Euro-Keynesianism?

The financial crisis in Europe

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Financial collapse is haunting Europe. The most immediate fear is that a small European state might default on its government debt, but several large European banks might go bust because of a deflated real-estate bubble in Southern Europe. Brutal austerity policies have been imposed on countries that are already in recession, but in most cases it is difficult to interpret the battle cry of 'sound fiscal policy' as anything but a cover for a restructuring of the role of the state. There is a blatant class bias in the new policy regime in that it fails to address the causes of the crisis but, much more overtly than previous EU policies, puts downward pressure on wages and welfare states. The European crisis has to be seen in the context of the global financial crisis, but the morphing of the crisis from a financial crisis to a sovereign debt crisis in peripheral Europe (but not in the USA) requires explanation. The crisis is linked to the particular design of economic policy regime of the euro area and the divergent growth dynamics to which this has given rise.

From the subprime crisis to the Great Recession

The financial crisis originated in a seemingly obscure niche of the US financial system: the subprime market, where derivatives on low-quality mortgage credit are traded. In August 2008 the crisis spilled over into the interbank market. This is the very centre of the modern financial system, where banks lend to each other, usually very short term ('overnight'). Interest rates in the interbank market increased by several percentage points, reflecting the fact that the banks didn't trust each other any more. Then Lehman Brothers, one of Wall Street's leading investment banks, went bankrupt. The end of the world (or at least of big finance) as we knew it, seemed to have arrived. Interest rates soared and private financial markets froze.

In autumn 2008 economic policy reacted strongly to save the financial sector. The principles of free-market economics were suspended for a few weeks. In late October 2008 an EU summit issued a statement that no systemically important financial institutions would be allowed to fail – a capitalism without bankruptcies (of big banks) was declared. Central banks provided liquidity, but that proved insufficient to stabilize markets. Governments had to intervene directly: AIG, an insurance firm that had insured huge volumes of credit derivatives, and Fannie Mae and Freddie Mac, the two state-sponsored mortgage refinancing giants, were taken over by the state and US and European banks were 'recapitalized'. A cascade of bank breakdowns was prevented by rescue packages that amounted to 80 per cent of GDP in the USA and the UK and by the Federal Reserve (as well as the Bank of England and the European Central Bank) expanding its balance sheet fourfold.[1] To be clear, from a macroeconomic perspective, it is desirable to prevent banks going under and to prevent a bank run. However, the fashion in which banks were rescued was designed to avoid damage to the financial elites rather than to minimize the impact on the non-financial sectors or on workers. Bank rescues could have come with a restructuring of the debts (of mortgage as well as the assets of other financial institutions); they could have meant claw-backs of management bonuses; they could have involved the replacement of top management and pressure for criminal prosecution of dubious practices. The fact that none of this happened reflects the influence that financial elites have on the state. Recapitalization meant that governments effectively nationalized (fully or partly) financial institutions without interfering with the management of banks despite obvious, profound and repeated management failures.

Thus was stability in the financial sector restored, but for large parts of the population the crisis had only begun. The world economy experienced a sharp recession from autumn 2008. People lost their jobs and (particularly in the USA) their homes. Unemployment rose from around 4 per cent (in 2007) to 10 per cent (in 2009); the number of foreclosures in the USA increased from fewer than half a million to 2 million per year (in 2009) and remained elevated thereafter;[2] and, with bank rescues, shrinking tax revenues and rising welfare clams, budget deficits were growing.

Until October 2008 the crisis was felt in Europe mainly by financial institutions, but as world trade contracted sharply, so did European economies. The specific European situation made the situation more explosive: there were pronounced imbalances within Europe, namely between countries following export-led and debt-led growth models and there was a particularly dysfunctional neoliberal economic policy regime in place in the euro area. It was under these circumstances that the crisis would take its next turn in the course of 2009: a shift to aggressive austerity policies and a *sovereign debt crisis*.

Austerity policy

The economic policy mix in the eurozone is enshrined in the Maastricht Treaty, the Stability and Growth Pact, and the Lisbon Treaty. It can be summarized as follows. First, fiscal policy is essentially national policy. The EU budget, restricted to 2 per cent of GDP, is too small and too inflexible to serve a macroeconomic function, and in particular is not designed to be able to provide an expansionary stimulus. Second, national fiscal policies are restricted in the short term as the budget deficit must not exceed 3 per cent of GDP (except in severe recessions) and they must aim at a balanced budget in the medium term. Third, monetary policy is centralized and is effectively inflation targeting, with the independent European Central bank (ECB) having set the inflation target close to or below 2 per cent. Fourth, financial markets are liberalized, internally as well externally; that is, the EU forgoes any instruments for controlling credit growth or allocating credit. Fifth, there was a no-bailout clause, stating that neither other national governments nor the ECB will support individual countries which are facing problems in financing themselves (this is the only area where we will see changes in the policy set-up). Sixth, labour markets are supposed to be flexible. As the European Commission (EC) and the ECB never get tired of repeating: wage flexibility is the cure for economic imbalances. By this they mean *downward* wage flexibility (they have not called for higher wages in Germany). But this ideological bias should not hide the fact that there is an economic logic to the argument (within the economic policy-setting parameters of the EU): there plainly isn't much else that could make the adjustment! Fiscal policy is restrained, exchange rate policy abolished and monetary policy centralized – there isn't much left other than wage policy.

The EU policy package is a form of neoliberalism. It is characterized by a strong belief in the efficiency of the market system, a distrust of state activity and an anti-labour bias. The theoretical case for monetary union cannot be easily attributed to a particular ideological outlook. It was criticized from the right as well as from the left, and discussion of the EU in terms of the (mainstream) theory of optimal currency areas mostly concluded that the euro area was *not* an optimal currency area.[3] The policy package was criticized from the very beginning by Keynesian economists.[4] First, they predicted, reliance on labour market flexibility in the adjustment will not generate full employment. Keynes had argued in the *General Theory* that wage flexibility in a crisis is likely to make things worse: wage cuts will lead to shrinking consumption demand and to deflation, which may depress demand further in a debt-burdened economy as the real (inflation-adjusted) value of debt increases. Second, the EU policy system would create a deflationary bias. In the case of imbalances within the EU, with some countries running trade deficits and others running trade surpluses, the burden of adjustment would effectively fall on the country with trade deficits. But this is potentially dangerous. The adjustment of the surplus countries would be inflationary and growth-oriented, whereas the adjustment of the deficit countries is deflationary. They have to dampen demand (to decrease imports) and lower their prices and wages (to restore competitiveness). The exclusive reliance on wages as the adjusting variable will create a downward pressure on wages and result in prolonged unemployment without solving the EU's problems.

While recent developments have vindicated these criticisms, the EU's policy package has not changed direction, but, at least so far, become more rigid and doctrinaire. The Treaty for Stability, Coordination and Governance in the Economic and Monetary Union (TSCG) has tightened the grip on fiscal policy.[5] The one area where there has been a change is with regard to the no-bailout clause. The EU has at least set up, belatedly, a collective fund for member states that have lost access to market finance (EFSF, EMF). This fund gives to countries loans that are misleadingly referred to as 'rescue packages' and imposes conditionality that is similar in spirit (if not as far-reaching) as IMF adjustment programmes.

Imbalances

Neoliberalism has given rise to a polarization of income distribution expressed in rising profits and top incomes, but that has nowhere translated into an investment boom. One might think that capitalists invest their profits (indeed in Marx's *Capital* they are forced to do so by competitive pressures). But not so in the financialized, neoliberal economies.[6] Growth has nowhere been driven by business investment. Rather, two different growth models have emerged. The Anglo-Saxon countries developed a debt-led growth model, which was driven by increasing household debt, strong consumption demand and, in some cases, a residential investment boom. Other countries, namely Germany, China and Japan, adopted an export-led growth model, where domestic demand is weak and growth relies on export surpluses. Germany pursued this strategy particularly aggressively, with average real wages stagnating in the decade prior to the crisis and the sharpest increase in wage inequality among advanced economies.[7]

The peripheral European countries also followed a debt-led growth model. This was made possible to a significant extent through European financial integration. The EC's policy (namely the Financial Services Action Plan) aimed at creating a single financial market for Europe. In theory this means uniform interest rates across Europe and in practice it meant massive capital flows from Germany, France and the UK to the peripheral European countries. This briefly fostered manufacturing investment (in the case of Spain and Ireland), but soon turned into a property boom.

Simply put, fast-growing Southern European economies ran current account deficits that allowed for German export surpluses. These surpluses were recycled as private credit flows back to the Southern European countries, where they financed property bubbles and rising household debt. In fact the situation differed by country, but a massive increase in *private* household debt (in Southern European countries) is the hallmark of the growth. With the exception of Greece, public debt was declining.

From financial crisis to sovereign debt crisis

The crisis in Europe has so far had very different consequences in different countries. The export-oriented economies were strongly affected by the recession of 2008/09 (they relied on exports and world trade collapsed in autumn 2008 by some 20 per cent; in 2009 Germany and Japan had worse recessions than the USA), but they were quick to recover thereafter. Unlike the debt-led economies, they were not burdened by high household debt and shrinking property markets. The USA had a weak recovery (with unemployment still at twice the pre-crisis level), Germany (as well as Austria and the Nordic countries) experienced a speedy bounce back, whereas a deepening of the crisis took place in the peripheral European countries. In Ireland and in Spain there was a property bubble that had burst, leaving households with a huge debt burden and banks with losses (due to mortgage defaults and failure of construction firms). Greece was the first country to experience a sovereign debt crisis – that is, the government was unable to raise funds on private financial markets at sustainable interest rates. Countries have not only to finance their net deficits; they also have to roll over those parts of the debt that matures. Public debt is much higher, say 100 per cent of GDP. This latter part is typically larger than the former.

Greece had fudged public debt statistics (with the help of leading Wall Street banks) and financial markets had, for more than a decade, priced Greek debt like German debt. But in the wake of the financial crisis and general repricing of risks they massively increased the interest rates required to hold Greek debt. Greece thus was unable to roll over its debts on the private market. It received a €110 billion loan from the newly instituted European Financial Stability Facility (EFSF). The next country to need a bailout illustrates that the crisis originates in the private sector. Ireland had government *surpluses* before the crisis, but still needed a huge rescue package (€85 billion, more than half of Irish GDP). Ireland had experienced an enormous real-estate bubble that burst and effectively bankrupted its banks. Like in Greece, the rescue package is really a rescue package for the European financial sector rather than for states. All of the obligations of the bust Irish banking system were guaranteed, first by the Irish state, then by the EU, which endorsed them with its rescue package.[8]

It is has become obvious in recent years that Germany now dominates European economic policy. It has dictated the conditions of the Greek rescue package and it is blocking the issuance of euro bonds or other steps towards fiscal integration. However, there is disagreement in the interpretation of the origins of this. Some Marxist authors regard EMU (European Economic and Monetary Union) as a tool of German domination over Europe.[9] Post-Keynesians have stressed the dysfunctional nature of the economic policy arrangements. The Polish finance minister famously quipped that he 'fear[ed] Germany's power less than her inactivity'.[10] Historically, the EMU was to a large extent designed by Germany (and France), but the very fact of EMU, namely the introduction of the euro, was not a German initiative; it was the other European countries that wanted a common currency and Germany was reluctant to agree (allegedly it was a French condition for accepting German unification). Southern European countries, after a decade of trying to copy German interest rate policies in the 1980s and the 1992/93 EMS crisis, insisted on a common currency so they would have a say in monetary policy. Rather than a designed instrument of domination, the euro and the policy package associated with it actually testify to the *lack* of a German hegemonic strategy for Europe.

Public/private debt

There have been several large-scale financial packages for countries cut out of financial markets and there have been several waves of quantitative easing. These illustrate a strong interdependence of the government sector and the financial system. Two factors are remarkable about the sovereign debt crisis. First, the 'rescue packages' have in no case led to a decline in public debt. For example, in the case of Greece public debt has increased from 113 per cent in 2008 to 160.6 per cent in 2012, in Ireland from 44.2 per cent to 116.2 per cent.[11] Greece has not received financial aid; rather, it has received public loans at rates well above the market rates of Germany. These loans are used to repay private lenders. Essentially the 'rescue packages' have been gigantic machineries to transform private debt into public debt. Credit Suisse estimates that the second Greek rescue package reduced the private-sector share in the holding of Greek government debt from 62 per cent to 30 per cent.[12]

But the interrelation between public and private debt does not end here. Most government bonds are held by private banks and public debt is essential for the working of the private financial sector. The most important collateral that banks use, for example on the interbank market, are government bonds.[13] The credibility of public debt is essential for the functioning of private debt markets. The sovereign debt crises have also posed a mortal threat to the respective countries' banks, as they usually lose access to private financial markets. And this strange dialectic goes further. The credibility of public debt depends, in many cases, on the assessment of private financial institutions. In the case of Spain and Italy, debt levels were clearly sustainable at the interest levels prior to the crisis. After the financial crisis interest spreads on southern European countries increased sharply; essentially the banks started speculating against the governments that had rescued them.[14] There clearly will be some interest rate (and the 7 per cent rate that is frequently used as a benchmark seems plausible) where debt levels are clearly unsustainable (in the sense of unserviceable).

From autumn 2008 central banks in the USA, the UK and the eurozone embarked on what is called 'quantitative easing', by aggressively expanding their balance sheets. They bought new assets by printing money. The orders of magnitude are substantial: central bank balance sheets expanded from some 6 per cent of GDP to more than 20 per cent. Central banks initially focused on buying private assets, but from spring 2009 the Fed and the Bank of England increasingly bought government bonds – that is, they supported government spending. The ECB was much more hesitant. It started quantitative easing later, expanded its balance sheet less, and hardly bought government bonds. At the same time (like its American and British counterpart), it expanded the range of credit to private financial institutions. In short, the ECB is playing the role of the lender of last resort for the financial sector, but – different from the Fed and the Bank of England – not for the government sector.[15] For several European countries the situation is now similar to that of developing countries which have debt in a foreign currency.

A Greek euro exit?

The situation in Greece is so desperate that frequently a euro exit is suggested. In the Anglo-Saxon world this is often argued from a left-wing perspective,[16] whereas on the continent, certainly in Germany, a Greek exit is advocated by the right, whereas the larger part of the left favours a progressive strategy within the euro. There are several distinct arguments involved. The first is that a euro exit would allow a devaluation, which would immediately improve competitiveness. This is correct in the short run, but typically devaluations are followed by sharp increases in inflation, which counteract the improvement in competitiveness. Ultimately, a devaluation is a way of implementing a wage cut as far as imported goods are concerned; currency crises (which involve sharp devaluations) typically favour capital. The second issue is the gain in economic autonomy. An exit from the euro (and from various European treaties) would allow Greece to use the central bank to finance budgetary expenditures. For Lapavitsas, this is an essential step in gaining national room for manoeuvre and, in his analysis, will give way to a general overhaul of the institutional structure including bank nationalizations and capital controls. While the latter seems rather speculative, under present circumstances it is indeed difficult to see how traditional means of economic policy could be activated without a breach of EU treaties. Third is what the effects on the Greek financial system would be. A Greek default and/or euro exit would undoubtedly have a devastating effect on the Greek financial system (their balance sheets would suffer a heavy blow as they still hold large amounts of government bonds, and their standard collateral would not be accepted by the financial markets). This would require a large-scale nationalization of the financial sector.

It is hard (or plain impossible) to gauge the economic costs of this. Toporowski argues that the situation of Greece is not comparable to that of Argentina in 2000–2001, but the fallout could be much worse.[17] While Argentina had a heavily dollarized economy, its banking sector was not as internationally integrated as the Greek one. Indeed, in 2007 Greece had total foreign liabilities of US$595 billion (compared to a GDP of US$312 billion). Argentina in 2000 had total foreign liabilities of US$218 billion (compared to a GDP of US$284 billion, according to IMF data). This gives a clear indication that the negative effects of a Greek euro exit would be several orders of magnitude worse than the one in Argentina.

A very different question is what the effects of a Greek exit on the other weak eurozone countries would be. This is not a question that a desperate Greece should necessarily be concerned with; but the rest of Europe certainly has to face it. It is not hard to imagine quite catastrophic scenarios, even though a recent Bundesbank report called the effects 'manageable'.[18] The main problem is not the Greek debt on the European bank balance sheets (which is unpleasant for some institutions, but macroeconomically modest in size), but the possible effects it has on the debt of other weak European countries. Once Greece is gone, markets are likely to cut off banks of other weak European countries from market finance. This could only be overcome by a massive increase in the EMF. This is the direction in which the EU is hesitantly moving, but as of now the mechanisms are not in place. In the case of severe bank runs, central bank liquidity seems insufficient and state backing (the ECB is presently not in the business of taking over private banks) is required (the case of Northern Rock may serve as an illustration). In short, the domino effects that a Greek exit would trigger appear, under the present institutional framework, rather overwhelming.

A Keynesian revival?

There has been much talk about a revival of Keynesianism. The main evidence in favour is that the term is occasionally quoted in the business press, and that economic policy has, if somewhat inconsistently, adopted a 'do something' approach, in particular in the early phase of the crisis. But identifying Keynesianism with 'do something' (in contrast to the old liberal creed of 'do nothing and let the markets do their work') is a misunderstanding of Keynesianism as well as of neoliberalism. Politically, Keynes argued in favour of fiscal policy with the aim of achieving full employment. He supported strict banking regulation and was in favour of capital controls ('finance has to be national'). Quantitative easing is only Keynesian in so far as it involves the financing of expansionary government expenditures. Keynes argued that in a financial crisis monetary policy would be ineffective and fiscal policy must be used. On the theoretical level, the Keynesian approach, with its emphasis on fundament uncertainty, involuntary unemployment, the inability of wage flexibility to cure unemployment, and so on, marks a clear break with the neoclassical economics that dominates academia. Post-Keynesians have developed this approach further (and combined it with a Kaleckian macroeconomic class approach). Prominent proponents of 'Keynesianism' like Paul Krugman and Joseph Stiglitz are building on Keynes's policy suggestions, but in their academic work they follow neoclassical lines.

It is also important to realize that neoliberalism is a quite different project from the old liberalism, which believed that a hands-off approach to the market would naturally spring into existence and find its way to a smooth and efficient equilibrium. Neoliberals, on the other hand, are market builders. Competition is regarded as the general normative organizational principle for society (and the state). Markets thus have to be created and maintained.[19] Neoliberalism does not have a clear correspondence in academic economics. The neoclassical tradition highlights the self-adjusting and efficient properties of markets, but it fits uneasily with the neoliberal emphasis on market building. The ('neo-Austrian') tradition of Hayek is critical of the neoclassical notion of equilibrium (for Hayek markets don't simply reveal a pre-existing equilibrium price, but are price discovery mechanisms; there is a much more evolutionary understanding of markets). Other leading participants of the Mont Pelerin Society (such as Milton Friedman and Garry Becker) have been more squarely part of mainstream economics and, indeed, transformed mainstream economics.

The challenge of politics

The European Commission's strategy, dictated to a large degree by Germany, is an orthodox one, which Keynes's opponents of the 1930s could readily identify with: wage cuts and sound fiscal policy. Never mind that in most countries public deficits were modest and that the decade prior to the crisis witnessed a sharp decline in wages as a share of national income. This policy is effective in weakening welfare states and securing structural gains for the business elite, but it proves incapable of stabilizing the broader economic situation. The nationalist progressive vision regards the exit from the euro as a vital step in regaining control over economic policy and to break German and financial hegemony in Europe. This position sees little hope for reform of the euro area economic policy regime and regards dissolution of the euro (or the exit of individual countries) as an essential precondition for expansionary economic policies.

European capital presently has a firm grip on the European semi-state. It is being used to impose austerity and wage repression across Europe. But the strategic question for the left is whether it should retreat to the nation-state or whether it should further European state building and fight for its democratic and social dimensions. The euro crisis (and thus the Greek crisis) is at its origins a European crisis. And it needs a European solution. The Euro-Keynesian answer is a counter-cyclical European fiscal policy. Monetary policy would allow higher inflation (to allow rebalancing without strangulating Southern European economies) and would directly finance governments. Financial regulation would create speed bumps for financial flows (e.g. a Financial Transactions Tax) and would nationalize (or break up) too-big-to-fail institutions. Wage policy would be based on coordinated collective bargaining; it would aim at productivity-oriented wage growth. Such proposals make economic sense. First, Europe needs a robust mechanism of re-distribution across regions that does not rely on generosity and bailouts. A European welfare state would be such a mechanism. A European welfare system would redistribute income from prosperous to depressed regions without increasing debt levels. Different from private capital flows and public loans, this would allow financial flows from surplus to deficit regions without creating an increase in debt liabilities. Second, the Keynesian approach insists that the surplus countries should do the adjustment, not the deficit countries: higher wages (and higher growth) in Germany are the answer to the imbalances, not lower wages (and recession) in the peripheral countries.

The real challenge is in the field of politics, not economic theory. European state structures are creations of capital, in part designed to circumvent national political processes. However, a European state will be a contested terrain like other state structures and a Euro-Keynesian strategy is only conceivable as the result of coordinated popular pressure. It would require strengthening the democratic control of the European institutions (the Commission as well as the ECB and the European Court of Justice), in particular a genuine role for the European Parliament. Presently most organizations of the left, certainly those associated with the labour movement, are essentially national in scope. The labour movement needs to build a European civil society by means of European campaigns. An obvious starting point is the campaign for a European minimum wage system, as advocated by ETUC,[20] and the mobilization against the Bolkestein Directive is another example that was to some extent successful. Such campaigns have to combine mass mobilization and institution building, and they ought to benefit countries both inside and outside the euro.

Notes

1. See Table 1.8 in UNCTAD, *Trade and Development Report 2009*, United Nations, New York, 2009.
2. Allegretto, Sylvia, 'The State of Working America's Wealth, 2011', EPI Briefing Paper, https://docs.google.com/viewer?url=www.epi.org/page/-/BriefingPaper292.pdf&hl=en_US&embedded=true; accessed July 2012.
3. Optimal currency areas are defined as regions that are structurally similar, and have high labour and capital mobility and/or fiscal redistribution. Southern and Northern European countries don't fit the bill. The theory was pioneered by Mundell, a member of the (neoliberal) Mont Pelerin Society. As Goodhart points out, optimal currency theory is built on the 'metallist' theory of money that interprets money as originating from private transactions, whereas Chartalist theories of money argue that money originates from the state and its ability to tax (and impose order). The Chartalist approach lends itself to a sceptical view of the euro project, because it regards a money without a state as not viable (Charles Goodhart, 'The Two Concepts of Money: Implications for the Analysis of Optimal Currency Areas', *European Journal of Political Economy* 14, 1998). Arguably, Jacques Delors and others did advocate the introduction of a common currency as the first step to building a European state.
4. P. Arestis, C. McCauley and M. Sawyer, 'An Alternative Stability Pact for the European Union', *Cambridge Journal of Economics* 25, 2001, pp. 113–30; EuroMemo Group, *Confronting the Crisis: Austerity or Solidarity*. EuroMemorandum 2010/11, www2.euromemorandum.eu/uploads/euromemorandum_2010_2011_english.pdf; E. Hein and A. Truger, 'European Monetary Union: Nominal Convergence, Real Divergence and Slow Growth?' *Structural Change and Economic Dynamics*, vol. 16, no. 1, 2005, pp. 7–33; J. Huffschmid, *Economic Policy for a Social Europe: A Critique of Neoliberalism and Proposals for Alternatives*, Palgrave Macmillan, Basingstoke, 2005; E. Stockhammer, 'Peripheral Europe's Debt and German Wages', *International Journal of Public Policy*, vol. 7, nos 1–3, 2011, pp. 83–96.
5. E.g. John Grahl, 'The First European Semester: An Incoherent Strategy, paper presented at PERG workshop 'Europe in Crisis', April 2012, Kingston University London.
6. E. Stockhammer, 'Wage-led Growth: An Introduction', *International Journal of Labour Research*, vol. 3, no. 2, 2011.
7. *Growing Unequal? Income Distribution and Poverty in OECD Countries*, OECD, Paris, 2008.
8. Barry Eichengreen, 'Ireland's Reparations Burden', www.irisheconomy.ie/index.php/2010/12/01/barry-eichengreen-on-the-irish-bailout.
9. C. Lapavitsas, A. Kaltenbrunner, D. Lindo, J. Michell, J.P. Painceira, E. Pires, J. Powell, A. Stenfors and N. Teles, 'Eurozone Crisis: Beggar Thyself and Thy Neighbour', RMF occasional report, March 2010, http://researchonmoneyandfinance.org/media/reports/eurocrisis/fullreport.pdf; C. Lapavitsas, A. Kaltenbrunner, D. Lindo, J. Meadway, J. Michell, J.P. Painceira, E. Pires, J. Powell, A. Stenfors, N. Teles and L. Vatikiotis, 'Breaking Up? A Route Out of the Eurozone Crisis', www.researchonmoneyandfinance.org/wp-content/uploads/2011/11/Eurozone-Crisis-RMF-Report-3-Breaking-Up.pdf; R. Bellofiore, F. Garibaldo and J. Halevi, 'The Global Crisis and the Crisis of European Neomercantilism', in Leo Panitch, Gregory Albo and Vivek Chibber, eds, *Socialist Register 2011:*

The Crisis This Time, Merlin Press, London, 2011.

10. Sikorski Radoslaw, *Financial Times*, 28 November 2011, www.ft.com/cms/s/0/b753cb42-19b3-11e1-ba5d-00144feabdc0.html#axzz1xhEB1g4Q.
11. According to the EC's 2012 spring forecast: http://ec.europa.eu/economy_finance/publications/european_economy/2012/pdf/ee-2012-1_en.pdf.
12. Credit Suisse Economics Research, 'European Economics: Assessing Debt Sustainability and Financing Needs in Greece Ahead of the PSI', https://doc.research-and-analytics.csfb.com/docView?language=ENG&source=ulg&format=PDF&document_id=948097251&serialid=IjiUHEvdB6unRmTlYr3p6Dv6YM8Upex%2FTeRbVrcgI6U%3D.
13. Daniela Gabor, 'The Missing Link: European Bank Funding Strategies and ECB's Crisis Policies', paper presented at PERG workshop 'Europe in Crisis', April 2012, Kingston University London.
14. John Weeks, 'Crisis Scams in Italy, Spain and the UK: Triumph of Ideology over Reality', paper presented at PERG workshop 'Europe in Crisis', April 2012, Kingston University London.
15. See J. Pisani-Ferry and G. Wolff, 'Is LTRO QE in Disguise?' www.voxeu.org/index.php?q=node/7923 for comparison of the balance sheet compositions of the Fed, the Bank of England and the ECB.
16. See the work by Lapavitsas et al. quoted above; N. Roubini, 'Greece Must Exit', 2012, www.project-syndicate.org/commentary/greece-must-exit; R. Wray, 'Warren Mosler's Big Fat Greek MMT Exit Strategy', 2011, www.economonitor.com/lrwray/2011/11/17/warren-moslers-big-fat-greek-mmt-exit-strategy.
17. Jan Toporowski, 'Credit, Financial Integration, and the Euro', paper presented at the PKSG workshop, SOAS, June 2012.
18. www.reuters.com/article/2012/05/23/eurozone-germany-bundesbank-idUSL5E8GN4JV20120523.
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