowed us to explore and better understand why the Sovereign Debt crisis was prolonged and how they evolved into Debt traps from which countries find it hard to break away.

The Empirical Section- Case Studies

We examined an extended period of political and economic history in both countries, overviewing events from 1983 to 2021 in Argentina and from 2009 to 2015 in the case of Greece. In the combined forty years that we analyzed in the Second Part of the Thesis, we empirically observed the implementation of the following strategies on behalf of the national governments in order to tackle the debt crisis:

1. *Bandwagoning Strategies or Full Compliance Strategies: these strategies aim to satisfy creditor demands and comply with IMF conditionalities fully.* Empirically, we observe that this strategy has two endgames. The first endgame is the creation of enough goodwill among the Creditors towards the Indebted country so that the former would grant debt relief to the latter in an amicable context. The second endgame we observe is the hope that compliance with Creditor demands and especially IMF conditionalities will improve the indebted country's credibility, allowing the said country to access credit in improved terms and attract FDI. Such bandwagoning strategies were observed during the Alfonsín, Menem, De la Rúa and Macri administrations in Argentina, while in Greece, this strategy was implemented almost continuously from the eruption of the Eurozone crisis to the election of Syriza. We observed empirically that these strategies

did not achieve debt relief sufficient to render the Sovereign debt sustainable. In one case, during the Menem administration, we found empirically that Argentina was able to attract a significant amount of FDIs; nevertheless, these were not sufficient to counterbalance the recessionary effects of the IMF conditionalities. Despite the poor results, the bandwagoning strategy is by far the most common; within the period we have examined in our two case studies, the Full Compliance Strategy was implemented by the Papadimos Administration, the Samaras Administration, the Menem administration, the Alfonsín administration II (namely after Grinspun's departure) and the De la Rúa administration.

2. *Strategies of amicable renegotiations*; these strategies emerge out of the initiative of the debtors who seek through negotiations to achieve debt relief. This strategy is different from the bandwagoning strategy in that it is more confrontational. More specifically, the debtor seeks to achieve debt relief without simply confiding in the goodwill of the creditor but by seeking a new agreement on debt repayments. Unlike contested restructurings of debt, however, these renegotiations never involve any credible threat of unilateral restructuring of the debt or ceasing of payments. These renegotiations typically start at the initiative of the indebted country in the name of debt sustainability. Typically, the indebted country would invite creditors to agree on a new repayment program that would be more growth-friendly and would involve less fiscal and monetary contraction. Although the creditors are not threatened with a unilateral restructuring of the debt, indebted countries typically appeal that more growth-friendly repayment programs render the debt more sustainable in the long term, thus yielding a win-win outcome for Creditors and Debtors alike. This strategy was implemented by the Alberto Fernandez administration (2019-) and the Syriza administration (2015-2019).
3. *Strategies of sovereign restructuring of Government debt and Contested Renegotiation Strategies*: these strategies are distinct in that they require preparedness on behalf of the indebted government to restructure its debt unilaterally. It is important to stress that this preparedness does not have to proceed with a unilateral restructuring of its debt; an apparent and credible willingness and preparedness to do so changes the course of negotiations. The one case that most clearly embodies this strategy was the Nestor Kirchner renegotiations of Argentinean Sovereign Debt in 2004. Some proposals within the Greek Left, especially the Lapavistas et al. Plan B for Greece, also shared some

common premises, although the aforementioned plan never came close to materializing as a state policy in Greece. This third strategy is the one most seldomly implemented. Apart from being a rare occurrence, Strategies of Sovereign Restructuring are the most successful from an empirical point of view regarding their macroeconomic effects. These empirical and historical observations reinforce the importance of the research question set initially by this investigation, namely, why is it so hard for countries to extricate and break away from debt crises.

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