The Legacy of a Fractured Eurozone: the Greek Dra(ch)ma*

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November 2017

Abstract

This paper addresses the acute Greek economic and social crisis that was inflicted on Greece since 2010 with the unleashing of the 3 consecutive bailout plans and the implementation of fierce austerity policies. We further scrutinize the composition of the soaring Greek debt and most importantly, the unsettling utilization of the troica loans for the 2010-15 period. For the first time in the literature, we provide evidence that the vast bulk of the loans went overwhelmingly not to benefiting a "profligate" Greek state but to avoiding the writedowns of bad loans made by reckless creditors (mainly, German and French banks) to the Greek government and private banks. We propose the temporary adoption of a parallel currency in the form of government IOUs, together with other drastic measures to reboot the ailing Greek economy inside the Eurozone.

JEL Classifications: E50, E62, E65, GO1

* **Acknowledgments**: Hector Sala is grateful to the Spanish Ministry of Economy and Competitiveness for financial support through grant ECO2016-75623-R.

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Keywords: Greek crisis, Eurozone, sovereign debt, austerity, parallel currency.

1 Introduction

Almost a decade since the beginning of the Great Recession, and the acute economic crisis afflicting the Eurozone countries does not abate. The economic malaises of the neoliberal[1] market economy that were exposed by the financial meltdown in 2008 have been amplified by draconian austerity measures that the "structuralists"[2] have imposed in the common currency area. Fiscal retrenchment programmes were presumed to deal with what has been commonly framed as a sovereign debt problem. In the process, real GDP in the most deeply affected countries remains substantially below pre-crisis levels, leading them into a depression. Real GDP is -23.3% (Greece), -7.1% (Italy), -6.4% (Spain), and -2.9% (Ireland) below its respective 2008 levels (source: Eurostat 2014). The result is an ever more serious social and political crisis: Greece and Spain suffer from huge unemployment rates around of 20%, while youth unemployment hovers around the 50% mark.

Arguably, macroeconomic indicators have recently improved in countries like Ireland and Spain but, whatever temporary rebound is evidenced through dry statistics, it is plagued by the five, in our view, main characteristics of 21st century neoliberal capitalism: (i) Intense tendency to inequality; (ii) Increased propensity to crisis and secular stagnation (as described by A. Hansen, see below) with the explosive financialization of the capital accumulation process; (iii) Business concentration, hoarding of cash reserves and lack of productive investment by big companies; (iv) Casualization of the labour force ("Gig" underclass of labourers, "Uberization", impoverished middle class; and (v) Hollowing-out of democratic institutions.

The aim of this study is to revisit and reexamine key economic data following the inception of the Euro for Greece, the undisputed "guinea pig" of the "Alice in Wonderland" economics of austerianism. We acknowledge that the synergistic forces behind the genesis and the unfolding of the Eurozone crisis and the Greek drama in particular, are extremely deep-seated ranging from over-accumulation, surplus absorption, monopolization and the

[1] Our current phase of capitalism is underpinned by a much named but too little understood economic and political philosophy called neoliberalism. Neoliberalism was first introduced by M. Friedman in Latin America in the 70s and was subsequently established since the early 80s, in the US during the tenure of R. Reagan and in the UK by M. Thatcher (in turn, a number of mature economies on both sides of the Atlantic endorsed market fundamentalism). Neoliberalism is a project that reduces all human activities to "homo economicus", redefines democracy beyond the narrow confines of elections as a kind of market rationality-and the only criterion to judge our political class by is how successful they are in "marketizing" human relationships and the commons (pasture land, woodland, water supply). It is evident that neoliberalism is now starting to undermine the very institutions with which the capitalist establishment has traditionally been identified- the legal system, the police, parliament, local government. Under the earlier forms of liberal democracy these could be counted on to play a moderately autonomous role in tempering capitalism. Under neoliberalism they are increasingly shaped so that they will not be obstacles to market priorities, especially when the latter are servile to the interests of big business.

[2] We refer to as "structuralists" the dominant Eurozone policy players and their economic advisers that believe, out of ideological conviction, that whatever the economic problem, structural reform, deregulation, and fiscal flexibility in framing the future steps of austerity, will grow ailing economies stronger.

contemporary financialization of the capital formation process that characterize the world economic system to Eurozone specificities.

In recent related work, Hatgioannides *et al.* (2016) have addressed in detail the Eurozone's woes and the prospect of secular stagnation (see below) in the common currency area by unravelling (i) the supply-side imbalances that formed the core-periphery economic divide, and (ii) the necessity of the periphery's sovereign debt to finance imports from the export-led core. Since in a monetary union, a member state cannot devalue to boost its exports and put a brake on its imports, it is the fiscal budget balance that will have to fill up the gap left out by private and external sectors; hence the explosion of sovereign debt in parts of the periphery and the need of debt "mutualization".

The prevailing view that countries of the core have funded the sovereign debts of the periphery was thus challenged, and subsequently it was demonstrated that the commonly held argument that the periphery countries (first and foremost Greece) have lived beyond their means –due to wages growing beyond what is justified by productivity gains– is in stark contrast to the trajectories followed by the wage shares. In addition, they provided evidence that intra-euro mercantilism was forming the untold economic project during the booming times 2001-2007 of the monetary union.

They further scrutinized the credit flows, the role of FIRE (finance, insurance and real estate) as a major source of economic stimulus by partially soaking up surplus capital and the role of the European Central Bank (ECB) in creating an asymmetric monetary union. During the pre-2008 period, it was shown that the main booming private enterprise of the recently deemed as troubled countries of the periphery was a rampant financial sector fuelling a multi-facet credit bubble. A bubble that was funding the unsustainable purchase of goods from the exporting core and the explosion in speculative property construction. At the same time, the private sector agents (banks, insurance companies, pension funds) of the richer and higher saving core, funneled huge money flows to the poorer periphery. As this investment decision was driven by their quest for boosting short-term profitability, it had a destabilizing impact on the allocation of scarce resources at the recipient states. During the ongoing austerity era, the very same private institutions are reversing former and reckless cross-border investments. The credit draught in the periphery, the differences in the funding costs of core/periphery states, were found to be symptoms of the concurrent attempts by surplus countries private creditors to repatriate the massive opportunistic claims they have accumulated on deficit countries debtors.

As early as 1938, the leading Keynesian economist in the US Alvin H. Hansen dubbed the term secular stagnation: "According to this theory, the modern developed capitalist economy has an enormous capacity to save, both because of its corporate structure and because of the very unequal distribution of personal income. But if adequate profitable investment opportunities are lacking, this saving potential translates not into real

capital formation and sustained growth but into lowered income, mass unemployment, and chronic depression, a condition summed up in the term stagnation" (see Sweezy and Magdoff (2009/1987), pp.30). Secular stagnation might "prove the New Normal".[3]

If, or rather when (in our opinion) should the current disastrous policies perpetuate, Eurozone goes into stagnation, there are many problems endemic to this block of countries; most notably, that this is one region of the world where "rules" have triumphed over even mainstream economic pragmatism (see Stockhammer and Sotiropoulos (2014)), forcing to pointless cuts in government spending. With reference to the world economy, both Summers (2013, ibid) and Krugman (2013, ibid) are adamant that what is needed is increased spending of all kinds to get the economies moving again, initially through expanded government expenditure, but with the object of jump-starting private investment spending.

Given that since 2010, turbo charged fiscal consolidation is being undersigned by debt fundamentalists through 3 consecutive bailout plans (see Karanasos and Koutroumpis (2015) for details) as the prime remedy for the tumultuous state of the Greek economy, a fresh assessment is needed for its impact and efficacy. In the next Section, we reflect on the trajectories of main macroeconomic indicators before and, primarily, after 2010. In Section 3, we present new evidence about the composition of the Greek debt and most importantly the utilization of the troica (IMF, European Union and the ECB) loans. Section 4 outlines our proposals for a temporary resolution of the Greek crisis, notably with the adoption of a parallel (to the Euro currency), whilst, crucially, Greece remains formally a Eurozone member. Section 5 reminds the eerie similarity of Greece to that of Germany in the interwar period. Finally, Section 6 concludes.

2 The Impact of Austerity Programmes in Greece

The ailing Greek economy, the first Eurozone member to fall in the spring of 2010 under the troica of lenders' stranglehold and implement the voodoo economics of austerianism, is in the midst of a 1930s-scale Great Depression with a cumulative reduction of its GDP –during 2008 to 2015– around 25% (see Figure 1).

It is important to note that GDP is a particularly inappropriate measure of the real fall in economic welfare. Given that the current account balance was minus 15% of GDP

[3]See Lawrence Summers (2013). Another leading Neo-Keynensian, Paul Krugman (2013) picked up Summers's comments arguing that "an economy facing secular stagnation...isn't just a temporary state of affairs, it's the norm". As Magdoff and Foster (2014) point out, "Neither Summers nor Krugman offer a theoretical or historical explanation for secular stagnation. Instead they focus simply on the liquidity trap in which interest rates approach zero-making it difficult to stimulate the economy monetarily by further lowering rates", ibid, pp. 2. In a footnote, they carry on noting that "Hansen's theory is discussed by Krugman as if it merely emphasized demographic factors, not issues such as industrial maturity, monopoly and inequality", ibid , footnote 7, pp. 23.

in the third quarter of 2008, and has been in surplus since the second half of 2013, it means that spending by Greeks on goods and services has fallen by a minimum of 40%.

The cyclically-adjusted fiscal balance improved by 20% of GDP between 2008 and 2014, while government employment fell by 30% between 2009 and 2014. Two ill-conceived bailout plans (the first in 2010 and the second in 2012) accompanied by self-defeating economic recipes have resulted in official unemployment of 26% (see Figure 2a) and youth unemployment at over 50% (see Figure 2b).

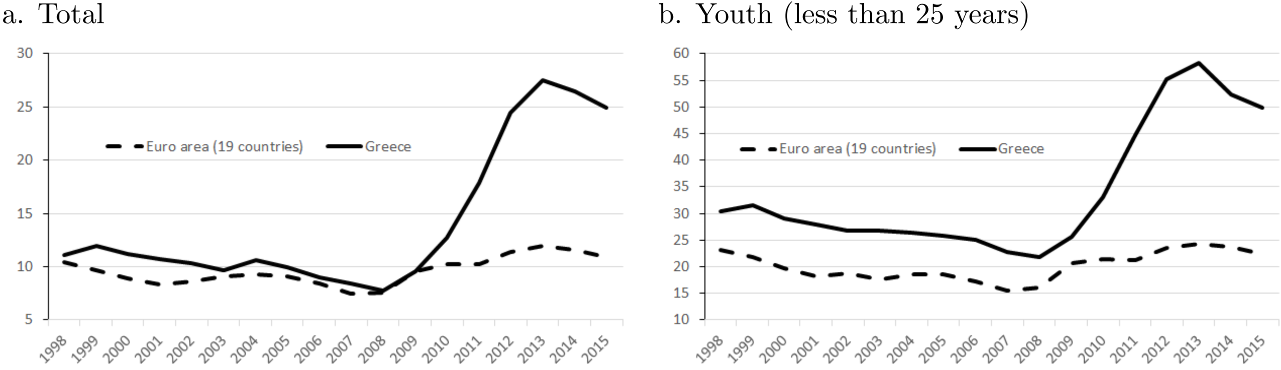
Figure 1. GDP per capita. 1995-2015.

a. Growth rates (percent) b. Index 100 = 2008

Source: Eurostat (data extracted on: 14.09.16).

Figure 2. Unemployment (percent of active population). 1998-2015.

a. Total b. Youth (less than 25 years)

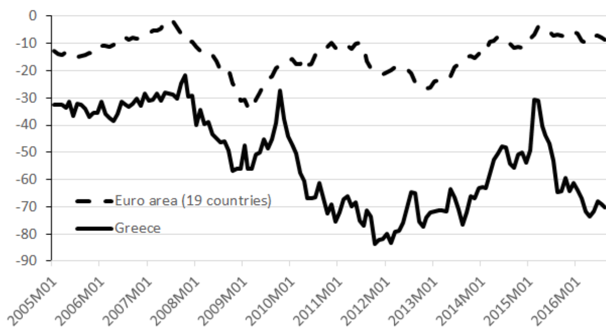


Source: Eurostat (data extracted on: 14.09.16).

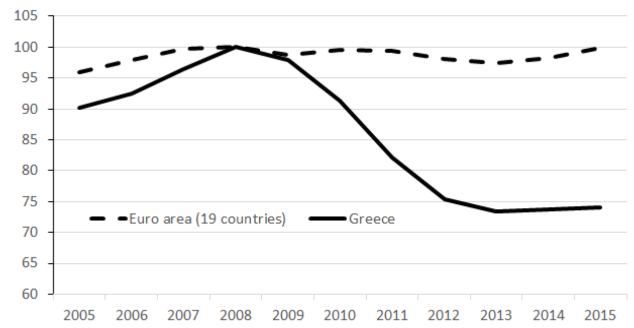
Figure 3a plots the level of trust that consumers have towards the Greek economy. The steep downward trend shows that the consumers' confidence in Greece after 2010 fell sharply, which had a significantly negative impact on private consumption (see Figure 3b).

Figure 3. Consumer sentiment and private final consumption expenditure. 2005-2016.

a. Monthly consumer confidence index



b. Private final consumption expenditure (index 100= 2008)

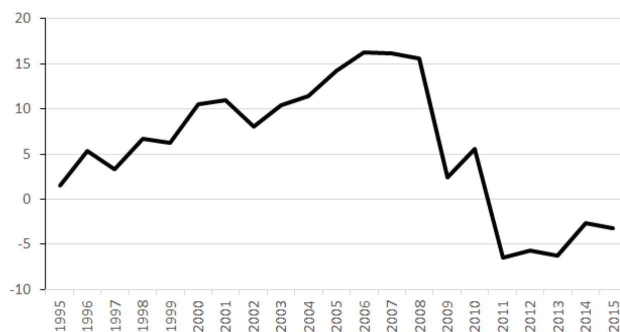


Source: European Commission and Eurostat (data extracted on: 14.09.16).

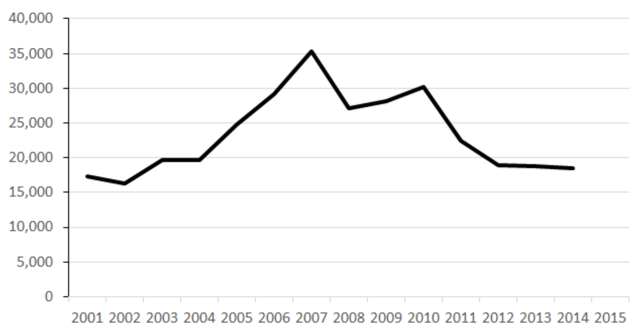
Figure 4 shows the collapse of private sector's credit flow and foreign direct investment in Greece since 2010.

Figure 4. Credit flows and foreign direct investments. Greece, 1995-2015.

a. Private sector credit flow (percent of GDP)



b. Stock of foreign direct investment (millions of euros)

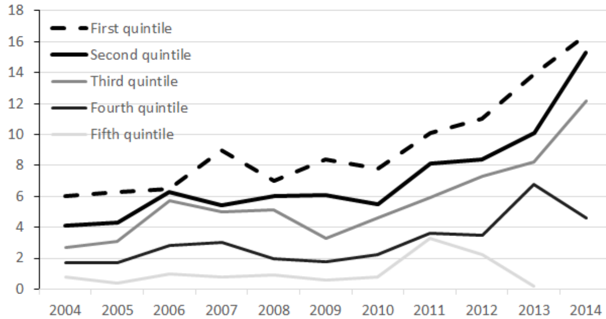


Source: Eurostat (data extracted on: 14.09.16) and Bank of Greece.

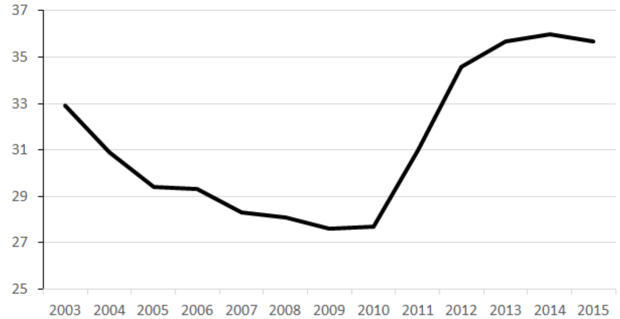
Finally, Figure 5 depicts the self-reported unmet needs for medical examinations (including all ages, both male and female, as a share of medical visits) and the percentage of the people that face the risk of poverty and social exclusion (increased from around 28% in 2010 to more than 35% since 2013), demonstrating the serious social consequences of the austerity programmes.

Figure 5. Healthcare access and poverty risk. Greece, 2003-2015.

a. Self-reported unmet needs for medical examination by income quintile (percent of total visits). Reason: Too expensive.



b. People at risk of poverty or social exclusion (percent of total population)



Source: Eurostat (data extracted on: 14.09.16).

3 The Reality About the Composition and Use of Greek Debt

Exotix (a boutique brokerage that specialises in illiquid markets), reported that the much heralded spring/summer 2012 Private Sector Involvement Initiative (PSI) which restructured €200bn of the Greek government bonds debt pile, had still left about €62bn (approximately 31% of the wilting Greek GDP in 2012) of bonds of varying maturities held by private investors. Collectively known as the "strip", these bonds (in November 2012) were trading at an average price of 25 cents on the euro. Interestingly, in response to the "bad" idea of bond buybacks, entertained by Eurozone officials (who wanted to avoid inevitable decisions on their own loans) on how to tackle Greece's ominous debt trajectory, hedge funds were investing in the strip with the expectation of sheer profiteering should a future buyback be tabled.[4] Approximately 8bn Euros was accounted by the "international law" bonds held by the private sector that have been exempted from the 2012 restructuring, as it could have triggered a series of lawsuits by the hedge funds in possession.

Greek banks disposed of almost 30bn Euros of "new bonds" in December 2012 in a buyback scheme agreed with international lenders that reduced the country's debt by around 20bn Euros, still hold the bulk of the short-term debt, amounting to some 15bn

[4]The Financial Times (2012, December 18) reported that *Third Point* "One of the world's most prominent hedge funds is sitting on a $500m profit after making a bet that Greece would not be forced to leave the eurozone, ...[it] tendered the majority of a $1bn position in Greek government bonds, built up only months earlier, as part of a landmark debt buyback deal by Athens on Monday [December 17], ... The Greek government swapped holdings of its own debt for notes issued by one of the eurozone's rescue facilities at a value of 34 cents on the euro. Third Point had scooped up holdings of Greek debt earlier this year for just 17 cents on the euro."

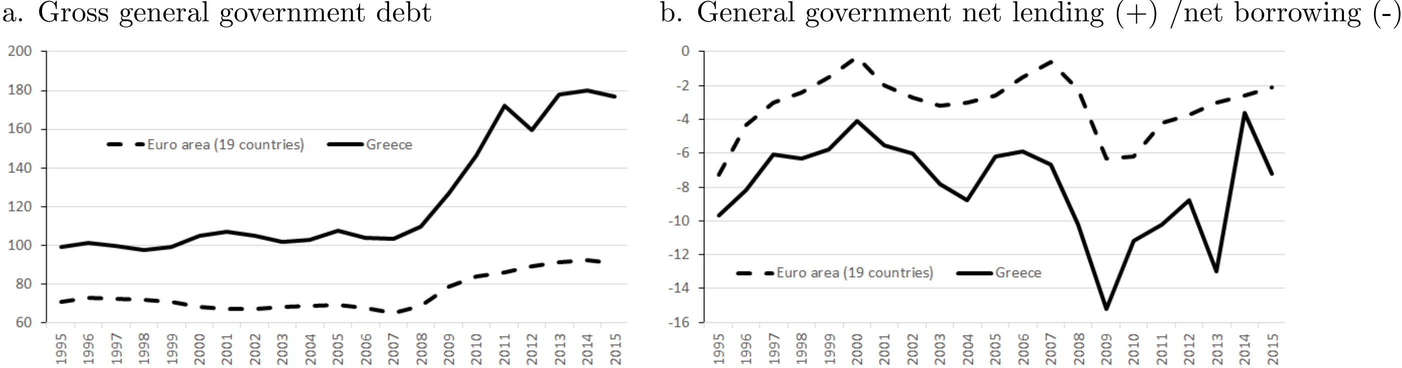
Euros in Treasury bills, which were rolled over in monthly auctions before even this funding facility of the Greek state was curtailed by the ECB in 2015 (having reached the upper allowed threshold). Greece's four systemic banks are understood to hold 2bn Euros of new bond issuances and another 4-5bn Euros of new bonds created after the 2012 debt swap. In total, private sector investors hold around 15% of the countries debt burden. Those include investors such as Capital Group that hold restructured debt, and fund managers such as Carmignac-Gestion that took part in the sale of new debt, as well as investors who held international law bonds and refused to take part in the 2012 debt swap.

Despite the colossal (as a % of GDP and outstanding debt) restructuring which in reality destroyed the assets (held in the form of government bonds) of the main pension funds and eroded the wealth of small to medium treasury bond investors, Greece's debt burden miraculously increased and surpassed in 2014 the 180% of the country's GDP (see Figure 6).

Figure 6. Public sector imbalances (percent of GDP). 1995-2015.

a. Gross general government debt

b. General government net lending (+) /net borrowing (-)



Source: Eurostat (data extracted on: 14.09.16).

As of the beginning of 2015, Greece's estimated €317bn of sovereign liabilities is overwhelmingly owned to the troica of international lenders (approximately €270bn) with an approximate breakdown shown in Table 1.

Table 1. Estimated Greek sovereign liabilities at the end of 2014.

Lender	Amount
EFSF	€142 bn
Market Debt (ECB and other Central Banks)	€54 bn
European Union bilateral loans	€53 bn
Market debt (non Central Banks)	€27 bn
IMF	€24 bn
Other lenders	€17 bn
Total	**€317 bn**

Source: Own calculations based on information supplied by the Hellenic Republic Debt Bulletin and the IMF.

It seems like that since the crisis hit, the rest of the Eurozone and the IMF have been extraordinarily altruistic to Greece. Was it so? A reality check shows an unsettling utilization of the troica loans (and own Greek financing, albeit relatively small, through the issuance of short-term Treasury bills) for the 2010-15 period of two successive, yet ill-conceived, bailout plans: Out of a total of €254.4 bn, the sum of €226.7 bn were loans supplied by the Eurozone and the IMF (about 125% of Greece's 2015Q1 GDP). The breakdown of where the money actually went is striking and is shown in Table 2 below:

Table 2. Use of cumulated Greek loans in 2010-2014.

Use	Amount
Maturing debt obligations	€81.3 bn
Recapitalisation of Greek banks	€48.2 bn
Debt reduction	€45.9 bn
Interest payments	€40.6 bn
State operating needs	€27 bn
Repayments to IMF	€9.1 bn
Contributions to the ESM	€2.3 bn
Total	**€254.4 bn**

Source: Own calculations based on information supplied by the IMF Macropolis, Thompson Reuters Datastream.

Clearly, the vast bulk of the loans went overwhelmingly not to benefiting a "profligate" Greek state[5] but to avoiding the writedowns of bad loans by reckless creditors (mainly,

[5] A mere 11% of the total loans directly financed government activities in a country that does not have access to international markets since the spring of 2010.

German and French banks) to the Greek government and Greek banks. In a word, money came in and flowed out again from Greece for bailing out, indirectly through Greek's state liabilities, private creditors. We can only ponder as to why the Greek crisis is still profiled as a debt crisis.

July 2015 seals an immolation of Greece: In exchange of what is called a third "bailout" (potentially worth €80-85bn) – in reality is the imposition of new debts to pay existing creditors– the Greek state must hand over €50bn of public assets to an "independent" privatisation fund. On top of that, more austerity has to be injected into a shrinking economy and any legislation passed in the Greek parliament that is deemed unsuitable by the Eurozone's overlords has to be reversed. At present, outlandish and unconstitutional additional "contingency measures" worth €3.6bn are asked by IMF in particular to be triggered in the event that Greece fails to meet its onerous fiscal targets.

A capitulated Greece would be turned into an economic "protectorate", one purred, where all the decisions would be taken by foreign governments, unelected European Union bureaucrats and self-styled technocrats. Greece becomes the locus where liberal, progressive illusions are to be shattered.

4 Proposals for a Temporary Resolution of the Greek Crisis

The imminent question is how to sustain and rebuild the Greek economy, crucially without exiting the Eurozone; a country that has no access in the markets for raising debt, has to confront the bailout creditors and abandon their economic illiterate programme for lunatic fiscal adjustments until viable and sustainable agreements are reached.[6]

We are extremely averse to suggestions that Greece exits the Eurozone and reverts to a national currency, historically the drachma. Such a resolution could have been considered and assessed back in April 2010, prior to the first bailout plan. At present, and after 6 years of fierce austerity measures, massive internal devaluation and drop of living standards, exiting the Eurozone will be just rubbing salt in deep wounds; the whirlwind of such an action, in the short/medium run, for both the economic and social spheres will undoubtedly be devastating. Longer run benefits are also very questionable for a relatively closed and distressed economy such as Greece.

[6] Hatgioannides, *et al.* (2016) propose the following actions regarding the re-orientation of the Euro and an ending to the crisis: (i) Writting-off the debt of ailing member states in excess of the Maastricht criterion of 60% of their GDP; (ii) Credible and heavy-touch auditing of the so-called SIFIs by a new independent public pan-Eurozone body that is accountable to both national and European parliaments; (iii) Formal and complete separation of retail and investment banking along the lines of the Glass-Steagall Act for this part of the banking industry that managed to recapitalise itself without delving deeply into the public purse, and (iv) Reboot the ECB and change its mandate (explicit nominal GDP and unemployment rate targets).

There is another, equally important reason, that we strongly favour that Greece remains, officially at least, in the Eurozone: The common currency was an outgrowth of efforts that began in the mid-20th century, as Europe reeled from the carnage of two world wars. The Euro was not just an economic project that sought to improve standards of living by increasing the efficiency of resource allocations, pursuing the principles of comparative advantage, enhancing competition, taking advantage of economies of scale and strengthening economic stability. More importantly, it was a political project that was supposed to enhance the political integration of Europe, enabling Europe's historical diversity to function effectively and collectively.

It is the neoliberal economic and political elites that are failing the noble intentions of the founders of the European Union, the common currency area and their citizens. A flawed architecture was designed, driven by an unwavering faith in monopolistic/oligopolistic markets of modern global capitalism, one size-fits all policies, central bank focusing solely on inflation –as opposed to the mandate of the Federal Reserve in the US, which incorporates unemployment, growth and stability. It is not simply that the Eurozone is void of a set of proper institutions to accommodate Europe's economic diversity; it is rather that the structure of the Eurozone, its rules and regulations as they stand, that are not designed to promote growth, employment and stability for the member states.

Under this diagnosis, we proceed next to address the central question of this paper, asked above, in a manner that not only will avert the dissolution of the Eurozone but will also shake discredited neoliberal beliefs and economic functioning.

We propose (i) the adoption of a parallel currency,[7] (ii) temporary default on the loans owed to official creditors but servicing all private loans with the strategic objective to regain market access in the future, (iii) nationalization of the central bank and the systemic commercial banks, (iv) partial recapitalization of the (nationalized) commercial banks using the newly issued currency, and (v) the introduction of capital controls.

We should stress that our five proposals should be envisaged as a singleton and implemented as a whole, since they will work synergistically in offering credibility and viability to our alternative plan.

We view the temporary default on the loans owed to official creditors as a rightful and economically plausible action; It is clear from Table 2 above that only a small fraction of the debt burden of Greece during the tumultuous post 2010 period was actually used for servicing the Greek state's operating needs. Official partners in the bailout programmes

[7]See Munchau (2015). Stiglitz (2015) also points out that an alternative way to exit the crisis might be moving towards a dual currency circulation, using both the Euro and a "Greek Euro", a currency that would be tradable only within the country's own banking system. He draws also on the experience of Argentina and the astonishing resemblances between Greece and Argentina in being choked by austerity, experiencing rising unemployment, poverty and immense suffering.

such as the IMF are also pressing for a significant debt relief.

The systemic commercial banks are already recapitalised directly by the Greek taxpayers to the order of 48.2 bn Euros as of the beginning of 2015, see Table 2, and by a further 12-15 bn Euros up to the present, totalling nearly a third of the Greek GDP. Unless one is (ideologically) convinced for an apriory private business model, formal, albeit temporary, nationalization of the Greek banking system is duly sanctioned.

We elaborate below on our key proposal and contribution, namely the adoption of a parallel currency, which may be pertinent not only for Greece but for other troubled nations within the Eurozone, foremost Italy, given the current state of its economy and of the banking system. Historically, complementary currencies, especially in areas of high unemployment or underemployment, were successfully implemented ever since the Great Depression of the 1930s in the US, Canada, Western Europe and elsewhere (for details, see Lietaer, 2001). Complementary currencies have proved a key tool in buffering a region from the shocks caused by the failures and crises in the official money system, as we are evidencing today within the Eurozone, and have fuelled a cooperative "domestic" economy operating in parallel with a competitive global economy driven by the official currency, namely the Euro.

In our modern take, the parallel currency would be issued in the form of government IOUs denominated in Euros at a parity of one-for-one and constitute legal tender inside Greece. At first IOUs could be used to pay directly the public sector workers and pensioners.

As public *fiat,* it would be a form of social relationship based upon trust (as indeed, every currency in the post Bretton Woods era). In order to avert inflationary concerns and discounting in a possible "black market", the issuance of IOUs will be restricted to service the monthly payroll and would be collateralised with the stock of Euros deposited in central/commercial banks of the country. For Greece in particular, the stock of Euros deposited in commercial banks is in excess of 70bn Euros at present.

Liquidity would be sustained when people and companies with banking accounts use 'claims on bank deposits' instead of Euro notes, which they will no longer be able to obtain from their bank. Such deposit receipts will be the IOUs of the nationalised banking sector, fully redeemable to Euros at a parity of one-for-one (should the political impasse with the Eurozone's creditors ends), and will serve as legal tender as well.

Once a parallel currency is created, the (nationalized) central bank has also to avert hoarding. Every time someone hoards currency, by definition, its lack of circulation deprives other people of being able to perform transactions. The more sophisticated forms of complementary currency of the 1930s included a circulation incentive feature recommended by Silvio Gesell.[8] He proposed a "stamp scrip"mechanism; the core idea was

[8]In 1891, Silvio Gesell described the velocity of money as a decisive factor in determining the level of

to encourage people and companies to circulate the money through an anti-hoarding fee (technically called "demurrage", a word dating back to the railroads' practice of charging a fee for leaving a railroad car inactive). The back of each note, or deposit receipt in our scheme, typically had 12 boxes (one for each month) where an official stamp could be affixed. Any bill, to remain valid, had to have its stamps up to date.

What will be the impact on the Greek economy's external position and most importantly on vital imports of oil/gas and pharmaceutical products? Manageable, since unlike the small economies of northern Europe, Greece is a relatively closed economy; about three quarters of its GDP is domestic. Of the quarter that is not, most comes from tourism (approximately 18% of Greek GDP in 2014) which will also bring into the country valuable Euros and other foreign currency to finance the vital imports paid in the official Euro currency.[9]

Such an unorthodox scheme, however mountainous and courageous to implement, will cushion the Greek economy against a total collapse, avert further capitulation together with the perils of internal devaluation and shake the Eurozone, and the EU by and large, to its foundations.

There is little doubt that the wrath of the official creditors will follow; most likely than not, the ECB that supervises Greek banks, would view the government IOU's as "Mickey Mouse" money, cut off their liquidity through the Emergency Liquidity Assistance (ELA) mechanism and potentially revoke their licences.

The irony and tragedy though is that at the end of June 2015 capital controls were in place in Greece, commercial banks and the stock exchange were closed, citizens could only withdraw up to €60 per day, all without the adoption of a parallel currency, just because the ECB did (temporarily) freeze the ELA!

During a historic weekend in the 11th and 12th of July 2015, Wolfang Schauble, the German finance minister, insisted on 5-year Greek exit from the Eurozone, a "timeout" as he called it, that "could perhaps be a better way for Greece than the proposed €86bn bailout package". In reality, the most powerful member state pushes for the expulsion of another, tormented one. In doing so, creditor nations reverted to the nationalist European power struggles of the early 20th century; they demolished the idea of a monetary union as the stepping stone towards a democratic fiscal and political union.

The pretence of irreversibility is what distinguishes a true monetary union from a fixed-exchange rate system with a shared currency. The coup of the 11/12th July 2015 demoted the Eurozone into the latter system, held together by the threat of absolute

prices, preparing the ground for Irving Fisher's celebrated work of the 1920s. Two Nobel prize winners in economics, Maurice Allais and Lawrence Klein have joined in the earlier praise by Keynes and Fisher of Gesell's contributions in monetary economics. (see Lietaer, 2001).

[9] Euros will be exchangeable to IOUs at a parity of one-for-one and other foreign currency at market rates. Tourists will be able to exchange any unwanted IOUs to their imported currency upon departure from Greece.

destitution for those who challenge the prevailing order.

5 Déjà Vu?

The situation in the Eurozone today bears an eerie similarity to that of Europe in the interwar period, especially when the ruling elites of the creditor countries are trapped in similar orthodoxies to those of the post-WWI years. Ironically, Germany was then in a similar position to that of the periphery countries, Greece in particular. It was weighted down with its government debt because of the brutal reparations imposed at Versailles; its banking system was undercapitalised as the result of the hyperinflation of the early 1920s, and worse, it had become dependent on foreign borrowing at punitive rates. Germany was locked into the absolutism of the gold standard, which it dared not tamper with for fear of provoking a confidence crisis. When the Great Depression hit and private markets shut down, Germany had no choice but to impose bestial austerity with unemployment rising to 35% and populism surging.

Like today, in the beginning of the 1930s there was one major economy bestowed with prolonged large current account surpluses and low unemployment. France was deemed to act as the locomotive of growth for the rest of the continental Europe.[10] Beggar-thy-neighbour policies were framing the mindset of the economic rulers in France who were (i) refusing to accept responsibility of their version of mercantilism and its dire effects in the proximity of Europe, and (ii) in sheer denial of the necessity of expansionary policies and direct lending to Germany, fearing that they would be throwing good money after bad. The effect of such an opportunistic and short-sighted French policy was to herald the enthronement of a populist totalitarian regime that steered the world into the savagery and traumas of WWII.[11]

John Maynard Keynes's prophetic work, 'The Economic Consequences of the Peace' ([1920]2012), was ignored by the powerhouses of the 1920s and 1930s. In his capacity as the official representative of the British Treasury at the Paris Peace Conference in 1919, J. M. Keynes felt compelled to resign when it became clear to him that there was no

[10]France returned to the gold standard in 1928 - by 1932 French gold had risen from 12% to 28% of the world reserves. Notably, when Greece required financial assistance to overcome the dire straits of that period, "the French delegate advocated closing schools and cutting the salaries of public employees by 20 percent" (Bloomberg, 2012)

[11]Mouré's (2002) study is enlightening: "...the rhetoric of the gold standard, with its claims for automatic adjustment and a natural regulation of prices and external balance, is argued to have contributed significantly to missperceptions of the economic problems of the inter-war period, producing miss-prescriptions in order to resolve them. In this sense, gold standard rhetoric misled inter-war policy, with the Great Depression of the 1930s part of the price paid for the gold standard illusion" (ib., p.15). The point made by Mouré is that even if a structurally flawed gold standard system pushed inter-war economies towards major slumps (as Eichengreen, 1995, argues in the 'Golden Fetters' analysis), policy prescriptions played a crucial role in the timing and severity of the depression.

hope for substantial modifications in the draft Terms of Peace. In his diatribe, he lays the ground of his objection to the Treaty, and dedicates his book “to the formation of the general opinion of the future” (ib., p.77). The following extract is revealing.

“...with every one owing every one else immense sums of money. Germany owes a large sum to the Allies; the Allies owe a large sum to Great Britain; and Great Britain owes a large sum to the United States. The holders of war loan in every country are owed a large sum by the State; and the State in its turn is owed a large sum by these and other taxpayers. The whole position is in the highest degree artificial, misleading, and vexatious. We shall never be able to move again, unless we can free our limbs from these paper shackles. A general bonfire is so great a necessity that unless we can make of it an orderly and good-tempered affair...it will, when it comes at last, grow into a conflagration that may destroy much else as well” (ib., p.73). How pertinent and topical for the current malaises of the Eurozone is his nearly 100 years old conviction for a collective reordering of debts and the necessity for adopting a new economic paradigm.

6 Conclusions

Economic convergence and shared growth were perceived as the intrinsic features of a ‘brave new world’ in the Eurozone. Within a decade of its creation and in the aftermath of the Great Recession, fiscal retrenchment has being undersigned as the sole recipe for the economic survival of the union. The Eurozone, given its marked imbalances and asymmetric economic performance of its member states since its recreation, reminisces more a fixed exchange rate area with a shared currency than a true monetary union with a common currency.

This paper addressed the flawed economics of the architecture behind the bailout plans for Greece and the adverse impact of austerity programmes upon its economy. For the first time in the literature, we documented the composition of the soaring Greek debt and most importantly its use not to benefiting a "profligate" Greek state but rather overwhelmingly to avoiding the writedowns of bad loans made by reckless creditors (mainly, German and French banks) to the Greek government and Greek private banks. We offered also our proposals for a temporary resolution of the Greek drama, whilst Greece stays in the Eurozone, primarily via the adoption of a parallel currency.

Dealing with the fallacy of composition, where the collective austerity programmes and deleveraging of the private sector together with unconventional monetary policies such as quantitative easing are the roadmap to rescue the Eurozone as a whole, and Greece in particular, from its macroeconomic downhill, self-defeating internal devaluations and disintegration, the views of two of the most prominent scholars sitting on different ends of the economic spectrum are compelling.

On the liberal side, the 1930s Chicago School economist Henry C. Simons argued that "For the moment, however, attention must be focused on the task of escaping from the present affliction of extreme unemployment and underproduction. Unless the immediate crisis can be dealt with, there is no sense in talking about long-run policy. ...consequently, main reliance must be placed on "reflationary" government spending. ... Inflationary fiscal policy is dangerous, to be sure - but not so dangerous as the alternatives. ..Measures of this kind must be undertaken, merely to keep running a system which banking and monopoly have brought to its present plight" (Simons, [1934]1948, p.74). On the *Keynesian* side, John Maynard Keynes ([1920]2012) policy recommendations for a collective reordering of debts and re-orientation of the economic mindset were ignored by the powerhouses of the 1920s and 1930s.

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