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Core and Periphery in the European Union: A New Phenomenon?

Challenges for Modern Left Policies in the EU and in Europe

The case of Greece

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Abstract

The Eurozone crisis has re-introduced the notions of core/periphery into the debate. However, this is a theoretically contested area between those who place special emphasis on international relations and those who emphasize class relations. In view of the complexity of the subject, analyzing a particular case study can shed light on its multiple dimensions, so that conclusions of a more general applicability may be drawn. In the present paper, we focus on the case of Greece as an instance in which integration into both international and capitalist relations has been a long-drawn, non-linear, process. The Eurozone crisis has exacerbated pre-existing tendencies and contradictions across and within classes, as well as across national and European space. Confronting these contradictions will shape the future of Europe, including Greece. This is the task faced by the Left today.

JEL classification: O1 (), P1 (Capitalist Systems)

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Introduction

The distinction between core and periphery nations is closely linked to that of developed and underdeveloped regions and a discussion which took place in the post-WWII period and the decolonization process that followed. Economists of different ideological positions and schools of thought entered the debate, providing their own world view. Our own approach is based on the notion that "underdevelopment is a historical process with particular social, economic and political co-ordinates" (Kay, 1975:3)[2]. In this sense, identifying the factors that explain the underdevelopment of a region by comparison to others requires delving into its historical framework and attempting to link past and present in a meaningful way.

The discussion of development and underdevelopment and the concomitant concepts of core and periphery occupied a central place in the economic debate of the 1950s and 1960s, mainly in relation to Latin American, African and Asian countries and their relations with the former colonial centres &/or domineering neighbouring states, such as the USA. At that time, Europe was divided by the so-called Iron Curtain into Western Europe and the former socialist countries. This fragmentation influenced economic debate, which tended to downplay the core/periphery division. Such a tendency was reinforced by the establishment of the European Communities in the 1950s, with the professed aim of promoting convergence as a means of European integration. The financial crisis of 2007/2008, the economic crisis that ensued and the Eurozone debt crisis and have shifted the focus back to divisions among nations, based on their different level of development and degree of integration into the European and indeed the global space.

Greece, where the Eurozone debt crisis first started, is a pertinent case in this respect. Even if there were illusions of convergence before the current crisis, these have now been dispelled. As a result of the multiple crises facing it, Greece has been weakened in every sense, political, economic and social. At the same time, the on-going proletarisation of the working population, together with the privatization of public assets, lead to the deepening of the country's integration into the global capitalist system of relations in production and to its downgrading within that system.

However, this is not necessarily an open-ended process. In the absence of consensus politics – which is one of the main features of handling the current crisis by the European elites – repression becomes the order of the day, giving rise to resistance by large sections of the population. It is in this respect that the Left has a historical role to play. By facing up to the challenges of the crisis, the Left needs to institute a new policy framework, such as to transcend the deepening divisions and open the way to a new configuration of relations in production and distribution on a national, European and global level.

[2] G. Kay, 1975, Development and Underdevelopment, A Marxist Analysis, Macmillan press, London

In this paper, we shall look into the case of Greece, which was hit especially hard by the current crisis and in which a long-run process of transformation of its economic, social and political structures is on-going, increasing the exploitation of labour and the destruction of national resources and the environment. The paper is organized as follows:

- Section 1 examines certain theoretical issues pertinent to the core/periphery debate;
- Section 2 sets the historical framework within which salient features of contemporary Greece were formulated, thus adding perspective to the problems currently faced by the country;
- Section 3 is devoted to the public debt crisis that erupted in Greece in late 2009 and which is in no way resolved five years later;
- Section 4 discusses the issues of military expenditure and interest payments and their role in perpetuating the fiscal and economic problems of the country;
- Section 5 takes a macroscopic view of the state of Greek capitalism today;
- Section 6 looks into the challenges facing the Left and the policies that are called for;
- Section 2 summarises and concludes.

1. Theoretical considerations

The divisions amongst nations are largely the result of a historical process, which however should not be understood in terms of its political co-ordinates only, or even mainly. Such an approach would rely mainly on ideology, whereas a body of theory is needed in order to substantiate it.

The radical economists writing on development and underdevelopment in the 1950s and 1960s promptly rejected the neoclassical school, which disregards such divisions or attributes them to such 'objective' factors as the climate and the natural endowment of a country. To the benign view of development that is implicit in neoclassical economics, two schools of thought put forward alternative approaches. The Structuralist school and the Marxist school, whereby the former lays special emphasis on relations amongst nations and the latter, on relations between classes. We shall argue that each school has a special contribution to make to our discussion and that they are not mutually exclusive. Indeed, elements of both schools are useful in order to make sense of current capitalist conditions.

More specifically, the Structuralist school lays emphasis on the 'hierarchy of nations' which make up the capitalist system, whereby: "Those at the top exploit in varying degrees all the lower layers and similarly those at any given level exploit those below them until those at the very lowest layer have no one to exploit" (Baran and Sweezy, 1973:179)[3]. Further, those at or near the top of the hierarchy are known as 'metropolis' and those at or near the bottom as 'colonies', while "the sphere of exploitation of a given metropolis from which rivals are more or less effectively

[3] Baran, P.A. and P.M. Sweezy, 1973, Monopoly Capital, Pelican Books

excluded, is its 'empire'" (ibid: 179). Thus, in the 1960s, the American 'empire' comprised Greece, as a result of the Truman Doctrine of 1947, which in effect proclaimed an American protectorate over Greece and Turkey and announced that "it must be the policy of the USA to support free peoples who are resisting attempted subjugation by armed minorities or by outside pressure" (ibid: 187). Such 'armed minorities' referred to the WWII resistance fighters and the central role played by the Greek Communist Party. As we shall see, the role of the US has been pivotal in developments in Greece after WWII and until the mid-1970s.

The Structuralists do not altogether ignore the issue of class relations. However, as Arghiri Emmanuel concludes in his work on 'Unequal Exchange' "… the antagonism between rich and poor countries is likely to prevail over that between classes" (Arghiri, 1972:176)[4]. This conclusion is contested by Marxist theorists, who consider it as 'absurd' (Kay, 1975:118), objecting to the seemingly secondary place accorded to the class struggle, as opposed to international relations.

In particular, Marxists accord primary position to the struggle between classes, so that 'the very existence of the underdeveloped countries is evidence of class forces having shaped the world and its political institutions into a mould that reflected their own logic" (ibid: 118). In this sense, what appears as antagonism between nations is essentially antagonism between capitals over the distribution of surplus value. However, Marx's prediction that "the country that is more developed industrially only shows to the less developed the image of its own future" (Marx, 1867, Capital, Vol. 1, p. xvii) begs the question vis-à-vis the different levels of development that still persist in the capitalist world order[5].

Overall, we would argue that the contributions of both Schools are necessary in understanding the distinction between development and underdevelopment, or for that matter, between core and periphery, or even 'marginalising globalisation' (Dellheim, 2014)[6]. More specifically, the primary conflict is between capital and labour. The current crisis has in fact intensified this conflict. On the other hand, different capitals are also in disharmony, as that of the politically and economically stronger states – the metropolitan powers – try to bring into line that of the weaker or less developed ones. In this sense, a pattern of core-periphery does not exclude the class struggle in each area, as well as across areas. The current, multifaceted crisis has indeed brought to light both aspects of the core/periphery debate, which in fact need to be taken explicitly into account in discussing alternative Left policies[7].

2. Greece: Historical background

[4] Arghiri Emmanuel, 1972, Unequal Exchange, New Left Books, London
[5] Karl Marx, Capital, Vol. 1, 3rd edition, George Allen and Unwin, London
[6] Dellheim, J., 2014, Peripherisation at http://peripherisation.blog.rosalux.de; accessed 8/9/2014
[7] It is worth noting that the geographical distinction often understood by the core/periphery division is coincidental.

In this section, we shall examine the historical conditions that largely account for many of the present socioeconomic features of Greece in the areas of international relations, as well as of class relations.

Three major sets of historical factors may be said to have influenced the shaping of contemporary Greece since its establishment in 1832 and until the fall of the Junta in 1974; namely, (i) the fact that no process of state construction preceded its establishment; (ii) the continuous wars and expenditure on armaments and (iii) the political and social repression that prevailed during this period (Figure 1)

Figure 1 – Historical factors in the shaping of Greece

No process of state construction	Constant warfare	Repression
Local elites; clientelism; foreign intervention; agrarian structures; Greek Diaspora	Arms spending; government borrowing; defaults; creditor control; regressive tax structure	Divided society; growth of family-run businesses; low wages; emigration

The Greek national state was born as a result of a separatist war, which carved the territory from the Ottoman Empire. The new state was established in 1832, while new territories were annexed during the 19th century: the Ioanian Islands in 1864; Thessaly and part of Epirus in 1881; part of Macedonia and the rest of Epirus, the North and East Aegean Islands and Crete in 1912-1931; the Dodecanese in 1949.

Figure 2 - Historical map of Greece

http://www.in2greece.com/english/maps

The present border was defined by the Treaty of Lausanne of 1923 following the defeat of Greece in a war with Turkey (1919-1922)[8]. The lack of any previous

[8] A. Liakos, 2007, Historical Time and National Space in Modern Greece, in H. Tadayuki and H. Fukuda, Regions in Central and Eastern Europe: Past and Present, Slavic Eurasian Studies 15, 205-227

reference to state traditions led to the domination of local elites, fighting for supremacy and to clientelism, as well as the direct involvement of foreign powers. In fact, the three political parties that emerged were each influenced and sponsored by one of the three Protective Powers – Great Britain, France and Russia – which thus exerted an unusually decisive influence on the domestic and foreign policy of Greece.

The new state began as a Republic, only to become an absolute monarchy after the assassination of its first Governor, Ioannis Kapodistrias. The Great Powers of the time imposed Otto of the House of Wittelsbach, as King of Greece. The Monarchy was the key institution through which the foreign powers exercised their influence on the Greek government and interfered in national politics[9]. A constitution was first granted in 1844, while the monarchy was abolished in as late as 1973.

While the newly independent Greek state was a poor, agrarian society, there was a prosperous Greek Diaspora in Europe, consisting of merchants, ship-owners and artisans, as well as an old Greek merchant Diaspora in the Middle East and the Black Sea. The Diaspora invested in land (buying the dismantled Ottoman holdings) and finance (setting up banks) rather than in industrial activity. Greek shipping formed an important source of capital accumulation, second to agriculture. By the end of the 19th century the Greek merchant fleet was comparable to that of Russia, Sweden and Spain and larger than that of Denmark, Holland, Austria-Hungary and Portugal[10]. On the whole, there was little industrial activity, while the largest economic centre was in Syros, an island in the Aegean Sea (Cyclades complex).

The prevalent mode of production was the sharecropping system, in use in the extensive and archaic large farms (tsifliks) in Central Greece, owned by the merchants and financiers of the Greek Diaspora, who were effectively absentee landowners. In the 1920s, there was a large influx of refugees from Asia Minor and the Balkans, following the forced exchange of Greek and Turkish populations (Treaty of Lausanne), thus increasing the size of the Greek population by one-fifth practically overnight[11]. A sweeping land reform followed, transforming Greece into a country of small-owner peasantry, a feature which is evident to this day.

The process of state construction was through constant armed conflicts against the Ottoman Empire in the 19th century, the Turkish Republic, Bulgaria and other Balkan states in the 20th century and through participation in the two World Wars. This state of affairs led to high spending on armaments and continuous government borrowing. In fact, the first loans date back to 1824 and 1825 (the so-called Independence Loans). The greatest part of these loans was spent on armaments,

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[9] S. Petmezas, 2007, History of Modern Greece; About Greece
http://video.minpress.gr/wwwminpress/aboutgreece/aboutgreece_history.pdf

[10] G. Harlaftis, 2006, Greek Economic Development and Shipping Income in the 19th century, KEPE, Athens

[11] Liakos, A., 2007, Historical Time and National Space in Modern Greece, in H. Tadayuki and H. Fukuda, Regions in Central and Eastern Europe: Past and Present, Slavic Eurasian Studies 15, 205-227

the monarchy and interest payments, leaving little for the other needs of the newly instituted state, such as infrastructure. It is worth noting that these loans were subjected to intense financial speculation by, amongst others, David Ricardo, a well-known financier and speculator of the time[12].

The pressure to repay the country's creditors accounts for the emphasis of the Greek tax system on indirect taxation, which dates back to the early years of state construction. There were three defaults in the 19th century (1826, 1843 and 1893) and one in the 20th (1932), while the country's public finances came under the direct control of its creditors twice, in 1856 and 1898.

The Yalta Conference of 1945 placed Greece under the influence of the USA, formalized as the Truman Doctrine, which made the country into an American protectorate, as already mentioned above. The intervention of the US in national politics led to increased instability and the dictatorship of 1967-1974. Greece entered a period of political normalcy in as late as the mid-1970s.

The political and social repression of the post-WWII period resulted in the growth of small family-run businesses, which offered a source employment to those the state repression denied a job on account of actual or suspected links with the Communist Party. This feature of the Greek economy persists to the present day, although the current crisis is drastically reducing the number of SMEs.

Thus, in 2008, there were 221,781 SMEs (employing under 250 persons) in Greece, corresponding to 1.1% of the EU total, employing 680,740 employees (0.8% of the EU) and producing GVA equal to Euro 14,104 million (0.4% of the EU total)[13]. The average size of Greek SMEs amounted to 3.1 employees and GVA equal to Euro 63,600, whereas the corresponding figures for the SMEs in the EU were 4.4 employees and Euro 176,000 GVA. By 2013, the number of SMEs in Greece dropped to 139,529, employing 430,119 persons and producing GVA of Euro 10,524 million. By contrast, in the EU, the number of SMEs and the number of persons employed by them increased, while their GVA slightly declined. As a result, the share of the Greek SMEs in the EU was reduced (to 0.7%, 0.5% and 0.3% respectively).

Repression also kept wages and labour rights down, making for poverty and the slow growth of non-agrarian sectors. Further, the lack of productive employment led large numbers of young people, especially men, to emigrate to the USA and other parts of the world. The wave of emigration subsided after the 1970s, while emigrant remittances have in the past constituted a significant source of income for large sections of the population and for the current account.

The size of agriculture in the economy declined only in the latter half of the 20th century, ceding its place to services, while industry remains a relatively small part of the economy.

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[12] Alogoskoufis, G. and S. Lazaretou, 1997, The Drachma: Monetary Policy and Fiscal Issues in Modern Greece, IMOP, Athens (in Greek)

[13] E.C., 2013, A recovery on the horizon?, Annual Report on European SMEs 2012/2013, October

3. The 'Greek crisis' and beyond

Greece joined the then European Communities in 1980, under a conservative government. Moving away from the status of an American Protectorate and joining a Europe-based community of nations was a central goal of policy, which the socialists, who succeeded in government in 1981, also served, in spite of their initial reservations. The underlying political doctrine was that 'Greece belongs to the West', the roots of which go back to the very beginnings of the Greek state.

Joining the Eurozone in 2001 was also primarily a political goal, since it was taken to signify the advanced stage of economic development the country had reached by then. The fact that the public debt data was covered up with the help of Goldman Sachs – a financial trick that was not only legal, but also followed by other Eurozone candidate countries – became known many years later.

After joining the Eurozone and prior to the crisis, Greece was a high-performing economy, with a growth rate of 4.3% between 2002-2006, as opposed to 1.8% in the Eurozone and 2.1% in the EU on average. Its boom however was mainly driven by largely debt-financed domestic demand (public and private). The low interest rate prevailing in the Eurozone and the financial deregulation of the EU provided Greece with the means to finance its debt and its current account deficit. Greece, like Spain and other Southern European states, grew at a faster rate than e.g. Germany, providing thus an outlet for German exports and finance, at a time when wage repression in Germany limited domestic demand for goods and services, as well as for loans.

Greece did not experience a financial crisis per se, although it felt the effects of the economic crisis, i.e. a decline in output and an increase in unemployment, as the global, financial crisis filtered through to its economy.

The crisis found Greece in a vulnerable position, due to its high public and current account deficits in relation to GDP, partly explained by the country's high growth rate prior to the crisis and partly by its mode of capitalist formation. The twin deficits of Greece exposed it to the pressures of the government bond market and the credit ratings agencies. By April 2010, the spread between the yields on 10-year Greek government bonds and German bunds became untenable. In May 2010, the first Memorandum of Economic and Financial Policies was signed in exchange for a loan with to repay the country's creditors, i.e. the European banks (German, French and Dutch). A second Memorandum was signed in 2012, financing the debt restructuring of the same year.

In total, the two loans amounted to Euro 237 billion, conditional on the implementation of a severe fiscal austerity, deregulation and privatization programme. Of this amount, more than 80% has been channeled back to the

European and Greek banks, largely through an over-generous debt restructuring plan put into effect in 2012 (Zettelmeyer et al, 2013)[14].

The implementation of the programme is closely monitored by the Troika (the triumvirate of the ECB, the European Commission and the IMF). The measures include the following:

- ✓ *Fiscal consolidation* - Over the period 2010-2014, fiscal austerity measures amount to over 30% of GDP, more than one-half of which (54%) is expected to derive from expenditure cuts and the rest (46%) from increases in revenue. Public sector employment is being reduced by 23%, as more than 150,000 employees are being placed on 'reserve' (reduced wages for eight months and dismissed afterwards), moved to a pre-retirement scheme, or laid off as public entities close down or merge, while the recruitment rule is equal to 1 entry per 10 exits. Further measures include cuts in spending on education (primary and secondary schools are closed down or merged), on health care (hospital units are closed down or privatized, etc.), in cash welfare benefits, pensions and social transfers.
- ✓ *Labour market reforms* – These aim at reducing the cost of labour via internal devaluation. Thus the minimum wage has been reduced by 22% and by 32% for the under-25s, while the power to set the statutory minimum wage has been shifted from the social partners to the government[15]. In addition, collective agreements have been suspended, to be replaced by firm-level agreements. Dismissals have been made easier, the internship period for newly appointed employees has been lengthened, social contributions have been reduced, life tenure contracts have been abolished.
- ✓ *Structural changes* – These include a far-reaching privatization programme. In addition, deregulation measures are being applied to the transport sector (road haulage), energy (granting access to 40% of lignite-fired capacity before the Public Power Corporation is privatized), the regulated professions (lawyers, public notaries, pharmacists, doctors, etc.) and the judicial system, while the further privatization of the pension system is expected to reduce public expenditure for pensions from 4.4% of GDP to 0.2% by 2060.
- ✓ *Foreclosures* – As of January 2015, the moratorium on auctioning collateral imposed on banks by law in 2010 is going to be lifted[16]. This has shielded households and SMEs from bank foreclosures, which will now become imminent, as the ratio of non-performing loans (NPLs) exceeds 27% of the total for households and 31% for SMEs. Both the European Commission and the IMF

[14] Zettelmeyer, J., Ch. Trebesch and M. Gulati (2013), *The Greek Debt Restructuring – An Autopsy*, , Peterson Institute for International Economics, WP 13-8, August

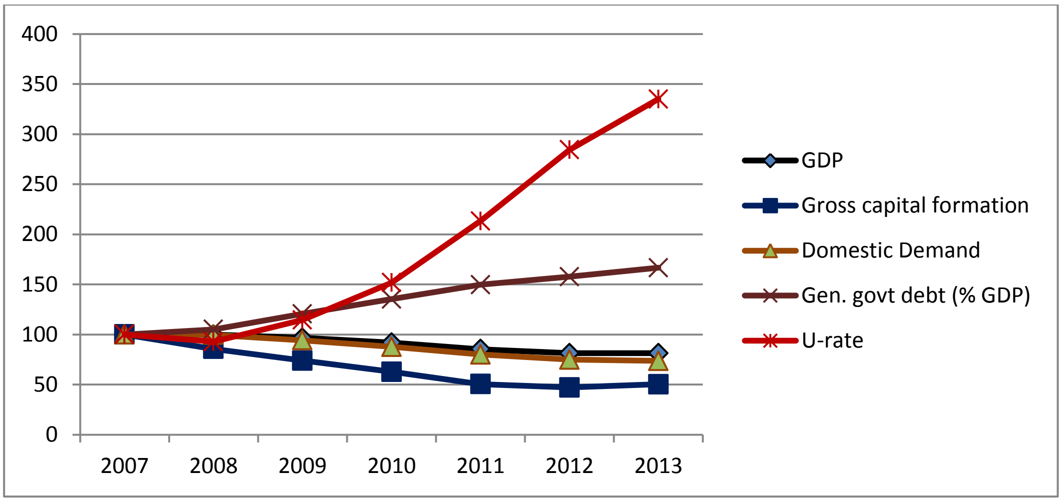
[15] By way of an indication, it is worth noting that in 2013, the minimum wage rate (€684/month) in Greece was less than half of that in several Eurozone countries, such as Belgium (46%), the Netherlands (47%), France (48%) and Ireland (47%).

[16] L.3869/2010, as amended by L. 4161/2013

agree that such moratoria need to be abolished in the name of 'cleaning up bank balance sheets (IMF, 2013:20) and of 'strengthening incentives for repayment culture' (EC, 2013:7)[17].

The Economic Adjustment Programme Greece has been put under is a variant of the Structural Adjustment Programmes imposed by the IMF on Latin American, African and Asian countries in the 1980s and 1990s. After more than four years of implementation, it has led to a prolonged process of depreciation of the productive capacity of the country, including both capital and labour, as unemployment exceeds 27% of the labour force, while large numbers of young people emigrate in search of a future, to unprecedented social hardship and to great political upheaval, as the Greek elites that have ruled in alternation since the mid-1970s have lost in legitimacy. As shown in Figure 3, the Greek economy is nothing short of collapsing!

Figure 3 – An economy in collapse - Selected indicators 2007-2013



Source: Frangakis (2012) updated and extended[18]

In particular, over the period 2007-2013, GDP has shrunk by more than one-fifth, investment by more than one-half, domestic demand by a quarter - a shortfall not made up by exports - while the public debt has risen by more than two-thirds and unemployment has more than trebled. In terms of public finances, the public debt increased from 125% of GDP in 2009 to 175% in 2013, even though the public deficit fell to 12.7% of GDP in 2013 from 15.7% in 2009. On the whole, it may be argued that the measures associated with the loan agreements have not only amplified the problems of the Greek economy, but they have also prolonged the agony of overcoming them.

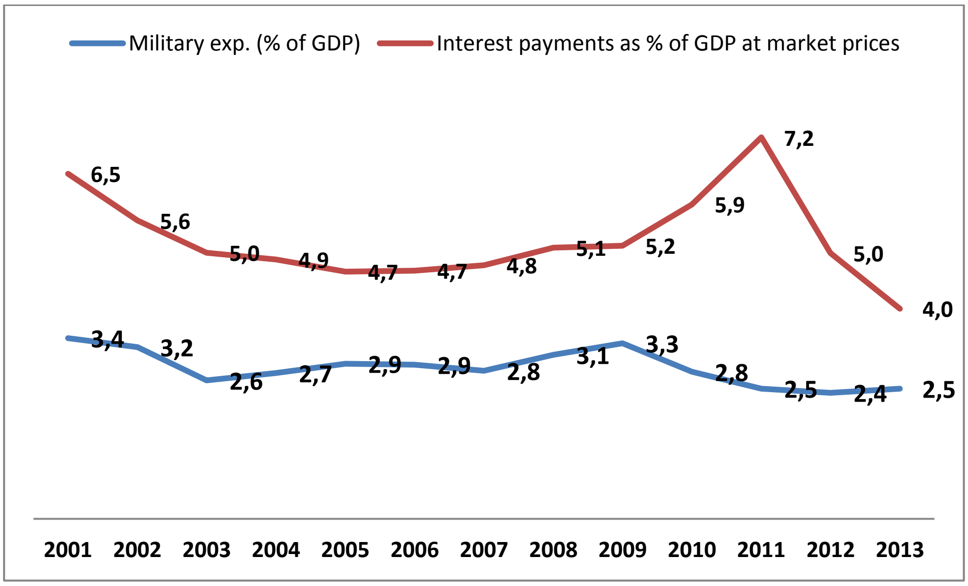
[17] IMF, 2013, Greece: Fourth Review under the Extended Arrangement under the Extended Fund Facility, July;
European Commission, 2013, The Second Economic Adjustment Programme for Greece, Third Review, July 2013, Occasional Papers 159

[18] Frangakis, M., 2012, Die Staatsschuldenkrise in Griechenland und das europäische Projekt Dynamik und Folgen, Z - Nr. 92 Dezember 2012

4. Military spending and Interest payments

Indicative of the close ties between the Greek elites and the armaments industry, as well as finance, is the share of military expenditure and interest payments in public spending. As we have argued in the historical overview above, these ties came into existence even before Greece became an independent state. They are a legacy from the past adapted to present conditions. Because of their size (Figure 4), they are also instrumental in the fiscal issues faced by Greece over time.

Figure 4 – Greece: Military and Interest payments (% GDP)



Sources: World Development Indicators and AMECO database

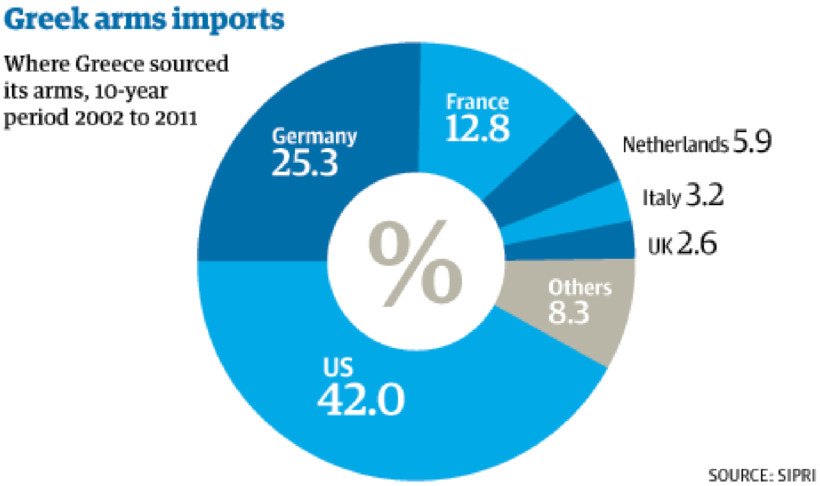
Military spending – Under the justification of a perceived danger from Turkey, Greece is Europe's main military spender, spending 3% of its GDP on defense over the period 2001-2013, nearly twice as much of as the Eurozone average of 1.6%, moving from seventh position as a global arms importer in the 1990s to fourth position in the 2000s[19]. Military spending declined slightly only as of 2011, while such cuts as have been made concern salaries rather than military arsenal[20].

The main exporters of arms to Greece are the US, Germany, France, the Netherlands and Russia, of which the top three accounted for 80% of arms imports during the period 2002-2011, as shown in Figure 5.

Figure 5 - Suppliers of arms to Greece (% share) 2002-2011

[19] World Development Indicators, World Bank

[20] World military expenditure leveled off in 2011 at $1.7 trillion of world GDP, after rising continuously since 1998 (Stockholm International Peace Research Institute, SIPRI).



Source: Smith, H., 2012, German 'hypocrisy' over Greek military spending, Guardian, April 19

Greece is the top buyer of arms from Germany and the third largest from France. Even after the public debt crisis had erupted, both countries insisted on the priority of Greece's settling outstanding bills with arms suppliers in their jurisdiction. Furthermore, the global arms industry has long been associated with high levels of corruption. According to the Stockholm International Peace Research Institute, "Many companies in the SIPRI Top 100, including many of the world's leading arms companies, have been the subject of corruption allegations and in some cases court action. In particular, in those countries where austerity measures have resulted in decreased domestic arms procurement and therefore company sales, the pressure on these companies to secure export sales by any means necessary – including potentially through corrupt means – has increased" (Perlo-Freeman et al, 2014: 7)[21]. In the case of Greece, it is believed that part of defense spending is bound up with bribes. For example, former defense minister, Akis Tsochatzopoulos, has been found guilty of accepting a bribe of Euro 8 million from Ferrostaal, the German company that helped oversee the sale of four submarines to the Greek navy 14 years ago.

A large part of Greece's public debt is the result of its exorbitant spending on arms. As long as the EU does not guarantee the country's borders with Turkey, the perceived tension with the latter offers a good excuse for excessive military expenditure, even at a time of austerity, under pressure from its suppliers.

Interest payments – The second item that consistently inflates Greece's public finances is interest payments on its debt. During the period 2001-2012, these absorbed 14% of its revenue, by comparison to 6% in the Eurozone as well as in the world, on average[22]. The loans Greece received from its Eurozone partners in 2010 and 2012 exacerbated the situation. These were originally given at market rates and conditions, which were eased in late 2012, as part of the debt-restructuring exercise. However, even after this restructuring, the interest servicing burden remains

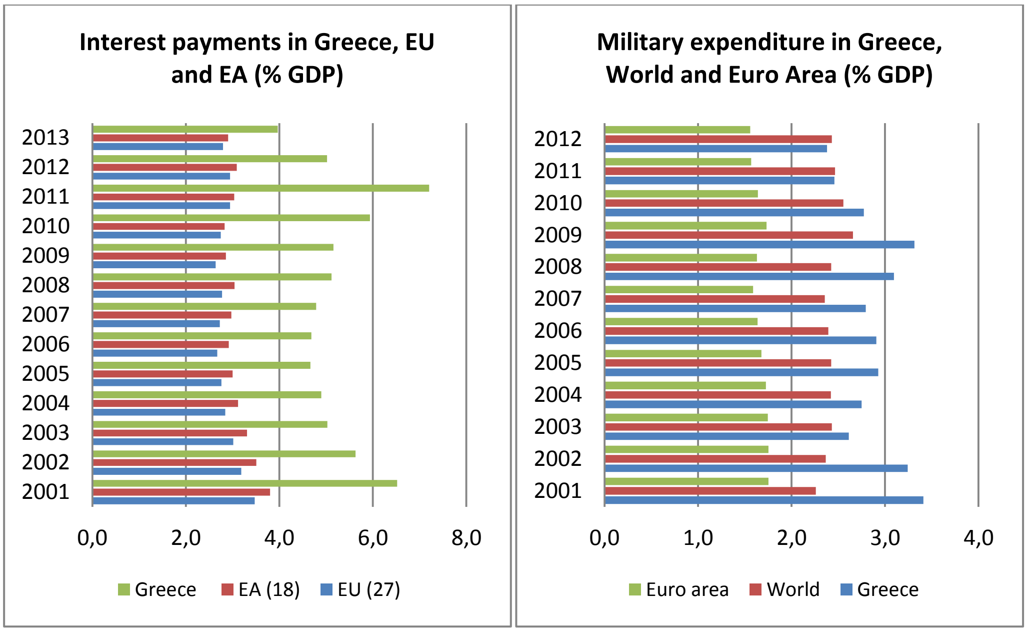
[21] Perlo-Freeman, S. and P.D. Wezeman, The SIPRI Top 100 arms-producing and military services companies, 2012, SIPRI Fact Sheet, January

[22] World Development Indicators, World Bank

extremely high. For example, this dropped from 17.3% of total revenues in 2011 to 11.5% in 2012, by comparison to 6.3% in the EU and 5.7% in the world on average in that year, raising doubts about the sustainability of the country's debt after its restructuring (known as Private Sector Involvement)[23 24].

The burden imposed by the high interest payments and military expenditure weighs heavily on Greece's public finances. As shown in Figure 6, the share of spending on arms and interest payments absorbed 5.9% and 2.8% of GDP respectively in 2010, while it remained significant in 2013 at 4% and 2.5% respectively. By contrast, the corresponding share of these two items in the Eurozone was equal to 1.6% and 2.8% in 2010 on average, remaining practically constant at 1.5% and 2.9% respectively in 2013. In this way, part of the surplus produced in Greece is siphoned off to the European and global arms and financial industries.

Figure 6 – Military and interest payments (% GDP)



Source: AMECO database

Source: World Development Indicators

5. Greek capitalism today

In this section, we shall pull together the various strands of our analysis, so as to see the bigger picture. These include the historical development of Greece as a nation and as a capitalist system and the current state of the economy and society after five years of an intense austerity and deregulation drive. We shall argue that the bigger picture that emerges is one of Greece being (a) downgraded in the 'hierarchy' of nations and (b) becoming more tightly embedded in the global division of labour.

Our overview of the historical evolution of modern Greece points to its relatively low place in the 'hierarchy' of nations. Its political class allied itself with the Great Powers of the 19th century, rather than with domestic class interests. Not surprisingly, its ruling class also had close links with outside interests, be they the

[23] World Development Indicators

[24] Waki, N, 2012, Greece's interest burden post PSI will remain huge, Reuters, February 9.

Great Powers in the 19^{th} century or the USA in the 20^{th}. Furthermore, the Greek Diaspora – wealthy ship-owners, merchants and financiers operating outside Greece – did not identify with the newly established state. Rather, their allegiance was to the class interests of the area they operated in.

The relatively low position of modern Greece in the 'hierarchy' of nations was reinforced by the recurring defaults that marked the emergence of the new state, as well as the direct involvement of its creditors in the country's political and economic affairs.

Symbiotic with Greece's historical evolution are its close ties with finance and the arms industry. Even before Greece became an independent state, it had to borrow in order to finance its warfare. In this way, a toxic combination of arms and finance was put in place from the start. With variations, this continued well into the 20^{th} and indeed the 21^{st} centuries, as indicated by the country's high expenditure on arms imports, even though the prospect of war is practically non-existent, as well as its high interest payments by comparison to the EU.

The subservient character of the Greek political class and the interests it represents was amply demonstrated in the way the on-going public debt crisis has been handled. Even though, between 2009-2012, three different governments have come to office (two elected, in 2009 and 2012 and an interim one, in 2011), they have all invariably submitted to the demands of Greece's creditors irrespectively of their implications for the economy and society. In fact, such implications have been beneficial for capital, especially financial capital, while large sections of the Greek population find themselves more tightly embedded in the global division of labour.

Many of the features of the Greek economy are the result of its pattern of development. Such features include the large number of small and very small businesses, the large services sector and the still significant presence of agriculture in the economy. By contrast, industry accounts for a small share of economic activity. Furthermore, the self-employed account for a high share of the labour force (31% in 2011 as opposed to 15% in the EU on average), nearly half of which (47.5%) are in the services sector. Thus, in 2012, the composition of the Greek economy by sector was as follows:

Table 1 -Output and employment by sector, 2012 (%)

	GDP	Employment
Services	80.6	70.3
Industry	16.0	16.7
Agriculture	3.4	13.0

Source: Eurostat

The on-going crisis has drastically changed the social division of labour in Greece through various channels. Namely:

- The proletarisation of large segments of the working population, as the closure of SMEs, especially small family-run businesses, has led to their separation from the means of production;

- The creation of a 'reserve' army through the unprecedented rise in unemployment; further the emigration of increasing numbers of young, qualified Greeks, male and female, increases also the supply of labour in the host countries;
- The suspension of collective bargaining, which has resulted in a steep increase in individual and firm-level contracts and a decline in private sector wages by more than 30%;
- The reduction in the minimum wage and in public employment reinforces these tendencies;
- The privatization of state-owned enterprises and the deregulation of the economy have also weakened the bargaining position of labour;
- The incentives offered to foreign and domestic capital under the so-called 'fast-track' investment programme open new avenues for the exploitation of labour and of the environment;

Greece is already caught in a debt-deflation spiral, exacerbating all of the above tendencies. The length and depth of this process point to the fact that it is not a mere phase of the business cycle. Rather, it is a long-drawn process of structural transformation, integrating Greek capitalism more closely into European and global capitalism, as class relations point to a significant weakening of the position of labour and the shrinking of the middle classes (SMEs and professionals).

For example, according to the "Index of Economic Freedom", an annual guide published by the Wall Street Journal and The Heritage Foundation (a Washington-based think-tank), Greece has fluctuated between the ranks of the 'moderately free' and the 'mostly free', where 'economic freedom' is defined as follows: "… the fundamental right of every human to control his or her own labour and property. In an economically free society, individuals are free to work, produce, consume and invest in any way they please"[25]. Not surprisingly, Greece's 'Economic Freedom Score' has improved in the past few years pointing to the deepening of class relations in favour of capital and at the expense of labour, which is not as 'free' as capital.

On the other hand, Greece was upgraded from an emerging to a developed market in 2002, only to be downgraded back to an emerging market in 2013 by the financial services companies MSCI and S&P Dow Jones Indices. This has resulted in an increase in risk-hungry investors' appetite in Greek companies, as testified by the Chairman of the Athens Stock Exchange and CEO of the Hellenic Exchanges Group[26].

Overall, Greece is undergoing a process of structural transformation, integrating it more fully into global and European capitalism. Such integration is placing it lower in

[25] 2014 Index of Economic Freedom at http://www.heritage.org/index/country/greece, accessed on 11/09/2014

[26] Agyridou, N., 2013, Greece's emerging market status: Good news really?, 27th November, Special to CNBC.com

the 'hierarchy' of nations, while class relations point to the spreading of capitalist relations in production across a larger part of the economy and the weakening of labour. Greek capital is gaining, although global capital is gaining even more. The core-periphery distinction is inherent in the country's historical evolution. Equally, its embeddedness in the global division of labour has been evolving since its inception. The Eurocrisis has intensified these trends, bringing them to the fore and making the need to counter them especially urgent. This is the time for modern left policies to respond to a challenge of historic proportions.

6. The response of the Left

The political system of Greece is in a state of flux. The two traditionally dominant political parties – the New Labour-type socialist 'PASOK' and the conservative 'New Democracy', which won 44% and 33% of the vote respectively in the 2009 national elections – plummeted to 12.3% and 29.7% of the vote respectively in the national elections of June 2012 and to 8.02% and 22.71% in the European elections of May 2014. This is a measure of the loss of credibility and legitimacy of the Greek elites, which have ruled in alternation since the mid-1970s.

The political void left by the demise of the two former big parties was filled by the rise of the radical left, as well as of the populist and the fascist right. In particular, SYRIZA, a left alliance that won 4.6% of the vote in 2009, came second in June 2012, winning 26.9% of the vote, and first in the European elections, with 26.6% of the vote. A new populist party, the 'Independent Greeks', obtained 7.5% of the vote in 2012 and 3.46% in 2014, while the fascist party 'Golden Dawn', moving in the shadows until recently, obtained 6.9% of the vote in 2012 and 9.4% in 2014. Thus, the Greek left is facing two concurrent challenges: coming up to popular expectations that it can mitigate, if not end the crisis and restore the economy and society back on its feet, and that it can deal with the reappearance of fascism.

It is widely believed that SYRIZA will get into government in the near future and that it will be called upon to implement its programme. We shall therefore review the main axes of SYRIZA's programme. This is three-pronged: (i) stopping austerity and reviving the economy through stimulating demand by way of redistribution of income and public investment; (ii) debt-restructuring through a variety of means; transferring the cost of the recapitalization of banks to the European Stability Mechanism both in the future and in retrospect; introducing a 'growth clause' in loan contracts with the Eurozone partners and the IMF; calling for an International Conference on the debt, like the 1953 London conference, which absolved Germany of its war debts; (iii) pursuing a policy of balanced and ecologically sustainable development, with adequate financial backing from the European institutions.

The implementation of the proposed policy guidelines is in itself a major challenge, which calls for a concerted effort with other political forces on the national and on the European level. A further crucial requirement is the popular support of such policies, overcoming the possible upheaval these might signify.

From the point of view of the Left more generally, the following policies are deemed necessary in dealing with the present crisis and its implications for the social relations in production.

- Dealing with the humanitarian crisis plaguing Greece and reversing the debt-deflation process currently at work. Such a goal would require the reinstatement of the public services (health and education), so that they can service the needs of the population. It would also require increasing employment and the minimum wage, as well as reinstating collective bargaining and the employment protection regime, which has been dismantled. In this way, the bargaining position of labour will be strengthened.
- Special attention needs to be given to the needs of SMEs, the backbone of the Greek economy, which is experiencing extreme pressure.
- At a time when the private sector is deleveraging, there has to be net public spending, responding to the most urgent needs of the population, as well as laying the ground for a socially and ecologically sustainable development in the longer term;
- Restructuring the tax system away from its present regressiveness. This has been made worse by the crisis and the ad hoc taxation measures introduced in response to the creditors' demands for fast and front-loaded fiscal consolidation;
- Reducing military expenditure and severing the ties with the arms industry in Europe and the USA. Such a measure would also limit, if not eliminate altogether, the corruption that such expenditure is often associated with;
- Restructuring the public debt, so that a large part of it is either written off or passed on to the ECB. The latter is a viable proposal put forward by Paris and Wyplosz, which makes for fiscal room and expansion, since it would drastically reduce the stock of debt on the government's books[27].
- Nationalising the banks of strategic importance for the implementation of a long-term development plan. These are already on a lifeline from the Financial Stability Fund, which was set up as part of the so-called 'Structural Adjustment Programme' of Greece and funded from the loans contracted, i.e. by Greek taxpayers.
- In dealing with the banking sector, the question of non-performing loans of households and businesses needs to be addressed. These have reached crisis proportions as a result of the decline in disposable income and the debt-deflation dynamics this has triggered. It is worth noting that Greek households were not as heavily in debt as in other EU countries prior to the crisis. For example, in 2007 private debt in Greece amounted to 106.3% of GDP, which was the fourth lowest rate after Slovakia (63.2%), Latvia (83.9%) and Slovenia

[27] Paris, P. and Ch. Wyplosz, 2013, To end the Eurozone crisis, bury the debt forever, VOX, 6th August at http://www.vox.org

(97.9%). By 2012, this had risen to 129.4% in Greece, by comparison to 73.1%, 64.4% and 114.1% respectively in these three countries.

The above is an indicative, rather than an exhaustive list of policies that the Greek Left is called upon to pursue. They address major areas of the capitalist system in crisis, which they aim at transforming in the interests of labour and the majority of the population. They are both short-term, urgently need measures and longer term ones, which will meet with the resistance of capital and its supporters. Furthermore, the success of such Left policies is intrinsically linked to the European policy framework and the solidarity displayed by other Left forces. As Dellheim has pointed out in discussing Rosa Luxemburg's legacy, "Her analysis generally focused on capital accumulation, exploitation and emancipation in specific regions or countries, but she interpreted these countries as belonging to a single shared world"[28]. In this sense, although the Greek experience is territorially bound, the lessons to be learnt from it have a wider applicability in terms of formulating solidarity-based, emancipatory counter strategies.

7. Summary and conclusions

The EU is undergoing a prolonged, transformative economic and social crisis, with political repercussions. Finance-led capitalism is trying to entrench its position so as to maintain its privileges, shifting the burden of the crisis to the population at large, and especially to labour. However, social resistance is building up, while such resistance is finding its political expression in newly formed or hitherto small left-wing political parties and formations. The 'thesis' of capital and the 'anti-thesis' of social resistance as experienced across the EU member states give the age-old class conflict a contemporary twist. At the same time, these trends impact on the relations between nations, reflected in the ascendancy of some and the marginalization of others. This is a complex, multi-faceted process, requiring equally discerning analytical tools.

In this paper, we have looked into the case of Greece, both in its historical evolution and its present predicament, where the two are inextricably linked. We have examined its historical background with 'contemporary eyes'. That is, we have looked for the roots of contemporary problems in the way its economic and political formation has been put together, as well as in the pattern of its international relations since its inception in the first half of the nineteenth century.

In doing so, we have tried to discern how far the core-periphery dichotomy is a helpful analytical tool, as opposed to or in combination with a class-relations perspective. We have found that both analytical approaches are useful in understanding the present state of a country that is placed in the periphery of Europe and which has traditionally been on the margins of capitalism.

Furthermore, there are two threads which appear to pervade both the past and the current history of modern Greece; namely, its high military expenditure and great

[28] Dellheim, J., 2014, "Peripherisation?" at http://peripherisation.blog.rosalux.de

interest payments. Both elements underline the relations of the Greek ruling and political class to the military and financial establishment, both at home and abroad. The way the public debt crisis has been handled by the Greek government and by the country's European creditors-cum-partners has reinforced the subservient position of Greece in international relations, as well as of its capitalist class in the general constellation of capital. This is a once-in-a-lifetime crisis, which has ravaged the Greek society and destroyed the economy of Greece. It has weakened labour, impoverished the middle class, pauperized the poor.

Resistance against these trends has been building up. This has taken many forms. Militancy, solidarity initiatives, the rise of a hitherto small political party of the left to the main opposition party, and most likely to win the next national elections, as well as the reappearance of the fascist right, which was in a state of hypnosis since the fall of the junta in 1974.

The Greek left is facing a major challenge; almost as great as that faced in World War II, when it succeeded in mobilizing large segments of the population and putting up a fierce resistance against the oppressors of the time. The changes that the left is called upon to introduce once in government will need to be far-reaching. It will need to redress the bargaining power of labour, to redistribute income and wealth, to reinstate the role of the state in welfare provision, to bring finance into the orbit of social control. Radical as these changes may sound, they are not going to overthrow capitalism. However, they will challenge its main precepts. This is even more so to the extent that the efforts of the Greek left are supported and combined with those of the European left.