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Financialisation in Europe: The transformative power of finance and the case of Greece in comparative perspective

PhD thesis

in International Political Economy

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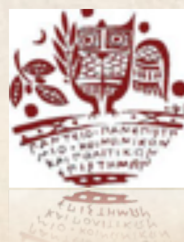

Τριμελής Συμβουλευτική Επιτροπή

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Απαγορεύεται η αντιγραφή, αποθήκευση και διανομή της παρούσας διδακτορικής διατριβής εξ ολοκλήρου ή τμήματος αυτής, για εμπορικό σκοπό. Επιτρέπεται η ανατύπωση, αποθήκευση και διανομή για σκοπό μη κερδοσκοπικό, εκπαιδευτικής ή ερευνητικής φύσης, υπό την προυπόθεση να αναφέρεται η πηγή προέλευσης και να διατηρείται το παρόν μήνυμα. Ερωτήματα που αφορούν την χρήση της διδακτορικής διατριβής για κερδοσκοπικό σκοπό πρέπει να απευθύνονται προς τον συγγραφέα.

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Abstract

The aim of this thesis is to examine the transformative power of financialisation and the multiple ways in which finance expanded and established its presence worldwide. The politico-economic theories that fostered this expansion proclaimed that finance was either neutral or solely beneficial for economies and societies which would be rationalised towards prosperity. Therefore the pace was set and political economies worldwide rushed to coordinate themselves in the prescribed course. However, the reality that was formed nurtured precariousness and thoughtlessness along with convulsions and an unprecedented in its intensity and scope crisis. The omnipresence of a supposedly intermediating and neutral institution precipitated catastrophic events, transformed the meaning of basic concepts and institutions and surprised even insiders. Nonetheless despite the conspicuous falsification of those theories they nevertheless continued to inform policies, even the ones which are meant to tackle the crisis they provoked! A paradoxical, non-rational conatus (perseverance in being), indeed.

We found that the inconspicuous character of ascendance, the eventual domination of finance and the paradoxical perseverance of its presence could be better explained through a post-structural and biopolitical reading of the power it acquired combined with insights from the theory of Susan Strange on structural power. Financialisation dynamics shaped from one hand the structure and constituent elements of the current polito-economic system, and from the other, it reached deep into the inner of human nature dictating its way of thinking or non-thinking and shaping what we called 'Homo Financialis', the 'upgraded' version of Homo Economicus who downgrades the (social) subject to a non-thinking being. In foucaultian parlance it shaped realities and regimes of truth in a mutually reinforcing momentum, which resulted to ontological transformations of fundamental institutions and concepts of western democracies as well as of subjects themselves.

Seeking to test the veracity of these claims we examined the case of Greece, reviewing its trajectory during the financialisation period in comparative perspective, especially in its European context. We found that Greece's private sector had the most im-

pressive pace of financialisation in Europe, albeit financialisation indicators reached European averages only around 2010. Moreover, in the banking sector there was no disintermediation, at least as viewed in the Anglo-saxon context. Financialisation increased rather than diminished banks' intermediation role in the economy. However, we propose that there were other, more "local", ways in which banks' did not effectively fulfil this intermediation role. Thus this financialisation effect realised in the domestic political economy in variegated ways. The domain though that the case of Greece contributes the most to the academic debate, both theoretically and empirically, is the financialisation of the public sector, both as a phenomenon per se, as well as a hidden channel of financialisation of societies.

The pace of change in the private sector as well as the variegated financialisation of banking and public sector in an financially ignorant political economy can be better explained through a biopolitical reading of the power of finance which hinges on relational dynamics and inevitably then, on some cultural or in general human characteristics on which such a power builds in order to expand. Moreover, the case of Greece exemplified how despite proclamations to the contrary, a globalised force such as financialisation enhances rather than delimits the pathologies of local political economies.

Abstract in Greek

Το Φαινόμενο της Χρηματιστικοποίησης στην Ευρώπη: Η Χρηματοοικονομία ως Δύναμη Κοινωνικής Μεταλλαγής και Η Περίπτωση της Ελλάδας σε Συγκριτική Προοπτική

Κλειώ Κατσίβελα

Περίληψη

Ο στόχος αυτής της διατριβής είναι η εξέταση της χρηματιστικοποίησης ως δύναμης κοινωνικής μεταλλαγής και η ανάδειξη της πολυμορφικής τεχνολογίας των τρόπων μέσω των οποίων η χρηματιστικοποίηση εξάπλωσε και εδραίωσε την παρουσία της σε παγκόσμια κλίμακα. Οι θεωρίες και θεωρήσεις που πυροδότησαν αυτό το φαινόμενο υποστήριζαν την ωφελιμότητα του χρηματοπιστωτικού συστήματος για την οικονομία και τις κοινωνίες. Όμως κατά τη διαδρομή παρατηρήθηκε λοξοδρόμηση σε αυτήν την προέκταση, η οποία κατέληξε σε μια πρωτοφανή κρίση που ανέδειξε την απερισκεψία με την οποία διαμορφωνόταν η δομή της οικονομίας και της κοινωνικοπολιτικής πραγματικότητας. Αποδείχθηκε έτσι ότι το χρηματοπιστωτικό σύστημα όχι μόνο δεν είναι πάντα ουδέτερο και αποκλειστικά ωφέλιμο για τις πολιτικές οικονομίες, αλλά αντίθετα μπορεί να γίνει διακινητής πολύμορφων αναταράξεων, ανισορροπιών και κρίσεων. Όμως, παρά την σφοδρότητα της διάψευσης, οι θεωρήσεις αυτές συνεχίσαν να αποτελούν την βάση πολιτικών επιλογών και μάλιστα πολιτικών επιλογών για την αντιμετώπιση της κρίσης που προκάλεσαν. Ένα παράδοξο, μη ορθολογικό conatus (εμμονή στο είναι)!

Η επισκόπηση του φαινομένου σε διεθνές επίπεδο μας οδήγησε στο συμπέρασμα ότι η μάλλον “αθόρυβη” αλλά και ανέλεγκτη επέκταση του φαινομένου της χρηματιστικοποίησης, καθώς και η εν καιρώ επιρροή του χρηματοπιστωτικού συστήματος στη διεθνή αλλά και στις εθνικές πολιτικές οικονομίες -εμμένουσα αδιάσειστη παρά τις διαψεύσεις της, μπορεί να κατανοηθεί και αναλυθεί καλύτερα μέσω μιας βιοπολιτικής θεώρησης φαινομένων ισχύος σε συνδυασμό με την δομική θεώρηση της ισχύος όπως προτάθηκε από την Susan Strange. Η διαπίστωσή μας αυτή

βασίζεται σε δυο βασικές παρατηρήσεις: η “μαγνητική” δυναμική της χρηματιστικοποίησης μετάλλαξε όχι μόνο την δομή και τα συστατικά στοιχεία του σύγχρονου πολιτικο-οικονομικου συστήματος, αλλά και το εσωτερικό της ανθρώπινης φύσης, επιτάσσοντας ένα συγκεκριμένο τρόπο σκέψης ή καλύτερα απερισκεψίας. Αποτέλεσμα των διεργασιών αυτών είναι η ανάδειξη του “Homo Financialis” που είναι ουσιαστικά η “εξελιγμένη” μορφή του “Homo Economicus”. Το ερώτημα που γεννάται βέβαια είναι αν ουσιοποιεί την φύση του ένας άνθρωπος που δεν σκέπτεται, κατά συνέπεια αν η χρηματιστικοποίηση οδηγεί τελικά σε υποβάθμιση του ανθρώπου ως (κοινωνικού) υποκείμενου. Διατυπώνοντας πάντως το συμπέρασμά μας με όρους φουκωικούς, θα λέγαμε ότι η χρηματιστικοποίηση διαμόρφωσε πραγματικότητες και καθεστώτα αλήθειας τα οποία αναπτύχθηκαν μέσα από την αλληλοεπίδρασή τους και τα οποία είχαν σαν αποτέλεσμα οντολογικές μεταλλάξεις θεμελιωδών θεσμών και εννοιών των δημοκρατιών που έχουν επικρατήσει στον δυτικό κόσμο, αλλά ακόμα και των ίδιων των υποκειμένων του σύγχρονου κόσμου.

Αναζητώντας την εγκυρότητα ή μη των συμπερασμάτων αυτών, οδηγηθήκαμε στην περίπτωση της Ελλάδας, μιας περιφερειακής χώρας της Ευρωπαϊκής Ένωσης η οποία παρά τον ασήμαντο, συγκριτικά, χαρακτήρα των ποσοτικών μεγεθών της πολιτικής της οικονομίας, έγινε το επίκεντρο της ευρωπαϊκής κρίσης και της παγκόσμιας συζήτησης. Παρακολουθώντας την μετάβαση της χώρας στην εποχή της χρηματιστικοποίησης σε συγκριτικό πλαίσιο -κυρίως ευρωπαϊκό- φτάσαμε σε μερικά πολύ ενδιαφέροντα συμπεράσματα. Ο ιδιωτικός τομέας στην Ελλάδα, παρουσίασε τον πιο εντυπωσιακό ρυθμό ανάπτυξης της χρηματιστικοποίησης στην ΕΕ, παρόλο που όλοι οι σχετικοί δείκτες χρηματιστικοποιησης αγγίξανε τον Ευρωπαϊκό μέσο όρο μόλις το 2010, στα πρόθυρα της κρίσης. Στον τραπεζικό τομέα δεν παρατηρήθηκε το φαινόμενο της αποδιαμεσολάβησης, ή για να είμαστε πιο ακριβείς κανένας από τους δείκτες αποδιαμεσολάβησης που αποτύπωσαν το φαινόμενο αυτό στον αγγλοσαξωνικό χώρο δεν παρατηρήθηκε στην ελληνική περίπτωση. Η χρηματιστικοποίηση ενίσχυσε παρά αποδυνάμωσε τον διαμεσολαβητικό ρόλο των τραπεζών. Παρόλα αυτά, η εργασία αναδεικνύει κάποιες πιο τοπικές μορφές αποδιαμεσολάβησης που δεικνύουν τους ιδιόμορφους τρόπους μέσω των οποίων

εκδιπλώθηκε το φαινόμενο στην τοπική πολιτική οικονομία. Ο τομέας όμως που η περίπτωση της Ελλάδος συνεισφέρει περισσότερο στην εμπειρική και θεωρητική ανάλυση του φαινομένου είναι αυτός της χρηματιστικοποίησης του δημοσίου τομέα.

Η διατριβή διατείνεται ότι ο ρυθμός ανάπτυξης της χρηματιστικοποίησης στον ιδιωτικό τομέα καθώς και ο τρόπος και η δυναμική εξάπλωσης του στον τραπεζικό και δημόσιο τομέα στην Ελλάδα, εξηγείται καλύτερα μέσω μιας βιοπολιτικής προσέγγισης της ισχύος του χρηματοπιστωτικού συστήματος, γιατί η πρωτοφανή εξουσία που απέκτησε σε συγκριτικά περιορισμένο χρονικό διάστημα σε μια πολιτική οικονομία που δεν είχε εμπειρία στα χρηματοπιστωτικά φαίνεται να εδράζει και σε διαδραστικές δυναμικές, κατά συνέπεια και σε χαρακτηριστικά κουλτούρας ή σε κάποια γενικότερα ανθρώπινα χαρακτηριστικά. Εν κατακλείδι, η περίπτωση της Ελλάδος αποδεικνύει ότι παρά τις αντίθετες προβλέψεις η χρηματιστικοποίηση κατέληξε να ενισχύσει παρά να εξαλείψει παθογόνα χαρακτηριστικά της τοπικής οικονομίας.

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Abbreviations

ABS: Asset Backed Securities

ASE: Athens Stock Exchange

BOG: Bank of Greece

CDO: Colletarised Debt Obligatiosn

CDS: Credit Default Swap

CME: Chicago Mercantile Exchange

EBS: Electronic broking services

FESE: Federation of European Securities Exchanges

FIRE: Finance, Insurance and Real Estate Sector.

FFT: High Frequency Trading

FX: Foreign Exchange

MBS: Mortgage Backed Securities

MIA: Ministry of Internal Affairs

NFC: Non-financial corporations

OTC: Over the Counter

PPC: Public Power Company (ΔΕΗ)

SCA: Systemic Cycles of Accumulation

SDM: Sovereign Debt Management

SOE: State Owned Enterprises

SFA: Stock-Flow Adjustment

SPVs: Special Purpose Vehicles

Introduction

The aim of this thesis is to examine the phenomenon of financialisation, which has proven to be the prevailing feature of current capitalism. Since capitalism is the dominant politico-economic system worldwide, its "financialised version" is important in order to understand deeper socio-political transformations globally. Actually the underlying axis of this thesis is exactly this societal becoming of financialisation: its direct or eventual effects in societies. Our attempt to understand the phenomenon will always then wonder and reflect -explicitly or implicitly- on the kind of societies and subjectivities that it has resulted to. We chose this perspective, because we deem that political economy is by definition the discipline which should be concerned with the consequences of the economy for the "polites" (citizens). Furthermore, it is through this perspective that the economy could achieve long-term and stable profitability.

The thesis consists of two main parts. The first examines the phenomenon of financialisation in global scale, and proposes at the end an analytical framework that better explains its dominance and modalities. The second, examines Greece, a small peripheral country of EU in a comparative perspective, in order to see how a global phenomenon "interacted" with a small, supposedly open political economy, and a seemingly powerless member of a monetary union. Thus the veracity of claims made in the first part will be tested and probably enriched in the second. The two parts will hopefully shed light to the 'mysterious' ways of the omnipresent phenomenon of financialisation.

Actually, this paradoxical co-existence of mystery and omnipresence is, as we will see, only one of the paradoxes of financialisation. It is exemplified in the full-scale surprise from the incalculable thoughtlessness that led to the 2007 crisis. The benevolent and neutral world of finance, which was supposed to deliver only benefits to humanity, exploded and revealed that key institutions and agencies of political economy were operating in such a thoughtless and imprudent manner, that it was inevitable for the world economy to collapse. Moreover, the "explosion" unveiled obscure transactions in supposedly transparent markets and a permeating structural effect of finance

in all models of contemporary capitalism. Everybody and everything in world scale proved interconnected in undetectable ways with finance being the thread binding together diverse entities and functions. Actually, the dominant narrative of the day was that if financial institutions were to go down, the whole world will go down too.

Subsequently, the world became a live laboratory for political scientists and economists. Due to the explosive nature of financial crisis, it "decomposed" in front of everybody's eyes, with no need for 'growth accounting' analysts to do that on paper.[1] Therefore despite the destructive effects of the crisis, these effects can nevertheless be instructive, since they raised the visibility of events, structures and roles, which in the pre-crisis period were too opaque, complex, or simply considered given and thus unobserved. So we will try to take advantage of this decomposition in order to understand the workings of financialisation and the way it acquired such systemic and political importance, disproving but also transgressing theories and expectations. We will proceed with a brief overview in order to frame our research questions and then outline the case of Greece and its importance for our study.

Financialisation: a general overview

Financialisation is a phenomenon that denotes the permeation of finance firstly in many aspects of political economies worldwide, but also in many other aspects of political and social domain. It refers not just to a transformation of capitalism, but also to a social and as we will argue a more ontological transformation. Finance not only dominated but also exceeded the limits of the economy, commercialising entities that were out of its scope, altering mentalities and functions of institutions, societies and individuals. As Blackburn accurately phrased it (2008: 91, 100): "… financialisation … privatises information that should be public, just as commercialises everyday life and promotes a pattern of 'uncreative destruction' in which enterprises and work teams are continually broken up and re-assembled to take advantage of transient arbitrage gains … (it) encourages households to behave like businesses, businesses to be-

[1] Making a comparison to growth accounting which decomposes total output of an economy into different sectors in order to see their contribution to growth.

have like banks, and banks to behave like hedge funds …" The noteworthy paradox of these developments is that, from one part financialisation achieved this omnipresent effect in a rather inconspicuous manner and from the other it proved utterly destructive economically and socio-politically despite the repetitive political and academic discourse on its benevolence and neutrality.

Hence some questions arise: how did finance manage to pervade and weave an invisible yet indispensable net in political economies worldwide? How did it acquire such systemic importance and power, without anybody noticing? How did the promised transparency of financial transactions resulted in an obscure and 'incalculable' world that not even experts can comprehended? How such sophisticated knowledge resulted to a such thoughtlessness? How, besides all the trouble it caused, financialisation proved crisis-resistant? A reasonable context to start answering these questions would be a brief historical overview of the transformation of capitalism in so called advanced western democracies.

Since the Second World War we had two successive policy regimes that have temporarily succeeded in reconciling the uncertainties and instabilities of capitalistic economy: democracy's need for stability for people's lives and capitalism's own need for confident mass consumers. Keynesianism at first, or a system of public demand management, followed by what has been termed "privatised Keynesianism" (Crouch, 2009). In the years of Keynesianism, the state had full employment and social welfare protection as its primary goals in order to create and then sustain a confident mass consumer who was needed for the mass production capitalistic regime. Back then mass production was the only way to lead to economic growth and profits. Besides that, the state would borrow when needed in order to boost confidence and stimulate the economy.

As this system reached its limits, due to a combination of inherent deficiencies and exogenous variables, full employment was abandoned as a goal of state policy. Moreover, a shift towards 'shareholder value' as well as other parameters led to erosion in

wages and subsequently increased unequal distribution and unemployment. As a result, ordinary people lost income and confidence, and mass consumption was threatened. More family members joined the workforce, especially women, but this did not prove enough to cover for the lost income and the increased needs of "private welfare" provision. Therefore, a communication discourse[2] was deployed in order to convince medium and lower classes to substitute this loss with "private means": finance was called to the rescue of the system. Private debt helped indeed smooth the uneven distribution of resources, by retaining the living standards of working classes. Then, gradually a more extravagant lifestyle, one that was beyond the means of the majority of people, was presented from all sorts of channels (media, politicians etc), as a must-do, or a clever-thing-to-do, luring working population deeper into debt.

In parallel to these developments, social welfare protection declined due to limited tax revenue and altered economic assumptions, adding uncertainty to citizens. Eventually, savings, pensions, insurance, all eventually passed through the financial system, in the context of what was later called "asset-based welfare" or 'responsibilisation of citizenship' or even 'financial citizenship' (see Berry, 2014 for an overview). In other words, an essentially neoliberal-inspired discourse of freeing potential of all and of freedom to choose, encouraged the individual to comport themselves "as a two-legged cost and benefit centre" (Blackburn, 2006) assuming all the responsibilities and risks in the new unstable societies. That is why the regime was called "Privatized Keynesianism": it nurtured responsible citizens, who assumed their own welfare through private and as a matter of fact financial means, and they were supposedly doing this as a manifestation of their freedom. Quite an appealing discourse! And a hard one to challenge.

The state did not only retreat from full employment and social welfare goals. A series of institutional arrangements, which can be summed up as deregulation and globalisation of financial markets, paved the way for the expansion of debt, and the eventual dominance of financial logic not only in economy, but also in political and social life.

[2] Indicatively see Gowan 2009a:.7 for USA.

Regulations lifted capital controls, and deregulation of interest rates, banking and finance precipitated international flows of capital, which became available to a wider public, non-financial corporations, institutional investors and states. In retrospect it is striking how low was the domestic visibility and thus resistance (Heillener, 1994: 203) for financial liberalisation in European countries, especially if one compares it for example to services' liberalisation for example.

This can probably be explained, because citizens, on one hand, were ignorant of the potential results of this liberalisation, since they were considering it as something not relevant with their everyday life. Streeck would suggest that it was hard for anyone outside these political and financial elites, in other words for everyday people, to identify with any of those interests that were in conflict in the post 1980s world (2011a). Hence "the apathy at mass level" (ibid). Economists, on the other hand, seemed to have been so enthusiastic by the dynamic new school of economic thought, that of Chicago, that they thought finance was either indifferent, or solely beneficial for societies (Heillener, 1994).[3]

The ignorance and apathy of the former and the enthusiasm of the latter allowed politicians to be convinced that financial deregulation would have no political consequences, or if it had any, it would be the flow of mobile capital in the country, which would boost employment and thus their votes. Both private and public debt rose. Everybody was assured that finance was apolitical (ibid). Streeck though would argue otherwise. He would assert that finance was essentially a conscious political choice when public debt became increasingly high and could no longer be used as the fuel of a state's social policies (Streeck, 2011a: 2). More elaborately he would argue that public debt started rising when the inflation became the target of policies influenced by the new economic theories. The state did not inflate its currency any more, in order to

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[3] Proposing enthusiasm -implying some sort of intellectual capture- on the part of academics, especially ones of economic discipline, could be challenged as a "romantic", thus naive statement, since many economists especially in the USA were assuming government positions, or positions and/or reimbursement from big investment banks, thus leaving space to wonder about a conflict of interest in their potential alternative opinions.

get out of its troubles, but opted for what Streeck called its functional equivalent: public debt. And once this reached alarmingly high degrees, it opted for financial deregulation "easing access to private credit, as an alternative route to accommodating normatively and politically powerful demands of citizens for security and prosperity". So the state exhausted its tax revenues and then its pubic debt margin, making refuge to private Keynesianism the only way to save international and domestic political economies from social unrest and political contestation that retreat of the state from social welfare would incur.

These evolving dynamics allowed finance to occupy and/or create its own free and undistorted-of-any-state-intervention space. Effectively this meant that it was permitted to dictate the rules of its own game, under the assumption that it was a world of no significant importance to the system as a whole, and moreover that it was a world of its own which would only benefit societies. With the help of financial innovation coupled with advances in information technology, finance created an infrastructure outside any public or state scrutiny or control, while at the same time pervaded every aspect of business and personal life, mainly, yet not exclusively so, through credit. Gradually the very role of finance and banks in an economy expanded and transformed: from intermediaries, they became a fee generating business of its own right improvising markets where nobody could imagine before. Furthermore, with manufacturing profits' declining, finance was now to provide growth and profits in an economy. And this 'finance-led growth regime' (Boyer, 2001) needed not just consumers; it needed debtors too. The "man-debtor" of Deleuze (1992) was incarnated, and debt of any kind increased, at times exponentially.

Actually, this new "debt regime of extreme generosity" (Streeck 2011a: 7) that developed, not only created a new subjectivity, the "man-debtor', but also a new citizen, the financial citizen (Leyshon, 2009). Private Keynesianism has laid the ground for such a "birth". To this fertile ground a public discourse was added, that of financial inclusion of everyday people to financial circuits which prior to that time were mainly the locus of profits of the elites. It other words, it was presented as a form of democra-

tisation. Yet Berry (2014) would stress the difference between citizenship and financial inclusion, essentially shedding light to the change towards post-democracy regimes that financialisation encouraged. He persuasively argued that even though the discourse that encouraged the orientation towards finance and debt talked about the responsibilisation of citizens, it was merely an attempt for financial inclusion, in order for the state to cope with the new economic realities. Democracy was just the carrot so that the passage to the new political economy landscape would occur without social disputes and challenges. In the course of the thesis, we will see how a technical, supposedly neutral and intermediating activity such as finance, acquired a transformative role even in relation to the polity, to the role of the state and citizen in modern democracies.

To further place these developments in context, we should mention that financialisation also altered the sense of time. It pulled future into present in exchange of "an enforceable promise (from the debtors) … to engage for an extended period of time in productive activities profitable enough … to repay their debt…" (Streeck, 2010: 25). Time then was confined into just one dimension: present. Adding to this colonisation of future through debt (Lyssandrou, 2011: 341; 2015), short-termism of managers was conveyed to rather conservative and cautious medium and lower classes, trapping them in an "immovable present" (Ramfos, 2012a) firstly of almost imperative jouissance, and later of imperative austerity.

Besides this temporal dimension, there was a kind of "spatial" one too, in the sense of scope. Financialisation commodified almost every aspect of socio-political and everyday life, making a market out of anything, thus introducing a financial logic to be applied everywhere. It pervaded so deep into the ranks of societies and individuals of different cultural, historical and ethnological backgrounds, that it seems to have effectively homogenised them in certain monolithical ways of functioning and thinking. Inevitably then deeply entrenched socio-political values were bypassed or even transformed. Or so it seemed.

One can then make an even more daring statement. Following Castoriades (1998b: 59) one might even argue that there was an "enormous anthropological mutation" since there was a "destruction of all prior social significations and the instillation, in the soul of everyone or almost everyone, of a rage to acquire what, in each's sphere, is or appears within reach, and, for which, to accept almost everything". What Castoriades might have meant with this "acceptance of almost everything", is that there is no counterbalancing value or argument to the rage to acquire something that has an economic value, which in the era of financialisation became a financial one. So an individual with no past nor future, forced by need -actual or artificial- to seek wholeheartedly the acquisition of something that results to financial gains or something that is linked with circuits of finance one way or the other, is probably indeed a mutation of what a human should be.

This loss of humanness in the process of financialisation probably explains the resilience of dominant discourses and economic theories. Because, despite the fact that the assumptions and promises of neoliberal discourses and theories proved false in almost every aspect, paradoxically, yet worrying so, this has not affected the policies and the validity of mentalities that they informed. The tools employed for tackling the challenges of post-2007 world, do not challenge the prevalent paradigm, as the extend and intensity of the crisis would logically justify. Instead, they have been proved effectively weak and reproductive of a system which resulted to devastating effects that have paralysed societies almost worldwide. For the sake of appeasing an anonymous and omnipresent financial system, politicians are sacrificing the welfare of their citizens, leaving them in a precarious and unprotected position amidst a world that seems to be driven by mysterious forces which nobody can control. In this rather biblical landscape, advanced western democracies retreat from achievements that have shaped their (supposed) superiority: democracy, basic rights of citizens, and social welfare. It seems then that the second leg of a Polanyian 'double movement' simply did not occur[4] in this crisis. And it did not because there was no thinking and willing agent to carry it through.

[4] See Wade (2008:6) for a rightfully cautious advocacy for this double movement.

However these essentially ontological transformations are not only confined in political and economic institutions, to our sense or to subjectivities; capitalism itself seems to be threatened "ontologically". It became a state-assisted financial capitalism (Alessandri & Haldane, 2009), even though it was denouncing the presence of state in economic affairs. It also became a capitalism without bankruptcies (Stockhammer 2010: 6), at least for the financial institutions, thus undermining its very tenets. Both features flowed unobserved prior to the crisis which came and highlighted conceptual and practical tensions in capitalism to the point of affecting its very definition. Banking and financial system, from a supposedly apolitical, risk-free, indifferent outside world of its own, became the most urgent political issue globally, that ought to rescued from a government, which in good times, ought to leave them to laissez-faire. Even though this seemed as a one-shot event, something that happened just in this crisis, Alessandri and Haldane of Bank of England (2009) show how the state was "bailing out" the banks for at least the last century albeit not in the same scale. In more technical terms the state was providing liquidity, deposit and capital insurance, so there was always a banking safety net that did not hinder -if not incentivise- financial institutions towards excess, that effectively privatising gains and socialising losses (ibid).

At the same time sovereigns, which in theory were supposed never to go bankrupt, were actually "threatened" of something functionally similar to bankruptcy. And nobody was willing to rescue them mainly because of the moral hazard involved. On the contrary, politicians were willing to apply some pro cyclical credit policies, employ the same financial mechanisms to "help them out" with loans, condemning societies to austerity while leaving the financial system and the transformations it provoked in capitalistic political economies almost intact. A strange capitalism indeed! Could this be a purposeful support of a transnational capitalistic class, as a Marxist would probably assert, or is this blindness due to a mentalité which is governed by something that

obscures a clear view and appreciation of reality?[5] In this thesis we would assert the later.

To sum up, it seems that both an accommodative regulatory and institutional environment as well a “cooperative” public was needed for financialisation to embed “… financial forms and principles more deeply in the fabric of … society” (Panitich & Konings, 2009), thus having an “all-pervasive multilevel societal effect” (Antoniades, 2009: 13). Deregulation, political and regulatory capture could not have been adequate, if “intellectual capture” (Hirschman, 1991) did not manage to appease everybody, effectively hypnotise them and ensure their cooperation or apathy towards a debt-fed growth. In other words, while laws and institutions governed practices, discourses governed mentalities. The result was that the individual, as they have been “constructed” or “deconstructed” from the dominant discourses, is no longer able to see and process a broader picture. They cannot even appreciate their own interest (Blyth, 2002); something that runs contrary to the dogma of neoliberal thinking: the rational, utility maximising individual motivated solely by one’s interests. Thus, a legal system, deregulated and reregulated, in order to facilitate finance, coupled with a (political) discourse, legitimised by mainstream economic thought, created a “structure” which nurtured and eventually “naturalised” an adamant status quo in societies and individuals. A status quo which some now realise -by surprise mostly- that it is financialised to the bone.

[5] Even the IMF admitted cognitive biases and intellectual capture as one of the reasons it failed to identify risks and give a clear warning for the crisis, see IEO, 2011.

Financialisation and Greece: Beyond exceptionalism?

"…What's happening in Greece is the dark side of the extreme globalisation of finance … Their surprise is part of a more profound ignorance exposed by the crisis: as financial globalisation has accelerated, our knowledge of the world and its interlocking parts-political, financial, economic- has failed to keep pace……."

(Mazower, 2013)

To test the veracity of the claims we presented above, we will use Greece as a case study, reviewing its trajectory in comparative perspective mainly with other EZ countries. Greece is interesting for two main reasons. First for the understanding of the global phenomenon, since a too-small-to-fail country created a panic at least in European scale if not globally. Nevertheless despite the panic and the minor scale of its potential "rescue", it was not "saved" as too-big-to-fail financial institutions: the same panic in both cases, incited two opposing reactions. So our analysis will hopefully shed light to the very transformation of capitalism and to the questions we raised on ways that finance managed to create a permeating and invisible net that moves in incalculable ways. Secondly, it would be interesting to see how a global phenomenon proceeded in a small peripheral country of a latino-germanic regulatory context, so as to verify or variegate the claims made for its Anglo-saxonian version, which consists of powerful states of the : core regulated by common law. The results of both parts aspire to contribute to the theoretical and empirical debate of financialisation, as well as to the understanding of a european version of a global phenomenon.

We should note that it is common to analyse Greece as an exceptional and isolated case. Even during the recent events where Greece became the epicentre of the european -if not the global- financial crisis (Roumeliotis, 2012) and the focus of heated political and academic debates, still Greece was regarded as an isolated event. "We will always have Greece for fun and excitement" a BIS economist would playfully say. But if we were to embark on our research with this presumption, it would definitely be confining and not productive.

Critical stances, on the other hand, try to downgrade Greece's exceptionalism and discuss its developments -financialisation included- as part of a neoliberal disciplinary endeavour which exchanged rights for credit and debt (Stavrakakis, 2013). But this stance too probably goes to the other extreme and treats Greece not with its particularities, but rather as part of a neoliberal critique indifferent of the fact that power dynamics of financialisation might have been enhanced from domestic pathologies and in general indifferent of the path-dependent ways that made the march of financialisation possible. Thus they are probably stranded in a dichotomy of good locals versus bad strangers/capitalists. Less contentious views analyse Greece more systemically, as part of the structure of EU and not as an isolated case (Stockhammer, 2010, 2011; Roumeliotis, 2016: 230-242). Furthermore, Adler-Nilsen (2016) would highlight a more discursive nature of Greece's supposed excpetionalism by showing how it could be the product of stereotyping through mediated discourses, one that is more interactive than unidirectional, meaning it could be a product of self-bashing.

Lastly, Sotiropoulos (2003) has persuasively asserted that studies on Greece should be placed in a historical, sociological and anthropological context as well as examined in comparative perspective, especially that of European integration. Sotiropoulos insists that any study on Greek politics should be linked with important analytical frameworks and "a wider theoretical debate about politics in the modern world" and not conducted in an empiricist manner or in a manner that tends towards psychologism. In an attempt to offer such a systemic and contextual analysis which would include though psychoanalytic and not psychologist perspectives, we would first try to frame the debate on financialisation which is still a field of studies in formation and then try to find the links between this frontier albeit controversial academic debate and Greece.

Contribution and Structure of the Thesis

Our first goal in the first part of the thesis is to understand the phenomenon, or in the words of Kondylis (1998) to understand the living history. This inevitably prompts us

to engage in an interdisciplinary research which is open ended, at least till it has framed the phenomenon to an adequate degree. So after an extensive literature review presented through schools of thought and discipline, we will then unfold a wide range of facets of the phenomenon. In the last chapter of this part, we will organise the features of the phenomenon into three categories by abstracting its main characteristics and finally attempt to propose an analytical framework for its study. The facets of the phenomenon will be displayed in a series of arithmetic data, which depict the scale and scope of the permeation of finance into political economies and the social. After all one of the distinct features of financialisation is that it has "numerated" an increasingly wider range of sectors, even ones outside or in the sides of the economic field.

Since financialisation is about the permeation of finance in almost all aspects of politico economic and social life in a rather inconspicuous albeit extensive manner, an analytical framework that can best capture and explain this dynamic is, according to our view, a framework that engages with theories of power, and more particularly post-structural ones. Because it is these theories that explain the more subtle and interactive ways through which an eventually dominant phenomenon ascends and stabilises. Moreover it is these theories that can explain the ways that a peripheral or at least a smaller country responds and potentially incorporates global processes such as financialisation, without having to refuge to contentious analyses such as marxian informed ones. Post-structuralist debates on globalised process are less ideologically burdened and more orientated towards an open-ended understanding of complex and multifaceted phenomena. Moreover and most importantly these theories surpass the structure-agent debate and try to combine both in their analysis.

The divergence[6] of this thesis and thus probably its contribution is first that it will try to integrate these post-structural approaches with Susan Strange's structural view on power, as well as a series of other theories emanating mainly -yet not restrictively so- from Lukes' theorisation. Secondly, the thesis will base its analysis firstly on quantita-

[6] Divergence is the sense that usually studies employing economic data will not engage in post structural analysis and vice versa.

tive data (usually used by economists and sociologists) behind which it will try to discern what has changed in political economies and what kind of (social) subjects have been formulated therein (a political analysis par excellence). Therefore, the thesis will use positivistic, mainstream raw material in order to interpret it through more post-positivistic perspectives.[7] This inductive and interpretive intellectual attempt will be complemented by a series of case studies and examples, especially when examining Greece, thus adding some qualitative raw material as a basis for our interpretation.

Both approaches can be subject to a considerable critique for their eclectic character and hence for their analytical shallowness. Yet, the reason we choose this interdisciplinary analytical process is a conscious intention to prove that there can be a platform of dialogue between (macro)economists, political and social scientists since we are all trying to understand the same problems albeit not trying to listen and get help amongst ourselves in this process of understanding. In other words, from a political economy perspective -at least from a substantive one- it would be more productive and informative to surpass these needlessly parallel and autistic academic efforts in view of comprehending and finding policy solutions to the same problems that preoccupy us all. Furthermore financialisation is still an ongoing phenomenon, which is multifaceted and complex, so single theoretical perspectives can be reductive and thus with little relevance to reality and policy propositions. After all financialisation studies have been characterised as middle range theories or heuristic attempts, both of which are inherently eclectic. We will elaborate on these points in chapter 4 where we attempt to synthesise different approaches, so as to develop a single analytical framework.

In the second part of the thesis, financialisation of Greece will be linked to the theoretical debate developed on the first part. Our theoretical aim is to examine if the analysis of the first part can explain the developments in the country and secondly, how Greece's case can contribute to the theoretical and analytical debate on financialisation. Following Sotiropoulos propositions (2003) albeit adding some psychoanalyt-

[7] To an extent following the approach of Antontiades (2009).

ical and not psychologist perspectives, we would study the phenomenon in comparative perspective and in context trying to sketch the politico-economic, social and historical context which preceded and nurtured financialisation dynamics in a country of the European periphery and a member of EU and then EZ.

Data will mainly refer to the 30 year period preceding the eruption of the crisis in Greece around 2010, which more or less coincides with what has been framed as financialisation period.[8] Here too the research process will be inductive and interpretive, following the same pattern as in the first part: starting from events and tendencies on the ground as depicted in different indicators coupled with some case studies, we will then proceed to their interpretation. The contribution of this part of the thesis is that it opens up the perspective away from the analysis of the Anglo-saxon world towards a country of the European periphery, which on one hand has been characterised as a backward and laggard one, while on the other it became the epicentre of panic of the most advanced economies worldwide.

Financialisation then, despite its homogenising nature might prove to be a more rich and divergent phenomenon. Thus besides enriching financialisation literature per se, the analysis might even inform debates on convergence, divergence or homogenisation which mostly preoccupy comparative political economy.

Finally another contribution of the thesis, both in its study of financialisation, as well as of Greece as its case study, is the focus on the blueprints of the financialisation in societies and individuals. We argue that it is the reach of the phenomenon deep in societies and individuals that cemented its presence to the point of a paradoxical refusal to think: pre-crisis of the systemic effects of finance's exuberance and post-crisis of less pro cyclical and less socially devastating policies. This expands the discussion towards the effects to everyday life and of everyday life, which is a considerable preoccupation of the literature on financialisation.

[8] Any data offered prior or after this 30 year period are given more in a sense of getting a perspective of dynamics and less as part of the analysis of this thesis.

Overall, the thesis offers an alternative perspective on financialisation both as a global phenomenon as well as on the internalisation of this phenomenon in a small country of the EU periphery. Alternative in the sense of combining post-structural views of power with aspects from other theories like the structural perspective of Strange in order to understand the ways it penetrated and eventually dominated international political economy without anybody realising the extent till the crisis erupted. And probably not even then. Its eclectic methods of inquiry try to combine economic data and other social sciences analytical tools in order to understand potential transformations in political economy and society and prove that there can be fruitful dialogue between these two strands, something that would be of benefit both analytically as well as politically. Economic data on one hand will draw the picture of the structure, an effectively dense structure, in which individuals ought to live and which eventually dictates their rationalities and subsequently the policies implemented. On the other, interpretively looking at this structure, its pace of change and scope, one can draw conclusions on how finance acquired such a law-like power which remains unchallenged even when reality proved almost all its assumptions wrong.

So in the first part we will present financialisation as a global dynamic. Chapter 1 deals with the definition of the concept and embarks on a epistemological literature review presenting the ways that different strands of social sciences' literature have dealt with the concept and the features of financialisation. Chapter 2, presents empirical evidence of the ways that financialisation restructured the economy, firstly the (global) economy as a whole, then the financial sector and thirdly, the Non-Financial-Sector-Companies (NFCs). Chapter 3 then enters into the social universe of financialisation, by empirically grounding its transformative presence in socially sensitive markets: housing, pensions and commodities markets. The chapter concludes with a brief historical review of the socio-political and regulatory context that nurtured financialisation, in order to show that the phenomenon was the result of a long process of seemingly insignificant steps. Lastly, chapter 4 offers the conclusions of chapter 2 and 3 by way of abstracting the characteristics of financialisation in order to rethink

financialisation through analytical lens that better capture its modalities. These lens are informed mainly from post-structural perspectives of power with aspects from Susan Strange's analysis on the structural power of finance as well as other conceptualisations that shed light to the (trans)formation of realities and mentalities that financialisation brought.

In the second part we will present our case study, Greece, both in a comparative perspective mainly that of EU and EZ and in historical and social context. After a brief introduction to Part II, chapter 5, will present the historical and contextual parameters and dynamics of the country in order to be able to discern if and in what way financialisation transformed domestic political economy. Chapter 6, then will be dealing with the (potential) financialisation of Greek banking system. Chapter 7, will present the financialisation of private sector, viewing Greek households as debtors in the residential, consumer and NFC markets, as well as financial investors. The case of stock market boom and bust of 1999-2001 will be presented as an illustrative example of financialisation of everyday life. NFC will be examined in the context of households due to the structure of Greece's political economy. Chapter 8 will focus on financialisation of the Greek sovereign state. The domain of financialisation of sovereign and public sector will be proven to be the major contribution of the Greek case study in financialisation literature. Financialisation of public sector and the state is the least researched area of financialisation and involves not only the state as a facilitator of financialisation either through regulation or through its retreatment, but furthermore the financialisation of a state and thus a sovereign per se. That is why in this chapter, we will make a small literature review on this sector's financialisation and propose a more specific analytical framework which inevitably relates to broader issues of international political economy. Complementing this chapter, would be chapter 9 which will shed light to the financialisation of the so called wider public sector, and more specifically to the one of Public Insurance and Pension Funds, the one of Municipalities, and the one of State Owned Enterprises (SOEs).

Lastly, in chapter 10 the thesis will conclude, first by presenting the findings of our case study and then by linking them to the analytical framework presented in chapter 4 as well as to broader socio-political dynamics. Thus this second part of the conclusions will refer to the bibiography we presented mainly in chapter 4, in an attempt to highlight the theoretical contribution of the case of Greece in financialisation literature. Moreover it will add some new insights and bibliographical reference since our findings pointed the way towards other, more general, academic debates.

Part I

Part One (I): Financialisation as a global dynamic

In the first part of the thesis we will attempt to describe and understand the global phenomenon. Towards this goal we will start with the definition and an epistemological review, in order to see how different academic disciplines have engaged with the study of financialisation. Then quantitative data will be presented in order to see how economy was restructured and how finance permeated deep into the realm of the social and the individual. These empirical data will highlight the scope and scale of financialisation, which will permit us to understand its main features. In the last chapter we will offer the conclusions of chapters 2 and 3 by way of abstracting the features of financialisation, and then try to rethink the phenomenon through analytical lens informed by theories of power, which according to our view helps us to comprehend the omnipresence and what seems omnipotence of finance.

CHAPTER 1: Approaches to financialisation: definition and a epistemological literature review

1.1. Introduction

In this chapter we will try to present the definition of the concept and how the phenomenon has been approached by different academic disciplines. Presenting our review in an epistemological perspective, through schools of thought and disciplines, we intend to show at what level the general understanding of the phenomenon lays. But it also aims beyond that. It aspires to highlight that there is a potential of a productive field of dialogue. If so many in the academia are trying to understand the bits and threads of a phenomenon, it means that is not only multi-dimensional and complex, but also compelling, so why not join forces and talk together instead of autistically presenting our views? After all, systemic or eclectic perspectives are probably the new proposition in order to replace fragmentation of disciplines and understandings.

Before we start though it would be useful to suggest our own “working and provisional definition” of the concept. ***Financialisation is a process that denotes not only the dominance of finance in the workings of a political economy, but also its permeation into domains of the political, social and individual, which resulted to a power outside its institutional scope.***

1.2. Definition of the concept

Even though the term has been discussed since early 90s, and spurred a bourgeoning literature after the 2007 crisis, its definition and analytical value is still creating controversy. Yet by highlighting the deficiencies of a concept, dissenters' arguments help to specify the analytical question and test the rigour of answers. Here are some of the objections that are being raised. Firstly, it has been argued that often traits of the phenomenon can also be analysed as consequences or even as causes of it, like for example the rise of shareholder value which could be both a component of a potential definition of financialisation as well a cause of it, which in turn reinforced it, and could be considered as a consequence too. Secondly, some are even wondering if the term is misleading for the phenomenon we want to identify with it; if this phenomenon goes only around finance; if privatisation, deregulation, commodification and relevant terms all could be used to describe the same thing.[9] Some others argue that -just like the term globalisation- it is so general and undefinable a term, essentially implying that its analytical value is questionable. Some others (Toporowski, 2012a) consider the term as a neologism which does not "provide analysis that reveals more than just what is already known because it does not reveal the key relationships associated with the dominance of finance in the 21rst century" which is based in asset inflation (ibid).

Despite these objections though, a literature from (macro) economists to political scientists using the concept has been flourishing. They have tried to define the concept in various ways. Indicatively as the increasing importance of financial markets, motives, institutions and elites in the operation of the economy and its governing institutions, both at the national and international level (Epstein, 2001) or as the tendency of profit making in an economy which occurs increasingly through financial channels rather than productive activities (Krippner, 2011). Others viewed financialisation as a process of cultural and economic transformation in general, that has changed the conception of citizenship and public sphere, the relationship between individual and society (Christopherson et al, 2013: 352, 354). Broadly this last part of the literature is

[9] In his spirited presentation instead of using the term 'financialisation' Antonio Tricarico (2011) preferred the use of the acronym IIBP – "it is a big problem"- in order to highlight the difficulty of definition of the word financialisation

trying to point to the change of rationales and values it has resulted, thus transforming individuals, societies and institutions (indicatively Martin 2002, Langley 2008, Christopherson et al, 2013).

Other definitions are more “systemic” in nature in the sense that they conceptualise financialisation as a systemic change of capitalism. For instance, Lapavitsas arguing from a Marxian perspective, proposes that ‘financialisation’ “does not amount to dominance of banks over industrial and commercial capital; it stands rather for increasing autonomy of the financial sector” (2009: 148) and represents a “systemic transformation of capitalistic production and finance” with three main features: i) less reliance of large corporations on banks, ii) banks shifting activities towards mediating in open markets and transacting with individuals, iii) increasing implication of individuals in the operations of finance (2010).

Others have tried to describe the regime of accumulation and/or growth that financialisation resulted to. Indicatively, Stockhammer, a post-keynesian, coined the term “finance – dominated accumulation regime” (2004) contrasting the term “finance-led growth regime” proposed by Boyer, -from the regulation School- in order to highlight that financialisation can come without growth; it can result to stagnation and volatility –as the current crisis proves. Moreover, for Stockhammer financialisation “ought to be defined … with respect to the structure of the economy” and not the growth performance (Boyer and Clevenot, 2011: 3). Zeller (2008) sharing the term of Stockhammer described the term “finance – dominated accumulation regime” as a new configuration of capitalism where financial capital has taken command over accumulation processes and income distribution. Guttmann (2008) suggested that financialisation is a process which is the central attribute of financial-led capitalism.

More concrete definitions have been attempted for example from Aalbers, who extending Harvey’s notion of capital switching, characterises financialisation as a new stage of capital switching: from the primary, secondary or tertiary circuit of capital to what he calls quaternary circuit of capital, because “financialisation not only implies

the financialisation of existing economies … but also the rise of financial markets of their own right" (2008: 149). In his effort to combine the different strands of literature on financialisation, he defined it as "the increasing dominance of financial actors, markets, practices, measurements and narratives, at various scales, resulting in a structural transformation of economies, firms and households (Aalbers, 2015b). Meanwhile he also tried (ibid) to organise the features of financialisation, thus linking what he sees as three strands of financialisation literature (Marxian, post-keynesian, and everyday life) by highlighting "ten themes as encompassing contemporary scholarship on financialisation". According to him these are:

1. financialisation as a historically recurring process that signals the autumn of hegemonic powers;
2. financialisation of banking, i.e. the rise of non-bank financial institutions;
3. financialisation of the economy in narrow terms, i.e. the financial sector becoming increasingly dominant in economic terms;
4. financialisation of non-financial firms, i.e. traditionally non-financial firms becoming dominated by financial narratives, practices and measurements;
5. financialisation within non-financial firms, i.e. traditionally non-financial firms increasingly partaking in practices that have been the domain of the financial sector;
6. financialisation of the workplace, i.e. employees and their labor practices increasingly shaped by financial narratives, practices and measurements;
7. financialisation of the public sector, i.e. government, public authorities, education, health care, social housing and a range of other sectors becoming dominated by financial narratives, practices and measurements;
8. financialisation of public policy, i.e. the financial industry's concerns becoming increasingly privileged in the policy domain;
9. financialisation of households, i.e. financial motives, rationales and measures becoming increasingly dominant, both in the way individuals and households are being evaluated and approached, and in how they come to make decisions in life;
10. financialisation of discourse, i.e. finance becoming increasingly dominant as a narrative and metaphor, as a language to see/view/measure/assess/ evaluate all things economic and non-economic.

Besides the definition, what is also noteworthy of Aalbers's perspective is the acknowledgement that the term is rather awkward. He attributes that to the fact that the very phenomenon that it tries to describe is an awkward and complex one, highlighting this way our difficulty in capturing it. Answering to Christophers's critique (2012) on the analytical vigour of the term, he is persuasively asserting that the vagueness of the term, which is mainly due to its effort to unite different disciplines under a discussion of a multifaceted phenomenon that has come to influence all facets of a human life, is precisely its analytical and heuristic strength (Aalbers, 2015a). After all "we do not live in a closed system in which causations are linear, one dimensional, and single scalar. The literature on financialisation thus is part of a larger attempt to understand the non-linear, multi-dimensional, multi-scalar complexity of contemporary societies/ economies" (Aalbers, 2015b). We could not agree more.

In line probably with Aalbers's reasoning, we argue that this difficulty in reaching a consensus over the definition of the phenomenon, even the "awkwardness" around and of it, even its asserted neologism (Toporowski 2012a) are probably due to the pervasive nature of the phenomenon and its ongoing evolution. Actually, its very name denotes a process and not a status quo. This dynamic and pervasive nature of the phenomenon then, could be the reason why intellectuals are finding hard to grasp in its totality. Moreover, if one takes a wider perspective, it would be more than evident that totality has not been the intellectual and academic imperative of postmodernity, and of mainstream (macro)economics for that matter. Our era prompted fragmentation over systemic views. Yet, fragmentation of disciplines and thus understandings has proven disastrously wrong; the recent crisis being the most illustrative example. Let us not forget the answer given to the Queen when she asked economists in LSE, why nobody see it coming. British academy answered that the reason was that it was systemic: the failure "to understand the risks of the system as a whole". In retrospect then, the blindness of the "brightest minds" has been acknowledged to lay in systemic and diffused dynamics that were "unobserved". Probably then, the intellectual challenge (but also the political one) in the interconnected world of globalisation calls for

an eclectic and interdisciplinary perspective which would analyse the systemic structures that nurtured such phenomena and/or that these phenomena formed.

Following this line of reasoning, in the next section, we will first attempt to present the different disciplinary perspectives that have examined financialisation either implicitly or explicitly. This extensive literature review which includes a number of views beyond financialisation literature, will help us understand better the multi-dimensional and multi-scalar nature of the phenomenon (to borrow Aalbers terms), and the various ways in which it has preoccupied diverse disciplines. Besides its analytical value per se, it would then show that there could be an ample space of dialogue between disciplines, since their findings can complement each other and this combination could more effectively contribute to the understanding of complex politico-economic phenomena, one of which is financialisation.

1.3. Literature review

The roots of the concept –not the term per se but the concept- are thought to go back "to the work of early twentieth-century Marxists as Hilferding and interbellum liberal collectivists such as Tawney, Berle, Means and Keynes" (Engelen and Konings 2010). From early 1990s though, the term was introduced and then during the 2000s the concept has gained new momentum as many disciplines have either explicitly or implicitly used it in order to denote the rising importance of finance. And while the origin and pre-crisis literature is located mainly in heterodox economics, radical and critical political economy, post crisis's use of the term has spread to mainstream economic and political science.

Thus the literature on financialisation can be considered quite broadly in the sense that facets of the phenomenon have been identified from various disciplines, either mainstream or critical, even though not all discuss financialisation as such but instead use terms such as financial capitalism, rise of credit and/or financial sector and the likes. Interesting reviews of the literature can be found in Van Zwan (2012), Aalbers (2015b), van Treeck, T. (2009), Hein and Van Treeck (2009), Lapavitsas (2011), Stockhammer (2004), and Boyer (2000).

Our literature review will start with the perspective of macroeconomists, both mainstream and critical, as well as those working with legal scholars in what is called law and finance literature. The lengthy reference on macroeconomists in a political science thesis is due to the object of our study. Financialisation is this complex mix of numbers, politics, societies and individuals. Political analysis should not bypass neither the perspective of the people whose data is using, nor the data per se, because the world nowadays is moving around them, and they can potentially keep analysis on the ground. Moreover a central point of our perspective is that prevalent rationalities are a central driver of the eventual hegemony of finance. And these prevalent rationalities in what has been described as the financialisation era -namely after 1970s- have mainly come from orthodox macroeconomic theories. So their views and comments on (macro)economy is crucial to understand the mentality that governed their actions, the

actions of the politicians they advised and the actions of the citizens who were prompted from these very rationalities to join financial circuits as part of their democratic right. Once we have the "canvas" of macroeconomists, then we will proceed with more political economy perspectives, including the view of sociologists, economic geographers, and political philosophers.

(Macro)economists

Mainstream literature has engaged, especially in the aftermath of the crisis, with the relation of financial sector and real economy, its increase relative to the real economy and the connection of this increase to growth and stability. Even though they do not explicitly discuss these processes under the term financialisation, their work has been greatly informative and at times -especially after the 2008 crisis-[10] sharply critical of the outcome of the rise of credit and financial sector.

Both mainstream and critical macroeconomists though as well as economic historians focus mainly on quantifiable aspects of the rise of financial sector in the economy as a whole. They measure the rise of credit, debt, leverage or wages in financial sector, or other variables. Even though these show a structural reorientation of the economy especially in the last 30 years, mainstream economists have consciously resisted to incorporate a systemic perspective into their models. Economic historians on the other hand link these developments with longer structural and sometimes cyclical phases of capitalism and more often than not link their analysis with neoliberalism, identifying the frequency and types of financial crises. Critical macroeconomists finally try also to discern recurrent patterns in the capitalistic system and incorporate into their models variables that contrast equilibrium models of mainstreams scholars which bypass the role of finance in an economy because they believe it is neutral to its workings.

Indicatively from the mainstream literature, Philipon (2008) has contributed considerably in the metrics of financial sector, especially the rents involved. He has measured

[10] It should be noted that only BIS writers such as Bordo or Cechetti have bothered with the phenomenon before the crisis broke out.

the share of financial sector to USA GDP from 1880-2007, to find that there was a U shaped curve from 1927-2006. Yet he explains that the rise of finance in late 19th, 1918-1929, and after 1980s was not due to globalisation (because US is not an exporter of financial services as UK is), nor to the rise of securities trading or mutual funds industry. He asserts rather that it was the investment opportunities that changed after 1970s: young firms with little cash flows and not incumbent large firms with high cash flows (as was the case after the war) appeared and were in need of cash, and thus of financial intermediation. Philipon then would attribute the post-1970s rise of finance to the needs of IT revolution which was in need of financing. Yet the model is restricted to corporate sector of a closed economy, thus ignoring household sector, international economy and trade, that shaped much of the USA's financial position. Thus his assertions on the dominance of credit intermediation are not revealing the ontological institutional changes of financial industry that more critical or political views highlight. Nonetheless, even in such a restricted model, finance has risen exponentially.

A special concern of this group of academics is the relationship between finance and growth in general and debt and growth in particular. Indicatively, in the former issue, Rajan and Zingales concluded that financial development is conductive to industrial growth (1998) and found that market based systems - or arms length finance systems as they call them- are better for growth than relationship-based ones due to transparency and the safe legal environment that the former require and the absence of competition and disclosure that the latter implicitly promote (2001: 472-3).

Their view though has been challenged on both grounds. First of all, partly contrasting the link between financial development and growth, Ceccheti and Kharroubi (2012) found that in advanced economies a fast growing financial sector can be detrimental to aggregate productivity growth. Moreover, these researchers found that there is a negative relationship between the rate of growth of the financial sector and the rate of growth of total factor productivity, essentially saying that financial development harms real growth (2015). They attribute this to the fact that financial sector is

competing with other sectors of the economy for resources, so there are no incentives to invest in what are considered as engines of growth, as R&D for example, since they have low profitability relatively to high return projects as financial investments (ibid). Complementing these findings, Beck et al (2012) -and partly answering to Rajan's and Zingales's argument on the supremacy of market based systems on growth potential- distinguish between intermediation and non-intermediation financial activities. Even though they find that both increase growth in the long run (as opposed to the medium tun of 5 years for example), they point to the fact that non-intermediation activities do that at the expense of volatility, especially in advanced economies. Consequently their policy proposal is that regulation should not aim at the financial sector per se but at restoring its intermediation function. But their distinction is also important from a political economy view, because it sheds light to the transformation of the role of finance in the economy, thus introducing a qualitative reading on the empirical data.

The assertion that market-based systems are more conductive to growth is also challenged from another perspective. Bored and Rouseau (2006) for example show that financial growth and 'deep fundamentals' (as this literature calls the legal origins of a given country), is not adequately established, because having a deep financial sector is not necessarily linked to institutional arrangements that protect property rights, the way for example English law does.[11] They present evidence over the period 1880 to 1997 on the influence of legal origins (English common law versus French civil law)

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[11] Interestingly, American literature in particular is fascinated with what they call property rights, equaling their hierarchical protection over that of the hierarchical protection of the state, as they assert is the reality in civil law traditions. Even though this is a challenging and intriguing issue to delve into, it is beyond the scope of our research, We should only clarify that equaling the depth of an analysis (deep fundamentals) to institutions, bypasses a reality that can be formed by norms, either preexisting or spread by globalisation. For the former case, Bordo and Rouseau (2006) point to the case of Netherlands which had a financial development that preexisted the adoption of the Napoleonian civil code, in other words financial growth has not been influenced by formal institutional settings. For the later case of norms spread by globalisation, one can observe the case of Germany, whose banks despite its bank-based and civil law system, became highly leveraged and followed investment practises of their USA counterparts. So formal institutional settings do not necessarily predetermine the trajectory towards financial growth.

on financial development measured by the ratio of broad money to GDP. They find that especially for the post WWII period countries with common law legal origin (the ones which are supposed to be the market based ones), do not appear more financially developed that those with french legal origin (the ones who are supposed to be the bank based ones). They point to the examples of Germany and Japan. Even though their sample ends in 1997, that is before the explosion of financial sector in the 2000s, their findings show some fissures in the argument that assets the supremacy of market based systems on financial and economic growth.

Parameters of countries' legal systems were used from other scholars in order to explain the rise of finance. La Porta et al (1997) used legal origins dummies in order to explain a considerable amount of cross country variation in financial development today. They find that civil law countries had better financial development in the pre 1914 period and moreover that civil law procedures possibly resolve contract disputes more rapidly than English law. Actually LaPorta has offered some of the seminal works in what has been called Law and Finance Theory which focuses on the efficiency of a legal system to protect investors' rights. However, despite its legal perspective, it shares mainstream's macroeconomic view on the equilibrating force of the markets and that any deviation is an exogenous factor, thus making it a theory for good times in finance and not bad ones (Pistor, 2012: 35-37).[12]

[12] Pistor (2013) the author gives a persuasive critique in the assumptions of Law and Finance Theory by contrasting it to the merits of the Legal Theory of Finance that she is advocating. According to Pistor, Legal Theory of Finance is an inductive theory, using markets as primary union of analysis instead of intermediaries trying to highlight the legal construction of finance. Actually it asserts that law contributes to the inherent instability of finance because of the way financial assets are constructed legally. Financial assets which are essentially contracts arranged on hierarchical relations, in the sense that a counterparty 's interests will prevail over the other in a conflict based on the provisions of law and/or their contractual agreement. The theory seems to incorporate a kind of power theory of political economy kind, in the sense that it argues that law is rather elastic in the system's core and inelastic on its periphery, something that has indeed been proven right in the course of crisis management. A most insightful yet rather one sided view of the theory is that "a legally inspired analysis would suggest that excess is built into financial contracting long before extreme asset prices are reached". Excess is indeed being built into the system. Is that only because of law? Or is the law the one which sets the ground? Which the space open for excess to be built from other forces?

In the latter concern of macroeconomists that we mentioned above, that of the impact of debt on growth, Cecchetti et al (2011) found that when government debt is over 85%, corporate over 90% and household over 85%, then there is a drag on growth. So financial development is good up to a point (Ceccheti et al, 2012). In Reinhart's and Rogoff's (in)famous paper, the researchers claimed that a gross external public debt of over 60% of GDP results to a decline in annual growth by two percent, while over 90%, the growth rates are roughly cut in half (Reinhart and Rogoff, 2010: 573).

Furthermore, quantitative historians, (Taylor 2012, Schularick and Taylor 2012, Jorda et al 2011a and 2011b) take a long duree perspective on the evolution of the structure of the economy through the lens of evolution of private debt. They divide the historical period of 1870 till the present in two sub-periods. The first they called it, the "Age of Money", ranging from 1870 to the 1970s. Then economic variables and trends were consistent to the predominant monetarist view and the ratio of loans to money was more or less stable. The second period, starting from the 1970s, was called the "Age of Credit". During this latter period, even though broad money relative to GDP remained almost flat, the asset side of banks' balance sheet exploded. This decoupling of loans from broad money reflected the rise of non-monetary liabilities on bank balance sheets, such as whole sale funding. Therefore, through a historical account from 1800-2010 on variables such as crises or size of the banking sector they conclude that credit-growth is the main reason of financial instability (Schularick and Taylor, 2012: 14).

Bordo and co-authors on the other hand exploring the frequency, costs, and determinants of banking, currency, and twin crises (Bordo et al, 2001), as well as debt defaults (Bordo and Oosterlinck, 2005) in the first wave globalisation -whose structural economic circumstances are usually used as a comparison to current financial capitalism-[13] found that financial globalisation cannot sufficiently explain the crises before 1913. Thus they claim that a link between financial capitalism and crises cannot be established. Moreover they attribute debt defaults to political circumstances, blaming

[13] See also Bordo et al, 1999.

institutions which are not sound enough for these defaults (Bordo and Oosterlinck, 2005).

Furthermore, Borio's (2008) explanation to the current crisis is that besides the idiosyncratic characteristics that include structured finance, the "increasingly tight symbiosis between intermediaries and markets" as well the business model of originate and distribute, its structural characteristics are rather common and natural ones like financial innovation, the built up of risk and instability in good times which leads inevitably to crises. Actually he asserts that these idiosyncratic factors "… are more symptoms than underlying causes … they are the specific form in which those causes happen to manifest themselves in the particular episode" (ibid: 14). Borio locates the unprecedented factor of the current crisis not in the mechanisms that led to it, but to the "sheer size … of the special purpose vehicles that had grown exponentially" when a "thinly capitalised 'shadow banking system", involved in large-scale liquidity and maturity transformation … (which) escaped the attention of many" (2008: 12). Besides the questionable similarities that Borio highlights, pointing to the excess and the shadow banking system that sustained it, is indeed a considerable contribution to the debate, especially when it comes from a BIS economist.

Three remarks are important to note though. In most of these mainstream economic analyses, money is considered neutral and credit is not considered able to produce shocks in an economy. Credit can only enhance shocks, not produce them. In other words, both money and finance cannot develop a dynamic of their own. Money after all for mainstream theorists is a veil: in commodity markets goods are exchanged for money, which in turn is used to buy other goods, thus what is really exchanged is goods for goods.[14] So, in neoclassical economic models there is a long-run neutrality of money, consequently a change in the money supply affects only nominal variables and not long-run equilibrium variables, such as GDP, employment or real prices.

[14] For a thorough critique on this view see: Ingham, 2004a, 2004b, 2009.

The second remark refers to the notion of equilibrium which is the desired state in the economy achieved through microeconomic dynamics (agents, preferences, production behaviour etc). This implies that the “philosophical” perspective of neoclassical economics is that of rest as opposed to motion,[15] of equilibrium as opposed to disequilibrium, both of which oppose law of physics and recorded social dynamics. Moreover, mainstream theories do not have a systemic perspective of the economic system till the crisis broke. It was after the crisis that established institutions with a clear theoretical orientation towards neoclassical economics, have created research centres in order to understand the systemic risks generated in a system of financial capitalism.[16]

However, post-crisis analyses have implicitly challenged these fundamental notions of mainstream view, and the ones who did came also from the mainstream per se. Borio (2012) for example highlighted the importance of financial cycle in relation to business cycle, a lesson that economists have forgotten in recent years as he claims. He proved that the former “does not only allocate, but also generates, purchasing power, and has very much a life of its own” (ibid: 2), since “deposits are not endowments that precede loan formation: it is loans that create deposits” (ibid: 11). Quite unorthodox for an economist working within the framework of BIS! As Schularick and Taylor, he also highlighted the role of credit: booms now last longer and they do not just precede busts -which are now more violent- but also cause them. He thus highlighted the expansion of financial influence in the economy, and consequently the definition of financial cycle, and he did that by incorporating property prices in his analysis. Conclusively and most importantly, he proposed a new way to look at our economies: to view them as true monetary ones, not differentiated form what the so called real ones, pointing to a more medium term and structural perspective which contrasts the short-termism and fragmented perspective of mainstream economic literature.

[15]https://mises.org/library/notion-neutral-money —> Ludwig von Mises, Human Action, A treatise on economics.

[16] See for example Systemic Risk Centre in LSE

Furthermore, post crisis analyses have especially focused to macro prudential regulation policy proposals coming from both macroeconomists and legal scholars, which tend to cast a medium to long term perspective to the economic system, as well as to its systemic interactions. Some of these analyses even try to capture finance's repercussions to societies, seeing markets as social structures which determine the believes and preferences of individuals (Black, 2013).[17]

Towards a Critical Macroeconomic Perspective

Along this line of challenging mainstream views from within (post-crisis), there has been a so-called revolt of establishment technocrats (Ertuk et al 2011), who started a critique to the economic, especially financial system, by pointing to intellectual illusions, social dimensions of the expansion of the markets and a surprisingly "systemic" perspective of the economy which is rather rare for mainstream scholars.

Starting from Turner,[18] we see that he acknowledges the importance of credit cycle as a driver of both economic activity and risks in this activity (2012: 148). He identified a series of delusions as well macroeconomic facts that we ignored or believed we could ignore. The paradox he highlighted was that these assumptions that neoliberal and mainstream economists were based upon were in contrast to the assertions of major thinkers of neoliberalism. For example, Friedman, as Turner reminds us (2013), argued for a 100% reserve banking. In various ways, Turner highlighted the intellectual confidence in a system that became complex and outgrew the real economy (2010), and which in essence contradicted the theories of some of the main pioneers of neoliberalism. Moreover, for an establishment economist he is surprisingly preoccupied with the social optimality of banks (2012: 146), even though he limits this social optimality to mortgage lending, commercial real estate and of course funding of

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[17] An exceptional precise remark of Black is that "neo-classical economics requires us to assume so much, particularly but not only with respect to behaviour, that it ceases to be of use to a regulator faced with a world in which all other things do not remain equal" (2013: 40).

[18] Sir Adair Turner has been president of UK Financial Services Authority from May 2008 till 2013, he has thus handled the crisis from one of the most influential regulatory posts globally.

(new) business. Nevertheless it is a welcomed reorientation of the discussion towards to a more systemic approach to finance with sociopolitical sensitivities.

Furthermore, a technocrat such as Andrew Haldane,[19] without “obviously rooted in any theoretical perspective” (Ertuk et all, 2011: 3) considers the problem of financial sector a systemic and structural one (2009, 2014b) rather than a “story of individual fallibility, greed or hubris” (2012). His network approach to the financial system is also stressing the role of the state in assisting the risk profile of current financial capitalism. Through his “political arithmetic” (Erturk et al, 2011: 3-14), he highlights how the sector has grown exponentially, draining human and financial resources from other parts of the economy (Alessandri and Haldane: 2009), even though he does not place this drainage in manufacturing or services economy, but in R&D and businesses reliant to external funds. This growth of financial capitalism was state-assisted as he points out, since for the last century the state was bailing out banks as well as creating incentives through regulation for growth and moral hazard from their part (ibid). Moreover, he points out that financial capitalism made all of us asset holders, but asset holders through debt, so when assets’ price decreased, deflation was not our only problem (Haldane, 2012). He also illustrates the problems or concentration and deep rooted culture in banking which, he rightfully thinks, is hard to change and will probably place problems in enforcement of the new regulations.

His proposal is to enact a simple rulebook, avoiding complex regulatory layers which, according to his opinion, create a Byzantine like framework (2013a), that is inefficient, ineffective and inequitable, feeding on inequality, which he thinks is at the analytical heart of the global financial crisis, since the world first saw inequality-induced crisis and then crisis-induced inequality. He belongs to this group of academics and technocrats who advice for macro prudential regulation.

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[19] The Chief Economist and the Executive Director of Monetary Analysis and Statistics at the Bank of England.

A critique that has been exerted to Haldane's views is that his analysis is based in economic data (Engelen et al, 201, 211) and thus that he is proposing a re-mathematisation of the world (Engelen et al, 6); that he has little analysis of power and authority (Engelen et al, 6), while at the same time being optimistic of a technocratic fix for finance which would "create a natural order with greater stability and resilience" (Engelen et al, 5). Even his effort to replace the physics inspired economic models with an analysis that draws from life sciences such as biology has been found inadequate to translate into "workable control technologies, partly because of the activity-specific characteristics of finance" although it was recognised as an imaginative metaphor-driven response to the crisis (Ertuk et all, 2011). Nevertheless his analysis is an opening of a dialogue between disciplines.

Finally another technocrat of mainstream status quo is Melvyn King, former governor of the Bank of England has joined this post-crisis revolt of mainstream. King (2016: 211) exposed the alchemy of modern banking and finance, which is, according to his opinion, the "transmutation of bank deposits -money - with a safe value into illiquid risky investments. In plain words, this is what has been called creating money out of thin air, or private creation of money, or debt-money: when banks create loans they essentially create money, they create deposits, which in the words of King (ibid: 125) is "a claim of illiquid assets with an uncertain value". Actually King would consider that the fragility of our financial system stems directly from the fact that banks are the main source of money creation" (ibid 28), since in the end the banks "have been financing themselves with too little equity and holding too few liquid assets" (ibid: 296). Hence the alchemy which was implicitly subsidised by the state and the regulatory system in general, due to the limited liability of banking institutions, deposit insurance schemes and the role of central banks as lender of last resorts (ibid). It is one thing to hear analyses on the illusions and alchemies of modern finance when they come from heterodox traditions, and completely another when they come from the core of the system, from genuine high-ranking insiders.

Critical-structural perspectives on financialisation

Even though these revolt mainstreams economists seem to take a structural perspective in the impact of finance in a political economy, factoring into their considerations social concerns and even thoughts on intellectual capture, the purely structural view comes from marxist and regulation theorists as well as to some extent post-keynesians, who are discussing financialisation explicitly. These structural perspectives concern themselves with the evolution of capitalism as a system and/or try to factor social and political considerations in explaining the interaction between finance, economy and polity. Exactly what was admittedly missing from mainstream economic theory.

Arguing from a broader Marxian perspective Hopkins and Wallerstein initially, subsequently joined by Arrighi, originated world-systems theory. Based on Braudel's notion of cyclical processes of historical capitalism, they took a longue duree perspective in the evolution of capitalism discerning recurrent waves between its material and financial expansion. Financial capitalism was seen as a sign of mature capitalism and this maturity was described as its autumn. Arrighi differentiated from Wallerstein seeing this recurrence not as something "proceeding along a single track some four or five hundred years", but as a process with "several switches to new tracks", several "recurrent fundamental reorganisations of world capitalistic system which he named successive systemic cycles of accumulation (SCA) (Arrighi and Silver, 2001: 261). When a capitalistic system expands mainly financially, it means that its productive forces have reached its limits, and is in the midst of a hegemonic crisis. But this too is considered by the theory a temporary phenomenon that will end more or less catastrophically (Arrighi and Silver, 1999: 273-4, 287-8), to be succeeded by the remaking of the global system under a new hegemonic power. So SCAs lead eventually to hegemonic transitions, which were indeed the autumn of a particular hegemonic transition and the spring of the next (in these transitions the autumn of a particular hegemonic system and the spring of the next). In fact, Arrighi used the concept of financialisation in his book "The Long Twentieth Century" to explain these transitions.What should be kept from these analyses, is that financialisation is not something

new or unprecedented. It was seen by these scholars are something recurrent in different forms, but which every time it appeared in history it was thought as something "new, latest, highest phase/stage in the development of capitalism" (Arrighi and Silver, 2001: 259).

Another "systemic" view on capitalism that deals with financialisation comes from another marxist, Sweezy (1997) who identified three underlying trends in the post 1974-1975 capitalism: slowing down of the rate of growth, rise of monopolitistic multinational corporations and "what may be called the financialisation of capital accumulation process". Quite early on for the current era, Sweezy along with Margoff (1972) have noticed the explosion of financial capital after the recession of the 1970s and are thus considered as pioneers of the introduction of the phenomenon (Foster, 2007). Foster though in reviewing their work proposed that financialisation is not a new stage of capitalism since the accumulation within production remains the same, so he counter-proposed that this was a new hybrid phase which might be termed "monopoly-finance capital" (ibid).

Contemporary marxist scholars have been even more prolific in contributing both theoretically and empirically to the debate and the elaboration of the concept. One of the most known is Lapavitsas. He considers the financial system as a set of markets and institutions that mobilise loanable capital[20] and support capitalist accumulation (Lapavitsas, 2010). His main theoretical claim is that financialisation is a systemic, structural transformation of mature capitalist economies with three distinguishing features which are "rooted in the altered behaviour of the fundamental agents of capitalist accumulation" (Lapavitsas 2013b): financialisation of non-financial enterprises, disintermediation and reorientation of banks towards households, increasing involvement of workers in the financial system, either as borrowers or as investors something which presupposed among other things the retreat of public provision of services such as education, health and pensions (Lapavitsas 2011). The entretien of financial systems and households has been for Lapavitsas a process of what he called "financial

[20] Loanable capital for Marxists is the idle capital of monied capitalists which is loaned on interest.

expropriation" since bank profits are extracted directly from personal revenue (Lapavitsas, 2009).

The "systemic perspective"of Lapavitsas is evident also in his distinction between mature and subordinate financialisation (2013a: 687-831). The former concerns advanced economies of both bank-based and market-based finance. The latter concerns financialisation of developing countries: "the structural transformation of domestic financial systems … (and) the interaction between domestic economy and global finance" (ibid: 799). The main characteristics of the former are the three ones mentioned above. The characteristics of the latter concern free capital flows of world money and the presence of foreign banks in these countries. Lapavitsas implies that this is part of an implicit form of imperialism, because, the interactions in the world market to which developing countries were introduced mainly through Washington Consensus policies, are hierarchical and subordinate in nature (ibid: 800). And while at first capital flows in the form of FDI from advanced to developing economies, eventually capital flows back to advanced countries in the form of state reserves. This reversal of capital flows is a striking feature of international financialisation according to Lapavitsas (ibid: 802). He also sees it as an "imposition of an informal tribute paid by developing to developed countries" (ibid: 803).

Aalbers (2008: 149), extending on Harvey's three circuits of capital is arguing that financialisation has introduced a quaternary circuit. He thus sees financialisation as a new stage in the process of capital switching from one sector of the economy to the other:[21] currently it being the quaternary circuit because of the "rise of financial markets for their own good" and not as facilitators of other markets (2008: 149). This does not entail for Aalbers a shift of power from non-financial to financial firms, but that both firms are "increasingly involved in financial markets" (2008: 150). Probably the points made by Aalbers are more important than the theory he is trying to categorise them to. Another marxist scholar, Lysandrou (2011) tries to make causal link

[21] Aalbers (ibid: 149) explains that according to Harvey capital is switching sectors in a capitalistic economy in order to avoid crises, but because of capitalism's inherent this is not always avoided.

between global inequality of wealth and financialisation. He sees global inequality preceding and causing financialisation, in the sense that there was a wall of money looking for yield world wide, and this created the incentives to banks to create structured products, because there were not enough investments to quench the search of yield of globally accumulated wealth. Hence the rise of financialisation.

Regulation School (Parisian) have explicitly tried to research the transformation of modes of regulation, that is of institutions of post WWII modern economies, so they developed also a systemic perspective on the phenomenon of financialisation. It is worth saying that while they use the term, they mostly tried to define the regime that financialisation has led to, and not the term as such. Their marxian origins prompts them to use accumulation as a basic concept of analysis and be preoccupied with the transformation of capital-labor relationship in the last 30 years. As some of the marxists' we have reviewed, they too place their analyses in historical context and are especially keen in understanding the big picture, the system, the regime of an economy. And that is one of the political usefulness of their contributions.

To elaborate on their views, we can firstly refer to one of the most known scholars of this group, Boyer. In a seminal article (2001), he described the regime where the logics of finance are dominant as "finance growth regime" and wondered if it could be viable for more than a decade or two. He sees this regime as the predominant one of post-fordist era, still evolving at the time of his writing. According to Boyer, the main elements which can be said to be the components of a definition of this regime are: 1) shareholder value which transformed forms of competition (from product markets to financial ones) and the nature of employment relationship (which became less cooperative with management and more flexible), 2) the transformation of household behaviour towards acquisition of financial wealth (equity holdings, pensions) to such a degree that at the end financial wealth influenced consumption of durable goods and house purchase leading to what Boyer characterised as "equity/patrimonial system", 3) the relationships between the state and the economy changed, with the state heavily indebted and thus its policy decisions and expenditures are sensitive to changes of

state bonds, 4) monetary policy is no longer oriented towards price stability and thus the best mix between inflation and growth but towards stability of financial markets, 5) pensions are professionally managed and not part of the redistribution policy of the state.

Another description of the new regime of capitalism comes from a writer in this group, Cordonier (2006: 68), who coined the name "consumer-based capitalism" (capitalism consummatoire), because he argues that consumption has in part replaced investment as a source of macroeconomic profits (ibid). He thus highlighted another aspect of financialisation that of profiting without accumulation, which according to Cordonier's view is another way of explaining the falling investment trends after 1970s that have not been accompanied by falling profits too (in the long run); a view that resembles the one of post-keynesians.

Another very important issue that regulationists have highlighted quite early (Anglietta 1996) is the potential systemic risk involved in an economy where liquidity does not come from deposits, as textbooks of finance presumed but from "present-day whole sale debt markets"(ibid: 15). Securities markets for Anglietta were the new "repositories of liquidity" substituting lower-yielding cash and demand deposits already from mid 1990s. In his analysis which is grounded in historical events, more specifically financial crises of early and mid 1990s, he proves that "liquidity is at the gist of systemic risk" (ibid: 5), and this liquidity nowadays comes from financial products, namely debt instruments such as securities and derivatives in general. Anglietta places this use of financial innovation in historical context, arguing essentially that as other times in history we used a financial innovation product which was designed to cope with bank failures even after these crises passed. So something designed to cope with bank failures became a regular financial practise. That eventually made the economy more prone to systemic risk (ibid: 16).

Even though work of scholars in this group have been recognised by some heterodox macroeconomists working in the anglo-american context as "the most complete for-

mal macroeconomic treatment" (Stockhammer 2004), the group is rather marginalised. Language barrier could be one reason. But criticism on their views claims that their macroeconomic arguments such as that Boyer's model is incomplete, because it is applied to a close economy and also due to the absence of public and foreign sector and the omission of firms and households' decisions (Van Treeck 2008: 11). Nevertheless regulationists encompassed in their perspective systemic risk and the newly developing structural conditions of the economy long before the current crisis proved them right.

Post-keynesians have particularly contributed in financialisation literature and have frequently tried to have a structural perspective in economic and financial dynamics. Minsky (1986) for one has argued that financial system in capitalistic economies is prone to endogenous cycles of instability, because debt ratios are likely to increase during booms, transforming hedge finance to speculative and then to Ponzi one. Thus what seems as stability during boom is a sign of instability because of the inherent dynamics of capitalism. His stress on the impact of debt on an economic system behaviour and the internal dynamics of capitalistic economies to move stable hedging finance activities, to speculative and then to Ponzi ones have been the main points of Minsky's "financial instability hypothesis." To prove these points he stressed the profit-seeking activity of banks (in contrast to its purely intermediation one) which partly explains the increasing reorientation of banks towards households and governments. Financiers for Minsky are merchants of debt "who strive to innovate in the assets they acquire and the liabilities they market" for profit. Rightfully then he has been in the forefront of Post Keynesians references -and of a considerable part of other scholars in financialisation literature- in trying to explain the causes and modalities of the current financial crisis.

A main concern of post-keynesians in general is the rise of shareholder value -and thus the financialisation of non-financial firms, the consequent fall in real-economy investments and wages as well as the rise of financial profits and rentier income (Lazonick W and O'Sullivan 2000; Dumenil and Levy, 2004; Onaran et al, 2011; Stock-

hammer 2004 Hein 2009; Van Treeck 2009). Another issue of concern for this literature is household consumption that was debt driven especially after the 1970s and which in time became a burden on aggregate demand due to interest payments (Palley, 1996: 201-205; Palley, 2008). Debt increased consumption and financial wealth especially of low and medium income households while at the same time their propensity to save decreased (Palley 2008). A third issue concerning Post-keynesians in relation to financialisation is the effects on income distribution. Falling wages and household debt have contributed to the increase of income inequality, which they view as a parameter of financialisation (Hein 2009, 2011).

Besides these demand side, distributional and microeconomic issues, or better phrased based on these, scholars working in this group have also raised structural issues concerning the transformation of neoliberal capitalism, the architecture of EU, and global imbalances. Let's not forget that one of the most often cited definitions of the term comes from a post-keynesian (Epstein, 2002). Indicative to their "systemic perspective", Stockhammer (2008) coined the term "finance – dominated accumulation regime" contrasting the term "finance-led growth regime" proposed by Boyer (2000), in order to highlight that financialisation can come without high growth or with greater volatility growth (Boyer and Clement, 2011). Furthermore, it can result to stagnation and volatility –as the current crisis proves. Consequently, financialisation "ought to be defined … with respect to the structure of the economy" and not the growth performance (ibid). In the macroeconomic structure of the finance-dominated accumulation regime which he views as one of the building blocks of neoliberalism, he discerned a "notable divergence across countries in terms of the driving force of growth, which is reflected in the pattern of demand" (2011) thus resulting in two growth regimes: the debt-led growth model, in Anglo-Saxon and southern European countries and the export-led one in other countries, such as Germany, Japan and China (Stockhammer 2010). This "turned the periphery of Europe into markets for the core countries without any prospect of catching up" (Onaran 2011). These global imbalances are attributed to financial globalisation which is an important dimension of financialisation, that due to the liberalisation of capital flows it allowed counties to bor-

row extensively (Stockhammer, 2011:89). “In a nutshell … ‘finance-dominated capitalism’ and ‘neoliberalism’ have caused redistribution at the expense of labour income share through several channels and have also contributed to increasing inequality in household income” (Hein 2011b: 5). That is one of the core claims of Post-Keynesians for the phenomenon of financialisation.

Critically appraising the aforementioned orientations of post-keynesians’ research, one can argue that they have the potential to inform and direct policy decisions. For example, by linking growth and wages, they provide alternative policy orientations, such as wage-led recovery as a solution from the crisis (Lanvoie and Stockhammer, 2013), or as a way to boost competitiveness in EU (Stockhammer 2012). Onaran and Galanis (2013), for example, argued that even if some countries are profit-led, “the planet earth as a whole is wage-led”. Actually many post-keynesians advocated wage-led growth as a solution to the current crisis too.[22]

Socio-political perspectives on financialisation

It was other social sciences though, the ones beyond economics, have been the locus par excellence of financialisation. Political scientists, international relations scholars, sociologists, economic geographers, political philosophers or even political theologists (Goodchild, 2011, 2012 and 2013) and in general scholars in socio-political disciplines beyond economics have been preoccupied with many and diverse issues of financialisation. Even though here financialisation is a term used explicitly, different disciplines within this group have engaged with diverse aspects of the rise of finance and have subsequently explained the phenomenon in a variety of ways. Eventually a new, consciously eclectic literature has been bourgeoning: financialisation studies which try to bridge and cross-fertilise different theoretical and analytical perspective. Being mainly driven by issues and an intention of understanding the phenomenon (instead trying to verify or falsify a theory), financialisation studies are said to be heuristic in nature (Engelen et al, 2010) or a middle range theory (Lapavitsas, 2014).

[22] A criticism to post-keynesians is that they are not based on Minskian analysis but rather on the concept of the rentier deriving from Keynes’s analysis of mature capitalism, thus consider their approach close to Marxism, yet not as rich and insightful (Lapavitsas, 2011).

Financialisation studies encompass a series of social sciences disciplines that have been engaged either in the major transformations that financialisation brought in the socio-political and economic landscape (mainly using USA as a case in point), or in the ones occurring in a particular sector or again in the transformations of specific counties. Chapter 2 and 3 that follow are themselves a form of a literature review on aspects of the phenomenon, that is why we will not repeat the contributions of scholars in this section. Here we will only concentrate on writers trying to engage in more encompassing issues which can be linked to an effort to develop an analytical and/or a theoretical framework.

First of all, sociologists have contributed greatly to the discussion of the concept. Krippner's book (2011) for example is a most valuable textbook on financialisation for many reasons. Firstly, following Arrighi she provides an often-cited definition of financialisation, one that focuses on profit making that increasingly originates from financial channels instead of trade and commodity production. Secondly, she does not take financialisation for granted -as others scholars seem to do- but explores if such a phenomenon occurred through a series of metrics that are thoroughly documented. Thirdly because her analysis is deeply political and is placed in historical-institutional context, she highlights the role of the state both "in shaping the turn to finance", as well as "the role of the turn to finance in shaping the state" (ibid: 3). Therefore, she does not view finance as an intentional impersonal force which deliberately imposed itself on the american political economy, but rather she regards its ascendance as a rather unintentional result of policies based on erroneous believes. She calls this an "element of inadvertency" from the part of politicians who wanted to convey difficult distributional questions of post-affluent USA of the 1960s to anonymous markets who nobody could blame (ibid: 22).

Krippner's proved through historical analysis that politicians at the time believed that we will always live in a credit-short and capital starved world, so deregulation could not increase credit without limit (ibid: 59, 82). What they did not take into account

was that the world was becoming globalised, so that internal policies of a superpower would have an impact on investors abroad. In a world of free capital flows and deregulation, where the treasury bill standard replaced the gold standard, monetary policy of USA was not an internal policy of a state any more, intended to curb supply and demand of credit and money, but a policy that could attract foreign capital, as it actually did. Subsequently this "most esoteric policy" to use Krippner's term evolved into foreign policy; something that according to the writer had not be realised at the time. These are extremely interesting views on financialisation, because it relates its ascendance to believes, illusions and contextual parameters, thus enriching our perspective beyond arithmetics.

Another sociologist, Sassen (2014), would add more social parameters in the discussion of financialisation. Through her innovative "analytics", she tried to theorise on some aspects of financialisation and did so by highlight both big, overarching trends, as well as the repercussions of the phenomenon on societies and individuals. For Sassen finance can take diverse forms and adapt to the institutional settings of different countries, but "beneath this diversity lies an epoch-making capability -the financialising of the debt and assets of firms, households, and governments regardless of geopolitics, sovereign authority, legal system, state-economy relation and economic sector" (ibid: 119). This epoch making capability is the "most accomplished and effective … (of) subterranean trends that are reshaping our world" (ibid: 199). A reshape that takes the form of disaggregation and destruction of healthy economies and households.

In the framework of this analysis, one of her most insightful remarks is that financialisation is one of the processes that lead to "expulsions" of people from the system, in the sense of creation of multiple systemic edges where people are pushed to and thus marginalised (ibid: 29). Exactly that pushing people out of the system (ibid: 211), is one of the simple, elementary brutalities that complex and highly sophisticated tools and processes of modern finance result to (ibid: 120, 216). She empirically estab-

lished how, in our era, sophistication leads to brutalities, and immense wealth to poverty without hope (ibid: 147). Paradoxes to which we will return.

Another prominent sociologist, Streeck, even though he has not been using the term as such quite often, he described many of its facets from a systemic point of view, namely as a transformation of capitalism (2012, 2014) and of the character of the state. Especially his analysis on the later, and his emphasis on the transformation of the Schumpeterian "tax state" into a "debt state" and from there to a "consolidation state"(2013) are quite useful in analysing the financialisation of public sector.

Social studies of finance are an interdisciplinary group of writers which try to develop a common analytical framework between accounting, sociology, economics, finance and law in order to analyse financial markets (De Goede, 2005). One of the areas of their interest is performativity of financial innovation, tools and concepts used in modern finance practises (MacKenzie and Millo, 2003; Mackenzie 2003), with a particular interest in high frequency trading (MacKenzie et al, 2012). Even though they are mainly oriented in researching the "buy side" and at times the retail fraction of the "buy side" (Marti, 2015) this perspective sheds light to the discursive, symbolic, interpretive character of money and finance.

Moreover the research agenda of this group of writers tried to explore the historical emergence of financial knowledge which was then used as a form of legitimation of financial practises (De Goede, 2005). Legitimation in the sense that financiers presented the statistics and advanced mathematics that their models were based on as a proof of their scientific rigour and as a defence on the accusations of the gambling character of their activities. Scholars in this field are trying to challenge this alleged scientific legitimation by pointing to the cultural, even theological roots (Maurer 2002) behind complex and seemingly neutral financial tools.

Economic geographers have contributed greatly to the concept, both analytically and empirically. Most of their analyses are considered seminal to the emerging field of

financialisation studies. Empirically, they have naturally highlighted the geographical aspect of financialisation, by describing financialisation in different countries (Engelen and Konings, 2010) or in the urban landscape (Aalbers, 2012b). Analytically, they have first of all initiated a debate on the issue of divergence/diversity or convergence towards Anglo-American liberal system as a consequence of financialisation.[23] Actually, underlying this concern are mainly the different preoccupations of IPE and CPE. IPE adopts a convergence stance by seeing markets and globalisation trends as disembedding domestic institutions, while CPE, and VoC in particular, views the same trends are mediated from local institutions (Engelen et al, 2010), thus pointing towards a path-dependent route of varieties of capitalism. Scholars in financialisation literature have highlighted some tensions in this division of labor as they say at least as far as financialisation is concerned (Konings 2008; Engelen et al, 2010). They argue that even though there are some distinctive historical trajectories towards financialisation not only between the USA-UK and Europe, but even among European countries themselves, there seems to be a convergence. However, this is not real convergence (Konings 2008: 262-3), but rather a hegemonic integration of Europe in American financial practises (Konings 2008: 264).

Albeit this is not a hegemony imposed to other countries. Scholars in this group have shed light to the "interactive" dynamics of the expansion of finance, since they showed how local political economies played a constitutive role (Konings 2008: 257) "in the mutual interaction between global markets and local financial change" (Engelen et al, 2010: 69). Actually, Konings (2008) pointed to a very interesting caveat on our perspective on examining convergence: we pay attention, he says, to formal institutions which might indeed converge, but in this positivistic stance we do not see the "implementation", the embeddedness of these institutions to the local social norms and practises. Furthermore, focusing on formal institutions is also "ineffective" to our

[23] Even though convergence and divergence has been a concern of social sciences for some time, giving birth to the at the time revolutionary VoC literature, financialisation has not been factored in the discussion till economic geographers brought it in the discussion. VoC, and Comparative Political Economy in general have a pronounced productive and a focus on firm, thus "ignoring" processes and transformations that financialisation brought even there, in production and firm level.

understanding of the phenomenon, since we will gain more if we examine "the diffusion of institutions and the interaction of different sets of social relations to change the rules and mechanism of global finance" (Konings, 2008: 258). Therefore, Konigns oriented the analysis towards informal institutions and more discursive practises.

Along this line of thinking Konings coined the term Varieties of Financialisation (2008) or with other economic geographers (Engelen et al, 2010) the term Geographies/Patterns of Financialisation, denoting that institutions "fulfil dramatically different functions" (Konings, 2008: 258) in different national settings. However, no typology has been proposed. Actually the only proposed typology in the context of financialisation is th one under the name "varieties of residential capitalism" concerning different degrees of securitisation in an economic system as well as the differentiation of ideas about residential property markets (Schwartz and Seabrooke 2008: 249). In other words, Schwartz and Seabrooke discern two analogous to VoC categories, a controlled mortgage finance system (CMF) and a liberal one (LMF), but in contrast to VoC, they show how institutional complementarities literature or the logic of institutional frameworks and economic fundamentals alone, cannot explain the varieties of residential capitalism especially in controlled finance systems (CMF) pointing thus to "socially constructed ideas about the purpose of housing" and "broader changing attitudes and conventions about these markets" (2008: 254-255).

On another end, Powell (2013: 82) presents empirical evidence of convergence despite historical, political and institutional specificities. He theoretically establishes his evidence by arguing that financialisation of emerging countries is a modern form of imperialism and he calls this "subordinate financialisation" borrowing the term from Lapavitsas. So there is convergence, but it is a kind of forced convergence through imperialistic forces. In his case study for example he sees the subordinate character of Mexico's financialisation in the "subordination of macroeconomic policy to the financial needs of foreign investors and large domestic corporates" (ibid: 271). In general for Powell subordinate financialisation "is reflected in the subjugation of domestic

monetary policies to the imperatives of the international capital and the relationship of the domestic currency with world money" (ibid: 302). [24]

Lastly, seeing financialisation in a post-crisis perspective, meaning judging its results after the crisis, Gabor and Bar (2013) claim that financialisation made liberal and mixed economies of Europe to converge towards coordination models and not towards liberal ones. This rather "revolutionary" statement is based to the adoption of fiscal policies resembling the ones of coordinated model, when crisis brought to a sudden stop inflows of capital from export countries. Thus free capital flows, and especially deepening of sovereign bond markets which essentially transformed them into collateral ones contributed to "pathological, institutional interdependencies between governments and their banking sectors … and the resulting interdependencies between banks and sovereigns left the bond markets of European sovereigns increasingly vulnerable to sudden stops in the capital flows that deficit countries depended upon" (ibid: 3). Consequently they had to adopt austerity policies in order to rebalance, something which is a coordinated market macroeconomic policy.

The second major contribution of economic geographers has been their insistence to highlight the social embedment of finance. For one, they highlighted the role of urban space, race or ethnicity in the rise of subprime and predatory loans in USA reading through the numbers (Aalbers 2012b). Moreover, there tried to empirically establish how finance gained in power not just from formal institutions -through deregulation, subsequent reregulation, but also through informal institutions and its penetration to everyday life. Konings (2007) for example has tried to cross-fertilise International Political Economy with Cultural Political Economy through historical institutionalism, so as to highlight an aspect of structural power of finance which lays not only in the (informal) institutional mechanisms it gave rise to (2007: 23), but also -actually mainly so- to everyday life, at least in the case of USA where his research evolves (2007: 23-24). Subsequently, he made a persuasive case on how structural power of finance should be analysed not only in the world of high finance and its agents, but

[24] Powell's views are based on Marxism and more particular on analysis of Lapavitsas.

also to the world of low finance, that is of informal institutions, socio-cultural norms and micro-level financial practises.[25] These different combinations enabled Konings to go down to the micro level, to society where finance was embedded and empowered, and return to the macro level in order to understand the dynamics of the phenomenon in the level of state and the international stage.

This new political economy of everyday life has of course engaged political scientists too. Martin (2002) was the first probably to introduce daily life in the debate of what was considered a technical and highly sophisticated matter: finance. Langley (2008) advanced the discussion by using everyday life as a conceptual category and not as a descriptive label (ibid: 12).[26] He pointed to the fact that the transformations in what is considered mundane routines of saving and borrowing, are indeed crucial constitutive forces in contemporary finance, in particular the US one, and "not largely derivative of apparently 'bigger' forces of state power, or ultimately reducible to state-based legitimation of speculative forms of 'risky' accumulation and the sectional collective interest that they benefit…" (2008: 10). Especially as far as investment is concerned he saw it as "a technology of self under neoliberal capitalism" (2007: 77). Moreover, Langley, oriented financialisation studies towards the individual who is nurtured in the era of financialisation. For Langley, they are uncertain subjects, because they comport themselves with contradictory subjectivities. They are an investor subject, a worker-enterpreneur, a consumer subject (2007: 78-85). A strange mixture of "self-indulgence and profligacy" (2007: 84).

Montgomerie (2008) would extend this view on the individual by arguing that finance is not as a coherent body of actors, as various analyses imply. She persuasively claims

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[25] A very productive attempt of Konings is how he links the insights of CPE back to an effort to understand how financial power works at the macro level (2007a: 6). His "going back and forth" macro, micro and everyday level for one and IPE and CPE on the other gives "breath" to to both arithmetic and (historical) institutionalism analyses which if they stand alone can at times lack socio-political usefulness.

[26] His analysis are influenced by seminal writers on everyday life like Levebvre (1991) and Michel De Certeau (1988).

that its actors are embedded in society and are rather “cautious, confused or limited by material constraints” (ibid: 242), as many others out of finance. In financialisation era, “actors and markets attempt to find social coherence, but they ofter fail”, she said (ibid: 234). She thus implies that there has not been a conscious, strategic endeavour for the rise of finance, and that people in finance are humans too, and that their acts have also shaped the phenomenon rather than them been merely shaped by it. Moreover, she would highlight that it is from the “deeper embedding within socio-cultural practice” (ibid: 243) that finance derived its discursive and performative power, since “financial ‘logics’ are constituted by social practise” (ibid: 243). It is actually this kind of power that enables “finance to adapt despite multiple inconsistencies and discrepancies” (ibid). Thus she would show that financialisation studies moved beyond “the “dis-embeded” and decoupled characterisation of present day finance” (ibid: 244). As Langley she also highlighted how households in a financialised society are magnetised by contradictory narratives since they can at the same time be both financial investors and debtors (bidi: 244).

Lastly, Seabrooke (2006) using the Weberian notion of legitimacy tried to construct a middle range theory in order to explain how state and high finance is legitimised by everyday folks. Everyday folks might not have a power, but collectively, through the norms they share, they can determine state’s financial power in international level. Seabrooke’s deliberate analytic eclecticism links, as Konings does, “lower income groups to international finance” (Sil and Katzenstein, 2010: 112).

These socially oriented analyses which introduce everyday life and diffused power dynamics in the debate, are linked to (post)structural perspectives: that of discursive and foucaultian kind of power, and concepts such as governmentality. To these we will come back in chapter 4, where we will present the theories of power which are relevant to the phenomenon of financialisation and its expansion. However, in order to emphasise the pertinence of these (post)structural theories in comprehending the phenomenon of financialisation, we need first to unfold its expansive “nature”.

1.4. Conclusion

No matter how it is defined or called, aspects of the financialisation have been studied from different disciplines and schools of thought. Especially after the eruption of the ongoing crisis in 2007 – 8, mainstream and critical strands alike have engaged in understanding a phenomenon that emerged from rather heterodox schools of thought. As a result, financialisation literature is growing with the aspiration of developing into a separate field. Formulated from diverse social sciences and humanities fields, it exhibits a rather purposeful eclectic character, trying to either combine and cross-fertilise different disciplines or strands of literature or use financialisation concepts as heuristic devices.

Adopting this eclectic perspective, our literature review showed that nowadays there is a developing intellectual effort from diverse academic backgrounds attempting to show that finance is not just numbers on a computer screen, but also a powerful dynamic that transforms political economies, societies and individuals. Actually, the social and the individual started appearing in the intellectual screen in an effort to explain what mainstream approaches seemed incapable to either conceive intellectually or capture empirically: how neutral and benevolent finance ignited an unexpected and unprecedentedly destructive crisis, how it proved crisis-resistant despite its devastating repercussions and finally, how it managed to be both omnipresent and mysterious. Omnipresent because it is effectively everywhere, dictating the functions and logics of almost all realms of economic and socio-political life. But at the same time, mysterious because in retrospect everybody saw that it managed to do that in a remarkably unnoticeable manner and furthermore because even now, 8 years in the crisis, nobody has really understood in full, how financialisation is actually shaping reality.

Yet, as the social and the subject enter the debate, a political aspect is introduced in what was considered a technocratic and a politically -even economically- neutral activity, finance. Financialisation then proves that it is fundamentally political process too. Nolke rightfully remarked that debates on financialisation have reached the point where research should be oriented towards “the political roots and supporting forces

of financialisation" which are based to a mixture of instrumental, structural and discursive dimensions of politics where politics should be understood both as intended and unintended action (Nolke 2013: 20). To that we should add that research should be oriented to the politico-economic and social consequences of financialisation, to what kind of reality it produces for societies and individuals.

With these intentions in mind, in the two following chapters we will present the effectively dense structure, the intertwined web of relations that finance has created exactly through this process that has been called financialisation. A structure within which societies and individuals are inevitably nurtured and shaped. We will start with the ways it restructured the economy (chapter 2) and then on the ways it penetrated the social (chapter 3), ending with a brief historical review of what preceded and nurtured financialisation.

CHAPTER 2: The "Great Financialisation":[27] how financialisation restructured the economy

2.1. Introduction

The aim of this chapter is to present how financialisation restructured the very domain in which it is functioning: the economy, or to be more precise, the global economy. The first part of the chapter will focus on quantitative data. We will report on indicators that show how the economy as a whole and in global scale has been transformed through financialisation. We will see how financial sector has augmented and how the mechanisms of financialisation, such as debt, derivatives, securities and in general financial sophisticated tools, have imposed themselves over the economy, if not by no other means, at least by their mere size. Besides finance's excessive size, interconnection of the economies worldwide played a significant part in increasing the momentum and power of financialisation. Actually, one can argue that interconnection was both a pre-requisite and a consequence of financialisation: financialisation could not have spread if world economies were not interconnected, and once it did, the international political economy became fragile, non-resilient and incapable of articulating alternatives, thus reproducing and strengthening the web that allowed it to expand. Lastly, we will describe the main actors of the phenomenon. In the second part of the chapter we will proceed by describing the financialisation of financial sector per se and in the third the one of non-financial corporations. The chapter will end with a brief history of financialisation in order show that the catalytic transformations of the economy were the result of politico-economic and regulatory changes long before indicators started to capture its presence.

[27] A title borrowed from Polanyi - Levitt K.(2013).

2.1. Financialisation of the economy as a whole: "The Great Leveraging"

Borrowing the term "The Great Leveraging" from Taylor (2012) and using it as the subheading of this section, we wanted to denote from the start the result of the excessive spread of finance in relation to the real economy, which is leverage. With this end result in mind, we will examine how financial mechanisms spread through out global economy, by looking at the size of financial, and in particular banking sector as a percentage of GDP, credit to GDP, amounts of derivatives, and financial profits to GDP. These will enable us to critically assess the potential structural changes in global economy as a whole. We should note that the indicators presented here are not always considered in the context of financialisation. They were selected though because we deem them indicative of the phenomenon. As we will see, they refer mainly to US, if not otherwise stated. This is not only due to data constraints, but also because of the hegemonic position of USA's economy in global scale and in financial industry in particular.

Rise of financial portfolio income of NFC and financial profits for the economy as a whole

How can one measure the rise and eventual size of the financial sector? A spontaneous answer would be by its contribution to GDP. Another answer could be by changes in employment. Krippner though argues that financialisation cannot be measured neither by changes in employment nor by the mix of goods and services produced because finance is not employment intensive and its "products" do not show up in transparent ways in national economic statistics (2011: 30). Furthermore if one uses these two indicators finance looks unimportant to the economy: employment data show an insignificant role and increase of FIRE employees[28] and while relative industry shares of GDP show some important contribution of FIRE sector, services in general take the lead. This is at the very least counterintuitive. That is why Krippner proposes profits –relative industry shares of corporate profits- as the indicative measure of what she considers structural changes in US economy. It is there where one can see

[28] FIRE is an acronym referring to "Finance, Insurance and Real Estate Sector" which is the broad definition of financial sector in Agglo-saxon economies.

the impressive rise of FIRE in comparison to services and manufacturing. In order to measure profits of the industry in relation to corporate profits, she proposes two indicators: (i) the sources of revenue of non-financial firms, demonstrating the growing importance of “portfolio income” (interest payments, dividends, and capital gains on investments) relative to traditional productive activities, and (ii) comparison of financial and non-financial profits in the economy as a whole. (2011: 30-34).[29]

The first indicator (chart 1) shows that non-financial firms, especially in manufacturing increasingly started diverting resources from long-term investments in plant and equipment to financial investments probably in order to face the uncertainties of the 1970s and 1980s (2011: 37). Breaking down the components of these financial profits, Krippner finds that it was interest payments, rather than capital gains –which remained rather steady- or dividends –which decreased significantly- that were the main sources of financial profits for non financial firms between 1950-2001 (2011: 37; chart 2). The second indicator shows a gradual increase of profits generated in financial sectors in the 1970s, then a sharp rise in the 1980s, and while it retreats in the first half of the 1990s, it explodes ever since (2011: 40, see chart 3). Overall though, these two measures, aptly characterise, according to Krippner, the trajectory of the US economy towards financialisation and justify her definition of the phenomenon, as profit making increasingly occurring through financial channels (2011: 51).

[29] It should be noted that Krippner research unfortunately reaches till 2001. Her data do not capture the trend in the decade of the 2000s when financialisation exploded. Yet she shows the trend starting from 1950s which means that her research results capture the very context that nurtured financialisation.

Chart (1) Ratio of portfolio income to cash flow for US manufacturing and non-manufacturing industries, 1950-2001

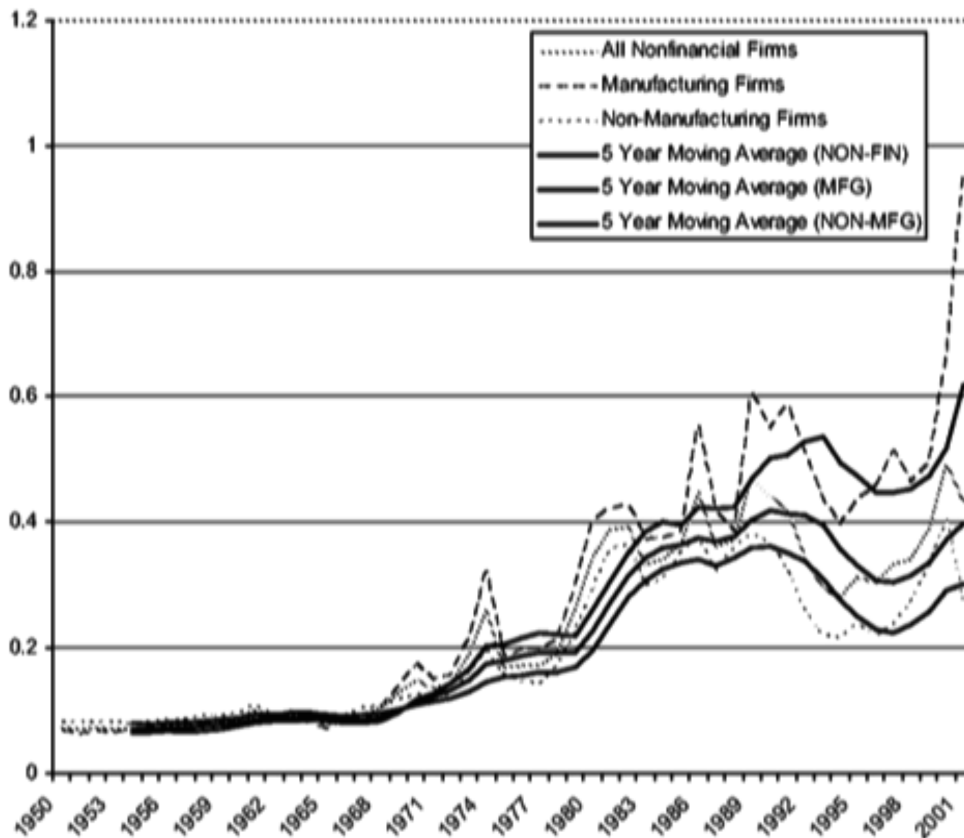
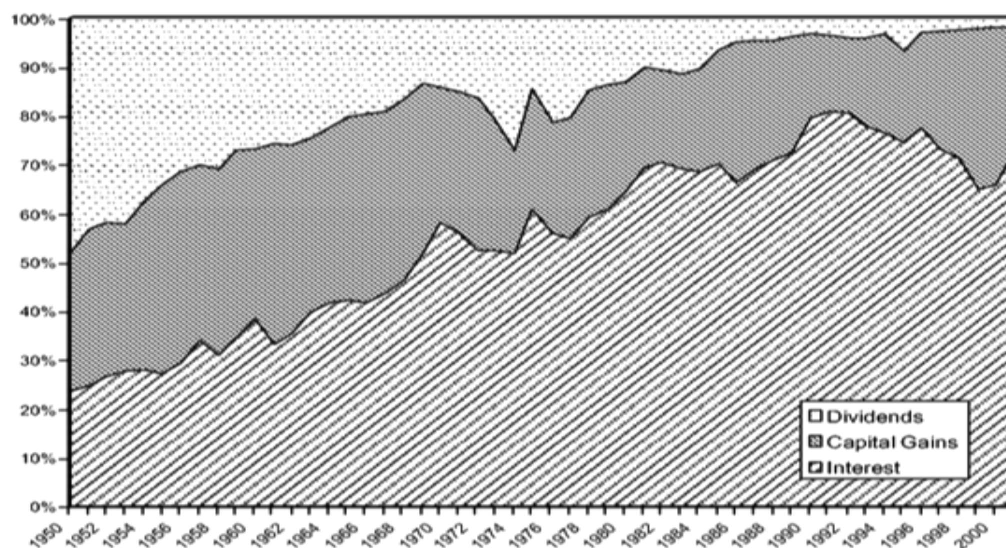
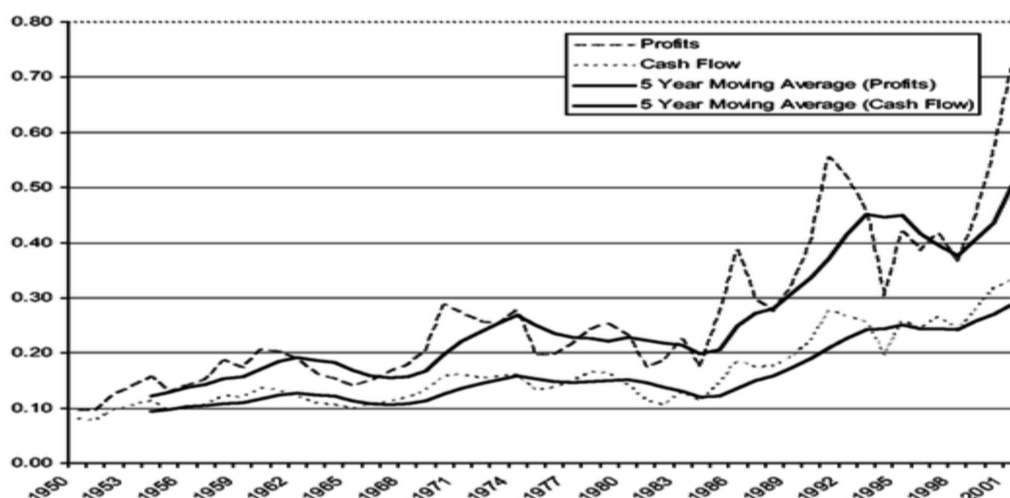


Chart (2) Share of total portfolio income accounted for by individual components for US non-financial corporations, 1950 - 2001



Source, Krippner (2005: 186)

Chart (3) Ratio of financial to non-financial profits and cash flow in US economy, 1950-2001



Source, Krippner (2005: 189)

"If you pay peanuts, you get monkeys":[30] The rise of rents in financial sector

Another way to measure the quantitative importance of a sector in an economy is through its rent income. It has been found empirically that extraordinary growth of income in financial services sector is the result of income rents taken from the rest of the economy and thus from the rest of society (Tomaskovic - Devev and Lin, 2011). As Mervyn King[31] so rightfully phrased it, this rent seeking diverted "talent from professions where the social returns are high, such as teaching, to those, such as finance where the private return exceeds, often substantially, the social return" (2016: 156)

Philippon and Reshef (2009: 30) found that since mid 1990s rents in the industry account for 30% to 50% of the wage differentials between financial sector and the rest of the private sector which means that financiers are overpaid. More particularly as chart 4 shows the difference between the actual and benchmark relative wages skyrocketed after 1990s, (especially between mid 1990s and 2006) meaning that wages in

[30] OECD, 2008b: 5.

[31] Mervyn King is a former governor of the Bank of England..

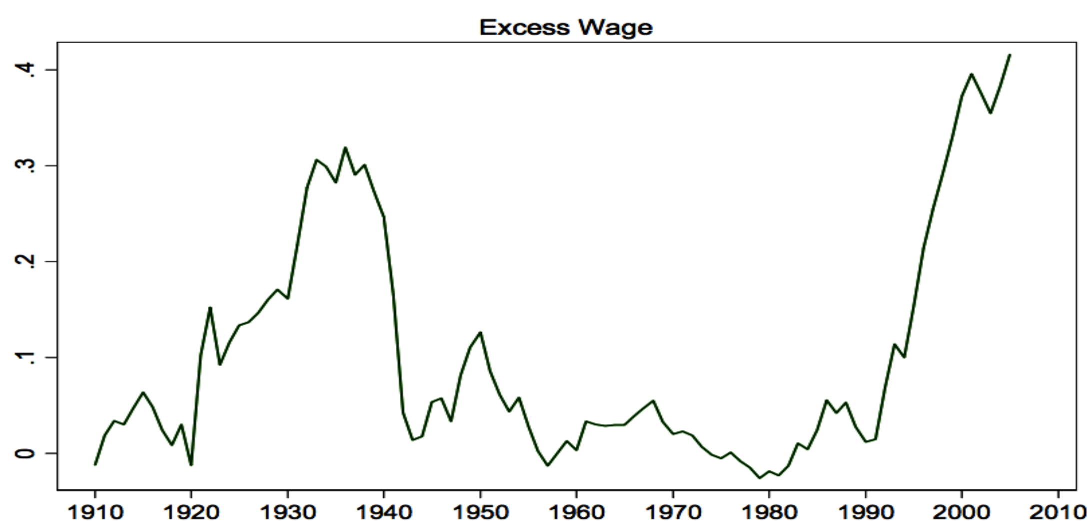
financial sector were higher relative to benchmark (private non-farm sector).[32] For the writers the compensation of employees in the financial sector is not consistent with a sustainable labor market equilibrium, so -confident for this eventual effect of market dynamics- they suggested that "short term rents are likely to diminish" (ibid: 5). However reality did not prove them right since bonuses at least persisted even during bailout schemes.

Moreover, these high wages were correlated in their research findings with high skills, meaning that among other things that young scientists had more incentives to join - and did join- financial industry than other sectors. Philippon and Reshef attribute the demand for high skills in the sector first to financial deregulation which ceased to inhibit "the ability to exploit the creativity and innovation of educated and skilled workers" and secondly to non-financial corporate activities linked to IPOs and credit risk. Computers and information technology, in other words financial innovation, did not prove as important according to their estimations.

Moreover, this rent character of financial wages contributes to the claim that the growth of finance was mainly financing finance (Toporowski, 2008). Of course it needs to be said that not all employees in financial sector were getting huge wages: not even rents in the sector were "democratised". Most of the employees were paid relatively moderately or even low. An illustrative example is Barclays where in 2013 (post-crisis), 1443 employees earned more than 500.000 pounds annually, some were even earning 1.3 million each, while more than half of them earned less than 25.000 pounds per year (Kay, 2015: 582-3).

[32] The figure as well as the research of Philippon and Reshef shows that similar patterns from mid 1920s to mid 1930s attributing them to deregulation too.

Chart (4) Historical excess wage in the financial sector



Source: Philippon and Reshef, 2009.

Rise of financial assets

Another indicator of financialisation, besides the profits and rents of the industry, is the size of financial assets. As seen in chart 6, McKinsey Global Institute (2008a) reports that world's financial assets (including equities, private and government debt securities and bank deposits) rose from 12 trillion in 1980, 43 trillion in 1990 and 94 trillion in 2000 to $196 trillion in 2007 (2008a: 10) while GDP the respective years was around 12 trillion in 1980, 23 trillion in 1990, 33 trillion in 2000 and slightly over 60 trillion in 2007 (World Bank Data).[33] We see then that in 1980 financial assets were approximately the size of global GDP, in 1990 they were almost double the size of global GDP and in 2000 they were almost tripled in the size relative to global GDP (whose evolution is illustrated in chart 7). In terms of percentage growth, financial depth as measured by the ratio of financial assets to global GDP rose to nearly 359 percent by 2007, something that clearly shows in chart 5 (McKinsey, 2008a: 8). Even if one wants to go further back in time, from 1885 till the 1980s, one can see that financial asset growth followed more or less that of GDP, with only notable exceptions

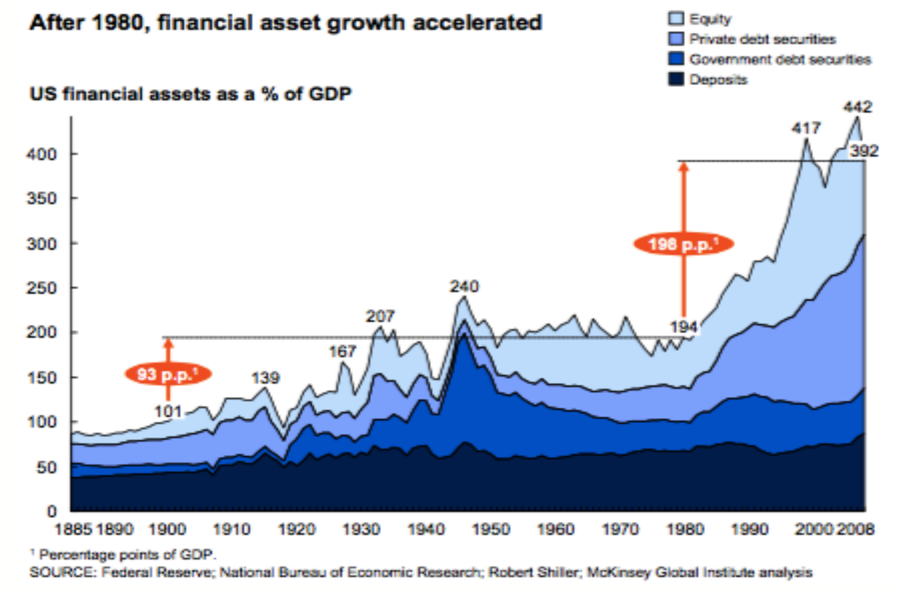
[33] World GDP in current US dollars, World Data Bank, retrieved 10.01.2014.

periods of war (McKinsey, 2009: 8; chart 5). All these illustrate the unprecedented nature of financial asset growth since the 1980s, the era of financialisation.

To get a more elaborative view of the development we look firstly to the type of financial assets that rose more prominently: it was equities that have grown faster than debt markets in most of the years since 1990, yet it is debt markets that have grown more in absolute terms during the same period (McKinsey, 2008b: 23). More particularly and as shown in chart 6 from 1990 to 2006 equities increased by 45 trillion dollars and debt securities by 50 trillion (ibid). Something noteworthy is that in 2006, just on the eve of financial crisis, there was a surge in deposits, which for many years were decreasing in favour of other financial assets such as equities and bonds. They reached by 5 trillion in 2008 with mature economies' ones growing faster than historical average (McKinsey, 2008, 2009: 13). Quite a "traditional" and "conservative" move of investors at the peak of financial sophistication!

Secondly, in terms of comparison between countries, one can see that in 1990 when world's financial assets to global GDP were at 227 per cent (McKinsey, 2009: 31), only 33 countries had financial assets that exceeded their GDP, while in 2006 there were 72 (McKinsey, 2008b: 21). Also while in 2000, there were 11 markets whose financial assets exceeded GDP by 350 percent (all of which in the so called Western World), in 2007 there were 25 countries at this state including some developing ones, such as China and South Africa (ibid). In the Eurozone financial landscape, one can see that while Germany and France had the largest financial markets in 2006, followed by Italy and Spain, the rates of growth were fastest in Spain, Luxembourg, Greece and Ireland (McKinsey, 2008b: 30; chart 8). Outside the Eurozone, UK had the largest increased in its financial assets in Europe which reached 10 trillion dollars, with bank deposits accounting for nearly one-third of the increase in financial assets that year (ibid).

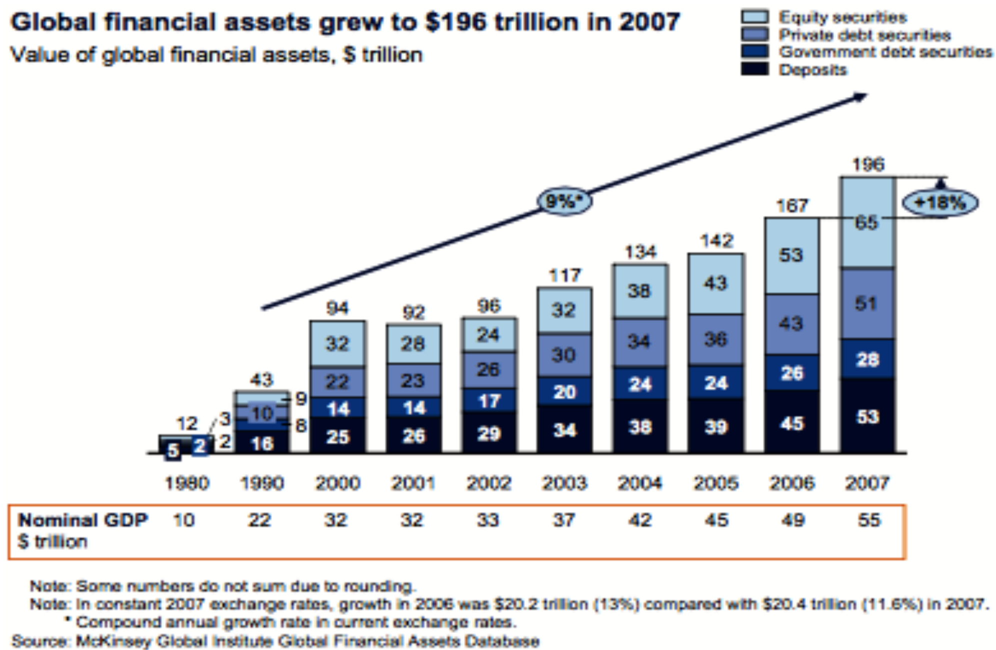
Chart (5) Financial asset growth of USA as a percentage of GDP



Source: McKinsey, 2009: 8

Chart (6) Global financial assets

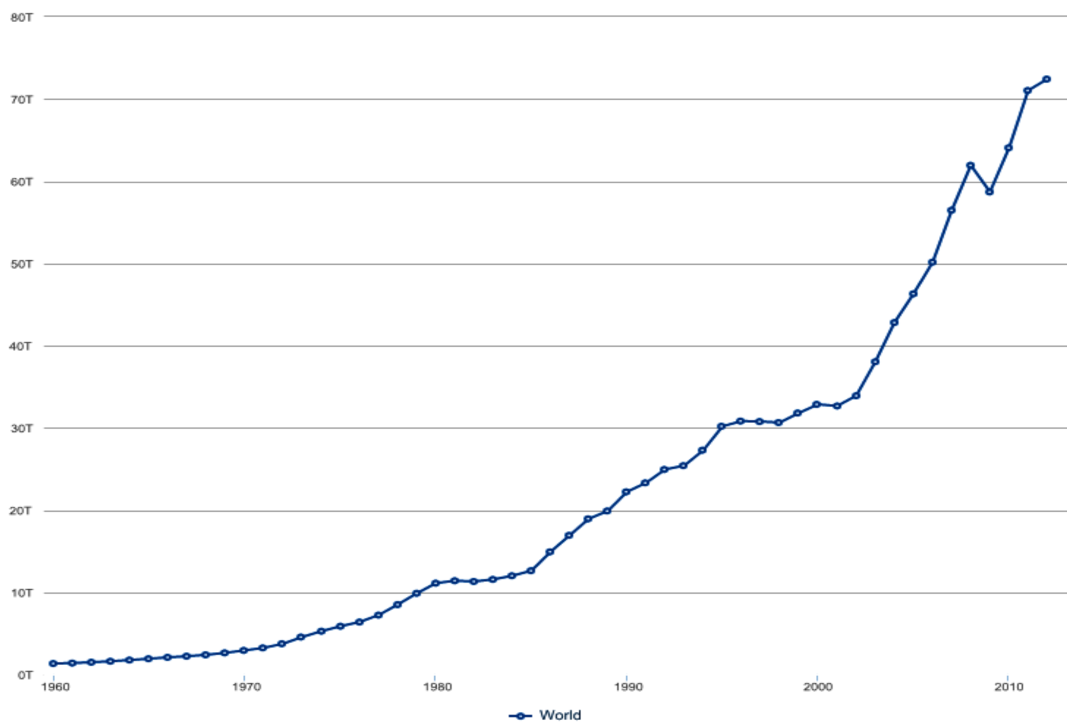
(in trillion US dollars)



Source: McKinsey (2008b)

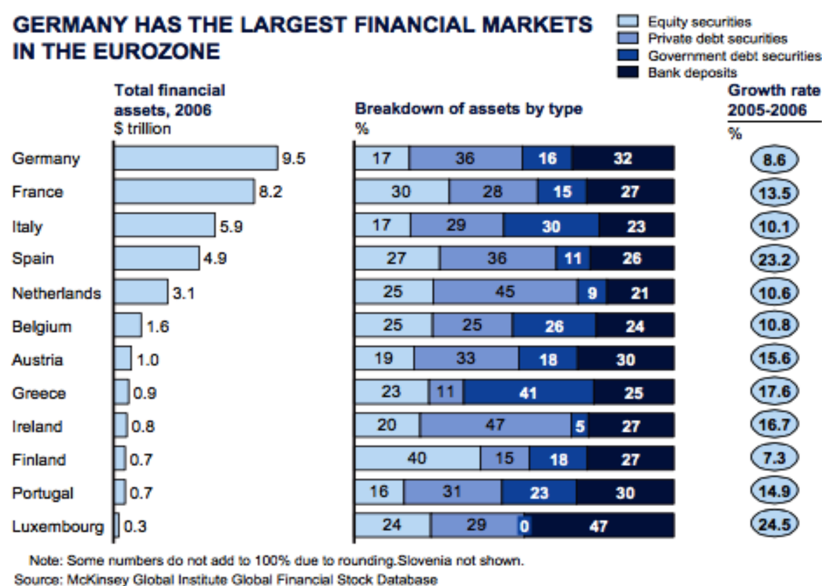
Chart (7) World GDP 1960- 2010

(in current US dollars)



Source: World Data Bank, retrieved 10.01.2014

Chart (8) Total financial assets (breakdown by type)

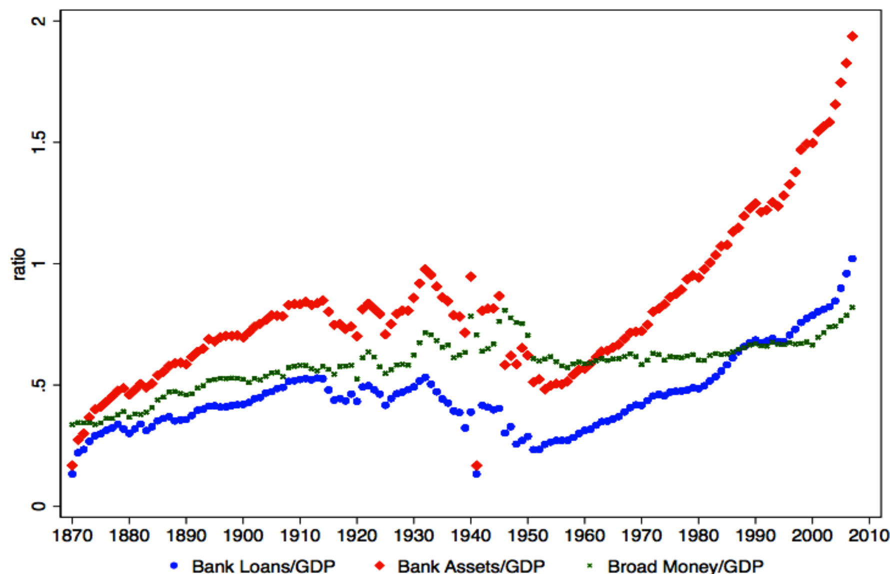


Source: McKinsey, 2008

If one wants to take a more longitudinal perspective, one can see that it was in the years following WWII, when banking sector started to swell, gradually detaching itself from real economy. According to Taylor (2012: 10) the period from 1870-1970 can be characterised as the "Age of Money" because then the ratio of loans to money was more or less stable. From 1970s onwards though the "Age of Credit" followed since the asset side of banks' balance sheet exploded (ibid). More elaborately, in a study of 14 countries between 1870-2008, Schularick and Taylor (2012) found some really impressive results that are shown in chart 9. Firstly, in that period one can discern two distinct eras of financial capitalism, the first between 1870-WW2 and the second after WW2. Secondly, during the first period and in the long run, money and credit maintained a roughly stable relationship with each other and with the size of the economy as measured by GDP, meaning that banks' liabilities were first and foremost monetary, and that money and credit growth were two sides of the same coin. Thirdly, after WW2 loans and bank assets took off, surpassing their pre-1940s ratios by 1970, and continuing their frenzy rise ever since. Credit grew not only relative to GDP, but to broad money too, which meant from one part greater leverage, and from the other that banks' liabilities were no more mainly monetary. Indeed new sources of funding, mainly debt securities, acquired increasingly larger share of banks' liabilities. Lastly, although experiences between countries varied in the first period, the post WW2 second period of financial capitalism, the "Age of Credit", presented a "global story of decades of slowly encroaching risk on bank balance sheets, not one confined to a few profligate nations", or the Anglo-saxonian world (ibid: 2-7). In other words, post WW2 political economies became more homogenised due to financialisation.

Chart (9) The size of the banking sector relative to GDP

(Loans, Assets, and Broad Money in 14 Advanced Countries)



Notes and source: The sample period is 1870–2008. Bank loans are loans by banks in aggregate to the nonfinancial sector, excluding interbank lending and foreign currency lending. Bank assets are equal to the total balance sheet size of all banks in aggregate. Broad money is M2 or a proxy thereof. Data and more detailed definitions can be found in Schularick and Taylor (2012).

Source: Taylor (2012), referring to Schularick and Taylor (2012)

Schularick and Taylor stress that their data underestimate the size of financial assets, since their sample does not include non-bank financial intermediaries, that played a great role mainly in US. Nonetheless their research findings are impressive for the scale of change in the structure of the economy. Financial sector surpassed the size of the economy in a pace and scale that should have been alarming when compared to historical data. Moreover, the funding structures of banks were almost completely transformed: from monetary, equaling actual deposits, to non-monetary, mainly debt securities and whole sale funding.

Overall, financial deepening resulted to a surprisingly large detachment of finance from the real economy that finance is supposed to fuel and hedge! This development made even mainstream institutions to question -post crisis- the proclaimed benefits of this financial deepening which resulted instead in asset bubbles and a fragility due to

the interconnection of global economy through the spread of financial assets (McKinsey, 2009: 31) and their disproportioned size in relation to real economy.

Rise of securitisation

Crucial to financial deepening, is the striking rise of securitisation and derivatives, which is itself linked to systemic risk since it facilitates excessive leverage and risk concentration across the financial sector (Anglietta, 1996; Segoviano et al, 2013: 14). Securitisation in particular is at times used interchangeably with the term "structured finance" but the latter is broader (Fabozzi and Kothari, 2007). It started around 1971 in US mortgage markets when a government sponsored enterprise, Ginnie Mae, issued Asset Backed Securities (ABSs) in what were latter called a plain vanilla form of ABS (Segoviano et al, 2013: 8).[34] Their tranched form appeared in 1983 (Turner, 2010). During the course of the 1980s securities expanded to other assets besides mortgages as well as to UK (Segoviano et al, 2013: 8). Later, in the 1990s commercial real estate assets started being securitised and continental Europe gradually entered the market (ibid). Yet it was almost thirty years later, around about the beginning of 2000s, that ABS practically exploded in size and scope.

Analysts attribute this expansion to a response of the financial sector to a "demand" from the real economy: the expansion was supposed to quench the search for yield and investments which sprang out of the "rapid increase in the global pool of savings" especially from emerging economies and oil exporters (Bank Committee on Banking Supervision, 2011: 3-5; IMF, 2009: 81). In other words, in a world of free capital movements where assets were limited and pooled investments were increasing, financial industry was called to satisfy investors by "constructing" new products. Moreover, the rapid expansion of securitisation has been enhanced by "the willingness of credit rating agencies to give their highest ratings" in the senior tranches as well the the willingness to arbitrage Basel I regulatory capital requirements (IMF, 2009: 81). But even if banks had no purpose to arbitrage Basel requirements, securitisation gave them the incentives and tools to free up their balance sheet, and proceed with more

[34] Ginnie Mae or GNMA, are referring to the Government National Mortgage Association.

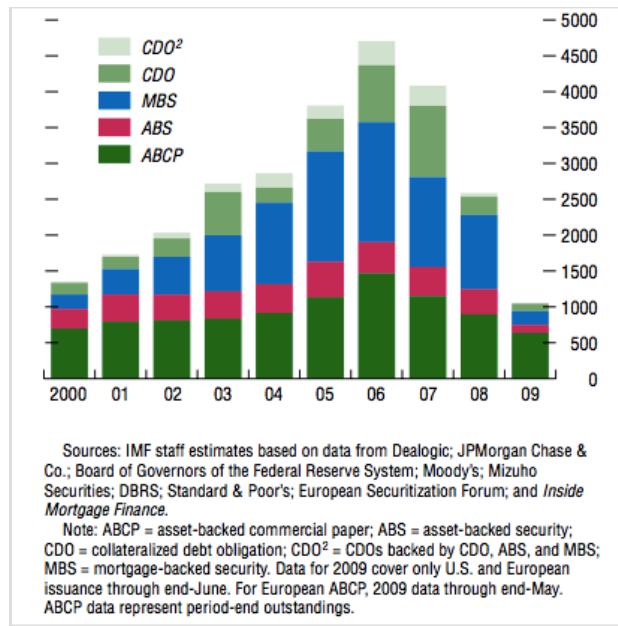
loans, thus gaining from fees -which were immediate and thus certain- rather than interest payments which were to be delivered in a long period of time, and were at times uncertain.

Hence, along with securities issued from US government enterprises, global private-label securitisation rose exponentially: from nearly non-existent in early 1990s gross issuance peaked to almost 5 trillion dollars in 2006 (and declined ever since to 4 trillion in 2007, 2,5 in 2008 and 1 in 2009) most of which were issued in USA as the charts below show (IMF, 2009: 81; chart 10). If one is to include securities from government enterprises, then the total amount raises even higher (chart 12). From the charts 10, 11 and 12 one can easily see that Colletarised Debt Obligations (CDOs), CDOs-squared and Mortgage Backed Securities (MBSs) had the most spectacular rise. It is also worth noting that in 2000 US private label issuance stood as around 1 billion US dollars when the European market was 5 times lower than that standing at 200 million. In 2006 US market started declining, with private issuance of MBSs falling sharply, while in Europe the market continued to rise in 2008, decreasing sharply too in 2009 (chart 10 and 11).

Chart (10) Private-label securitisation issuance by type

(in billion of U.S. dollars)

Global **USA**



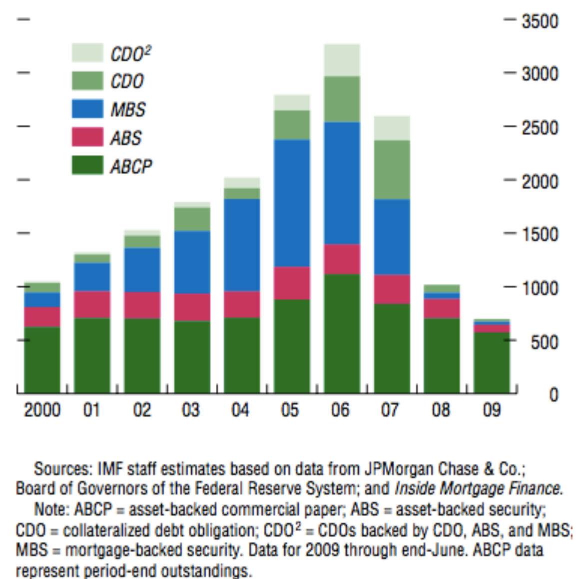
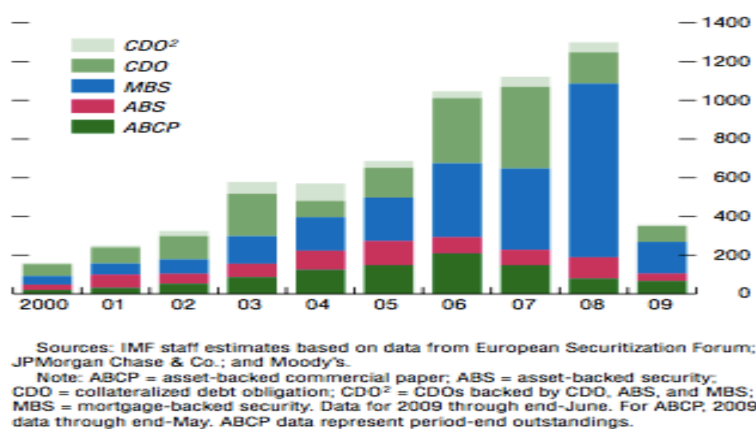


Chart (11) European private-label securitisation issuance by type

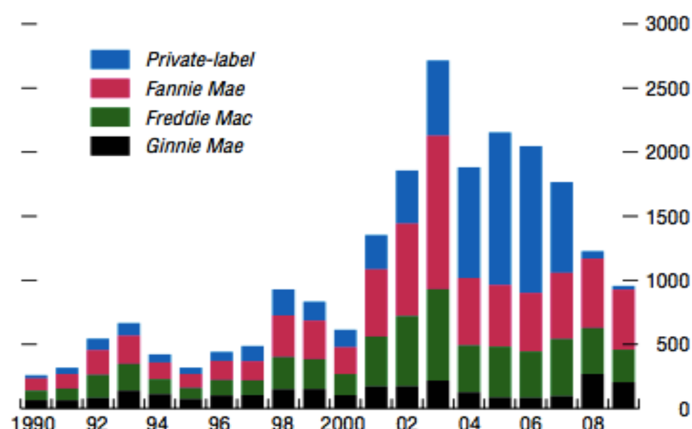
(in billion of U.S. dollars)



Source IMF, 2009: 84-85

Chart (12) U.S. mortgage - backed securities from government-sponsored enterprises versus private-label mortgage-backed securities

(in billions of U.S dollars)



Source IMF 2009: 88

Besides their expansion -even because of it- there were also some qualitative changes that transformed the workings and profit making of the economy as a whole. Illiquid assets were transformed into liquid, and highly tradable ones (Greenbaum and Thakor, 1987: 379). A house for example is essentially an illiquid and rather localised asset. By securitising its loan though it becomes a highly liquid one; easily tradable around the globe. Moreover, this ontological transformation entails an asset maturity one too. This increasing growing asset maturity transformation essentially meant that "the financial sector in total (eliminating all intra-financial system claims) held assets which were longer term than liabilities" which inevitably implies that non financial sector holds assets which are shorter term than its liabilities (Turner, 2010: 20). Therefore, securitisation aimed at taking care more for financial sector's interests than the non-financial sector ones and far less the interest of (global) economy as a whole.

A more sophisticated analysis will discern another parameter of the transformation, the sense of time changed. Securitisation implied that a financial relationship was to be converted (Fabozzi and Kothari, 2007) into a transaction, in other words a "staying together" was to be converted into just "the communing together of two or more enti-

ties”. (ibid, 2007). For example the long term relationship with a bank that loans were supposed to establish is transformed into a short term, almost “instant one”. Thus this originate-and-distribute system, that could not have been possible without the extensive use of securitisation, nurtured short-termism from either counterparty of the loan agreement.

Furthermore, securitisation contributed to some “ontological changes” in basic institutions such as banks and basic economic concepts such as liquidity. In the former case, banks became a “fee-generating business”, “transmission belts” of loans to capital markets, thus structurally transforming their institutional role as intermediators between savings and investments. In the latter one, through “the magic lever of finance” (MacKenzie, 2013) asset backed securities became money-like instruments giving an illusion of almost endless liquidity (Nesvetailova, 2010; Haldane, 2010b, 2011). A liquidity that was not monetarised, but fundamentally, yet rather inconspicuously, financialised.

Rise of derivatives

Besides securities and at times alongside their rise, there was an exponential rise of derivatives. Actually much of the growth of financial sector and its subsequent collapse has been attributed directly or indirectly to the rise of derivatives. They created - as securities did- leverage and under the american accounting standards they did not appear in banks’ balance sheers (Kay, 2015: 19, 46, 423, and 427). However, “unlike equities, debt securities and bank deposits, which represent financial claims against future earnings by households and companies, derivatives are risk-shifting agreements among financial market participants” (McKinsey, 2008a: 20). As their name denotes they derive their value from something else, thus they do not have an intrinsic value of their own. Even though both securities and derivatives create new financial products for investors, in contrast to securities, which can be said to be derived from the underlying asset too, derivatives that do not need an asset to be derived from. They

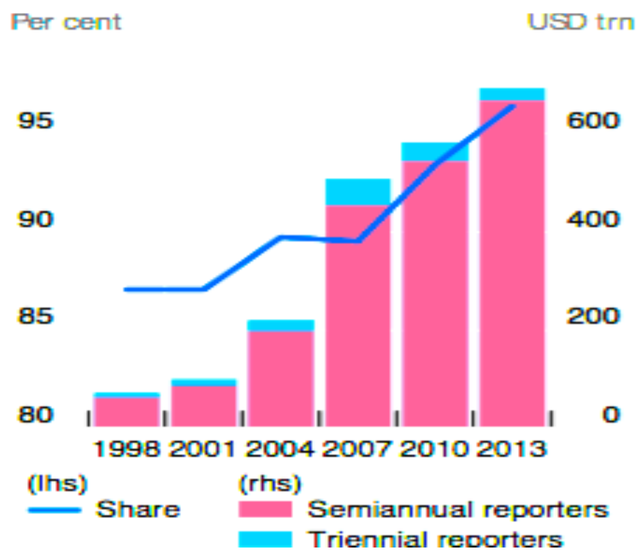
can be created out of pure, actual bets like weather forecasts.[35] So while they might be useful or rather profitable in micro level and for individual investors, systemically they could become -and actually did- what Buffet predicted them to: “financial weapons of mass destruction, carrying dangers that, while now latent, are potentially lethal” (Buffet, 2003).

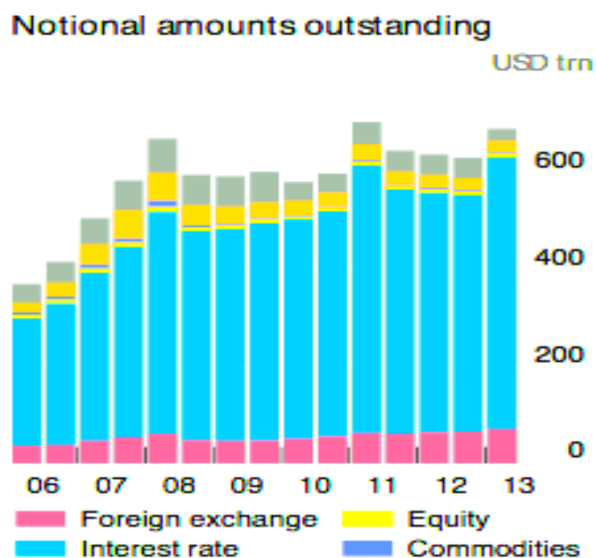
To get a sense of their exponential rise we should note that from almost non existent trade in early 1970s, they reached a 100 trillion one in 2000, 415 trillion in 2006, 596 in 2007, 639 in June 2012 and 710 June 2013 peaking at 754 trillion in 2008 of which 672 were OTC (BIS, 2008, 2012, 2014; chart 13; Kaya, 2013). Engelen et al would point out that from 1998 to 2009 there was a 665 percent increase the notional value of contracts outstanding on over OTC derivatives markets (2011: 42). To get another comparative perspective as of end-2012, the size of the derivatives market was about 9 times the nominal GDP of the world and 41 times the nominal GDP of the EU (Kaya, 2013). Overall then, the trend shows that derivatives trading detached significantly from real economy, especially since early 2000s, and that their growth went on practically unabated from the crisis, despite accusations that they contributed in its making. The fact that they predominately trade over the counter (OTC) and not in exchanges, not only makes their trade more obscure or at least outside regulatory or other monitoring, but also illustrates most vividly the workings of financialisation: how an “invisible” trading activity, acquired such systemic importance so as to threaten the “visible” system as a whole.

[35] Or to borrow an example from Buffet (2003), forecasts of how many twins will be born in Nebraska in 2020.

Chart (13) Global derivatives market

(notional amounts outstanding)





Source: BIS, 2013a

Besides the general overview of the market, it is worth getting down to specifics of the trade, in order to get a more comprehensive outlook of the components that created such an expansive and crucial structure in world economy. From one part, the most (re)knowned of derivatives were credit default swaps (CDS) which appeared in 2004 and grew into a 58 trillion business by the end of 2007, almost equivalent to global GDP that year (Engelen et al, 2011: 42). From the other, though, the most important

input to the growth of the market has been interest rate contracts, particularly swaps, because of these contracts are mainly used to hedge risk on private and public debt (BIS, 2013a: 6; chart 13), which in the aforementioned period raised extensively. They increased from “nil in 1980 to $390 trillion in mid-2009” (Turner, 2010: 21). By 2012 interest rate contracts amounted for 494 trillion -out of total 639 trillion of Over The Counter (OTC) ones- of which 379 trillion were swaps and 26 trillion credit default swaps, CDS (BIS, 2013a). So, despite the public debates they incited, CDSs were quantitatively a small fragment of derivatives trade.

The second in size derivative market was in FX (Foreign Exchange) trading, which itself is the world’s largest and more liquid financial market undermining the global payment system. As globalisation spread, it became a crucial market for the global economy. Actually, as shown in chart 15 and 16, it grew exponentially by late 1980s and more so in the 2000s, a growth that could be attributed to derivatives’ trading. To get a perspective, in 1989 FX daily trade was standing at 604 billion dollars and went up to 1.934 billion in 2004, 3.324 billion in 2007 and 3.981 billion in 2012. (ibid). Total amount outstanding in 2012 was at 66 trillion (BIS, 2013a). Between 2004-2007 there was a 72% rise in this activity, which decreased to a moderate 20% and an average daily turnover to $4 trillion between 2007-2010, and then slightly grew to a 35% rise between 2010-2013, rising the daily turnover to $5,3 trillion (BIS, 2007, 2010 and 2013a; Rime and Schrimpf, 2013: 41). Crisis again did not abate, but rather augmented the trade, the very one that was to be blamed for the crisis.

Besides the exponential pace of growth, FX derivatives were substantially lower in size than interest rate ones. Yet they played a significant role in financialisation due to globalisation and increased global trade and capital flows. Actually, there are some more dynamics that transformed the character of this market and should be considered as features of the financialisation of the economy as a whole. Firstly, the involvement in this market of more retail customers, such as households and small banks. In late 1990s FX trading was mainly the domain of large corporations and financial institutions. By 2000s, transaction costs were lowered, since retail oriented platforms (eg

FXCM and OANDA) started aggregating many small trades, and these "retail aggregations" were then traded in the inter-dealer markets or various trading venues;[36] thus different trading needs, from hedge funds to ordinary everyday individuals were accommodated in one market (Rime and Schrimpf, 2013: 41; King and Rime, 2010). Besides this "democratisation" of a previous elite market, we notice that large hedge funds, institutional investors and small retail customers such as households, all interlink in a market that the last group of investors -households- cannot influence or fully understand, as much as the first two. FX trading then, is an illustrative example of how high circuits of finance linked with everyday life and ordinary citizens and how the latter contributed to a growth that they could not understand and which eventually proved to be destructive for the global economy. However, besides the socio-economic destructive repercussions the trend continued even after the crisis (ibid).

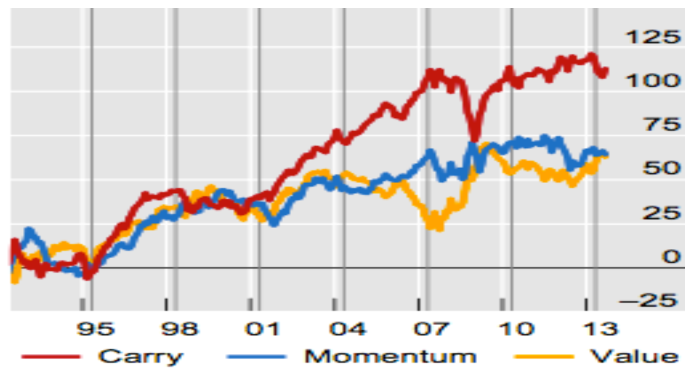
Secondly, and related to the above: small banks that could not compete directly in FX trading, became clients of larger FX dealing banks, mainly providing services of attracting retail customers in local markets where they had competitive advantage (Rime and Schrimpf, 2013: 31). Through this trade then, banks transformed into "transmission belts" moving away from their intermediation between savings and investments.

Thirdly, as the market grew FX trading has been eventually regarded as an asset class of its own right giving rise to carry trade, a quantitative investment strategy which involves the simultaneous purchase and sale of multiple currencies, seeking to exploit interest rate differentials across countries, and which is by definition speculative (Rime and Schrimpf, 2013). Subsequently, since 2001 carry trade increasingly dominated the market as seen in the chart 14 below.

[36] It has been reported that there is no distinct inter-deal market any more but coexistence various trading venues, Rime and Schrimpf 2013: 34.

Chart (14) Returns on quantitative FX investment strategies

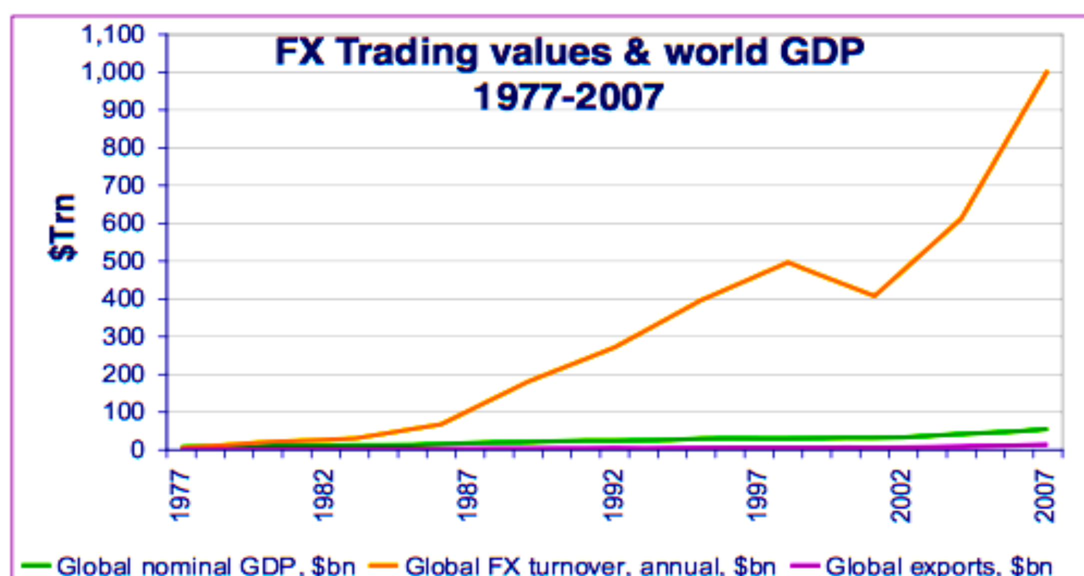
(selected advanced economy currencies - cumulative log excess returns, in per cent)



Source: Rime and Schrimpf, 2013: 37

Fourthly and probably related to the above, FX trading evolved to an activity completely detached from real economy: meaning that while the main function of this trade should have been the trade exchanges of actual products and services and in second order its speculative nature, its volume, as shown in the chart 15, rose in unprecedented pace, when global exports and global nominal GDP, rose only slightly. As Turner points out from eleven times the global trade and long-term investment flows in the 1970s FX trading rose to over 70 times (Turner, 2010: 13). BIS also measured that since 1992 FX trading increased more than the underlying economic activity either measured by GDP, equity turnover, or gross trade flows (King and Rime, 2010: 30). Yet this increase was not due to the size of trades -which sharply declined- but to their number (chart 16).

Chart (15) FX trading relative to real economy



Source: Turner, 2010

These tendencies definitely show the speculative rather than the intermediary role of FX markets. Firstly because it proves that financial activity clearly does not reflect actual trade in goods and services; a point to which we will come back in many instances in this thesis. And then because the rise in financial activity was due to the number of trades and not their size which denotes that there were more transactions in smaller amounts.

The rise of derivatives trading is attributed to the combination of deregulation and financial innovation and more particularly to electronic platforms in FX markets and algorithmic trading[37] (King and Rime, 2010: 33 - 36). It is worth making some reference at length because it will help shed some light to the obscurity of the system that not even insiders could comprehend and/or handle. Algorithmic trading "is an umbrella term that captures any automated trades where a computer algorithm determines the order submission strategy (King and Rime, 2010: p. 36). It was and is still used by institutional investors such as pension funds, mutual funds and insurance companies because it helps them find liquidity without supposedly distorting the market (MacKenzie et al, 2012: 283). As seen in chart 16 algorithmic trading barely existed

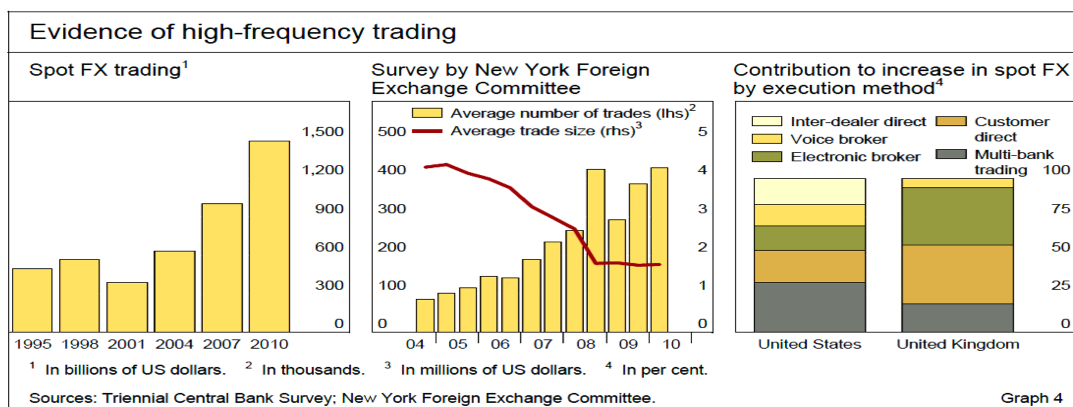
[37] Of course algorithmic trading in not only used in FX markets.

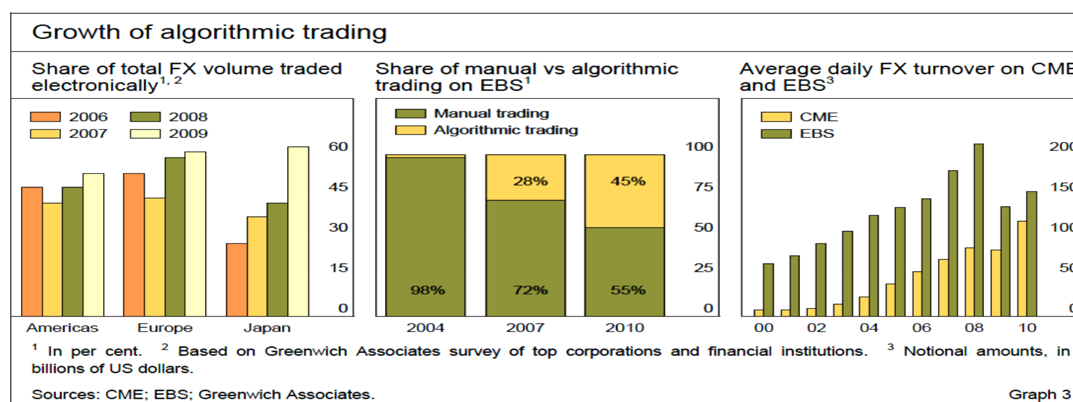
in 2004 in electronic broking platforms (EBS), only to take up 45% of the share of the trading in those platforms by 2010.

High Frequency Trading (HFT) is one type of algorithmic trading that emerged in equity markets in early 2000s but became an important source of the FX growth since 2004 (King and Rime, 2010: p. 37). It is mainly conducted by large investment banks such as Goldman Sachs, large hedge funds, but also specialist firms (MacKenzie et al, 2012: 285). In HFT, fractions of a second can matter decisively because profits depend on how fast a computer can receive prices and other data and react to them immediately. That is why HFT firms rent space for their computer servers in the same building or as close by as possible to an exchange's or other trading venue's engines (MacKenzie et al, 2012: 286), something that has been called "co-habitation". And if this is not possible fibre-optic links are instrumented but which were passed even though little tunnels in mountains, as in the case of Allengheny Mountains where tunnels were constructed in order to reach New York from Illinois in a faster pace (MacKenzie et al, 2012: 287). It is interesting then how sophisticated finance was in need of this "material infrastructure of liquidity" and employed actual laws of physics, both of which resulted in the shrinking of time and space (MacKenzie et al, 2012: 286-288). Essentially there was a co-habitation of the physical and the virtual, something that eventually led to a race at the bottom (Haldane, 2011).

Lastly algorithmic trading and HFT have been blamed for fluctuations in the markets and "flash crashes" that resulted to a halt in liquidity (MacKenzie et al, 2012: 289; Haldane, 2011), revealing a leveraged and illusionary liquidity, one that was not actually there when it was more needed (Kay, 2015: 217). The very instrument then which was meant and did indeed lubricate the system providing seemingly limitless liquidity, was the one which drove it to a sudden stop.

Chart (16) High frequency trading (HFT)





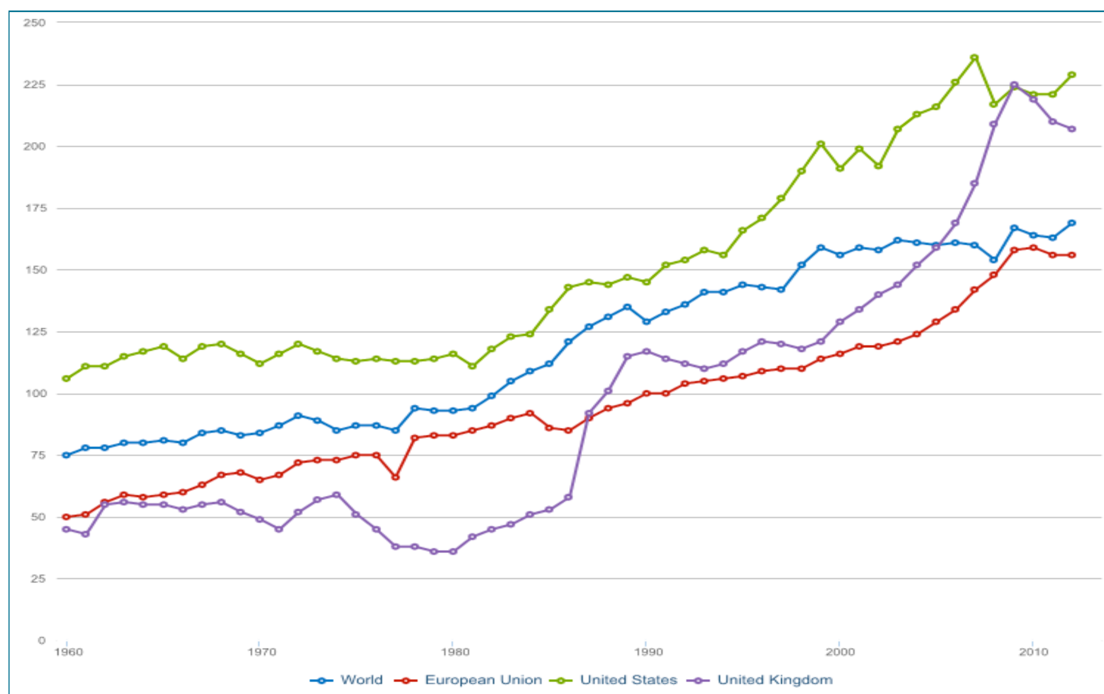
Source: King and Rime, 2010: 33, 38

Rise of debt

Probably the most characteristic feature of financialisation is the rise of debt. Be it private or public debt has risen exponentially too and this shows in numerous indicators. From 1960, domestic credit provided by banks tripled in European Union -from 50% of GDP to almost 150%; it more than doubled in USA -from around 100% of GDP to around 225%; it quatraluped in UK -from around 50% of GDP to 200%; and world wide it has more than doubled -from around 75% of GDP to almost 175% (chart 17). Bank-credit-to GDP is also related to the size of the banking system, since its rise denotes that credit intermediation provided by banks grows in relation to general output, in other words the size of the economy. This was a particular European feature of financialisation at least if it is contrasted to USA (ESRB, 2014).

As far as public debt is concerned. Abbas et al (2010), taking a more longitude perspective found that while from 1850 to 1970 its ratio in relation to GDP has remained more or less the same, that is around 25-30%, from 1970s it started surpassing 100%, and from 1990s it even surpassed 150% (chart 18). In general the rise of non-financial sector debt (government, private sector, households and corporate one) is striking, since both as a percentage of GDP as well as in real prices it has risen significantly as illustrated in charts 18 and 19. What these two charts show quite clearly is that while both corporate and household debt had a most impressive rise as a percentage of GDP, in real levels it was households' debt that became an outlier, thus showing the significant trends of financialisation towards households and everyday life.

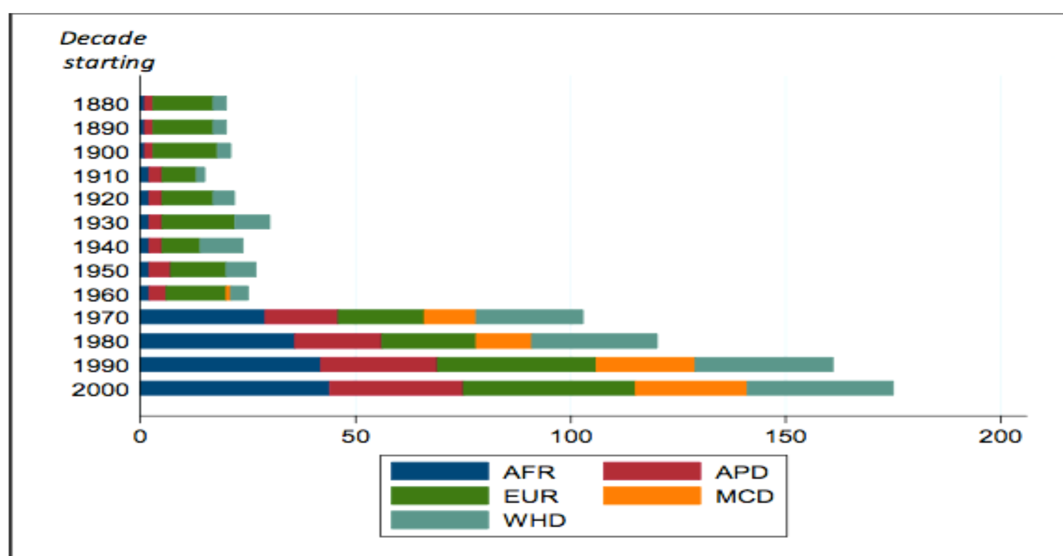
Chart (17) Domestic credit provided by banking sector as a percentage of GPD



Source: World Bank, World Development Indicators, (11/01/2014)

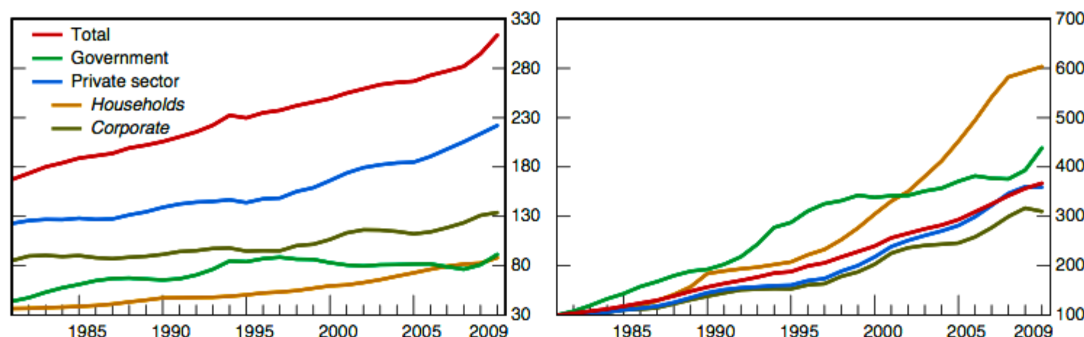
Chart (18) Number of countries with identified public debt-to-GDP

(by decade, in number of countries, by region)



Source: Abbas et el, 2010: 9

Chart (19) Non-financial sector debt



Source: Cecchetti et al, 2011: 6

Yet as Antoniades (2013) rightfully points out accounting for private and public debt separately does not give us "… an accurate picture … of how leveraged an economy is … (nor) the real degree of indebtedness of an economy and its people". He proposes "a more appropriate figure" that of "total debt" to GDP. To get an indication of the trend Antoniades presents a ranking of a sample of economies based on data of Rox-

burgh et al where in 2009 Japan leads with 512%, followed by the UK 507%, then Spain 363%, France 346%, Italy 314%, South Korea 314%, the USA 279%, Germany 278%, Australia 277% and Canada 276%, while the average for advanced economies was 339%.

From these countries, the most impressive rise was firstly in UK -from almost 220% in 1990 to 507% in 2009- , then in Spain -from almost 130% to 363% the same time period- and finally in S. Korea -from almost 150% to 314% (Roxburgh et al, 2010: 18). Exceptions to rapid growth of total debt were Germany, Switzerland and Japan even though they all had significant debt levels by 2009 (ibid). Besides these general trends, there are some unique stories in the rise of total debt. Like in Iceland where from 2000 to 2008 debt reached 1.189 percent of GDP, with banks' debt being 580 percent of GDP (ibid: 19).[38] Then in Ireland where total debt to GDP over the same period reached 700 percent with financial sector's debt accounting for half of it. (ibid).

Despite this global trend, and paradoxically so, this rise of debt did not include emerging markets. Paradoxically because, as neoliberal economic theories would have it, money was supposed to trickle down the chain from advanced to emerging or peripheral economies. However, this did not occur. To take BRICS as a sample of the "most developed" among them, one can see that their debt levels did not change much since 2000, reaching in 2009 around 150% in China 140% in Brazil, 120% in India and only 70% in Russia (Roxburgh, 2010: 20). Subsequently, it seems that the rise of debt is predominately an advanced world problem. The caveat though is that besides the low levels of debt in emerging economies, their debt is mostly denominated in foreign currency -in dollars mainly- which entails a series of vulnerabilities to domes-

[38] Iceland is probably the quintessential example of financialisation: a small country of 300.000,00 inhabitants with an economy based on fishing and natural resources, formerly tightly regulated country with crony capitalism which integrated aggressively to global financial markets in just a few years using these global financial markets as well as the sophisticated financial tools to expand its banking sector and debt to such a scale that surpassed world records. for more info see (Danielson and Zoega, 2009)

tic economies, all of which are linked to financialisation. Firstly, foreign debt interconnects them with the momentum of global financial markets. Furthermore, emerging economies become more vulnerable than mature economies who borrow in their own currency, and lastly it gives the USA, the largest debtor in the world, the equivalent of the Cold War 'red button' to set the rules of the game on global debt dynamics (Antoniades, 2013). Through the web of finance then, even unsophisticated economies with less debt that the advanced world ones, are susceptible to the power of finance which transcends national borders and formal regulations.

Finally, the sectoral division of debt shows that financial, household, non-financial corporations and governments debt, rose almost equally (Roxburgh, 2010: 21). While this is presented by mainstream views as a rise occurring mainly in the real economy and especially in real estate (ibid), from the perspective of financialisation literature, it is interpreted in a totally different way. Because although the pace of rise was practically the same, households in particular did not experience such high debt levels any peace time in history. Their links to financial markets were minimal in comparison to financial sector. So the change there denotes an unprecedented in peace time spread of debt and thus finance. A development that inevitably changed both the workings of the economy as well other, more sociopolitical, aspects of a polity, as we will see in the following chapters.

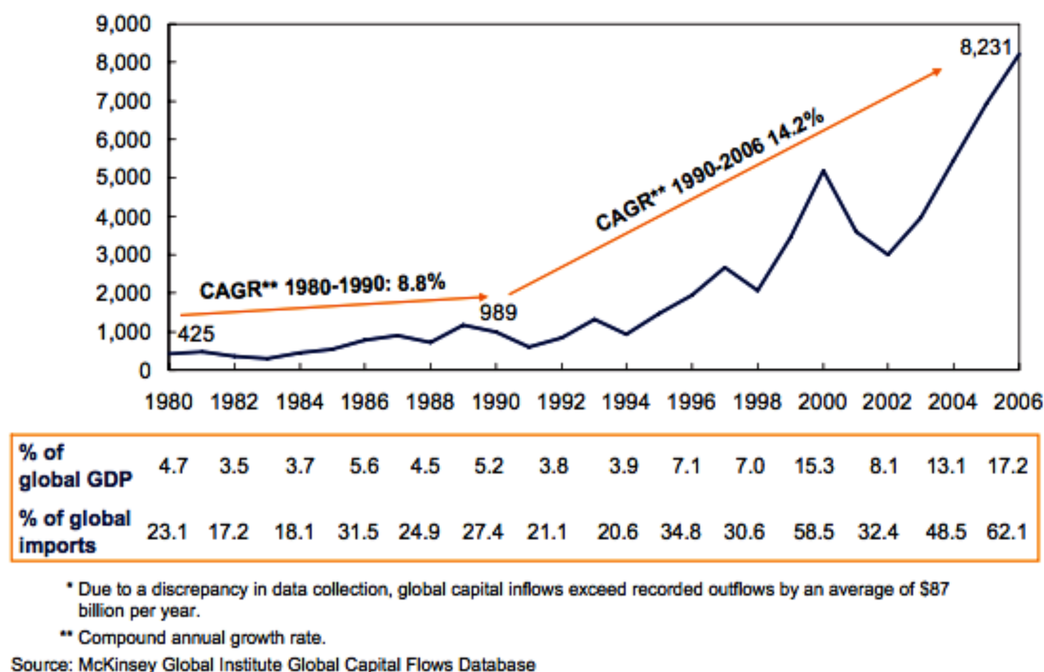
Interconnectivity - Interlinkage

One of the key features of financialisation, linked to the aforementioned rise of debt levels, derivatives and securitisation worldwide is the scale of financial integration: the cross border capital flows which include not only foreign direct investment (FDI), but mainly purchases of foreign equity, debt securities and financial products as well as cross border lending and deposits. Financial integration totally transformed the economic and financial landscape. As seen in chart 20, cross border capital inflows were ranging around 425 billion dollars (in constant 2006 exchange rates) in 1980, they more than doubled in 1990 reaching 989 billion, to grow ever since in an expo-

nential rate that reached 8.231 billion dollars in 2006 (McKinsey, 2008b: 14), and to a further 11.200 billion in 2007 (McKinsey, 2008a: 11).[39]

Five years prior to the crisis, the fastest moving component of financial cross border flows -and eventually its larger portion- was cross-border lending and deposits which grew from 900 billion in 2002 to 6 trillion in 2007, with banks accounting for 80% of these flows (McKinsey, 2008a:12). As seen in charts 21 and 22, since 2000 interbank lending grew both globally as well as in the context of EZ. McKinsey estimated that 65% of this lending was of short maturity -less than a year-(ibid).So both the fact that lending was mainly recycled within the financial sector and that it was of a short maturity, means that lending did not contribute to long term, real economy investments, but rather to short-term financial strategies, which furthermore are prone to volatility and can thus trigger economic crises of various sorts.

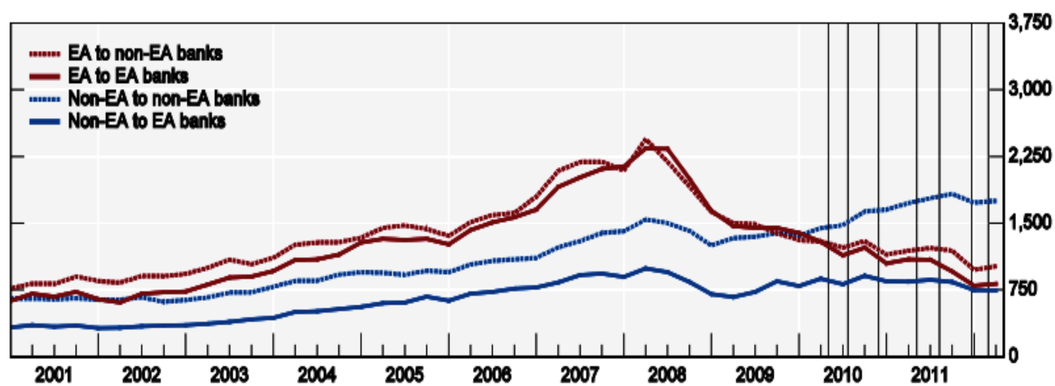
Chart (20) Growth in cross-border capital flows



Source: McKinsey, 2008b: 14

[39] Since then there was a sharp 82% decline that reached 1,7 trillion dollars in 2008, timidly increasing since then to reach 4,6 trillion in 2012 (McKinsey, 2013: 4; McKinsey, 2009: 13).

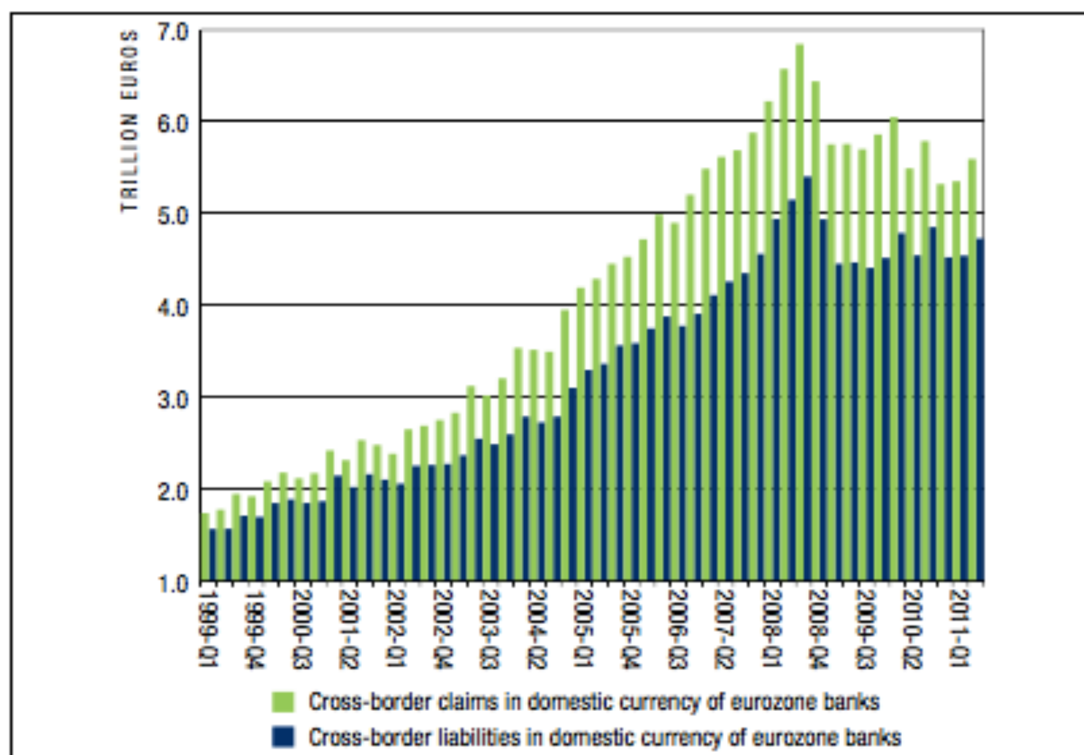
Chart (21) Interbank lending



Source: Caruana. and Van Rixtel (2012).

Chart (22) Cross border euro-dominated assets and liabilities of EZ banks

(billion euros)



Source: Brookings, 2012: 45

Besides cross-border lending and deposits, the second largest type of global capital flow has been cross-border purchases of debt securities (McKinsey, 2008a: 55) which

grew by 10% annually from 2000 till 2007 (McKinsey, 2008b: 13). In absolute numbers they grew from 600 billion dollars in 1990 to 1 trillion in 2000 and to a further 2,3 trillion dollars in 2007 (ibid: 11). So we see that while cross-border lending and deposits were lower that private debt securities in 1990, the former outpaced the latter in late 2000s with interbank lending being the main driver of the increase. No wonder then that when trust started fading in this market in 2007-2008, it triggered a crisis worldwide.

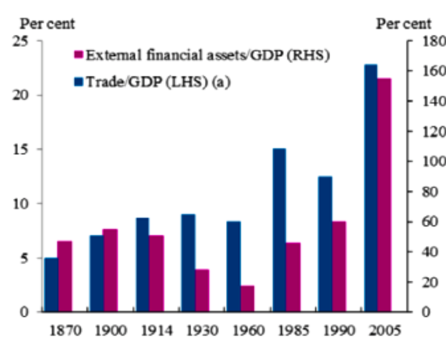
One could juxtapose this trend with the similar on in global trade flows, claiming that financial flows were no different, or that even followed the globalisation of trade flows. It is true indeed that both trade and financial flows have followed the same trends till 1980s, as chart 23 shows (Haldane, 2014). However, cross border capital flows have risen 10 times more trade flows (exports of goods and services) in relation to global GDP, as seen in chart 23 which shows the volume of trade (exports in world prices) and external financial assets to GDP. In other words, while both were around 25% of global GDP in 1980, financial trade reached to be around 9 times the global trade in 2010.

One reason for this dramatic rise could be that financial assets' rise started from a far lower point than trade as seen in chart 23. Combing this chart with chart 24 which shows global market integration based on 15 counties, it is obvious that since the Great Depression of the 1930s and for fifty years, global finance "went into hibernation" (Haldane 2009: 3), something that did not occur with trade, and something that Haldane characterises as a period of financial autarky.[40] Since mid 1980s though the period of financial integration started and eventually reached a "financial nirvana", transforming finance into "a well-connected global network, a tightly-woven and tangled web, a genuine system" (Haldane, 2014: 4, 5). So if one is to follow the trend in Haldane's term, it is obvious from chart 24 that in the pre-1929 period when financial

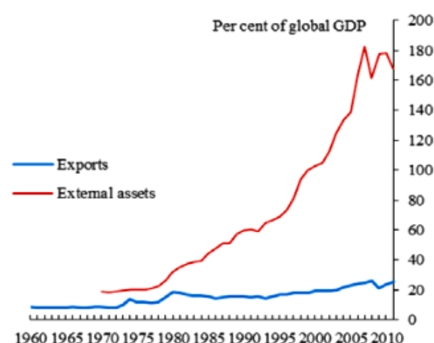
[40] In chart 24 a savings/investment correlation of one points to what Haldane (2014: 4) calls financial autarky in the sense that there domestic savings are financing domestic investments. A correlation of zero though means that domestic investment can potentially be fully financed by global capital markets.

flows were also liberalised, the world economy was somewhere between full financial integration and autarky.[41] This correlation tended towards financial autarky all through the next 50 years till the 1980s, something that even persisted around 10 to 15 years after capital flows liberalisation, that is after the collapse of Bretton Woods. Since the mid 1980s though global market integration skyrocketed and before the Great Recession the world reached the point of full integration something not seen before.

Chart (23) Trade and financial flows - cross border flows to GDP [42]



Source: Maddison (1995: pg 227,239), IMF International Financial Statistics, World Bank WDI , National Bureau of Economic Research , Mckeown (2004 P 184) and Bank calculations.
(a) Trade = volume of exports in world prices



Source: IMF International Financial Statistics, World Bank WDI and Bank calculations.

Source, Haldane 2014

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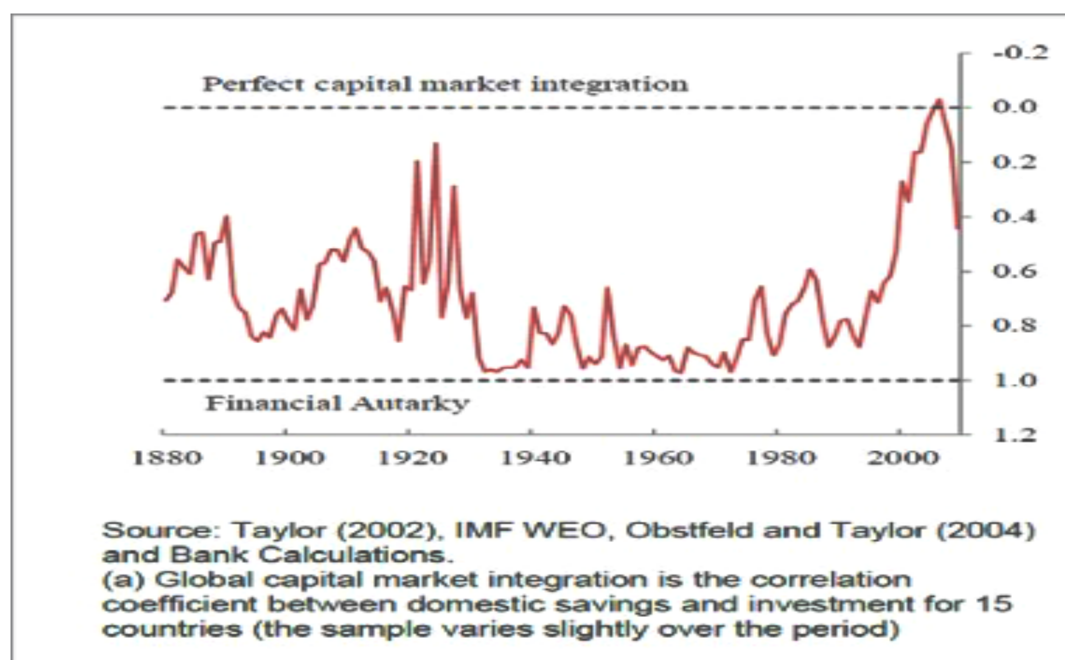
[41] We are using the terms of Haldane to describe these periods.

[42] The first chart shows the material increase of trade and financial flows, and the second shows the cross-border flows in relation to GDP; this is where the dramatic peak of financial flows is more evident.

Chart (24) Capital market integration



Source: Haldane (2014)

The final result of financial integration was a web that interlinked domestic economies where foreign investors were owning one in three government bonds around the world in 2006 from one out of nine that they owned in 1990, one in four equities and one in five private debt securities (McKinsey Global Institute, 2008b: 15). In this world almost half of the increase in global capital flows between 2003-2013 have been from the countries in Eurozone both in their internal trade as well as in their trade with the rest of the world (McKinsey, 2013: 3).

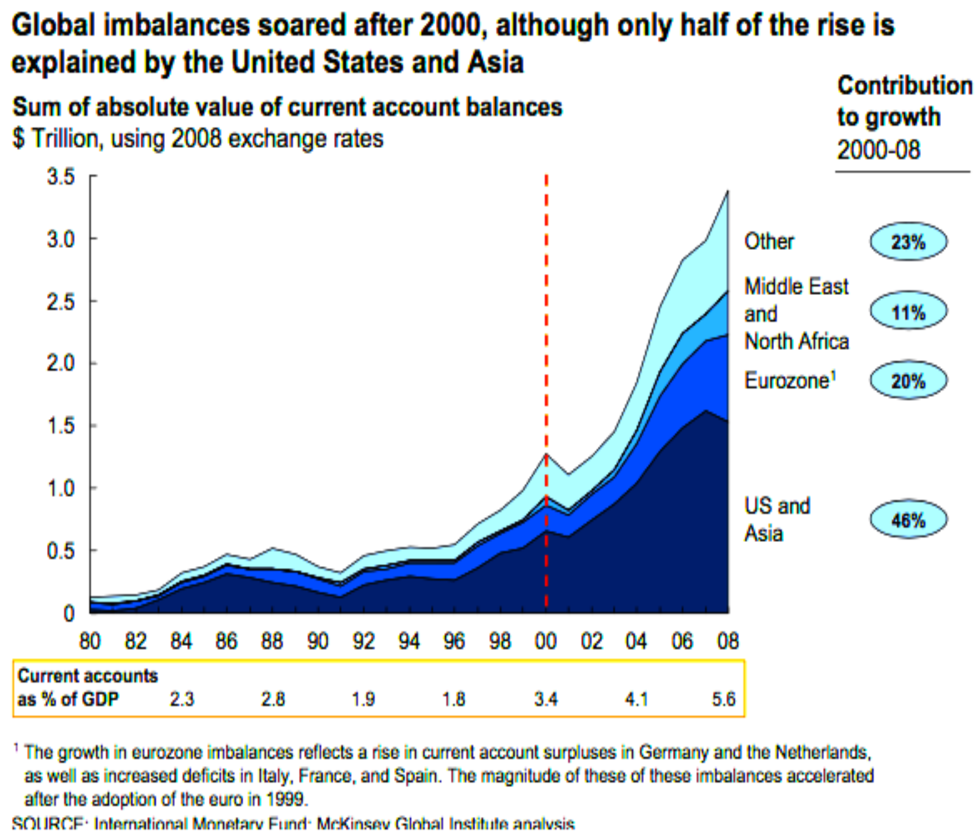
Another result of this global financial integration was that it fuelled or at least enhanced what Taylor called “Great Reserve Accumulation” (2012: 14): emerging and third world economies accumulating reserves from mature ones. This was a strategic move of Asian countries after the 1997 crisis in the context “self-insurance” economic orientation. After all, in the “flat world” of post golden-standard, reserve accumulation was not a zero sum game any more since the reserves of one country were not any more the loss of the other (Taylor, 2012: 15 - 16). Unlike gold, the dollar which became the dominant reserve currency, “could be created at will” (ibid). Thus in a macroeconomic environment of limitless liquidity and free capital flows, there

seemed to be no restraint in what a sovereign could accumulate and from where it could do so. Subsequently, the new polito-economic milieu of financialisation enabled a different integration of third word countries in international political economy. Their international reserves rose as a percentage of external debt from 30% in 2000 to 110% in 2008, and to to further 120,5% in 2010 and also since 2005 exceeded that of advanced economies, a gap that has been growing ever since (Antoniades, 2016). Their surpluses and savings were feeding the deficits of advanced world and mainly that of USA.

So while private capital continued to flow downhill "all the time and in large quantities", official capital -either from governments themselves or sovereign wealth funds- was flowing uphill from emerging to developed economies, to such a scale that the net result offset private sector capital flows (Taylor, 2012: 14). The neoliberal narrative then of global financial flows flowing downhill was reversed, marking a unique trend in international political economy. Conclusively as the chart 25 shows, global imbalances as measured by the relation between surplus and deficit countries were accentuated (McKinsey, 2009: 18), albeit in a different form than the previous ones since now these imbalances favour emerging economies (Antoniades, 2013: 216-7). Financialisation and essentially the debt instruments it provided in global scale enabled this reversal of global politico-economic power dynamics.

Chart (25) Global imbalances

(sum of absolute value of current account balances -in trillion US dollars)



Source: McKinsey, 2009: 20

Concluding it is worth mentioning that McKinsey (2008a: 43) would attribute the rise in cross border capital flows firstly in advances in information and communications technology which enabled investors to place trades around the world with just pressing a button in their computer. Secondly, in the significant decrease of the cost of cross-border trading. Thirdly in regulation, more particular in deregulation and liberalisation of capital flows from many countries around the world. And lastly in the "growth of large, sophisticated institutional investors and other new financial intermediaries".

New and fast growing players in the market

The new players that dominated the markets, Hedge Funds, Private Equity, Sovereign Wealth Funds, Institutional Investors, Rating Agencies, have indeed played a signifi-

cant role in restructuring the global economy. Without them financialisation would not probably develop the dynamics it had, and any of the indicators presented above would not have risen as dramatically as they did. Apart from rating agencies, all the others have been different types of international investors whose search for yield "constructed" a wall of money running around the globe in search of profitable investments. Yet there were not enough investments for assets of such scale. Allegedly then financial sector was incentivised to improvise structured and vehicle finance tools so as to satisfy these needs. In other words, finance created a virtual and illusionary world, in order to quench a thirst that came out of the real economy. In order to appreciate the veracity of this claim, it would be wise to elaborate on who these actors were and how they "intervened" in financial and economic developments worldwide.

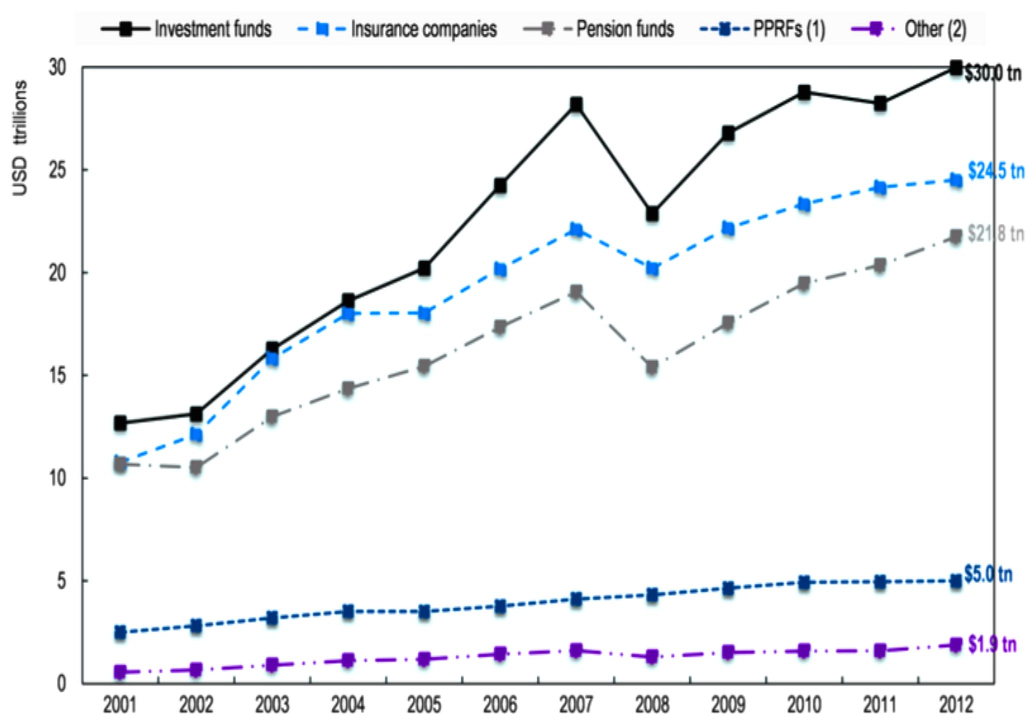
Institutional investors have been categorised into traditional and alternative ones. The first include, pension funds, investment funds and insurance companies, while the latter include hedge funds, private equity funds, sovereign wealth funds and exchange traded funds (Çelik and Isaksson, 2013: 100). In 2011 combined holdings of all institutional investors amounted at 84,8 trillion dollars, with traditional institutional investors being the largest holders, holding in total 73,4 trillion (ibid: 8). This is more than the global GDP of that year that stood around 70 trillion dollars.

Chart 26 shows the rise of total assets by type of institutional investors in global scale from 2001 till 2012. One can see that the trend was temporarily influenced by the crisis yet in 2009 it already reached its pre-crisis levels and continued to rise since. Another indication of this trend is shown in chart 27 which illustrates the exponential rise of assets of non-financial intermediaries both as a percentage of GDP as well as in absolute numbers in 20 jurisdictions and the Euro Area. Here crisis had an impact if one is to examine trends in relation to GDP, yet in absolute numbers there was only a slight correction, which did not hinder the upward trend. In USA too as seen in chart 28, assets under management have grown in relation to the economy almost fivefold since 1946: from around 50% to around 240% of GDP with mutual, close end, ex-

change-traded and money market funds having the most spectacular rise (Haldane, 2014:2). Here the trend in relation to the economy remained unabated by the crisis.

Chart (26) Total assets by type of institutional investor in OECD (2001-2012)

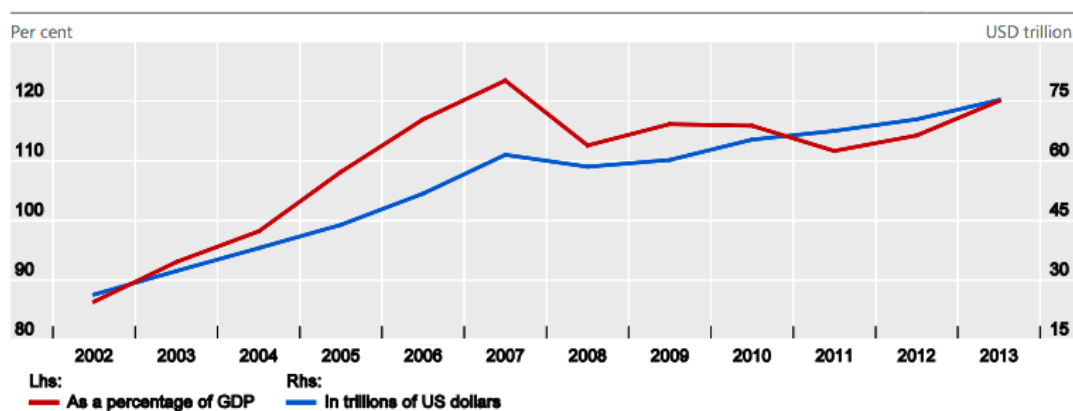
(in USD trillions)



Source: OECD, 2013a: 8

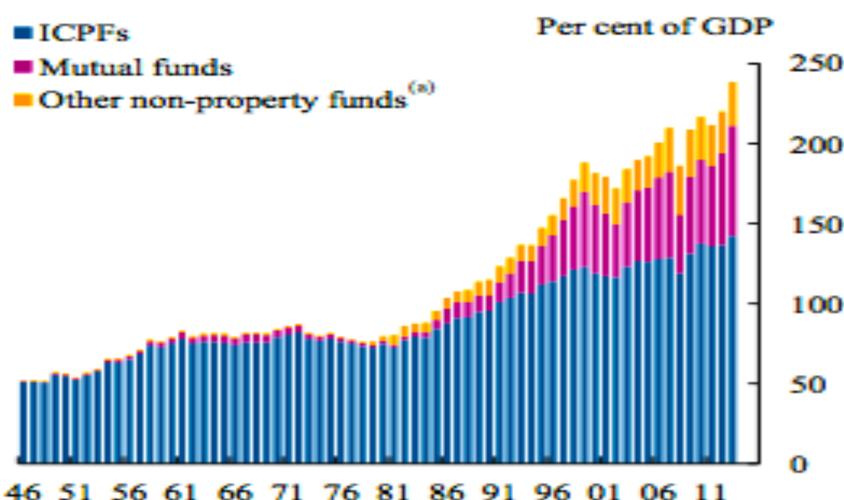
Chart (27) Assets of non-bank financial intermediaries

(20 jurisdictions and the euro area)



Source: FSB, 2014

Chart (28) Assets under management -USA



Source Haldane, 2014, AUM, USA

As a general trend Haldane (2014) reports that funds have not only grown exponentially in terms of assets under management but also that there have been significant changes in their composition both on the assets' side as well as on the liability side. On the assets' side there has been a trend towards more specialist funds, the so called alternatives. Moreover, there has also been a reorientation towards investing in more illiquid markets such as high yield bond funds or emerging market funds as well as to passive investment strategies such as index trading, accompanied by an analogous decline in actively managed funds. On the liabilities side there has been a shift towards the ever greater investment risk to be put in the hands of end-investors, like in the case of pension where defined benefit plans have gradually been replaced by defined contribution ones.

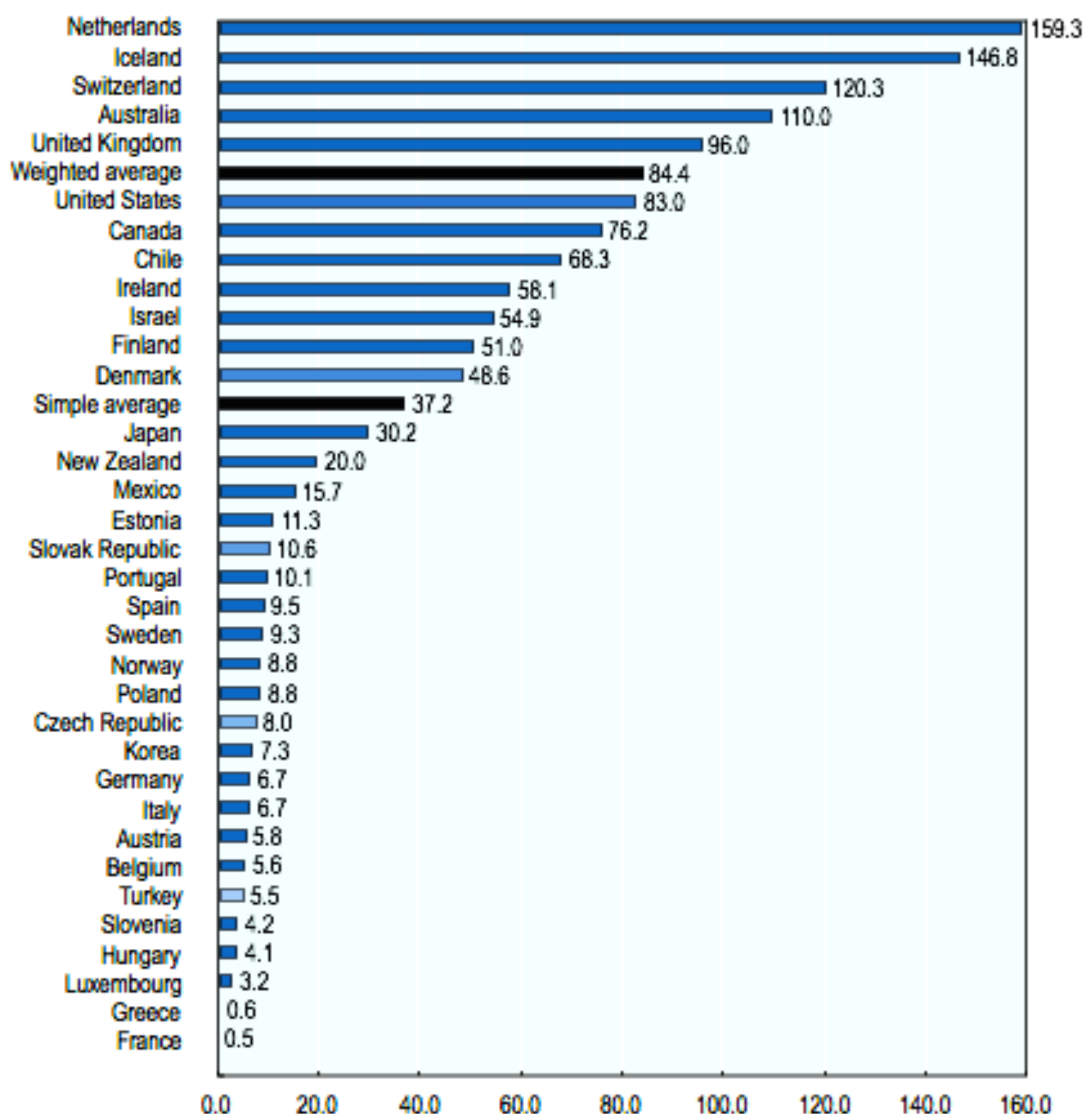
If we take a more particular look we will see that traditional institutional investors - pension funds, investment funds and insurance companies- have more than doubled the assets under their management in the decade before the crisis and more particularly from 36 trillion dollars in 2000s, they reached 73,4 trillion dollars in 2011 in OECD countries (Çelik and Isaksson, 2013: 97, 98). The largest increase between

these categories came from investment funds which, in this last decade preceding the crisis, increased their assets under management by 121%, while the share of pension funds slightly decreased in this period and insurance companies funds remained roughly the same (ibid: 9). Of course, it should be noted that pension funds as well as insurance companies invest in mutual funds which are part of investment funds something that definitely leads to double accounting which is difficult to disentangle (ibid: 9, 18).[43] Of course, the important of different types of institutional investors vary across countries: "pension funds being important source of institutional savings in Australia, Canada, Iceland, the Netherlands and Switzerland, while investment funds are the main actors in Austria, Greece, Ireland and Turkey and insurance companies for Belgium, Norway and Sweden (OECD, 2008: 7).

Just to give a point of comparison -quantitatively speaking- the value of assets in pension funds grew from almost 11 trillion in 2001 to 21,8 trillion in 2012 (OECD, 2013a: 8; chart 29). Even though there was a brake in their increase in 2007-2008 where they fell from almost 18 trillion to around 15 trillion they continued to increase since then and surpassed even their pre crisis levels as we saw. Their upward trend continued and they reached 24,8 trillion dollars in 2013 with USA being the largest pension fund market of 13,9 trillion, 56,2% of the OECD total (OECD 2015a: 190). The total numbers hide divergent trends and dynamics within countries. For example at the end of 2014 and as seen in chart 29, Netherlands had the largest size in pension fund assets in relation to its GDP followed by Iceland, Switzerland and Australia, all of which had pension funds over the size of their GDP. UK, USA and Canada follow with 96, 84,4 and 83 per cent respectively.

[43] In general institutional investors invest with each other, like for example pension funds invest in private equity and venture capitals; for example between 2007-2012 these amounted for 25% of the money that went into these investments.

Chart (29) Pension funds to GDP



Source: OECD, 2015C: 9

Hedge funds are "lightly regulated active investment vehicles with great trading flexibility" and are believed to pursue highly sophisticated investment strategies with the aim to deliver alpha (Fung et al, 2008: 1777). Due to the loosely regulated character they can invest in anything they want, or to be more exact they can bet on anything, including the weather, and they are thus regarded as highly risky -since one can lose all the money he has invested- as well as highly profitable.[44] These funds started out as managers of funds of really wealth investors, but increasingly pension funds and other institutional investors were trusting them with their assets, so by 2006 there

[44] Hedge Funds Facts in http://www.fundshedge.co.uk/hedgefundsfacts.htm

were around 8000 hedge funds managing nearly 1,5 trillion of assets (Blackburn 2006). McKinsey would report that in the same year both hedge funds and private equity firms reached 2.2 trillion dollars in assets, which is triple the size till beginning of 2000s (2008a: 44).

Compared to other institutional investors it seems that hedge funds hold only 2% of total assets of institutional investors; yet their use of derivatives and other financial tools, make their role in corporate governance and equity markets far more important that their seemingly modest assets (Çelik and Isaksson, 2013: 102) and they contribute a lot to the interconnectedness of the system (OECD, 2008a: 46). Their main investment strategies are arbitrage, short selling, rapid trading and credit derivatives and they are the ones that enabled them to promise double digit returns (Blackburn 2006). What is noteworthy though is their secretive character and their very high performance fees which range from 10-25% of gross returns on the investments they make; this is on the top of the regular management fees that range from 1,5% to 2%.[45] This level of fees though implies a rather self serving character of financial investments nowadays, which is one of the core arguments of financialisation.

Private equity, was relatively unknown in the early 1980s, but as of 2006 there were 2,700 private equity funds, which accounted for 25% of global mergers and acquisition activity, 50% of leveraged loan volume and 33% of the high-yield bond market (CGFS, 2008). Private equity "refers to the holding of stock in unlisted companies" and its investment include venture capital, buyouts and restructuring (ibid: 17). Using higher leveraged finance (corporate debt with relatively high credit risk) and greater incentives for managers through significant pay-for-performance packages, private equity was supposed to better align shareholder and management interests and improve operational efficiency of firms (ibid: 5, 7). Private equity concerns "… specialise in taking over under-capitalised and underperforming businesses, with the aim of reorganising management and relaunching the business" which takes up to three to five years (Blackburn, 2006).

[45] Hedge Funds Fees in http://www.fundshedge.co.uk/hedgefundfees.htm

Exchange rated funds have grown equally amazing during the last decade: from a 74 billion industry in 2000, it has reached a 1,35 trillion one in 2011, which constitutes an increase of 1.750% (Çelik and Isaksson, 2013: 102). Exchange rated funds are collective investment vehicles like mutual funds that "offer diversified exposure to different financial assets that are included in the fund", but in contrast to mutual funds they are continuously traded and quoted on a stock exchange. It is a very concentrated market, but it is used both by passive and active investors (ibid: 102).

Lastly, sovereign wealth funds (SWFs) is where the interlinking of a sovereign and financial markets, in other words politics and financial economics is fairly obvious, if not a fundamentally constitutive part of their expansion in the last few decades. According to OECD (2008a: 118), SWFs "are pool of assets owned and managed directly or indirectly by governments to achieve national objectives". They are funded from foreign exchange reserves, sale of scarce resources such as oil, and from general tax or other revenue (OECD, 2008: 117); and they are used as a means "to diversify and improve the return on foreign exchange reserves or commodity (typically oil) revenue, and sometimes shield the domestic economy from (cycle inducing) fluctuations in commodity prices" (OECD, 2008: 119). A specific category of SWFs is Public Pension Reserve Funds (PPRFs)[46] which are pools of capital designed to finance public pensions (OECD, 2008: 117), thus they have a more long-term financing perspective than SWFs and they are funded mainly from social security contributions or direct fiscal transfers from government (OECD, 2008: 124). In 2008 SWFs were estimated around 2,6 trillion US dollars and PRPFs in 4,4 trillion (OECD, 2008: 120, 122). SWFs date back at least to 1953 when the Kuwait Investment Board was set up, but only recently have they been important players in financial markets world wide, something that is mainly due to the accumulation of sizeable foreign exchange reserves by emerging economies -especially resource rich ones-[47] where most of SWFs

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[46] The assets of these funds are calculated in pension funds too, as public owned ones. It is evident from the numbers that the bulk of the assets is managed by private pension funds.

[47] Besides SWFs in resource rich emerging economies two other funds stand out: Norway's Government Pension Fund and Russian Oil Stabilisation Fund (Roland and Fedora, 2008)

are located (Beck and Fedora, 2008: 349). SWFs are state owned or managed, have very limited if not any liabilities and they have a tendency for foreign investments and risky assets (Beck and Fedora, 2008: 349-350).

It has been estimated that in 2011, the four above mentioned categories of alternative institutional investors managed around 11,3 trillion dollars globally, an amount which represents around 15% of assets managed by traditional investors (Çelik and Isaksson, 2013: 100). So one might argue that they were not systemically important, thus making their aggressive, rather secretive, and speculative investment strategies seem less relevant to the system as a whole. Yet lessons from history tell another story. For example it was through hedge funds that Soros provoked the 1992 pound sterling breakdown, meaning that it is not the quantity but the way that these alternatives operate that can undermine the stability of an economic system, and transform the character of different sectors of markets.

Besides institutional investors, rating agencies were the other new and crucial players of financialisation era. They are essentially an oligopolistic market-[48] meant to provide international investors with objective risk analysis on debt securities, financial products, companies and sovereigns. Yet 99 percent of their operating costs are covered under issuer - pay instead of buyer-pay (Segoviano et al, 2013: 19), which simply means that the one who wants to sell pays the wages of the people who are rating them. Objectivity then becomes rather questionable.

In USA credit rating agencies have a long history but after the 1980s and due to the emergence of a market of low-rated, high-yield (bonds), they gradually became “key benchmarks in the cognitive life” of capital markets (Sinclair, 2005: 52). Ultimately through their ratings they exerted behavioural and structural power over the ones who their were evaluating, that is both corporations and sovereigns. Sinclair argues that “rating agencies produce knowledge that is socially and politically partial, and then

[48] Only three rating agencies exist: Moody’s, Standards and Poors and Fintch. The first two are USA based.

objectify this knowledge, making it authoritative" (Sinclair, 2005: 59), thus constructing the context within corporations and sovereigns make decisions in a certain way which is definitely not objective (Sinclair, 2005: 149). He does not think -even though he does not preclude- that this "functionality" is intentional, biased or of conspiratorial intentions. He rather locates the cause in the "assumptions of the given social and economic order" on which they are premised (Sinclair, 2005: 62).

One of the examples he presents is that in the orthodox mental framework of rating work, basic social rights of citizens such as the right to a certain minimum standard of life and of economic and social security are interpreted or rather transformed into a liability (Sinclair, 2005: 113). Theoretically he justifies his claim on the grounds of Miller and Rose's analysis on "technologies of thought"[49] which make a given reality calculable, knowable and thus governable in a certain way (Sinclair, 2005: 67). The fact of the matter is that ratings have also become part of the regulatory framework[50] - from which they were not removed or effectively conditioned post crisis (Pagliari 2012). So besides their "cognitive legitimation", they eventually acquired a formal institutional one, which cemented their structural power. Sinclair and others would go even further by asserting that rating has become a form of private regulation (Sinclair, 2005: 3).

So overall in this section we saw some striking patterns that have shaped the world economy in the last thirty years or so: a dramatic rise of debt, bank assets, derivatives, securitisation and of financial paycheques, especially concerning high ranked CEOs. These are all showing how finance created a world of its own which was feeding itself and not intermediating between savings and investments in view of feeding the real economy. Everything in finance became excessive and/or derived, thus acquiring a reverse pyramidal shape where the smallest part of it was based in something real, and all the other was an excessively large virtual and illusionary outgrowth of the econo-

[49] Let us not forget the explicit foucaultian origin of the concept.

[50] Actually it has been argued that regulatory reliance on ratings and the increasing importance of risk-weighted capital in prudential regulation have contributed more to "distorted" ratings than the fact that they are being paid by the issuer, see Cole and Cooley, 2014.

my. Moreover, finance spread through the liberalised capital flows, eventually dramatically surpassing trade flows to an extend not seen before in history. This led to an almost full financial integration in global scale. In this new (macro)economic environment large institutional investors were moving around the globe in search of yield, new intermediaries and/or investors, mostly unregulated and thus non-transparent in their workings, dominated the economy, and rating agencies provided the new "truths" that the system was to be based upon.

Consequently, as Kay (2015: 29) so pertinently remarked "… much of the growth of the finance sector represents not the creation of new wealth but the sector's appropriation of wealth created elsewhere in the economy, mostly for the benefit of some people who work in the financial sector". What is more "the industry mostly trades with itself, talks to itself and judges itself by reference to performance criteria that it has itself generated" (ibid: 26). The power of finance was indeed fundamentally transformative of the global politico-economic landscape!

2.3. Financialisation of financial sector: what do banks actually do?

It might be thought as a sophistry to argue that financial sector can be financialised. What the relevant literature and this thesis means though is that financialisation altered the traditional role of banking to such a degree that there is probably a need to change the terminology and the content of the concepts we are using. To elaborate, financialisation of financial sector can be epitomised from one part, in disintermediation and the rise of loans within the financial sector and from the other, in the exponential growth of shadow banking system.[51] Of course there have been other developments in banking and financial sector. Kay would argue that the most important one in the structure of the industry was the global expansion of American investment banks and the re-invention of the conservative Continental European banks -especially ones of Germany, France and Switzerland- along Anglo-American lines, which essentially means global expansion and investment in new sophisticated financial products (Kay, 2015: 71-72). Others include the expansion of banks assets, debt portfolios, leverage and securitisation that we examined above, even though due to their intensity, scale and scope could have been analysed in this section. However, it has been observed that even though all countries became more market-based through the 1990s, the orientation towards markets was more profound in USA than in Europe where banks, and more so universal banking, was very stag especially in the 2000s (ESRB, 2014: 6). Yet here we are mainly concerned with the qualitative structural transformations of banking and financial sector which eventually altered its very ontological status, something that happened mainly in USA as well as in UK, Germany, France and other advanced western european countries.

Disintemediation of banking sector

Banks traditionally are supposed to be intermediaries: they gather deposits in order to loan to businesses, in other words they "intermediate between suppliers and users of funds" (Krippner, 2011: 62). From this intermediation, they generate income as a result of interest differential between interest rates on deposits and on loans.

[51] We did present data on shadow banking "components" above, as part of the restructuring of the economy as a whole. Here though we will also be viewing these empirics in their function, in other words beyond their size.

In the era of financialisation though banks were no longer lending to businesses and savings were not channeled in the banking system. At least not mainly so, and not in USA and Anglo-saxon world. Concerning the former, businesses started borrowing directly from capital markets because it was more flexible and less costly. Consequently, banks had to find other sources of income and they thus started targeting households which subsequently became an important source of income. Thus numerous new products covering housing, consumer, student and other "everyday" needs started making up the portfolio of banks.[52] What helped besides the strategic move of banks and the aggressive discourse on democratisation of finance, was a fertile ground from the part of households: savings were declining and their wage income was either stagnant or declining too. So if they were to keep up with the living standards of their parents they had to borrow more. Yet as demand for both supply and receipt of credit was increasing, another structural problem appeared: deposits were declining, so eventually there were not enough funds to finance the growing demand for loans. Banks did not have "the supply" to meet "the demand", even though they themselves needed these assets. In order to bridge this so called "customer funding gap", they developed new tools, like securitisation, and practises like wholesale funding (Lapavitsas, 2010; Aalbers, 2008; IMF, 2013: 111).

Whole sale funding consists of repurchase agreements (repos), brokered deposits, asset backed securities (ABS), mortgage backed securities (MBS), covered bonds, interbank loans, and commercial paper. Pre-crisis mainstream literature considered it advantageous relative to deposits because the providers were thought to be more sophisticated, something that crisis proved otherwise (IMF, 2013: 108-113). One thing is certain that wholesale funding connected bank and non-bank financial sectors, enhanced the short-term perspective of financial institutions (ibid) and altered basic conceptualisations such as what constitutes a bank run (Anglietta, 1996).

[52] Indicatively see Lapavitsas 2010, and Aalbers, 2008.

A major category of wholesale funding were securities. Securitisation was supposed to enhance maturity and liquidity transformation. Maturity transformation entails short-term liabilities funding long-term assets, while liquidity one entails the acquisition of illiquid assets through more liquid liabilities (Bakk-Simon et al, 2012: 11). But in due course it was used as a tool to clear off bank balance sheets from long-term and thus illiquid assets in favour of liquid and highly tradable ones from international investors. Of course securities, have been a regular part of financial transactions since 1930 (FSB, 2012: 16). But in the era of financialisation, securitisation acquired a totally different scale and dynamic as we saw in the previous section. That is why we examine it in detail relative to the other categories of wholesale funding.

Besides their excessive use though, the qualitatively effect of securitisation is that it decomposed "the traditional lending process into more elemental activities, i.e. origination, servicing, guaranteeing and funding (Greenbaum and Thakor, 1987: 379). Consequently, banks transformed from intermediaries to a growth and fee generating businesses of their own right (Engelen, 2003: 1367; Lapavitsas, 2009) A new business model, the "originate and distribute" one, took the place of old relational type of banking. Banks became "transmission belts" (Panitch and Konings, 2009: 74) since their business focused at gathering as many loans as possible in order to pass them along to a securitisation process that assembled, blended and sliced them back into sophisticated financial products to be sold in international markets.

Once banks transmitted these loans down the "originate and distribute" process, which means once they sold them and removed them from their balance sheets, they received the original mortgage advance. Both the removal of loans from their balance sheets as well as the reimbursement they gained from these sales, allowed them to engage in further lending, while the mortgage payments accrued as interest to securities holders. In other words, mortgage payments that once went directly to banks to compensate for the interest the banks were paying their depositors, and provided them some profit from the differential between rates on deposits and on loans, now went to securities holders who could be at the other side of the world. The "lost" income that

banks "transferred" to securities holders, was replaced by fees for the services rendered to debtors and security holders, as well as by the benefit from freeing their balance sheet and engage in new lending.

Inevitably, enthusiasm spread. It seemed that banks evaded one of the two "business" risks of traditional banks: default risk –the possibility that borrowers might not repay their loans. The second risk, liquidity seemed to have been minimised too, because banks started using extensively interbank and wholesale fund markets. Moreover, risk both individual and systemic was supposed to be diminished because it was spread or at least went to those who were willing and able to assume it (Turner, 2010: 31). Naturally then "participants (of the boom of 2000s) imagined that they were reinventing banking" (Dymski, 2012: 170).

But this reinvention entailed some paradoxes. Banks did not seem to be necessary anymore: intermediation was done mainly from centralised financial markets, and credit rating agencies and statistical apparatus were performing evaluations that relational banking once performed; banks transformed into service companies of capital markets' players (Lapavitsas, 2011; Dymski, 2012: 171). Moreover, bank runs had more the sense of freezing of wholesale, securities and derivatives funding than a flight of deposits (Anglietta, 1996); thus they are more systemic both in origin and in outcome.

But even where banks remained necessary, in retail banking that is, even there, their institutional role was transformed. Banks lost their ability to judge creditworthiness of clients which was and still is supposed to be a crucial aspect of their every business. The reasons for that transformation were mainly two. Firstly, because they started relying more on "computationally-intensive statistically-based techniques, which rest on mark-to-market accounting" and less on personal relations with the clients. And secondly, because "due diligence on marketed loans was often been subcontracted to other institutions, such as credit rating agencies" (Lapavitsas, 2010).

Another paradox that reinvention of banking resulted to, is that for all the sophistication in information-gathering and risk management -or probably exactly because of these- banks did not distinguish between a NINJA (No Income, No Jobs, or Assets) and a truly credit worthy individual. Actually the new structural parameters that were defining the rules of the game in finance ordained that there was no need to do something like that. Banks should only, and that is what they did, be interested in numbers of loans, not their quality, since it was widely accepted as an uncontested truth, that by the "originate and distribute model" default risk was being adequately dispersed and thus managed. Systemic risk, which is the logical repercussion of this model, was out of the radar screen.

Shadow Banking System

Besides the transformation of traditional banking, there was an "extension" of the sector to less transparent, under- or non-regulated areas. Over the counter derivatives, hedge funds, private equity funds, arbitrageurs, created and/or operationalised by brilliant financial engineers, constructed a world of their own where trading was done outside regulatory and even tax authorities. It was called a 'shadow banking system', a term initially coined from McCulley of PIMCO (2007).[53] Post-crisis there have been numerous debates over the definition and parameters of shadow banking, mainly in a context of discussion for potentially applying a regulatory framework there.

It is true that activities such as arbitrage, innovation and gains from specialisation which has been a standard practise in what has been defined as shadow banking system have been around for a long time in advanced financial systems (Ponzar et al 2012: 7). Actually, mainstream views consider shadow banking "a boon for the financial system" because in the emerging market economies it broadens access to credit (since there are capacity and regulatory constraints in the traditional banking system) and in the advanced ones it improves efficiency and deepens liquidity and risk sharing

[53] The term "shadow banking" was coined by Paul McCulley of the PIMCO investment fund at a 2007 Federal Reserve Conference in Jackson Hole, Wyoming. Financial Crisis Inquiry Commission, Preliminary Staff Report: Shadow Banking and the Financial Crisis 9, n.8 (May 24, 2010) available at http://fcic-static.law.stanford.edu/cdn_media/fcic-reports/2010-0505-Shadow-Banking.pdf.

(FSB, 2014: 38). Gorton (2009: 39) would argue that shadow banking performs tasks which are much needed in an economy because: 1) through securitisation it provides collateral that firms need for many purposes and 2) through the repo market it provides a safe location for savings that firms and institutional investors need for saving cash short-term.

Admittedly, in the last 30 years, shadow banking's evolution "into full-fledged system is a phenomenon" (Ponzar et al 2012: 29), because it eventually transformed banking in fundamental ways. This evolution is said to originate from increased competition from non-banks, decreased regulation and innovation in financial products (Gorton 2009: 39). Yet other perspectives would add to economic factors and deregulation, a broader "contribution" of regulation in the "formation" of shadow banking system: namely numerous incremental regulatory changes, regulatory arbitrage and legal subsidies and/or guarantees,[54] so as "to intertwine and form an elaborate system." (Gerding 2012: 3, 31-53). From all these the most interesting are the incremental regulatory changes and the implied guarantees that reveal the inconspicuous way that finance spread. They show how incremental and thus unnoticed regulatory changes, can set the scene for radical transformations of basic institutions in a economy and -as we will see- in a polity.

But what is shadow banking? ECB proposes a definition based on its functions and activities rather than on entities involved in view of monitoring the developments over time from a financial stability perspective and possibly decrease regulatory arbitrage. Thus ECB considers shadow banking as the "activities related to credit intermediation, liquidity and maturity transformation that take place outside the regulated banking system" (Bakk-Simon et al, 2012: 8, 9). Quite rightfully -even though post-crisis- ECB highlights the fact that shadow banking system is susceptible to modern-type bank runs and related liquidity and systemic risks, because it relies heavily to

[54] According to Gerding these legal subsidies include the granting guarantees and special legal preferences provided to shadow banking instruments and institutions. Deposit insurance, implied guarantee of rescue, subtler guarantees such as access to Federal Reserve loans are some examples that the author gives.

short-term uninsured funds without the safety nets of regulated banking system (ibid: 8).

Gerding (2012: 3) argues that shadow banking provides the functions of traditional banking comprising of a "network of financial instruments and institutions that developed in the past 40 years to connect commercial and consumer borrowers indirectly to investors in capital markets". This network apart from providing credit, has six additional characteristics: it provides intermediation (between borrowers and investors), pooling (of loans or financial assets), structuring, maturity transformation, money creation (some shadow banking instruments offer low-risk, high liquidity analogous to characteristics of money), and opacity. Thus it provides "a substitute for many of the economic functions of depository banking, including providing loans to households and businesses while offering investors theoretically low risk and highly liquid investments" (Gerding, 2012: 3,6).

Lyssandrou and Nesvetailova though disagree with this type of definitions because they believe their preoccupation with the systemic effect of shadow banking by virtue of its unregulated nature, lacks explanatory power (2013: 5). They propose a definition which they believe that accommodates the functionality of shadow banking, namely the reasons behind its expansion to the point of causing serious systemic damage (ibid). They view shadow banking "from a 'stock' perspective, that is, as activities that result in tangible 'products' whose use value to buyers is to serve as stores of value". Contrasted with the flow perspective of the other definitions which view activities solely as 'processes', they argue that "the shadow banking system is a system of unregulated off-bank balance sheet credit intermediation and maturity and liquidity transformation activities conducted by bank owned or sponsored entities in the capital and money market domains for the primary purpose of expanding the rate of production of yield bearing debt securities required by the global investor community" (ibid). Because of the way they are defining shadow banking, they do not compare liabilities of traditional and shadow banking in order to show the rise of the

latter, but instead they compare developments in shadow banking and US bond markets.

One way to potentially get beyond the impasse of debatable definitions, is to examine the key financial instruments that allegedly constitute shadow banking. Lysandrou and Nesvetailova (2013) would argue that "only the SPEs, SIVs and conduits constituted the core of the shadow banking system because only these three entities were the production factories supplying credit-based securities" (2013: 8). For them it is not useful analytically to place "every linkage between every entity performing any type of credit intermediation and maturity/liquidity transformation role … on an equal par" (ibid). Others would include also Asset-Back Securities, Asset-Backed Commercial Paper, Credit Derivatives, Money Market Funds and Repos (Gerding, 2012: 11-25).[55] For ECB shadow banking consists of securitisation, such as special vehicles and financial intermediaries, and, on the funding side, the repo markets and MMFs" as well as hedge funds (Bakk-Simon et al, 2012: 11). So even from the attempts to define the phenomenon and its parameters, one can detect the interconnectedness of the "traditional" and the "shadow" banking system.

A fairly logical question that can be raised at this point is "what do the numbers show". Was shadow banking quantitatively important in the current international po-

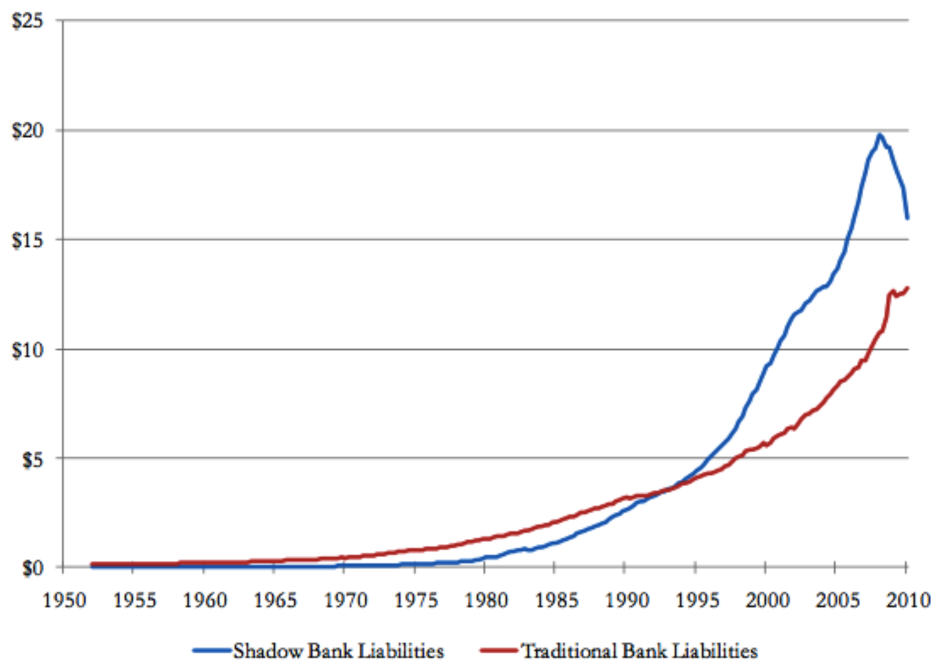
[55] Money Market Funds (MMFs) are short term investors that started in USA in early 1970s as an alternative to bank deposits to get around regulatory ceilings (Lyssandrou and Nesvetailova, 2013: 8; Bakk-Simon et al, 2012: 15). As with other key players and tools of financialisation their life was prolonged even after the reason for their development subsided. The reason of course was yield: they paid very attractive rates of return (ibid), something especially attractive to institutional investors which is the main investor group of MMFs. MMFs invest mainly in short term debt and they are an important source of funding for the shadow banking system especially through certificates of deposits (CDs), commercial paper (CP) and repos (Bakk-Simon et al, 2012: 15). MMFs enhanced interconnectedness of the global system because on one hand some US MMFs provided sizeable funding to European banks, and on the other hand European MMFs are more tied to banks than US ones (Bakk-Simon et al, 2012: 16).

Repos are fund-raising instruments complementing alternative market tools such as unsecured loans or the issuance of short-term securities (Bakk-Simon et al, 2012: 16). They were an important funding source of US shadow banking, while official data on EZ are not available (ibid). The most active players in USA are investment banks, while in EZ it is interbank markets (ibid).

litical economy landscape? Pozsar et al (2012) have presented the chart 30 concerning USA (the largest shadow banking system in terms of assets), from where it is evident that since mid 1990s shadow banking activities outpaced traditional banking ones, reaching a peak of almost 20 trillion dollars in 2008 when at the same time traditional banks' ones were less than 12 trillion. It should be noted that "a significant proportion of shadow banking in US arises from the activities of government-sponsored enterprises" involved in primary and secondary mortgage markets (Bakk-Simon et al, 2012: 18).

Chart (30) Shadow bank liabilities vs traditional bank liabilities

(trillions US dollars)



Source: Flow of Funds Accounts of the United States as of 2010:Q1 (FRB) and FRBNY.

Source: Pozsar et al, 2012

In a broader scale consisting of 20 countries[56] and the EZ, assets in the shadow banking system were estimated to have risen from 26 trillion dollars in 2002 to 62 trillion in 2007, declining slightly in 2008 to 59 trillion, only to rise again to 67 trillion in

[56] These are: Argentina, Australia, Brazil, Canada, Chile, China, Hong Kong, India, Indonesia, Japan, Korea, Mexico, Russia, Saudi Arabia, Singapore, South Africa, Switzerland, Turkey, UK and the US

2011 (FSB, 2012: 8), following the general trend of financialisation indicators which were raised in the crisis. In relation to GDP of these countries shadow banking rose from around 90% of GDP in 2002 to 128% in 2007, declining post crisis to 111% in 2011 (FSB, 2012: 9). In relation to total financial assets, that is the share of shadow banking system in relation to total financial intermediation remained rather stable around 25% with a peak at 27% in 2007. In terms of assets, shadow banking ones are almost half the ones of traditional banking (FSB, 2012:9).

It is noteworthy that even though US still has the largest banking system followed closely by EZ (23 and 22 trillion respectively in 2011),[57] UK's and EZ's share in shadow banking has increased in detriment of USA's: there was a decline in the share of USA in total shadow banking assets from 44% of the total of the above 20 jurisdictions and euro area in 2005 to 35% in 2011 while in the same time period there was a rise in UK from 9% to 13%, and to EZ from 31% to 33% (FSB, 2012: 10). However, besides this increase, the size of USA's shadow banking system is estimated to more than a half of the total of banks and shadow banks (53%) in 2011 while in Eurozone the same percentage ranges around 28% (Bakk-Simon et al, 2012: 20).

Of course these numbers hide disparities between countries since for example in Germany banking assets are by far the most important financial asset class, while in USA the shadow banking system's share of financial assets is bigger, while in a country as Saudi Arabia banking assets declined after 2002 and central bank ones skyrocketed surpassing all other financial asset classes in the country (ibid). To get a quantitative perspective of the disparity it is worth looking at chart 31 which depicts the compounded annual rate of growth of shadow banking system in the above 20 jurisdic-

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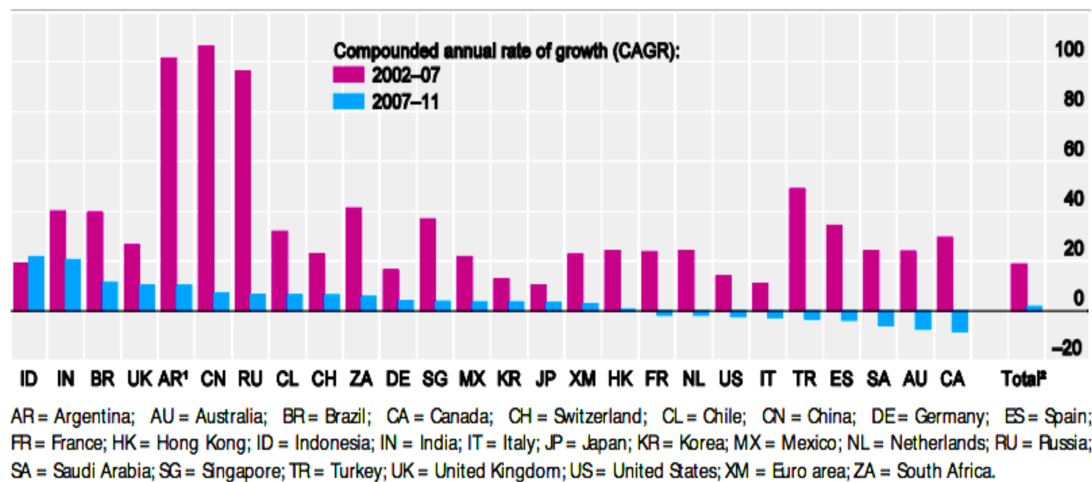
[57] We should note that there are differences on the metrics of the shadow banking system, which are due not only to the availability of data, but also on the statistical measures that can include or exclude certain entities, and which results in less to be included in EU and EZ metrics (Bakk-Simon et al, 2012: 19). For example while for FSB the size of assets of EZ in 2011 were 22 trillion (FSB, 2012: 10), for ECB it was 10,8 trillion (Bakk-Simon et al, 2012: 20).

tions during the period of 2002-2007 (and the one in 2007-2011).[58] It is worth noticing that there was a strong growth in countries outside the western so called advanced democracies, like in China, Russia, Turkey and South Africa. Of course this could denote the low starting point of these countries.

Chart (31) Average annual growth of shadow banking system

(by jurisdiction, in per cent)



Source: FSB, 2012

In an attempt to capture this disparity, Financial Stability Board (FSB) board categorised countries in three main groups depending of different structures of their financial system: (a) a first group consists of economies characterised by a dominant share of banks combined with a limited share of shadow banking that does not exceed 20%. Here one can find countries such as Australia, Canada, France, Germany, Japan, and Spain, (b) a second group consists of economies where the share of shadow banking system is over 20%; Netherlands, UK, and USA fall in this category, and lastly (c) a third group which consists mainly of emerging and developing economies characterised by significant presence of public financial institutions or the central bank, "often on account of high foreign exchange reserves or sovereign wealth funds", with the shadow banking system being low. Here one can find countries such as Argentina, China, Indonesia, Russia and Saudi Arabia (FSB, 2012: 12-13).

[58] As noted BY FSB (2012) the "unusually high growth" in Argentina is due to the strong recovery after the 2001-2002 crisis which makes it not comparable to other countries.

Finally, besides the rise per se, the systemic character of shadow banking is mainly manifested through the interconnection with the so called traditional banking one. Even though the connotations of the term might imply that shadow banking system was undermining or competing with traditional banking, the reality was different. Besides the opaqueness of its complex products, shadow banking system was not informal, illegal or clandestine, but rather open and in full trade with traditional banking, large institutional investors and even government (Sassen, 2014: 142). Or in the words of Gowan (2009a): it "was not (even) in competition with the regulated system: it was an outgrowth of it, since the regulated commercial and investment banks acted as the prime brokers of the shadow banking operators".

And this is not an heterodoxical assumption. Even FSB elaborates on that point by noting that (2012): "Banks and shadow banking entities are highly interlinked, with banks often being part of the shadow banking credit intermediation chain or providing (explicit or implicit) support (e.g. guarantees) to the shadow banking entities to enable cheap financing and maturity/liquidity transformation. Banks also may be owners of shadow banking entities such as finance companies or broker-dealers" (Gowan, 2009: 5).

One of the most significant interconnection dynamics that developed is that banks and shadow banking entities provide funds to each other through loans and investment in financial products (FSB, 2012: 20). Especially since 2005, regulated banks, even in the predominately bank-based EZ area, increasingly relied more on funding from financial sector (including interbank lending) since deposits from households declined (Bakk-Simon et al, 2012: 22). At the same time deposits from financial sector increased mainly in the form of securitisation. In Euro Area this happened gradually since the beginning of the monetary union in 1992 (Bakk-Simon et al, 2012: 22). Since funding of this sort is mainly short-term, then the whole system became more susceptible to the new type runs we referred to and to the respective drying up of liquidity (Bakk-Simon et al, 2012: 23).

Thus shadow banking system was not just an outgrowth of the regulated one, but an industry that "traded" with traditional banking system and which eventually acquired crucial systemic power. This involved, but was not limited to, spillover effects, exacerbation of pro-cyclical build-up of leverage, and thus asset bubbles, and of course amplification of market reactions especially in cases of common exposure to certain financial products (FSB, 2012: 20). For one more time in our financialisation narrative, the same paradox appears: nobody whose opinion mattered could grasp neither the systemic character of shadow banking system -which was considered an activity that always existed and which could even be beneficial- nor the repercussions it might have to the system as a whole.

Conclusively, banking was financialised in two ways: firstly, banks transformed themselves from intermediaries between savings and investments to financial companies selling financial services mainly within the sector and secondly, by acquiring "a sibling", shadow banking. Shadow banking was not an outgrowth or an underminer of the regulated financial system, but a partner for profits, arbitrage and speculation. Its size, permeation and interlinking, as with everything else in this financialisation era, is the main cause of concern from a political economy point of view. Because these three qualities render the shadow banking system not only a threat to the mainstream economic goal of equilibrium, through exactly the same logics and tools that the equilibrium hypothesis is based upon, but also to the stability of both the economic and the political system. Because if nothing else "… arbitrageurs need 'events'. A placid market with nothing happening and no volatility is bad for the hedge funds and for those on the 'risk arb' desks" (Blackburn, 2006). These events are not confined in the circuits of high finance and thus in those willing and able to cope with risk. On the contrary, it reaches almost all aspects of sociopolitical life.

In more technical terms one can say, that in the 1990s banks moved away from the old business model based on balance sheets and spreads on loans, towards an equity culture, with a focus on share price growth and earnings expansion, trading income and fees via securitisation which at the same time enabled them to economise on capital

by gaming the Basel system. Subsequently, risk was not spread as was the intention and the promise, but rather increased (OECD, 2008b: 5), or even actually created.

Overall and as a final comment one can suggest that financialisation of the banking system had an ontological aspect: banking post-financialisation is something else than what the theories which inform and legitimate the workings of modern finance are advocating. This might seem unimportant as something with no practical consequences, but even mainstream economists, such as Trinchet, the former ECB central banker would point to the profound political consequences of this "reinvention of banking". Thus it is worth quoting him at length:

> "Over the past ten years, we have witnessed ***a dramatic shift of focus in the financial sector – away from facilitating trade and real investment towards unfettered speculation and financial gambling. Managing genuine economic risk*** gradually ceased to be the main concern of international finance. Instead, ***the creation and assumption of financial risk*** – the risk involved in arbitrage and deliberate exposure to asset price changes – became the core activity of the financial in industry. A point was reached where ***the main role of the financial system*** was no longer to hedge existing economic risks and assist trade within and between countries, but increasingly to create and propagate new risks." (Bibow, 2010: 3-4).[59]

[59] Italics and bold characters were not in the original.

2.4. Financialisation of non-financial sector companies (NFC): where the new interaction of finance and real economy started

Corporate governance and restructuring of companies in non-financial sector with the ascent of shareholder value is where the debate of financialisation first originated. Scholars were arguing that within the ascendance of shareholder value that gradually spread in the 1970s and more so in the subsequent decades,[60] companies' managers became more interested in the price of the stock of their company and its financial gains, instead of taking care of its productive activities. So there was a move away from the 'retain and reinvest' managerial model to a 'downsize and distribute' one (Lazonic and O'Sullivan: 2000).

Shareholder value orientation made the rate of return to equity the main goal of a firm. It was initially meant to contain the principal-agent problem, between shareholders and managers; in other words to discipline managers through the external control of markets and not internal processes of the firm, as was done in Fordist era (Aglietta M. and Rebérioux : 2005). Eventually though it became a mechanism serving to tackle two new economic realities.[61] First, the hostile takeovers, where it was used either as a defence mechanism in order to avoid them or as a managerial strategy in order to cope with the reality after takeovers and mergers. Secondly, the loose-foot investors who in the new era of globalisation and free capital flows, could easily sell their shares and exit, if their gains were not satisfactory.[62]

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[60] Lazonick and O' Sullivan rightfully remark (2000: 24,25) that "forces were at work from the 1950s" since from then top managers were increasingly segmented from the rest of the managerial organisation due to the stock options they began to receive as part of their salary. So it was from then that top US corporate managers "developed an ever-growing personal interest in boosting the market value of their companies' stock"

[61] While these realities could be said to be a result of this orientation of management, they mainly resulted through deregulation and freeing of capital controls

[62] While we analyse this concept in non-financial firms, the same goes for banks and financial companies. But the fact that these practises involve NFC to the extend it did is a distinct feature of financialisation

The former reality meant that in order for companies to avoid hostile take overs, they had prove their commitment to shareholder value orientation, in the sense that they had to adopt shareholders' interests (Holmstrom and Kaplan, 2001). Later this was to be "certified" by rating agencies, so managers were preoccupied with building a strong credit rating profile. Then when a merging or a hostile takeover finally did occur, there was a need to get rid of the parts of the company that they were no longer profitable. Shareholder value orientation was again the strategy to follow. Special Purpose Vehicles (SPVs), this innovative independent legal entity created for a particular purpose, were employed so that they acquire those parts. Yet they did so at purposely overvalued prices which were funded from the original company usually through debt. Then SPVs would resell those inflated assets in capital markets. So financialisation gave the tools to the companies to sell their non-profitable parts at a profit by inflating them and disguising them under sophisticated financial instruments. An inventive strategy indeed that profited the new companies, yet also one that gave the impression of value when there was not any or at least not enough. Something which could be thought to be at the borders of illusion -if not fraud. Thus, by virtue of shareholder value from Non-Financial-Companies (NFC) combined by financial sophistication, two non rational economic results occurred:[63] market prices were not transparent and in line with the true value of underlying assets -thus creating illusions of value,-while at the same time debt was augmenting without any real productive benefit to the economy and the companies.[64]

The later aforementioned reality that shareholder value was called in to tackle, was the so called "Wall Street Walk". A damoclean threat was hanging over managers' head: in the new financialisation era, investors could be "voting with their feet", meaning that if they had a strong dissent with management of a firm, and the usual

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[63] Another very interesting albeit rather specific example of seemingly rational decisions informed from shareholder value ending up to be proven rather irrational is given by Gunnoe and Gellert on the financialisation of timber industry in US. We note that in order to see how general structural changes in macroeconomy such as financialisation and its manifestations such as shareholder value can lead to a sale off of timberlands to large institutional investors -rational enough

[64] This paragraph is heavily informed from Aglietta and Reberioux (2005)

shareholder diplomacy has been exhausted, they just left the company taking with them their capital (Lordon, 2006: 11). Effectively then, shareholders were not anymore acting as legal owners of a company but as its creditors because "the main sanction they possess is not a proprietorial but a purely market act- to sell; to exit"(Grahl, 2001: 8). Their proprietary rights transformed into liquid assets, something that not only changed their "ontological" and conceptual nature, but also the temporality each one of them entails: the former, a proprietary right relates to more long-lasting relations and the latter to short-term ones. Moreover the role of equity transformed; it even lost its very meaning, since it was not used simply "to supply finance for companies, but to exercise control over the totality of corporate finance" (Grahl, 2001: 8). Equity then transformed into a power relation.

Managers were thus constantly under the pressure of restructuring in order to enhance the asset prices of the firm they were working for. And since, in the new financialisation era, an asset value is only the one rating agencies suggest, managers became increasingly preoccupied with ratings. High ratings certified the value of a company's share, and this was more important than its actual productive value. They became the constitutive part of a company's identity. Because "a good profit is no longer enough; a triple A rating is also needed" (Blackburn, 2006: 2). Interesting so rating agencies were being payed for their services from the companies they were rating, thus in an oligopolistic market such as ratings' one, companies were either "shopping around" for good ratings, or actually "buying" them.

Thus, a financial logic permeated almost all operations of a firm, aiming at retaining and attracting mobile capital at any cost. Because the larger their market share and value, the easier financial investment would be attracted. This was the centre focus of the new era. Essentially that meant that there was a search for yield beyond market one. However, this was an illusionary expectation since it is not a realistic target for all these companies looking for over the market yield in global markets, to get one at the end.[65] Consequently, a share price was not a transparent, efficient way to value the

[65] For a discussion see Aglietta and Rebérioux, 2005.

demand of the underlying products. Prices were inflated, and/or “constructed” both from the supply and the demand side: if there was a high demand for over-the-market yield, then there would be willing “engineers” to provide it. This feature goes beyond the bubble and the speculation involved; it has systemic repercussions in the workings of the economy, something that is not widely debated by economists.

Consequently, this orientation to shareholder value transformed managerial capitalism of the Trente Glorieuses –when management was rather autonomous, with a certain preference to growth rather than profits- (Stockhammer, 2004: 28) to a financial capitalism –when profits and later asset prices were prioritised over growth and real economy investment, since the latter did not accrue double digit returns as financial products did. Thus the principal-agent problem remained, and what merely changed was the locus from where control originated. Comparing Fordist era managerial capitalism with financial capitalism Aglietta and Rebérioux (2005), arguing from a Regulation School perspective, claimed that “the new capitalism has not made officers more disciplined; it has transferred the control from an ‘entrenched’ managerial elite to one which is ‘financialised’….”, in other words control over officers was outsourced to markets (Aglietta and Rebérioux 2005). Yet this external form of control did not prove effective for the economy as a whole, because it benefited only the huge returns of managers and not the medium to long term horizons of firms and far less workers.

Stockhammer (2004), arguing from a post-keynesian perspective attributed this change to the different institutional settings between the two periods: in the post war years an interventionist state purposefully restricted the role of finance, yet in the course of 1970s this interventionist role retreated and two institutional changes aligned managers’ interests with shareholders’: (a) the development of new financial instruments that allowed hostile take-overs and (b) the changes in the pay structure of managers, that offered them stock options and performance related pay schemes. Both altered the incentives of managers orienting them towards augmenting the profits of shareholders or asset prices of the firm (the latter increasingly more in the last decades), thus diverting them from investment in physical assets, in growth (ibid:

726). Crotty (2003: 726) reports that by late 1990s the dominant component of the pay of the management teams of largest US non-financial corporations was stock-price driven.

Besides shareholder-value, another feature of financialisation of enterprises is that companies found that it is probably easier to sell their product if they offered “finance too, from the humblest consumer credit network to complex deals where a company sells its product to a subsidiary, which then leases it to the customer” (Blackburn, 2006b: 441). Krippner (2011) highlighted that big companies such as General Electric (GE), Sears, General Motors and Ford created “captive finance units” which expanded in such a degree that overshadowed manufacturing and retail activities, and even in some cases transformed them into bank-like firms, with GE representing the “quintessential industrial firm-turned-bank” (Krippner, 2011: 29). Subsequently, larger corporations stopped relying on banks to provide finance and orientated themselves directly to financial markets, seeking to find there their own source of credit. This had wider political economy consequences since even the bank-based systems of capitalism increasingly became market-based ones; for example traditional bank-based economies, such as Germany, transformed through the actions of their corporations to market-based (Grahl: 2009).

A third feature of financialisation of NFC, yet closely related to the above, is that it gradually altered the way companies were conceptualised. In the days of managerial capitalism a company was “an integrated combination of illiquid real assets –that is physical and organisational that could not be sold for cash quickly and without major loss in value” (Crotty, 2003: 2). Now a financial conception prevails. One that regards companies “as a portfolio of liquid assets that home-office management must continually restructure to maximise the stock price at every point in time” (ibid); as “an accidental bundle of liabilities and assets that is there to be rearranged to maximise shareholder value, which in turn reflects back the fickle enthusiasm of other investors” (Blackburn, 2006: 3).

Finally, corporations were encouraged to acquire a "cult of debt finance", for three reasons (Palley, 2007:15):[66] (a) due to tax code which treated interest payments more favourably than profits, (b) as a tactic to put pressure to workers and deter other claimants, and (c) for economic reasons, because debt increases leverage, and return on equity could potential appear higher, and thus more attractive to Wall Street investors. It should be noted also that debt was frequently used as capital for companies to purchase their own stocks in order to keep or increase the price of their shares. This created illusions for the true value of equity of the firm (Aglietta and Rebérioux 2005). Debt blurred the true value of equity. In other words, finance once again window-dressed reality, this very reality that its proclaimed transparency was supposed not to distort.

Inevitably then and as a consequence of the above, there was a growing reliance of non-financial firms on financial activities to subsidise profits generated through more traditional productive activities, which is for Krippner (2011: 29) one of the two aggregate measures of financialisation.[67] Moreover, after the 1970s total financial payments made by NFC have been increasing, as a result of the financialisation of NFC and particularly of the rise of shareholder value orientation as their management strategy, since there was "increased financial payout ratios in the form of interest payments, dividend payments and stock buybacks" (Orhangazi, 2008: 868; Lazonic and O' Sulivan, 2000), crowding out real investment (Orhangazi, 2008). Adding to the above, their financialisation had wider effects in the economy, especially the US one, since it has been reported that more than half of the US financial sector was the result of non-financial companies increased use of debt financed investment (Philippon 2007). This could be said to establish a pattern of "reciprocal financialisation": firms were financialised, and their financialisation contributed to further financialise the economy as a whole.

[66] Elaborated in Palley (2008).

[67] The other being the growth of financial sector profits.

Summing up, we highlighted four features of financialisation of NFC which linked them to financial markets and their logics: the rise of shareholder value, the development of financial activities to initially enhance their productive ones and latter probably to replace them in some cases, the reconceptualisation of the firm, and the acquisition of a debt culture. Subsequently, NFC are now more engaged in financial activities than actual production since they invest less in real economy. Thus their financialisation is not a business matter but one that has rather a greater politico-economic and societal impact.

Overall non-financial companies are now functioning with a financial logic, with the shareholder value as their primary goal, loaded with debt, in a highly financialised, and interconnected world of liberalised financial markets and mobile capital. Informed by and reproducing illusions about economic realities, their financialised logics and practises, undermine the true value of stock market prices, companies' own role in the economy, their very ontological status and subsequently the economic system of which they are an integral part: capitalism. In this process, basic concepts, such as what is equity and how it functions, what is a company, what is a fair price, even what is capitalism have lost their meaning and need reconceptualisation. Why conceptualisation matters in such technocratic matters as corporate and financial ones is something that will try to answer in chapter 4.

CHAPTER 3: The social universe of financialisation: the new universal welfare system "from the cradle to the grave"

3.1. Introduction

One of the more distinctive features of the phenomenon is that it did not remain within the realms of economy. Actually it seems that financialisation's path needed everyday life in order to expand and solidify at least in the structures of USA's political economy, the hegemonic power of post-war and the frontier one in financialisation. So financialisation spread in the social realm, engulfing everyday life in the circuits of (high) finance. It initiated an interlinking between finance and societies which eventually occurred in an unprecedented scope and scale. Through all sorts of credit, as well as financialisation of wages, pensions, education, food, commodities in general, and natural resources, every aspect of everyday life became crucially influenced by the volatile world of finance. Increasingly more areas of everyday human activity were financialised. Student loans provided for education, health care insurance schemes provided for health, pensions and home residence likewise. Finance provided for people, as once state did for its citizens. Food and natural resources were also linked with financial channels, rendering the financial system 'a new universal welfare regime' from the cradle to the grave.

In what follows we will attempt to show how, to what extent and in what ways finance permeated three crucial sectors of everyday life: home acquisition, pensions, commodities and natural resources. These are not the only sectors where finance and everyday life met. Student loans, health care and consumer loans are other major areas where finance pervaded into the realms of everyday. But we choose those three sectors as the most representative of the scope and scale of this entretien.

3.2. Financialisation of home and the way to "Homo Financialis"

Housing markets, especially the subprime mortgage markets of the US, were the locus of the beginning of the ongoing financial crisis. This way it raised the visibility of connections between everyday life and the circuits of global high finance. The literature on financialisation of housing markets has been extensive and is growing in rapid pace. While this literature can be ranked as critical, analysis of mainstream economists too, especially in the aftermath of the financial of 2007 crisis and in reference to its causes, identifies parameters that the critical political economy analyses under the term financialisation.

A house is usually the largest asset of the majority of households and its mortgage market nowadays covers a significant part of private, non-financial debt. Loans with home equity as collateral, has been the basis: (a) of the expansion of debt even deeper in the ranks of middle class, as well as in segments of the population once considered unbanked and undeserved of a loan, and (b) of the expansion and high sophistication of securitisation, which "embodies the financialisation of mortgage markets" (Aalbers, 2008: 154). All these have led, through various channels, to a structural transformation of banking and financial sector in general as we already saw.

Moreover, these societal and structural characteristics of financialisation of home were a catalyst in the transformation of capitalism, in the indebtedness of the vast majority of world population, in the interlinkages of everyday life with the volatile world of global finance and eventually the transformations of modalities of everyday, even to the point of an anthropological transformation. In sum, ordinary people were linked to high circuits of finance, and finance based its expansion and profits on ordinary people, in a historically unprecedented scale and scope.

In what follows we will present some indicators of financialisation of home markets, we will cursory refer to the role of the state in this process and to the consequences of

financialisation of home in society and everyday life.[68] It should be noted that the vast majority of the literature concerns the US, and to a lesser extent other countries of Europe and Australia. So, even though the narrative may sound general, it not empirically grounded on a variety of data from different countries, but mainly from the USA.[69]

A. Indicators of financialisation of home: primary and secondary mortgage market

"Households hold more debt than businesses and
the ownership of that debt
has been dispersed throughout society via securitized debt"
(Keen, 2009: 57)

Rise of debt / rise of primary mortgage market

Post-crisis even the most mainstream voices have argued that the exponential rise of household indebtedness through mortgage lending has contributed to the severity of the current crisis, since economies with a larger built up in household debt prior to the crisis were found to be having a particularly severe Great Recession (IMF, 2012: 89, 92 -95; Kaminsky and Reinhart: 1999: 476; Reinhart and Rogoff, 2008:).

Whatever the truthfulness of this causal relationship though, it does not change the fact that there was a dramatic rise of household debt, in the years after 1980 and more so after the 1990s and 2000s. "In advanced economies, during the five years preceding 2007, **the ratio of household debt to income** rose by an average of 39 percentage points to 138 percent. In Denmark, Iceland, Ireland, the Netherlands, and Norway, debt peaked at more than 200 percent of household income." (IMF, 2012: 89). In the

[68] State's structural impact to the birth and expansion of financialisation in (international) political economy has been evident especially when we examined the financialisation of financial sector. There through deregulation of the sector, freeing of global capital flows, a series of tax incentives and an unabated will to come to its rescue every time it went though a crisis, manifests the crucial role of the state to set the ground for financialisation and maintain the dynamics it developed at seemingly any cost.

[69] This limitation of data to USA is a point also stressed from Engelen et al, 2010: 57.

US, between the 1980s and mid-2000s, the ratio of **total household debt to aggregate personal income** rose from 0.6 to 1.0,[70] while at the same time the personal saving rate has fallen from an average of 9.1 per cent in the 1980s to an average of 1.7 per cent (Dyan and Kohn, 2007: 84). The ratio of debt to income did not rise only because of debt levels, but also because disposable income declined five times in relation to personal saving, forcing household indebtedness to surge from about 70 percent of disposable income to nearly double the size (Bibow, 2010: 20-21). Since saving was decreasing while debt in relation to income was dramatically increasing, the exposure of households to volatility of both financial markets as well as to the risks of life itself was exacerbated.

Another fact that complements this picture of fragility of household finances, is that besides these developments consumption has not retreated. Kumhof and Ranciere (2010) have documented that in the years between 1983 and 2007 the difference in consumption levels between the 5% of the income distribution and the rest 95%, has not widen, even though the income of the latter was stagnant. They note that the only way for the lower 95% to sustain the same level of consumption was through debt. And while in “1983 the **debt-to-income ratio** of the top 5 percent of households was 80 percent; for the bottom 95 percent the ratio was 60 percent. Twenty-five years later, in a striking reversal, the ratio was 65 percent for the top 5 percent and 140 percent for the bottom 95 percent. So while the lower 95% of the income distribution borrowed more, the top 5% accumulated more and more assets, and thus “consumption inequality that is lower than income inequality has led to much higher wealth inequality”.[71]

In US in particular -where data are available- there are clear signs that consumption was affected from mortgage lending because as it has been reported to be wealth-based and debt financed (Hein, 2011: 3), and not income-based. The proof of that

[70] In 2008 reached 1,307 (OECD Factbook 2010).

[71] Quotations and data from Kumhof and Ranciere 2010.

claim is the fact that it did not collapse as it did in the crises of the 1974-1975 and 1980-2; it only paused in the early 1990s recession, and continued to grow despite the later crisis of the dot.com of the late 1990s and the fallout from September 11, terrorist attacks (Cynamon and Fazzari, 2008). Rightfully then, Lapavitsas, arguing from a Marxist perspective, highlights the reorientation of banks towards households instead of businesses, empirically proving that indebtedness grew significantly among households, in contrast to corporate and banking sector (Lapavitsas, 2010, 2011).

This is illustrated in the fact that **household debt started covering an increasingly larger percentage of the total private debt**. In Australia[72] and New Zealand this percentage was over 60 per cent of the total private sector debt at the end of 2005, while in mature economies the average share of household debt to total private sector debt is 41,50 per cent (Sassen, 2008: 196). A BIS report for 18 OECD countries illustrates that, even after controlling for inflation, household debt increased by an annual rate of 6.2% since 1980 till the mid 2000s, when real corporate debt increased at 3.8% $ and government debt at 5.1% (Cecchetti et al, 2011).

Finally, household debt increased also relative to GDP especially after the 2000s (Roxburgh et al, 2010: 23). An indicative list of countries is seen in chart 32 where households' debt relative to a country's GDP rose in all of them. In USA in particular, **household debt** grew from 66.10 per cent of **GDP** to 99.9 per cent of GDP over the decade to 2007 (Blackburn, 2008: 66; Roxburgh, 2010: 23). In 2010, it was estimated to amount to 92 per cent of GDP, with only the financial sector debt exceeding it, at 98 per cent of GDP (Duncan, 2012).[73] But also in Euro area as a whole, the outstanding amount of housing loans rose from 27% in 1999 to 42% in 2007 with substantial variation across countries: for example Greece had the most pronounced change from less than 10% to 30%, less so in Italy from again less than 10% to almost 20%, then to Ireland from a bit less than 30% to around 80%, Portugal from less than 40% to

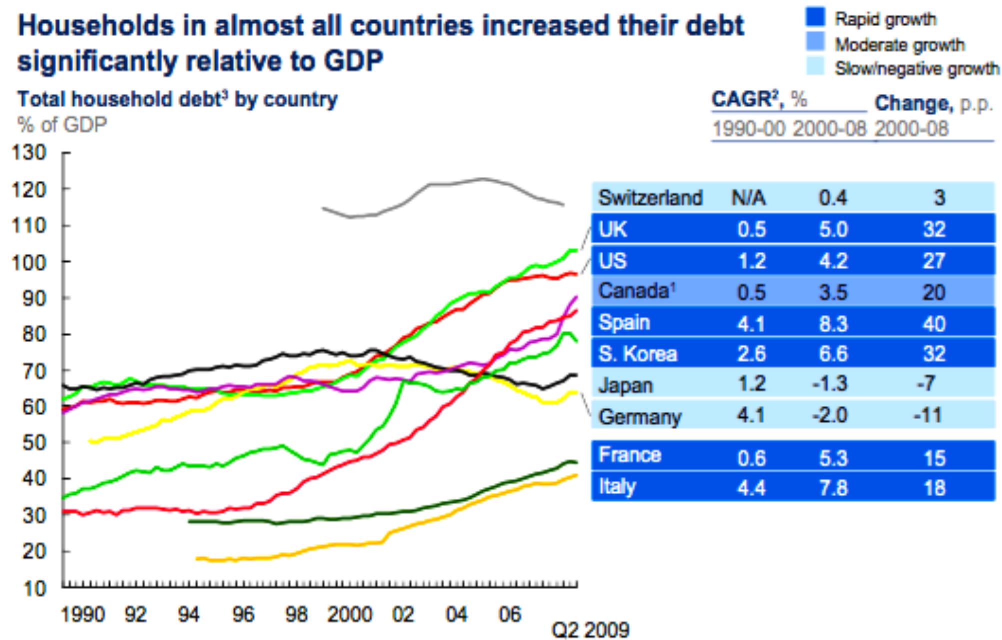
[72] For Australia see Keen Steve, 2009: 347

[73] In Duncan (2012: 17), where a table for US Debt by Sector 2010, is presented: to give a perspective the other sectors are corporate sector 51% of GDP, Non-corporate businesses 24%, Federal Government 65 etc.

around 70%, Spain from less than 30% to 60%, and of course Netherlands which had always high debt levels from 50% to 90% (ECB, 2009: 12; chart 33). Germany was the only country to diminish its debt levels during the period (ibid).

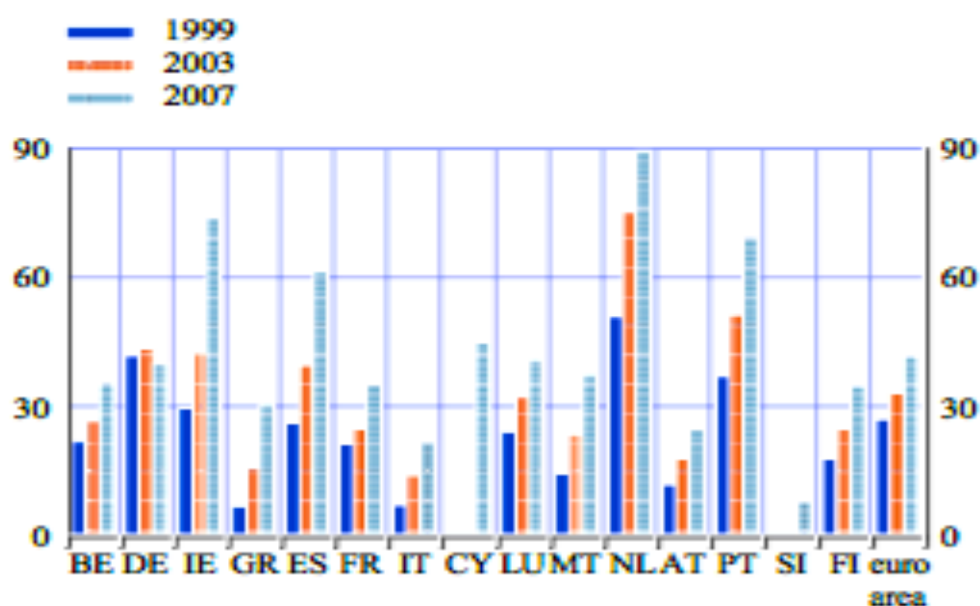
Chart (32) Total households' debt relative to GDP

(selected countries)



Source: Roxburgh et al 2010

Chart (33) Households' housing related debt in 1999, 2003 and 2007



Source: ECB, 2009: 12

Sassen (2008: 193) notes that this ratio -residential debt to GDP- tends to be higher for mature market economies, in comparison to emerging ones. There this ratio is significantly lower, (in India and China for example it stands for 10%), while the pace of growth of debt is far higher. The same though can be said for some European economies, such as Italy and more so Greece, both of which have comparatively lower household debt yet it grew with an astonishingly faster pace, besides high home ownership rates even before the rise of residential related debt.[74] So there seems to be a striking pattern between what we observe in emerging economies and some countries in the eurozone periphery.

From the perspective of prevailing economic theory, though, the rise of household debt was not a cause of concern. It was regarded as the rational reaction to adverse economic circumstances: income was at the very least stagnant, so it was only rational

[74] Let as underline a striking comparison: USA home market reached a peak of home ownership in 2004 which amounted to 69,2 % of the total (FCIC, 86) while Greece entered the financialisation and high mortgage debt era with 80% of homeownership.

to take on debt, especially when the macroeconomic environment was so benevolent and the dominant discourse so encouraging. Empirical evidence too came to back this rational move of households from another end to. House prices almost everywhere in advanced economies were going up, so by rising their debt levels households were not only coping with adverse circumstances in their income, but they were also making a sensible and seemingly profitable investment, since the price of their asset will always exceed the price of their loan. Moreover, these **"exorbitant home price increases"** contributed to a significant degree in economic growth Aalbers, 2008: 158). An example is Netherlands where increased home equity accounted for half of the economic growth in late 1990s (ibid: 156).

Lastly, even national income accounting (of US) was favourable to the trend since it treated a loan to buy a home as an investment, because of the wealth effect that the acquisition of a home was believed to create, along with the boost in the construction sector. So households were not only rational in their reaction, they were investing and creating wealth too. Yet Bilbow (2010: 80) has empirically established that residential investment only raises income in the short run, and it does not lead to any increase in (potential) incomes and cash flows in the long run; thus he proposed that it is better to treat residential investment as consumption rather than investment. Moreover, there have been cases that new wealth was not created as a consequence of the rise of residential debt, but existing wealth was recycled. For example, Keen (2009: 350)[75] has argued that in the case of Australia mortgage debt was primary used to purchase existing dwellings rather than to finance construction of new ones, which only contributed to inflation of house prices and thus to a bubble.

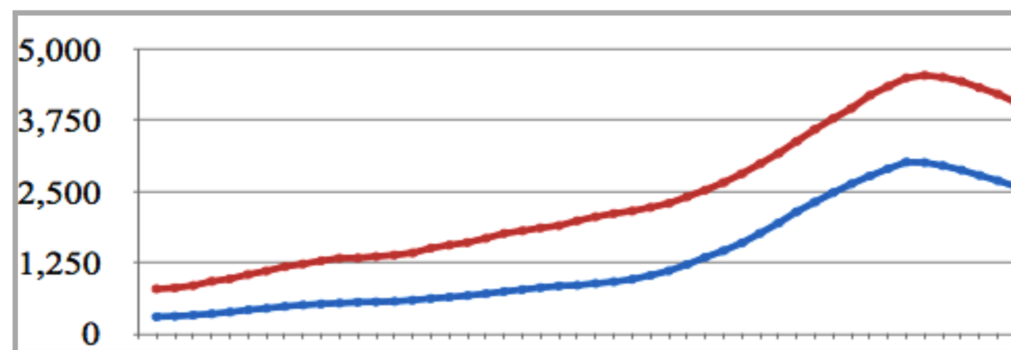
[75] Keen also points how this is a sign of speculation in the markets rather than investments.

Rise of mortgage-backed securities: how secondary mortgage market prompted the rise of the primary one

The rise of household debt had a reciprocal relationship with the expansion of the secondary market of mortgage backed securities (MBS).[76] MBS rose from 296,32 billion USD in March 1997 to 2.584,93 billion USD in December 2008 following the same trend as Asset Backed Securities (ABS) in general which in the same time period were raised from 786,67 billion dollars to 4.185,98 billion dollars (OECD Factbook, 2010; chart 34). What is even more enlightening -in terms of understanding the workings of the system- is the fact that a greater percentage of subprime loans were securitised in comparison to average securitisation. Lapavitsas (2009: 6) reports that the average securitisation rate of mortgages in US was 63,9 per cent of the total while the percentage for subprime mortgages rises to 79,3 per cent of the total.

Chart (34) MBS and ABS in USA

(in billion dollars)



Source: OECD Factbook 2010

In Europe though the absolute numbers and percentages are far lower than in USA, perhaps due to the fact that there was more limited government support for MBS. The limited support was manifested in the regulations which for example imposed a 50 per cent capital weight requirement for MBSs, in contrast to 20 per cent in US. Nevertheless, MBS's market was growing rapidly even in the first years of the crisis: it tripled

[76] Actually a typology under the name "varieties of residential capitalism" has been proposed based on the degree of securitisation in an economic system, see Schwartz and Seabrooke, 2008: 249.

in less than 3 years to 326 billion euros and estimates for 2007 were standing for 531 billion euros (Aalbers, 2008: 155).

Complementing the rise of MBSs was the fact that investors from one part of the world were investing in these types of products that were "derived" from another part of the world. Europe and the world were investing in particular in US MBS market something that became evident when huge losses incurred due to the subprime crisis. This spillover effect, as Sassen calls it (2008: 208), is manifested in IMF estimates, where it is reported that in US loss linked to subprime mortgages at $144 billion, while in the EU losses as a whole rose to $123 billion (not so far behind the US then), Canada's to US$ 7 billion, Japan's $10 billion and other Asian countries combined to $13 billion (ibid).

So this web of interconnections that was cast around the globe meant for one that people became increasingly connected to global capital flows and interest rates in a more direct way than they did through tax systems, public debt or employment (Schwartz and Seabrooke, 2008: 242). Secondly, they became interconnected too. Europeans for example were investing in US home markets (Wainwright, 2012: 108-109) without having any knowledge at all of the local modalities of the borrowers, the lenders, or the markets. Actually, they were not supposed to know because MBS were standardised products rated from credit rating agencies that everybody in the market respected.

Besides their lightening expansion, MBSs had some other qualitative repercussions. MBSs transformed houses into capital market assets (Schwartz and Seabrooke 2008: 256). This way they were supposed to make the market more transparent and thus more liquid and attractive to non-local, non-domestic, international investors (ibid: 242).[77] So the illiquid character and spatial-fixity of home markets, which needed local knowledge in order to attract investment became standardised, homogenised, tranched and formalised into financial products that the global markets could trust and

[77] For a sociological account of what liquidity is see Carruthers and Stinchcombe, 1999.

invest to. As a result markets of residential loans have been transformed from local, relational ones, to global, impersonal ones, where the rationality of the financial engineer had achieved to structure securities in such a way, so as to distribute risk according to the investor's willingness to assume one. Or at least that was the incontestable prevailing narrative.

As Sassen (2012) accurately noted the innovative nature of securitisation in this market lengthened the distance between securities and the underlying assets (housing) to the extreme, something that is usually associated with high risk finance. Sassen would further elaborate by saying that "there is not a single element in such a package that represents the whole house", there are only bits and pieces of a house in different securitised products (ibid). This way she aptly highlighted the detachment of these financial products from what is called real economy.

Moreover, MBSs helped banks transmit credit risk off to markets by removing loans off their balance sheet. Once they did, they engaged in even more lending. And since they were not to hold on to the loans till their maturity, they did not care for the credit worthiness of their borrowers. So the market could expand to everyone. This essentially meant that banks had no "built-in brakes on tendencies towards speculative and overly risky lending" (Dymski, 2012: 153). Yet incentives towards creation of MBSs did not come only from the supply side. The demand side was also asking for them. The willingness of banks to off-load their loans was coupled with a growing interest from investors for MBSs. This investment interest which sprung either out of strategic choice or out of persuasion[78] was looking firstly to invest in actual assets since financial markets were swamped with derivatives with an outstanding value of $630 trillion equivalent to fourteen times the value of global GDP (Dymski, 2012: 81). Investment choices have become as "virtual" as they could get, so investors were looking for something "real", or at least with something with some bearing in reality. Secondly, investors were also seeking to achieve above-market returns (Sassen, 2012: 81)

[78] This causal relationship works vise versa too.

even if they were to invest in high risk assets, such as securities of subprime mortgages.

Blackburn (2008: 76) illustrates the frenzy of the banks to acquire "enough mortgages to feed their credit lines … (encouraging) brokers to skimp on credit checks required by standard 'due negligence'" by a reference on Clayton Holdings, a company which was handling home loans for many investment banks. Clayton Holdings provided evidence to NY attorney general by showing how their clients –the banks- allowed it to surpass checks and then conceal the number of unchecked home loans. In a representative statement of this practise the head of Morgan Stanley's team in an email said: "Please do not mention the 'slightly higher risk tolerance' in these communications. We are running under the radar and do not want to document these types of things" (Gray, 2016). In general, ample proof of "deceptive practises" came post crisis from Financial Crisis Inquiry Commission. The proof was so compelling that the Commission managed to achieve 64 billion dollar settlements with banks trading these products (ibid). Not enough comparing to the amounts outstanding and loses incurred, but a signifier nevertheless of the practises involved.

Effectively, the secondary market "forced" the primary market to expand, in order to feed the boom. As a consequence an abundance of financial products appeared, in order to expand debt, with a house as collateral. Home equity was then used as a collateral for consumption, for welfare, for retirement (the infamous reverse mortgages)[79] and a number of other purposes, other than residence. People were taking on a second and third mortgage, for various reasons: in order to fill the gap of their stagnant wages, the absence and/or retrenchment of welfare state, or in order to follow the role models presented by media and subsequently their social environment. And all this with a confidence that their working conditions will provide the income streams necessary to support the loan payments. Or at least the house prices will always go up -statistics and dominant discourse were more than reassuring that this is a fact- so at

[79] See Silver-Greenberg, 2012.

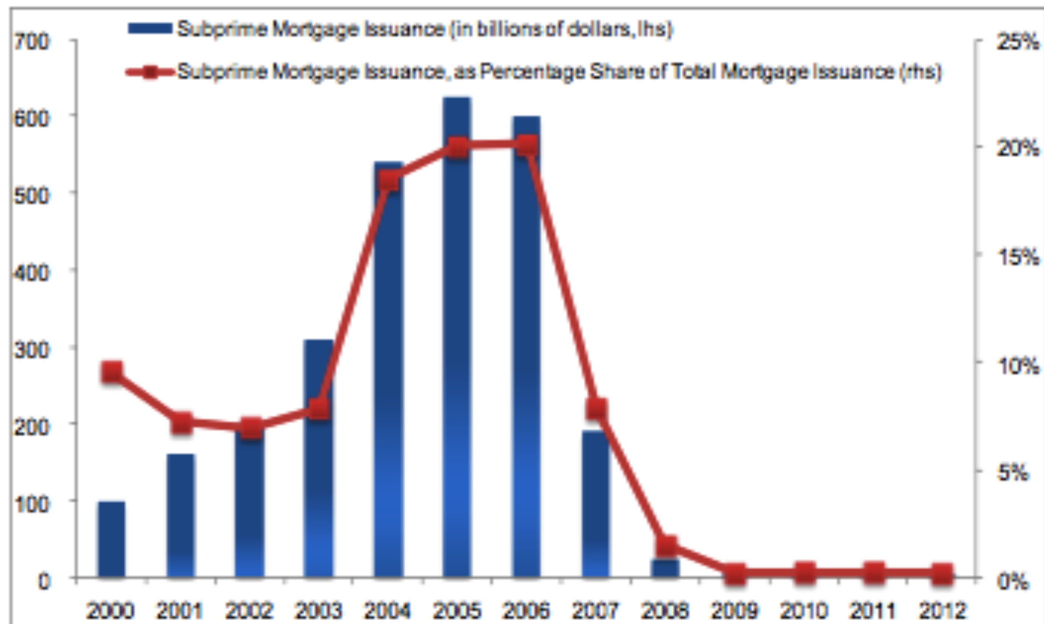
any given time they could sell the house at a higher price, repay the loan and have a profit too.

However, prime mortgages did not just expand in kind, they also expanded to segments of the population that were unbanked before. Those segments, due to race, gender, income, or suburb of residence, either did not have the "credit scoring" to get a loan, or they were living in redlining areas, a fact that per se excluded them from the banking system (Aalbers, 2012). Yet the "increase in the amount of capital available for mortgages due to securitisation increased incentives for lenders to specialise in lending to low- and moderate-income borrowers, and new information asymmetries have made it possible for predatory lenders to thrive" (Engel and McCoy, 2002). So subprime and predatory lending started to rise. As shown in chart 35 subprime lending in US rose from 100 billion US dollars in 2000 to 600 billion in 2006, lifting subprimes' share of total US mortgage origination from 6,9 percent to a 20.1 peak (Segoviano et al, 2013: 9, 11). This "sharp decline in lending standards" was attributed by IMF researchers (ibid: 9) to private issuers of MBS.

Of course, subprime lending was not a prudent business move, at least with pre-financialsation banking standards, because borrowers were not trustworthy of being able to repay their loan obligations. It was quite probable that they will default on their loan and banks would have to burden their balance sheet with losses. But the fee-generating business orientation of banks, that had substituted their relational banking-loan practices, gave them many incentives to target quantity and not quality in loan origination, in other words to move away from prudence and towards excess. The fact that the loan might not be repaid –in some cases even it was certain it would not be repaid- did not diminish the fees of the banks for originating and then restructuring the loan. The real lenders which were "the markets", and the sophisticated (and unsophisticated investors) they included, either did not know of the quality of the loans they were investing into (or that they were investing into loans, for that matter), or they were assured that the rating of credit agencies was a good enough guarantee for the risk involved, so they would only be assuming the risk they were willing to take. Systemic

risk was out of everybody's radar. Let us not forget that the dominant discourse proclaimed that as long as everybody is taking care of their own business -their profit essentially- then "the invisible hand" will take care of the system as a whole.

Chart (35) U.S. Subprime mortgage issuance



Source: Inside Mortgage Finance; and IMF staff.

Source: Sevogiano et al, 2013

Along with prime and subprime loans another type of loan expanded to quench the search of yield from both investors and banks. It was predatory loans. Predatory loans are analytically distinct from subprime ones, even though a lot of subprime loans can be predatory and vise versa (Engel and Mc Coy, 2002: 1261). They not only involve aggressive strategies towards unsophisticated borrowers, but also the lending to borrowers which are eligible of a "prime" mortgages with conditionalities for borrowers like NINJAs. The former is fairly obvious. The latter requires some explanation. It means that while some borrowers were worth of acquiring a loan with better terms, they did not. They got a "subprime" kind of loan instead. This was due to the fact that they were living in former redlining areas, or that they were of minority origin (Blacks, Hispanics etc). Actually, according to Fannie Mae half of the subprime bor-

rowers qualified of prime lending (Newman, 2012: 45). The percentage is striking indeed!

Generally predatory lending has been described “as a catalogue of onerous lending practices, which are often targeted at vulnerable populations and result in devastating personal losses, including bankruptcy, poverty, and foreclosure … (which) … involve one or more of the following five problems: (1) loans structured to result in seriously disproportionate net harm to borrowers, (2) harmful rent seeking, (3) loans involving fraud or deceptive practices, (4) other forms of lack of transparency in loans that are not actionable as fraud, and (5) loans that require borrowers to waive meaningful legal redress” (Engel and Mc Coy, 2002: 1260). But also predatory loans are the ones with excessively high interest rates or fees and unnecessary or abusive provisions that do not benefit the borrower (Carr and Kolluri, 2001).

The literature has mostly engaged in the predatory character of some subprime loans, mainly because as we mentioned above research has been conducted only for US, UK, and to a lesser extend for some of the most prominent European economies, which –especially the former- have mature financial markets and a public which has been financialised early on. In contrast, no adequate research has been conducted for some smaller countries of Europe, with rather new and immature market of home loans, such as Greece for example, where predatory practices have been observed in the majority of prime loans too, even before the crisis and much more so after that. Another issue of importance is that most borrowers who did not qualify for prime mortgages were “… middle- and higher-income households with poor credit histories, or no down payments, or poor documentation of income - not low-income households buying a house for the first time” (Roxburgh et al, 2010: 24). This makes the story of financialisation of home not an issue of a niche of marginalised individuals, but a wider societal issue concerning the vast majority of middle class.

B. The role of State in financialisation of home markets

Newman (2012: 227) accurately notes that the state has encouraged borrowers to use homes as banks. In general, it has been widely documented in the literature that the state either passively or actively, permitted or encouraged the financialisation trend: it deregulated the financial sector, liberated capital flows, actively rescued financial sector out of every crisis and re-regulated it in its favour, while ignoring early signals of deteriorating credit environment and building up of systemic risk (Watson, 2009; FCIC, 2011: xviii, 28). In other words, it opened an open space and banks and financial sector rushed to fill the void. The intentions presented though had a democratic and social oriented parlance. It was proclaimed that everybody should be able to invest like the rich do, and that everybody has a right to a house. Finance was to serve democratisation and social policies; it was a means to a political economy goal.

More particularly, in USA a series of legislative acts ever since the New Deal have created the infrastructure and the macroeconomic environment conductive to financialisation (Gotham, 2012). A most pronounced example in the case of housing was the creation of government agencies which actively used MBSs in order to provide the funds for housing which was then viewed as a social policy (Schelkle, 2012). In more technical terms, one can say that the state in US has early on created government sponsored agencies to act as Special Investment Vehicles (SIV) in order to change a spatial fixity into a liquid asset, to transform an opaque, illiquid, highly localised, and long-maturity asset into a supposedly liquid, transparent, short-maturity/yield one (Gotham, 2012). Consequently, the state enabled the industry to turn mortgage loans into modern day widgets and in due course financial institutions needed all the more widgets to fuel expansion (Newman, 2012). Without legislation opening up a space, financial innovation could not thrive to the extremes it did.

It has also been reported that by legislating in favour of financialisation of home, politicians benefited in various ways. First they minimised their responsibility to take decisions about distribution of resources which could have had a political cost. Then it helped them to win electorate votes of the middle class and later of Hispanic and

Blacks. Moreover it “avoided the real problem, which is the true extent of poverty in the United States and the folly of imaging that it can be banished by waiving the magic wand of debt creation” (Blackburn, 2008: 73).

Nevertheless residential related debt was presented as a social good, as an opportunity for anyone to acquire a home; even the ones living in financially starved redlining neighbourhoods (Hernandez, 2012: 202-3); everyone could be part of the American Dream (Konings, 2007: 24). Yet Wyly et al (2012: 281) accurately note that, the American Dream was fostered in the regulated environment of the Fordist Era of stabilised growth and wage productivity increases, so the same could not necessarily be feasible in the neoliberal era of deregulated finance, flexible labor, stagnant productive investments and wages. Adding to that remark, it has been argued that a problem of wealth creation cannot be solved through credit creation because homeowners cannot build equity in an overvalued house; inequality is just being hidden further down if not enhanced (Hyman, 2007). Masking a problem does not solve it, it just defers and thus intensifies a crisis.

Finally, it was not only legislation that manifested the state’s helping hand to financialisation trend. It was also from its in-action (FCIC, 2011: xviii). For example Hernandez (2012: 204) highlights that in 2003 the FED monitoring the steady rise of subprime lending activity became aware of deteriorating credit standards used by lenders in approving loan applications, yet instead of doing something to tackle the problem in the beginning, it encouraged lenders to develop and market alternative Adjustable Rate Mortgages (ARM) and raised interest rates 17 times. It was as if the state acknowledged that it was going to be competition that was to regulate the banking and finance landscape. In other words, it outsourced its regulatory role to market mechanisms. And the tax incentives it introduced, cemented the trend. As a result competition evolved into its fiercest version. It provoked extensive advertising though media, which, as viewed in retrospect, formed social norms of an almost imperative nature. The majority of academics, either supported or not challenged persuasively any of these parameters (DeGrawe, 2009), thus offering a form of legitimation.

US based Financial Crisis Inquiry Commission (2011: xviii) in its final report summarised how state's inaction helped enhance financialisation and eventually the crisis, and it is thus worth quoting at length:

> "Yet we do not accept the view that regulators lacked the power to protect the financial system. They had ample power in many arenas and they chose not to use it. To give just three examples: the Securities and Exchange Commission could have required more capital and halted risky practices at the big investment banks. It did not. The Federal Reserve Bank of New York and other regulators could have clamped down on Citigroup's excesses in the run-up to the crisis. They did not. Policy makers and regulators could have stopped the runaway mortgage securitisation train. They did not. In case after case after case, regulators continued to rate the institutions they oversaw as safe and sound even in the face of mounting troubles, often downgrading them just before their collapse. And where regulators lacked authority, they could have sought it. Too often, they lacked the political will—in a political and ideological environment that constrained it—as well as the fortitude to critically challenge the institutions and the entire system they were entrusted to oversee."

C. Societal consequences of the rise of debt and securitisation: from financialisation of home to "Homo Financialis"?

For most of the twentieth century, homeownership was regarded as relative free of risks and a good way to acquire wealth; yet nowadays homeownership is surrounded by increasing uncertainty (Aalbers, 2008: 151). Although uncertainty has its causes to a series of factors of both politico-economic as well as psycho-social nature, the linkage of home to debt and structured finance, in other words the financialisation of home, has played a crucial role in accentuating this uncertainty. Because, while this outsourcing of social policy to financial markets, was "branded" as a "right to a home" (ibid: 128) for everyone, giving the impression of states interested in the welfare of their citizens, it was proved to be a "carrot" to be followed by a rigid and inescapable "stick" of debt.

Because in a politico economic context of flexicurity, stagnant wages, decrease of savings and retrenchment of the welfare state, having debt -and far more debt over one's home- means having an "inelastic" expense, since no matter what, it has to be repaid. This inelasticity of debt structures a rigid reality as well as a monolithic thinking and sentimental process which inevitably exerts pressure in the individual and enhances feelings of uncertainty and at times hopelessness. Especially post crisis. This uncertainty and hopelessness are the first steps towards more serious and probably unmanageable societal tensions.

Even the supposed wealth that one acquires by home ownership is annulated by the very existence of debt. That is why critical writers regard financialisation of home as an expropriation of lower classes (Lapavitsas, 2009): people lured into borrowing, knowing they would not be able to repay, and that they would eventually be deprived of both their home as well as the assets that they devoted in acquiring and trying to repay it. Only the lenders were to benefit from fees of the original borrowing, potential restructuring, possibly from home itself in case of a default, but more importantly from pooling and selling those loans through securitisation. As a consequence profits were delivered to the financial elite while savings of modest and lower income house-

holds were devastated, thus creating the potential for macro crises (Sassen, 2008: 188). It is interesting then that households and more importantly, low income ones, were used for financial deepening (ibid), at a very high cost that they themselves had to repay.

Furthermore, the supposed democratisation through finance resulted to inequality, exclusion and marginalisation taking other forms; first of all that of foreclosures on subprime and predatory lending (ibid). Secondly, of the unabated bank demands out of loan contractual agreements even in the face of the most adverse and unforeseen circumstances as the ones of the current financial crisis. This raises serious legal and socio-political issues over the equality of parties in a contractual agreement, that of debt. And it probably signifies one of the facets of the power of finance in modern political economies.

Thus inequalities were not eradicated, but deferred to another level, which was less visible in the beginning albeit more systemic. The unbanked niches of society –minorities and marginalised groups- were offered a "Medea present": a home, which was to "demand of them every dollar beyond their basic needs" (Sassen, 2008: 188), and discipline them. And this was true for middle classes too. Actually, Black, a mainstream American economist, argued that only the indebted had the single-minded focus on performance that equilibrium demanded (Blackburn, 2008). In other words, only the "man-debtor" (Deleuze, 1992) is able to "fit" in the models of general equilibrium theory, the models of neoliberalism!

These thoughts raise another matter that of the financialisation of homeowner themselves. By using debt to acquire a house as well as to cover a series of other needs with house as collateral, the 'man-debtor' was financialised in the sense that they started conducting their life in tandem with financial logics and in the midst of inelastic financial obligations that they were supposed to serve at any cost. Moreover, the economic system is not regarding an individual as such. For example, banks do not regard a counterparty to a loan agreement as an individual but as a sum of characteris-

tics from their credit scoring system, which eventually reduces individuals into a single three-digit number,[80] into a plain membership of an assumed group (Aalbers, 2008: 156). Actually these computerised, standardised data of credit scoring created an illusion of a “calculative trust system” (Aalbers, 2008). Probably with a belief that if we try to flatten reality, reality will eventually flatten.

Of course to come to the point to talk about financialisation of the individual, a long process has preceded. In the Anglo-saxon world at least. There “households have been encouraged to comport themselves as businesses” (Blackburn, 2008) and the individual as “a two-legged cost and benefit centre” (Blackburn, 2006). Households had to have a balance sheet logic and be aware of all the repercussions and opportunities of the world around them, so they can make rational choices (Ertuk et al, 2007: 554-559; Martin et al, 2008). The neoliberal subject of the 1980s and probably 1990s, Homo Economicus, was to evolve one step further into a “Homo Financialis”.

By way of conclusion

Home was financialised, by transforming from an illiquid, spatial-fixed asset into a liquid one traded in global markets through securitisation of the debt that was used to buy it. Moreover and especially in Anglo-Saxon countries, people were “confined” in this one asset, their home, from where everything was dependent: their residence, their consumption, the studies of their children, their welfare and their retirement. Since this asset was linked to volatile global financial markets through the same process of securitisation, then the interconnected dependence it inevitably resulted to , became the most effective disciplinary device.

By transforming into a mere asset for capital markets to trade upon and giving birth to a trillion dollar industry of structured vehicle finance and derivatives, home eventually lost its societal value. A homeowner with debt that they could not service, was just a liability. Not a citizen to be protected as the weaker and less informed party of a

[80] Blackburn R, The Subprime Crisis, NLR 50, Mar-Apr 2008, p. 63-106, p. 77 referring to Kregel Jan. Minsky’s Cushions of Safety: Systemic Risk and the Crisis in the US Subprime Mortgage Market, Levy Economics Institute of Bard College, Policy Brief, no. 93, January 2008, p. 11.

contract. Because “Homo Financialis” was supposed to make an informed decision when getting into a contractual loan agreement and this information ought to have included knowledge of systemic dynamics -the very ones that most economists ignored due to the theoretical underpinnings of their models. Moreover, they ought not to be short-sighted and judge a loan agreement with its current benefits and their current income status, but they ought to have taken a wider perspective. An obligation though that the borrower’s counterparty did not have to adhere with; for some reason.

Conclusively then, the old saying that a man’s home is its castle, does not fit well in financialisation era. Nowadays this castle seems to be built in a sand of debt, something that makes its foundations shaky and in the inherently “seismic” environment of financial markets, it also makes its demolition almost certain. But this is not just an issue concerning individuals or just contractual parties. It is also a wider sociopolitical one. Because “housing is a sector that cuts across social classes, across different spaces that constitute an economy, from rural to urban, and across almost all major industries through the housing construction and furnishing stages” (Sassen, 2008: 189) while at the same time being a highly social sensitive matter linked with the wellbeing of citizens. Thus its financialisation and the repercussions it entails, become an important societal, political and economic issue.

3.3. Financialisation of pensions: the financialisation of old age

In the era of financialisation the uncertainties of the market, the market logic in general, do not stop when a person enters retirement. Provision for old age and pensions became financialised too and did so in two ways: first through the privatisation of pension provision and secondly through the investment of pension fund money in equity and in riskier alternative investments.[81] Yet as pension provision was financialised, pension funds themselves fuelled a further boost of financialisation. This reciprocal character was based on the fact that as privatisation and investment in capital markets proceeded, pension funds, along with sovereign funds, hedge funds and other institutional investors evolved into determinative players in the markets creating a wall of money running around the Great Moderation globe in search for yield.

So their large pool of money and regular income revenues became available to big investment banks and then financial engineers, both of which did not have pensioners' best interest in mind. The former did not invest in view of the beneficiaries interest (they had no fiduciary duty to do so anyway), but mostly gambled for their own benefit. To the latter they provided the incentive to improvise exotic products in order to quench the search for yield of pension funds and more so of their managers. Both processes contributed significantly in the transformation of economic landscape towards a system where finance became a self serving business of its own right.

Overall, two major consequences of financialisation of pensions could be detected. Firstly, risks were increasingly individualised. Citizens became more exposed to market risks that were added to longevity risks -inherent to this market- and idiosyncratic risks (Weller, 2009a, 2009b) which are unavoidable when somebody decides "freely" when and where to invest their money. To phrase it more technically "greater share of investment risk (was) being put back to end investors" (Haldane, 2014a: 4). Secondly, the money of pension funds were used to further financialise the economy, since it provided some of the "blood" in the veins of the system: this vast and replenishing

[81] In contrast to the previous practice of pension funds investing in bonds and government guaranteed investments.

liquidity from real economy, ignited innovation of financial products, which in turn were the vehicle for speculation as well as for mergers and acquisitions that eventually turned workers' income against other workers themselves. These consequences were fairly obvious, mainly, in Anglo-Saxon economies. Yet even in continental Europe, where pension provisions were, and to a significant extent still remain, a responsibility of the state or governmental organisations, pension funds were increasingly being invested in financial markets with the same above results. In order to see how these came to be, we will follow the genealogy of privatisation by firstly providing the basic distinction of pension funds, then proceed with the ways they were privatised and deregulated and critically examine their rise and transformation. As everywhere in this thesis, the underlying concern of our analysis are the eventual social outcomes.

Postwar pension provision systems

Pension systems are being distinguished into pay-as-you-go ones and capitalised ones (Engelen, 2003). The former are usually[82] publicly provided pension systems which rely on current pensions being payed from actual cash-inflows from current workers through mandatory contributions of either workers or employers. It is thus a form of tax (Zandberg and Spierdijk, 2012: 3). In some countries public provision of pensions relies also on funds set up by the government and funded via direct fiscal transfers; these funds are usually not allowed to make any payouts for decades (OECD, 2008: 119), thus they form a pool of money looking for investments with no immediate liabilities. Moreover, even in social security systems there are some reserve funds to meet immediate needs. These funds are lately increasing mainly due to privatisation proceeds (OECD, 2005a: 4-5).

The capitalised systems on the other hand, are mainly private provided pension systems that gather the inflows in large pools and invest them collectively. Here contributions are viewed as savings (Zandberg and Spierdijk, 2012: 1, 3), thus contributing,

[82] Most of the pay-as-you-go systems belong to government sector, yet in some cases there is a legally independent entity that provides the pension, and the public character derives from the mandatory character of the contributions like for example the Canada Pension Plan, CPP (OECD, 2008: 199).

according to theory, to investment. They are further distinguished into firstly, defined benefit (DB) plans where a predetermined percentage of the median or last earned income is promised to the worker who is contributing, and secondly, defined contribution (DC) plans which define only the contribution paid by the workers and promise nothing definite in return (OECD, 2005b). Even though not publicly provided DB systems have an analogous social result as pay-as-you-so systems, since in both cases pensioners have a certainty on their old age revenues. Lastly, a pension fund in a capitalised system can either take the form of an independent legal entity or an insurance contract (OECD, 2005b), with the former being the main financing vehicle in OECD countries, even though in some countries such as Denmark, France, Korea and Sweden the latter manage considerably more pension related funds (OECD, 2015).

Pay-as-you-go systems are most common in Continental Europe, while defined benefit ones used to be a rule in USA, along with social security basic pension system. In general there was a tendency in all industrial nations after WWII to provide some sort of pension security. Even in USA, the front-runner of capitalism, the social security system was expanded in 1949, resulting to a universal coverage in pension provision, even if it was as basic as social security. Blackburn would argue that US could do that because the size of workforce was growing and the economy booming, so the "government was able to pledge its taxing power to promise that the entitlements created by current contributions would be redeemed by future streams of revenue" (2010: 346).

Yet it was in Continental Europe that public pension provision was viewed as a right of the aged in their capacity as citizens. Gosta Esping-Andersen (1990) characterised that as a de-commodification of the protection of the old age, in the sense that old people were not buying a right in a pension scheme as if it were a commodity, but rather they had a legal right as citizens to claim pensions from the state (Blackburn, 2010: 346). With this system there was a considerable redistribution from the higher paid to the lower paid, since usually the differentials in pensions between them were low (ibid). Of course, some continental European countries, such as Netherlands and

Switzerland, which had long established stock markets and politically influential financial corporations, had commercial pensions too, but these were not purely private since they benefited from tax reliefs on contributions made to the plans, and other government guarantees (ibid).

Overall though, be it capitalised or publicly provided, pension funds were managed conservatively. In the 1940s and early 1950s nearly all pension money was invested in bonds, on the grounds that their future value was guaranteed and that this was therefore the safe and prudent thing to do for such socially sensitive assets (Blackburn, 2006).

Pension funds: the emblem of pensions' privatisation

Things started to change gradually from late 1960s and surely in the 1970s. Then when the decline in industrial profits and economic growth in general, as well the demographic problems started to become apparent, it indicated that there will be a huge problem in the provision of public pensions. Furthermore, declining public finances due to declining economic growth and workforce, could not sustain the system for much longer. All these were coupled with the change of dominant economic thought which did not any more provide any "legitimation" to state intervention or conservatism in management of funds. Instead it provided all the arguments to substitute the state-backed system with commercial provided pensions which were to be invested in the stock market in the name of free will to realise one's own potential. So there was a gradual structural shift from public to private provision of pensions, and from defined benefit to defined contribution ones, and from conservative management and investment of funds to more sophisticated investment tactics.

The rationale of this new economic thought that incited the new practises was crystallised in a report of the World Bank issued in 1994, entitled Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth (World Bank, 1994), which was to be a landmark text for legitimation of privatisation and financialisation of pensions and the introduction of a "multi-tiered" pension system to substitute defined

benefit, and pay-as-you-go ones. The economic arguments of this new rational were that from one hand privatising pensions and/or pouring pension money into capital markets "would direct more finance into industrial investment and thereby revive the industrial fortunes of UK and USA," (Toporowski, 2008). From the other, the pensioners themselves would gain since their money would be invested in equity which brings higher returns than bonds. This way they would be reaping higher profits, hedging their funds from inflation, and thus avoiding the imminent threat of pension poverty, an actual problem accruing from demographic reasons (a larger ageing population to be provided for from a shrinking one) as well as a decelerating real economy growth. Actually the argument for citizens was that they will obtain a stake in capital markets (Holzamann, 1997: 16), which was considered as something good.

It seemed then like a "rational choice" and a win win situation for all: the economy would be boosted from these new money which would serve as patient capital for long term investments, public finances would be relieved, pension funds would gain from equity profits which were much higher than bonds' and they would not be eroded under inflation and demographic trends. Pension poverty will be a threat no more, and the economy in general would benefit.

Nobody warned workers who were saving in commercial pension plans though that their investment in this new regime bears the risks of the market too, and that nobody can guarantee a "defined benefit", or a benefit at all if for example the company to which they entrusted their pension savings would go into bankruptcy. And of course nobody asked the beneficiaries of either private or public pension funds where their money were invested and with what risks. On the contrary, an illusionary belief that markets will always give profits in the long run was spreading, almost unchallenged. Moreover, some actually believed that commercialisation of pensions would result to a "pension fund socialism" (Drucker, 1976) since workers would own the means of production by virtue of their status as beneficiaries of pension funds which will have large shares in companies. Reality though had nothing to do with this aspiration: ben-

eficiaries never had any say on how these businesses or how their own funds were managed (Blackburn, 2006).

However, based on this new mentality, legislation started expanding commercial provided pensions and investments of pension fund money schemes; financialisation of pensions started then. From the 1960s pension fund managers were invited to consider private securities to their portfolio, in order to have higher returns and benefits from economic growth (Blackburn, 2006). Then, in the 1980s the wave of privatisation of pension provision started both in Anglo-saxon world as well as in Latin America, something that proceeded later -albeit to a lesser degree- in continental Europe in the context of integration and Europenisation.

Blackburn (2006 b: 99; 2010: 347-349) identifies two determined, as he characterises them, efforts for privatisation of pension provision: an implicit[83] and an explicit one. For the first, he cites UK as an example, where Thatcher in 1980 pioneered a change towards privatisation which was seemingly quite small and attracted little attention (Blackburn, 2010: 347). Thatcher's government switched the indexation of Britain's already modest Basic State Pension from earnings to prices, stipulating that in the future BSP with be upgraded each year in line with the increase in prices and not earnings (ibid). Later in 1987 Thatcher cut back the "newly established second state pension or State Earnings Related Pension (SERPS)" while at the same time tax breaks and new opportunities were provided to commercial suppliers of pension schemes. Workers were encouraged to leave their occupational schemes and opt for private ones, subsequently resulting to half million people to have been "mis-sold" private pension plans which "were inferior to either SERPS or to their previous occupational plan" and to basic state pension reducing from 20 per cent of average earnings to 15 per cent of them. Despite this adverse social impact governments, both conservative and labor, did nothing to save the system of public provision of pensions (ibid). Commercialisation of pensions then was not the result of a grand regulatory restructuring scheme, but rather the result of a combination of small and seemingly indiffer-

[83] Actually Blackburn "borrows" the term "implicit privatisation" from Paul Pierson.

ent regulatory changes and discourse. This incremental and inconspicuous process made any challenge to the change “unthinkable”.

In contrast as an explicit example of privatisation, Blackburn (2010: 347-348) cites, Chile.[84] There public pension scheme was weakening due to hyper-inflation, Aliente’s coup in the 1970s and then a deep depression in the 1980s. The solution out of this real problem was not to try to fix the old system, but to totally substitute it with a new one, “designed” from Milton Friedman and his “Chicago-Boys”, the Chilean economists who studied under Friedman in Chicago and returned to their homeland. From 1975 onwards then, under this new regime, workers were encouraged to leave the state pension scheme and join tax-favoured private ones. The rationale was that in contrast to the pay-as-you go systems, funded schemes would lift much of the burden from public finances, as well as provide financial markets with capital for investments, thus promote economic growth (Holzmann, 1997). Technically, matching the long maturities of pension funds with the long horizon of investments, sounded as a rational and beneficial-to-all economic strategy. The good thing of this first experiment of explicit privatisation was that there was a requirement that these private pension associations of banks and insurance companies should invest in the local economy (Blackburn, 2010: 347). But this did not change the fact that workers pension savings were now directly influenced by financial markets which they are volatile in nature, which in other words meant that their “defined contribution benefits” were substituted with a just promise and not a guarantee for the provision of a good pension. This crucial difference between the two schemes was not mentioned or at least clarified.

After Chile, other countries followed. From the 1970s and more so from 1980s onwards, international organisations, such as World Bank and IMF, that were called to help countries in distress especially in Latin America, one of the first things that they

[84] For a more detailed report for what happened to Chile’s pension system, and how the “private regulation” of the market through advertising and exit proves more expensive than expected, with employers contributing nothing, and Chilean workers contributing a total of 13% of their income to mandatory private schemes,see Ghilarducci and Liebana 2000.

required as a precondition of financial help was the restructuring of their pension system towards a private provided one. And of course countries in distress, and their citizens, could not grasp the medium to long-term implications of such a structural change. Politicians on the other hand did not considered such a change politically important since it did not have any immediate political cost.

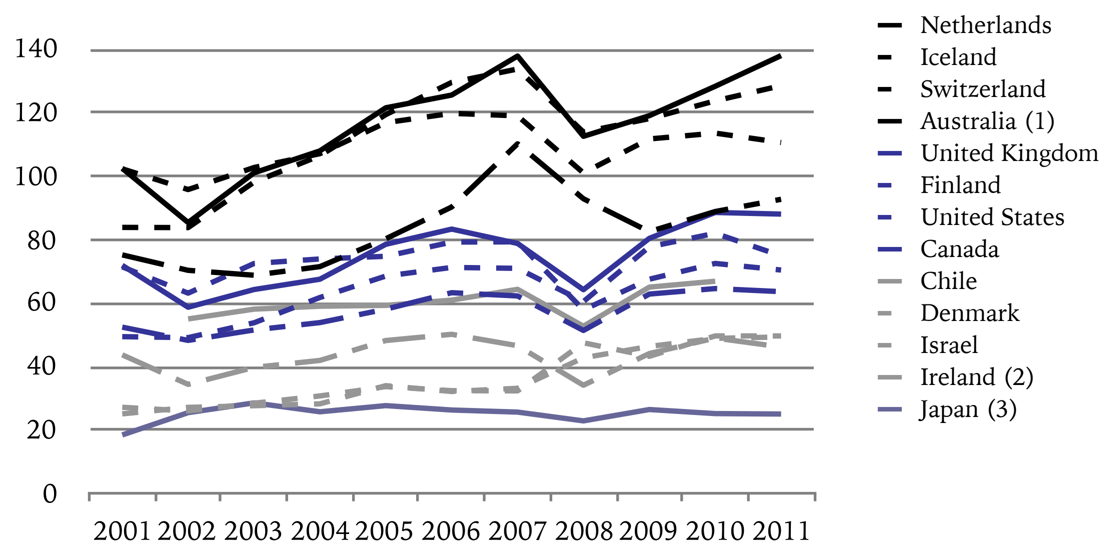
Lastly in EU, privatisation of pensions have been largely encouraged by the processes of integration namely the Maastricht criteria, the Stability and Growth Pact which both have placed restrictions in the public finances in combination with the liberalisation of capital flows and the need of favourable rating agency ratings especially after the introduction of the euro (Davis, 1998). It is interesting how in the case of EU rating agencies were considered to have the same "regulatory" effect as EU treaties and agreements, and it is one example of how rating has become entrenched in the regulation (Black, 2012: 18). Yet despite these imperatives for restructuring -and the real need to reform a system with demographic and funding problems- there has been fierce resistance in almost all european countries, resulting to limited transformation of pension systems. In contrast to new members wishing to join the EU, pension system restructuring was a precondition of acceptance in EU (Davis, 2002). Overall though, there was a tendency for privatisation and a shift from defined benefit to defined contribution plans, as well as for deregulation of restraints on investment options of those funds.

Inevitably then, pension funds increased globally and reached 21 trillion by 2012 from 11 trillion in 2001 (OECD, 2013a: 8) as we saw. As seen in charts 36, 37 and 38 between 2001-2011 in all markets, mature, growing and even sluggish, pension funds were continuously growing relative to the economy, a trend which declined on the way to 2007-2008 crisis but regained its momentum since then, reaching their pre-crisis levels in mature economies and growing even further in growing ones (OECD, 2012). Subsequently, pension funds' size became important relative to the economy as a whole, since the ratio of their assets in relation to GDP grew considerably as these charts show. Of course there are variations in this ratio, as is more clearly illustrated

in table 1, which presents the picture in 2011. There we see that three economies (Netherlands, Iceland and Switzerland) had pension funds assets that exceeded their GDP, denoting both high pension fund assets but also smaller GDP in relation to USA for example which ranks 5th with pension funds ranging at 70 per cent of GDP.

Chart (36) Pension funds assets as a percentage of GDP (mature economies)

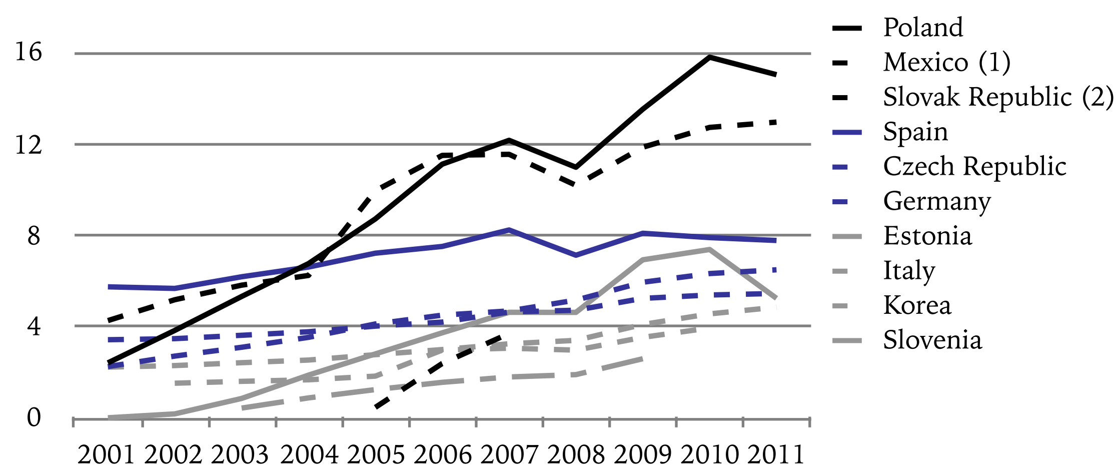
Trends in pension funds assets: OECD countries with mature markets, 2001-2011 as a percentage of GDP



Source: OECD Global Pension Statistics 2012

Chart (37) Pension funds assets as a percentage of GDP (growing economies)

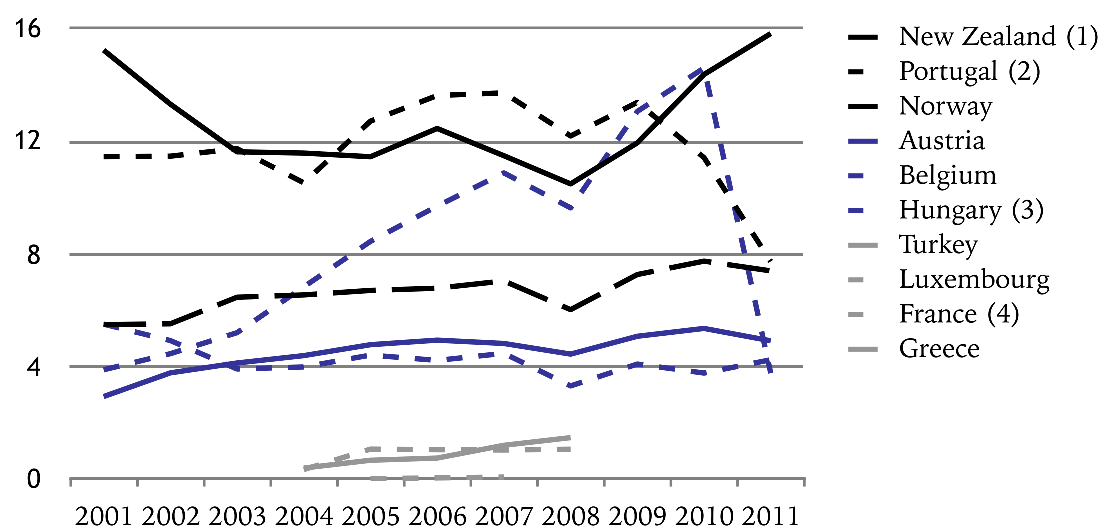
Trends in pension funds assets: OECD countries with growing markets, 2001-2011 as a percentage of GDP



Source: OECD Global Pension Statistics 2012

Chart (38) Pension funds assets as a percentage of GDP (sluggish economies)

Trends in pension funds assets: OECD countries with sluggish markets, 2001-2011 as a percentage of GDP



Source: OECD Global Pension Statistics 2012

Table (1) Importance of pension funds relative to the size of the economy, 2011

(percentage of GDP)

Country	Assets
Netherlands	138.2
Iceland	128.7
Switzerland (1)	110.8
Australia (2)	92.8
United Kingdom (3)	88.2
Finland	75.0
Weighted average	**72.4**
United States	70.5
Canada	63.7
Chile	58.5
Denmark	49.7
Israel	49.4
Ireland (4)	46.2
Simple average	**33.9**
Japan (5)	25.1
New Zealand (2)	15.8
Poland	15.0
Mexico	12.9
Slovak Republic	8.4
Spain	7.8
Portugal	7.7
Norway	7.4
Czech Republic	6.5
Germany	5.5
Estonia	5.3
Austria	4.9
Italy	4.9
Korea	4.5
Belgium	4.2
Hungary	3.8
Slovenia (6)	2.9

Turkey (7)	2.2
Luxembourg	1.9
France (8)	0.2
Greece	0.0

Source: OECD Global Pension Statistics

Besides their size and private character what was different from the past was the asset allocation. Firstly, it gradually shifted away from bonds towards equities, as shown in charts 39.[85] While bonds covered around 40% of pension funds' portfolio in 1995, in 2013 they covered only 28%. Equities on the other hand, had a 3% rise in that same period: from 49% to 52% with a peak to 61% in 2001. To give an illustrative example, we can see the evolution in Canada. There in 2001 equities accounted for only 15,6% of Canada Pension Fund assets and bonds for 63,0%. In 2007, just six years later, the picture is reversed: equities accounted for 57,9% and bonds to 28,3%, with similar trends appearing in France and Portugal (OECD, 2008: 125). More generally, in the 1990s there was a strong increase in equity investment that came to substitute investment in bonds, a trend that was driven by the high performance of stock markets globally, as well as the "phasing out of investment limits in several OECD countries" (OECD, 2005: 6).

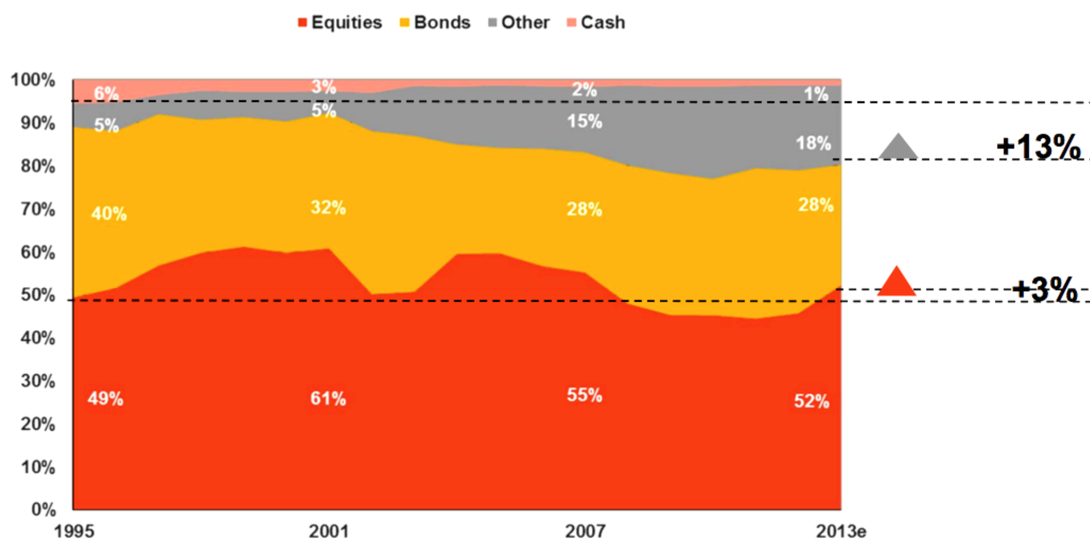
As shown in chart 39 this trend towards equities allocation diminished in the 2000s, in favour of "other" investments, even though still bonds and equities remained the two largest classes in pension funds portfolio. The "other" investments increased both in current values as well as a percentage of the funds' total investments. (OECD, 2015b: 120). Actually as seen in chart 39 there was a 13% rise in the period between 1995-2013. They were mainly high-yield alternative assets like private equity and hedge funds, which definitely is not compatible with post-war conservative management of finds. OECD would justify this new investment choices of funds' by pointing

[85] This chart shows the trend in 7 major pension markets which are Australia, Canada, Japan, Netherlands, Switzerland, Uk and USA. Yet exactly because they are the major pension markets the trend there is indicative of the global one. Moreover they are the ones who are likely to make the "frontier" moves in this market.

to the pressure to public pension reserve funds "to beat market benchmarks (so called "beta") and seek higher "alpha" via active management" (OECD, 2008: 126).

To get a bird's eye view, one can see the allocation of pension funds in 2011 - a year amidst the crisis- in chart 40. While this reorientation in investments happened to a limited number of countries, these countries represent the largest pension fund markets. In UK for example alternative investments grew by 12,8 percentage points between 2004-2014, in Canada by 8,0 pp, in Brazil by 8,9 pp, in Denmark by 11,00 pp, in Netherlands by 4,6 pp and finally in USA by 4,5 pp (OECD, 2015a: 18). Yet it is only in Denmark and Netherlands that real returns increased (ibid).

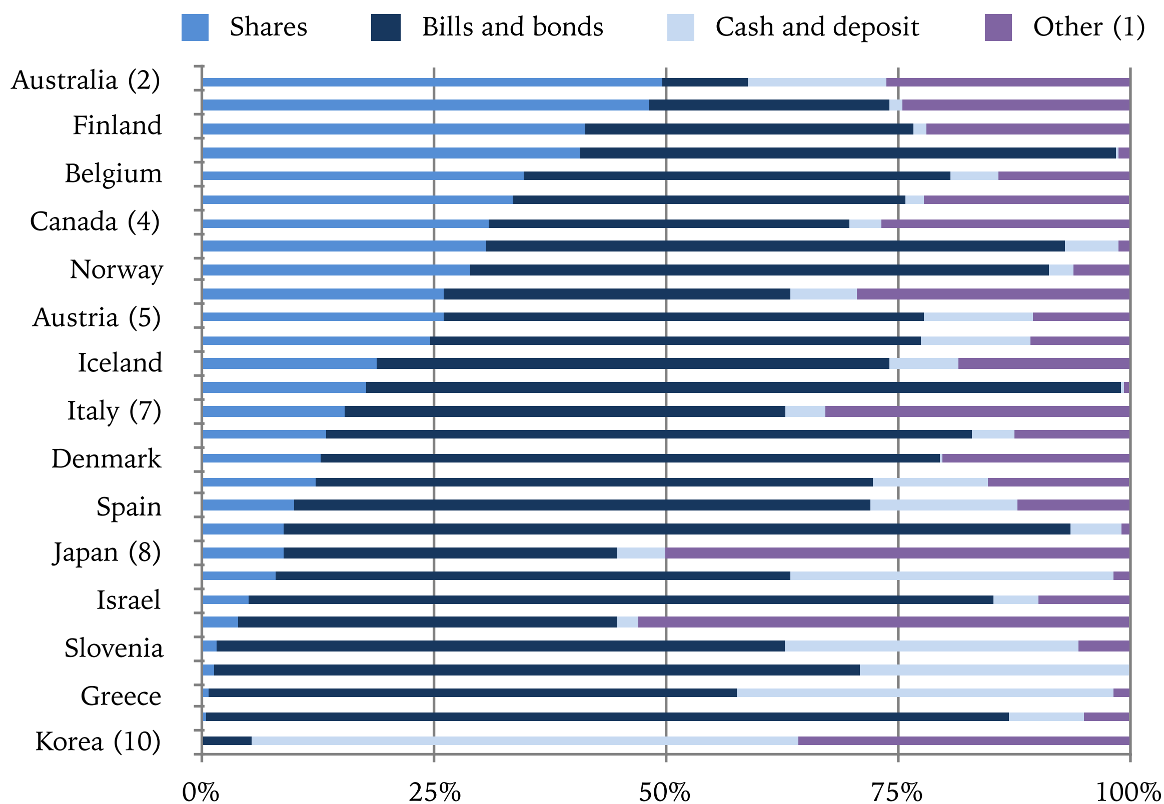
Chart (39) Pension asset allocation in 7 major pension markets (1995-2003)



Source: Towers Watson (2014)

Chart (40) Pension fund allocation in selected OECD countries

(percentage of total investment, 2011)



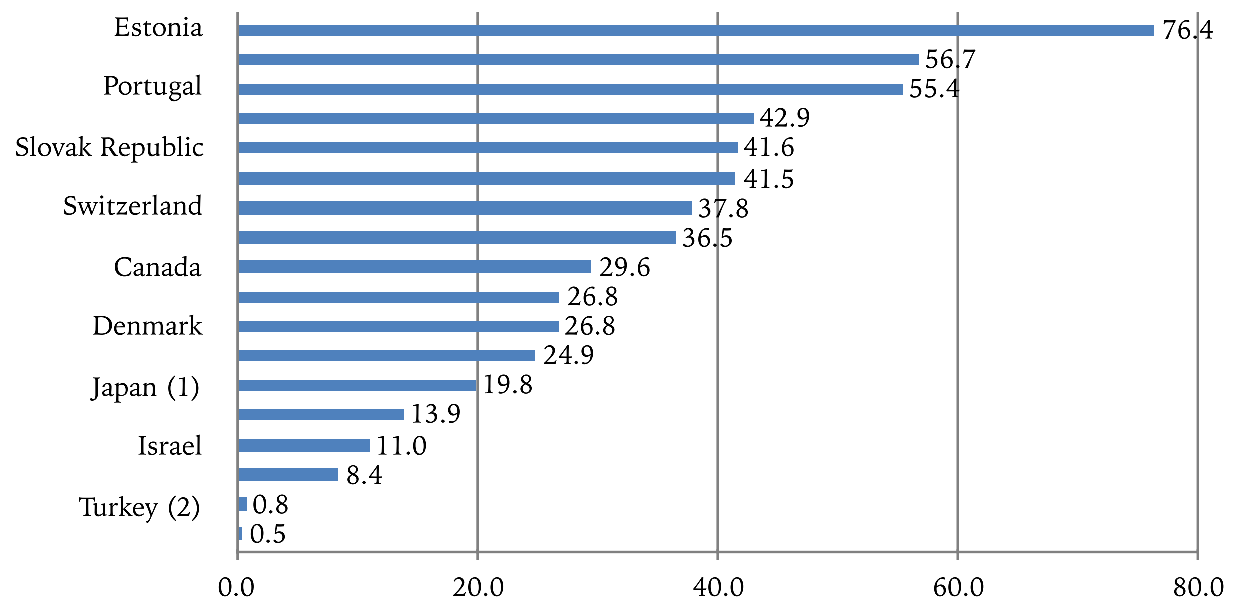
Source: OECD, 2012

Furthermore, increasingly pension funds started allocating funds to foreign assets (OECD, 2008: 126). An indication of this international diversification of pension fund portfolios is found to chart 41, where one can see that even small peripheral countries such as Portugal had considerable foreign asset investments in 2011. Of course this might not necessarily mean that these countries have joined the global "search for yield" but only that their local stock markets are rather small (OECD, 2015: 26). Yet the trend is indicative of the interconnection and the higher risk involved. Overall then focusing on pension funds per se, things evolved as planned at least in the first stage of the plans: privatisation and "liberalised" management augmented pension funds and made them active players in capital markets. But did these new "strategies" achieve the goals they were set up to achieve? Did they solve the funding problem and deficits of pension funds? Did they eventually promote growth and long term in-

vestment? Were the pensioners finally better with this financialisation of their pension savings?

Chart (41) Foreign investment of pension funds in selected OECD countries

(a percentage of total assets, 2011)



Source, OECD, 2015c

The answer is rather dim. Firstly, results of commercial pensions' impact on growth have been mixed and contradictory. Zandberg and Spierdijk (2012) document that commercial pensions have no effect at all for the short-run growth and report mixed results for long-run one, while Davis ad Hu (2008) report exactly the opposite, that funding of pensions is associated with higher growth both in OECD and emerging market economies alike due to higher savings rates and reduced labor market distortion. Secondly, pension funds' deficits persisted besides the privatisations, the orientation of their asset allocation towards equities, foreign assets and alternatives. It is interesting to quote a comment from The Economist, a mainstream economic magazine, on this: "(many companies) have moved away from expensive promises linked to salaries and adopted schemes where the employee takes the investment risk. Even so, S&P 500 companies still have a $450 billion or 25% shortfall in their pension funds. In Britain that figure is 92 pounds ($144 billion), or around a sixth, for FTSE 350

companies”.[86] Thus pension poverty is still threatening despite the financialisation of the pensions.

Thirdly, pension fund money was used in total disregard of the pension rights of the owners and nominal beneficiaries of the funds: managers were more concerned saving the sponsor’s money, than actually fortifying the pension promise (Blackburn, 2006a). Under “the pressure” to achieve ‘alpha’ or for other reasons, they were oriented into speculative investments, which did not serve neither the economy as a whole nor pensioners themselves. So even though a strong interest of pension funds managers for long term investment has been reported from a OECD survey, “the level of such investment is still low and on average stable” (OECD, 2013a: 17). Thus proclaimed promises and intentions of availability of pensioners funds for longterm investments in the economy, as well as the benefits from capital market investment in solving the funding issue did not realise.

Instead a gradual shrivel of the value of funds occurred; the very result commercialisation was supposed to address. Consequently funds ended up not having enough money to meet their obligations to the pensioners. Mainstream views argue that this failure to meet the liabilities was due to the low interest environment, which means low inflation, low return on investment, an ensuing stagnation of wages and low yields on bonds and in general investments all of which subsequently resulted to low revenues of pension funds (OECD, 2015: 125). But stagnation of wages is not attributed mainly to low interest rates, but rather to the very pressures of financialisation as we saw which date back in the 1970s, and also low inflation was the supposed target of neoliberal policies aiming to bring social welfare. Furthermore, bonds are not the only option for investments nowadays, since as we saw there is a tendency for diversification in pension funds portfolio towards the very alternative sophisticated in-

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[86] It is interesting to quote a comment from The Economist: “(many companies) have moved away from expensive promises linked to salaries and adopted schemes where the employee takes the investment risk. Even so, S&P 500 companies still have a $450 billion or 25% shortfall in their pension funds. In Britain that figure is 92 pounds ($144 billion), or around a sixth, for FTSE 350 companies”, in Economist, Equity Investing, Too much Risk, not Enough Reward, 17.03.2012.

vestments that were seeking over-the-market yields. So it is rather paradoxical to put the blame on these factors.

Whatever the causation, it does not change the fact that the transformation of pension systems towards capitalised ones with liberalisation of investment practises did not solve the problem it was meant to solve and resulted to a-social outcomes. An illustrative example of the latter is given by Blackburn (2006a). He identifies what he calls "vulture capitalists" were essentially blackmailed workers in order to gain concessions on cuts on wages and pensions, by pointing that there was not enough money to cover their pensions, something that would force the company to file for bankruptcy. For example they could be saying to workers that they will end up with only 75% of their pensions, with no welfare and of course no jobs, unless they agree, for cuts in both salaries and pensions.[87] Under this threat trade unions agreed. But even if they did not get these concessions, the company could free itself from the pension "burden" by shifting it to the Pension Benefit Guarantee Corporation (PBGC)- resulting in rising company's value which then could be sold at a profit (Blackburn, 2010). In other words, financialisation from one hand eroded, or at least did not stop the erosion of pension funds and from the other it provided the means to bypass workers' rights, while in all this process intermediaries were profiting from either asset management of these funds or speculative gains resulting from this management.

To be fair though privatisation and financialisation of pensions have not always proved a-social. There are examples were finance has indeed served both the interests of the beneficiaries as well as the interest of society in general through long term localised investments. The difference though in these rather isolated cases is that management was not outsourced to expensive investment banks and intermediaries and investments were not speculative but directed to real, mainly local economy, mainly infrastructure and long term investments. This was the result of either regulation or general societal culture and discourses. One prominent example is the performance of

[87] Again let us be reminded that we are mainly referring to USA the country which thus far has been researched in the topic.

Canadian pension funds. Canada is one of the two major markets -the other one being Japan- where public sector holds more pension assets (61%) than the private one (39%) and remains predominately a defined benefit system (Inderst and Della Croce, 2013: 27). It managed to use the means provided by financialisation and even financial innovation to the benefit of its pension funds and its economy as a whole, and not to their detriment. Economist reported that it did so by adopting a different approach to investing (Economist, 2012b). The difference in approach was that Canadian funds did not speculate with pensioners money but instead tried to invest in the local economy and long term projects. They managed their assets internally, thus avoiding "the incredible linkage that goes out through fees" to management and since they were saving so much in fees, and only needed to meet the liabilities of scheme-members' pensions, they had less pressure to chase high-returns, risky, and high-leverages investments (ibid). Moreover, they had a long-term performance award, along with the base salary and annual bonus, which can often amount to up of 51% of the remuneration of a manager, thus providing incentives "to make their employees take a long-term view of investments." They also assume "that diversification is not as important as deep knowledge, so while they do invest globally, there are putting a lot of money back into the national economy whose workings they know better. They thus became pioneers in direct investment in infrastructure. Effectively, they get the "equity risk premium", (Economist, 2012a) benefiting from economic growth, and higher returns than government bonds, but without the risks of global markets, or the unproductive effects of mere speculation. Finance here is indeed a means to a goal and not a goal in and of itself.

Australia is another example. As Canada, Australia operates its pension system "under trust", it has a mature public-private-partenship (PPP) market and a stable political environment, and does not have restrictive investment and solvency regulation (ibid: 5, 25). In contrast to Canada though it has a defined contribution system and pension funds are outsourcing their management to external fund managers (ibid: 20). Nonetheless, as OECD reports, Australian pension funds have been pioneers in the field of long term investment even from the early 1990s with prime interest in energy, trans-

port and communication sectors (ibid: 8). Actually, they are the ones who have invented the label 'infrastructure as an asset class' in international context (OECD, 2013a: 13). Australian pension funds have also been active players in privatisation of infrastructure too especially airports, ports, toll roads and tunnels (Inderst and Della Croce, 2013: 34). So even though they are two different pension systems, Canada and Australia have both exploited the benefits of financialisation while avoiding its traps.

Yet, in general financialisation did not prove so benevolent in pension provision. On the contrary, the flow of money into pension funds set off a prolonged financial boom and fuelled excess demand for securities (Toporowski, 2008: 8) which resulted to a skyrocketing of these markets. Furthermore, pension funds deficits and problems were not elevated. Some might argue that they have been exacerbated since pensioners and their savings have been linked to financial markets with the risks and uncertainties they entail. So "pension fund capitalism"(Clark, 1998) was not socially oriented after all. It promoted the development of global financial flows management and accounting, financial product innovation, securities market (ibid), it provided liquidity but it did so in benefit of financial industry itself and in detriment of middle and lower classes. Inequality, let us not forget, was not appeased but rather augmented in the last 30 years of financialisation era.

So while the system of commercial pensions and its eventual financialisation was introduced in order to address the global ageing problem, revive productive investment, protect the rights of pensioners by hedging them against inflation and providing them with higher yield, it turned totally against workers and pensioners in various ways. Pensioners got, are getting, and will get less money, with fair chances to be thrown into poverty in their old age besides their contributions and/or savings. Workers "willingly" agreed to cuts on wages and benefits which they fought for years to achieve. Pension fund money was used to fire workers, since they were used for mergers and acquisitions which eventually led to downsizing of the companies. Workers and pensioners became vulnerable to market risks which they cannot understand, much less control, or even handle. Pension fund money in return were one of the vehicles that

further financialised the economy as a whole contributing more often than not to speculation than long term investment. Moreover, financialisation altered the way pension provision has been perceived post WWII: it is not anymore a right of a citizen or even a mechanism to cope with survival in old age, it is rather regarded as simply a saving (Saritas, 2013:18), or an investment as any other, if not just as a liability.

Therefore instead of a dignified retirement guaranteed by the state as a right of a citizen, current and future retirees, besides the cuts due to austerity measures and the likes, are faced with the repercussions of wrong investments, bear markets, bankrupt companies, since they are the ones who bear the risk of their investments. As a result societies globally are stranded in a noteworthy paradox: while financialisation of pensions resulted to a global value of 21 trillion in 2012 "this do-it-yourself pension system has failed ... because it expects individuals without investment expertise to reap the same results as professional investors and money managers" (Ghilarducci, 2012). It has left individuals with a precarious future ahead, facing even the possibility of living in total poverty, despite the pension contributions they have made. On the other hand, this thriving $21 trillion dollar business resulted to huge bonuses, rewards and profits for managers and aggressive investors, while the money of societies were practically stolen away, with no one left to be accountable or responsible. Responsibility and accountability, as in other cases of financialisation, diffused somewhere in the system and since they could not be personified, it was as if they did not exist.

This new reality was enabled by regulation through privatisation and loosening restrictions on investments strategies which opened "the bag of winds of Aeolus" and permitted financial risks to enter not only people's home, but also their old age certainties. Subsequently, the inherent vulnerabilities of old age were sharpened and augmented. An individual nowadays is exposed to the volatile and fragile world credit markets, which proved to be an exposure too big for them to bear. Savings of middle and lower classes have been eroded and instead of finance saving pension systems from the demographically occurred problems, middle class was financialised in order to finance, but not benefit from, huge profits in the financial industry. No wonder that

nowadays "one found oneself in a situation where one had the impression of being left without a future –to have no available future to shape any more" (Esposito, 2011). After all for the global financial system, at least in its everyday workings, a pensioner-to-be is not a citizen with a right to pension and a right to a future. At its best they are rather an end-investor who should bear the risks of their investments no matter how complicated the workings of the current financial system is. At its worst they are a liability of a fund whose assets could be more useful for other investments than paying for pensions.

This paradoxical interaction then of peoples's futures, old age and pensions in globalised financial markets did indeed advance financialisation (Blackburn, 2006b: 24), and did indeed benefit the financial intermediaries of the management of those funds as well as some final investors, but it did so at an adverse social cost which is about to spread as the workers retire. Because it is exposing citizens rather than delivering the proclaimed benefits, and it is doing that in an age where certainties are most important than any other time of adulthood. Moreover, it is depriving them of adequate practical tools to bear the demands of this age and thus the dignity and subsequent fulfilment in life achievements. Fear rather than an expectation to relax and enjoy the aftermath of one's hard years of work would be prevalent as pensioners realise the daunting reality that financialisation of pensions is resulting to. And as if these are not enough, the implicit discourse would be that the fault is theirs, since they were not prudent enough investors. The ontological transformation of a citizen to an investor or even to a liability of a fund, makes financialisation a process that goes beyond economics; it reaches the social and the individual through the alteration of conceptualisations and basic values of so called advanced democracies.

3.4. Financialisation of commodities: commodities as an asset class

We have seen how financialisation permeated the realm of everyday through financialisation of housing and pensions, effectively ontologically transforming basic concepts and institutions. But financialisation went one step further. In the 2000s as markets one by one collapsed, investors tried to find alternatives in order to sustain and augment their profits. So they moved to supposedly more stable markets: food, water and even air. These markets are considered stable, in the sense they will always have a stable demand since food and energy are essential to human "sustainability". One does not have to be a victim of consumerism or be rich, to consume food and water, to cook and to breath. Investors thus "capitalised" the most basic human needs from which nobody could escape from. Human rights to food, water, air, were transformed into capitalised assets to be traded.

By financialising such critical for human survivor domains and/or elements, which according to a PIMCO report (Ibbortson: 2009: 4) "are the basic ingredients that built societies", financialisation, has intensified the link between the circuits of high finance and everyday life of producers and consumers, by pervading deep into realms of human personhood and dignity. The interlinkages these connections create and transmit, reproduce the volatility of financial markets to physical markets of crucial sectors in the real economy, along with expanding economic exploitation in "the commons" without any substantial gain for societies. The uncertainty this volatility creates, socially and politico - economically, contributes first to systemic risk and secondly to a non-socially optimal redistribution of incomes since it only produces opportunities for "large diversified commodity trading companies that are deriving increasing incomes along new financial avenues", thus "favouring international actors", while causing downward pressure to real accumulation at the producer level, as well a number of other challenges to the poorer and less organised (Newman, 2009a: 541). An illustrative example of this was the food crisis of 2007 and 2008 where the spikes in food prices were mainly attributed to the rise of speculation and profits in commodity futures' markets.

Overall financialisation of commodities meant that financial markets were the ones determining spot prices, first because large players, such as institutional investors, entered the market massively in mid-2000s and also because speculation on commodities far outpaced physical trading and traditional hedging. These made prices less transparent, less predicable and less in relation to the real supply and demand or other fundamentals. Consequently, commodities were viewed more as financial assets than for their intrinsic utility value. This not only led to food spikes but also altered here too basic concepts and transgressed social values, which in some socially sensitive markets such as food and water, infringed human dignity far more than in other domains.

In what follows we will first define commodities. We will be focusing in primary ones as well as in natural resources since the workings of financialisation included their "trading" in commodities markets; subsequently then they included them in the definition of commodities. We deem important to first present the definition of commodities: because we want to stress how conceptualisations have very real economic effects, as well as an ontologically transformative power with fundamental socio-political repercussions. This is of course not something new in social sciences. However, it is not common to be presented in a political economy paper. So we will try to show the practical consequences of supposedly theoretical issues which have been bypassed as unimportant in matters of economy and finance. After all the aim of this thesis is to research the effectively dense structure that financialisation resulted to, which altered mentalities as well as realities. Alterations of conceptualisations are a decisive factor in the density of this structure.

Then we will proceed with the genealogy of financialisation of commodities market, that involved changes in regulation, economic discourses on the benefits of investment in the markets, financial innovation and an increasing interest of institutional investors. We will proceed with some facets of financialisation that expanded the definition of commodities to include "the commons". In all the analysis presented here, as everywhere in this thesis, the underpinning concern is the social impact of the

transformations that financialisation incurred. Thus the food crisis of 2008, and the subsequent food spikes of 2011 and 2012 constitute focal points of the narrative.

But what is "commodities"?

A simple categorisation divides commodities into soft and hard: the former includes the ones that are grown, and the latter the ones that are extracted through mining. Another more detailed categorisation defines commodities as raw materials like grains (corn, soybeans, wheat), livestock (cattle, hogs), precious metals (gold, platinum, silver), industrials (cotton, copper), softs (cocoa, coffee, sugar, orange juice), and energy (crude oil, heating oil, natural gas). Primary commodities include according to OECD glossary of statistical terms: food and live animals, beverages and tobacco, excluding manufactured goods; crude materials, inedible, excluding fuels, synthetic fibres, waste and scrap; mineral fuels, lubricants and related materials, excluding petroleum products; animal and vegetable oils, fats and waxes.

The World Trade Report of 2010 though holds a rather wider and laxer view of commodities. It includes in the definition every natural resource to which property rights can be assigned to and thus traded. Since the states, both in national and international level, extended property rights to water, air and other natural resources, a basic legal distinction between what is a common good, -not owned by anyone but accessible to all- and what is an object, a res -to which ownership rights can be attached and can thus be traded- started to gradually blur. Along with it the social values it represented started dimming too. Moreover, by attributing ownership rights to natural resources the economics' definition of public goods was also annulled since economically a public good is non-rival and nonexclusive, which means that the margin cost of provision is zero and people cannot be excluded from consuming it (Pindyck and Rubinfeld, 2001: 644-5). Effectively this conceptual transformation of natural resources opened the way to their commodification (Mac Donald and Ruiters, 2005) or capital valorisation which is the first step towards their financialisation.

But this step from commodification to financialisation even of the “expanded definition” of commodities was not a natural course of events even in terms of economics. This is due to the inherent qualities of commodities themselves since they are supposed to be “fundamentally different from stocks and bonds. While they are investable assets, they are not capital assets. Commodities do not generate a stream of dividends, interest payments, or other income that can be discounted in order to calculate a net present value. The Capital Asset Pricing Model does not apply to a bushel of corn. Rather, commodities are valued because they can be consumed or transformed into something else which can be consumed. Their value at any time is determined by basic laws of supply and demand” (Greer, 2005: 24). In (economic) theory then, commodities are not supposed to be capital assets, since they are “consumable, transformable and perishable assets with unique attitudes” (ibid).

Yet reality evolved differently from theory. Primary products got not only standardised but even patented, like for example the Monsanto seeds, essentially attributing property rights to “the commons”.[88] Indexes based on food prices and other primary commodities linked complicated and sophisticated financial tools with basic human needs, right about the time when institutional investors and hedge funds started rushing in a market that was too small to accommodate their size and their search for yield. The social repercussions were enormous. In what follows we will see how the market of primary commodities and natural resources developed and reached the crisis of 2007-2008 and beyond.[89]

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[88] It is probably an ideological, or philosophical stand to consider a seed for example part of the commons, but so is the opposite stand.

[89] Commodities trading is indeed a market that includes also metals, even precious ones, and other energy resources such as oil. Yet here we will only be debating the commodities that are essential for human substinence such as food and water as well as the inclusion in the definition of natural resources which effectively leads to a financialisation of nature.

The genealogy of the transformation of commodities into a capital asset class

Commodities were more or less traded since antiquity, and their market used to be the largest non-financial market in the world (2007). This did not mean that finance was absent: hedging, forward and future contracts were present in trading activities (De-Schutter, 2010: 3). Even speculation, in the form of hoarding agricultural products in order to create an artificial scarcity and thus speculative gains is a well known practise for centuries. Also trading future contracts can be traced back to Japan in the 18th century for rice and silk and the Netherlands for tulips (Newman, 2009b: 2). Buyers and sellers of commodities wanted from an early stage in history to lock in a price and thus hedge against price risk associated with its adverse events that might take place between harvest and delivery. So forward and later future contracts had a very "legitimate" reason to exist: hedging as well as stabilising the market and the price of products. Their probably non-legitimate one (speculation) was practised at a rather small scale, not enough to influence the whole market.

Ever since the collapse of Bretton Woods System though things started to change: financial investors have gradually increased their share of trading in commodity derivatives (Newman, 2009c). This was further encouraged by the deregulation and liberalisation of international commodity markets. Indicatively, at international level, multilateral agreements which focused on the stabilisation of prices were abandoned in favour of private, market-based, price risk management strategies based on the management of price risk by individual market actors with the aim to stabilise incomes (Newman, 2009: 540). Market mechanisms and not regulation was to determine the prices of commodities trading.

At national level too there was a series of regulations and deregulations that promoted trading in commodities. From one hand, regulation promoted privatisation especially the privatisation of public utilities (Kaltenbrunner et al, 2012: 19), which effectively promoted financialisation of natural resources (ibid: 20). From the other hand, deregulation or refraining from regulating left the path open for ownership rights to common goods, such as seeds, through patenting from companies such as Monsanto, and for

over-the-counter (OTC) trading in commodities. Prominent among these regulatory changes was the USA Commodity Futures Modernisation Act passed in 2000 which allowed OTC derivatives to trade in commodities outside regulatory control (Russi, 2013: 95; Ghosh, 2010: 78). Even though it was a national regulatory act, it had worldwide consequences due to the global financial power of USA and its big investment banks. Speculators and arbitragers then increasingly emerged as significant actors in future trading of commodities, using derivatives, especially futures, options and eventually index fund trading and exchange fund trading, effectively financialising the rather conservative commodities' market and expanding it to include natural resources (Tricarico, 2011).[90]

Furthermore, as a result of the space that regulation opened, investment flow in commodities soared: from almost negligible in 2001 to a 400 billion US dollars business in 2011 as chart 42 shows (Lane, 2012).[91] The mainstream view would argue that this was due to fundamentals, and particularly the resource-intensive growth of emerging market economies with increasingly larger population growth and middle class enlargement (ibid). Yet these investment flows had particular characteristics that imply speculative growth and not growth based on fundamentals. For example as charts 43 and 44 illustrate, since 2003 commodity index speculation increased by 1.900 per cent, from an almost non existent business in 1996, to a 13 billion USD in 2003 to 260 billion in March 2008 (UN, 2011: 67; Masters, 2008). This resulted to a 183% increase in prices of the 25 commodities products that are comprising these indexes (Masters, 2008). The acceleration of index speculator demand has gone virtually undetected according to Masters (ibid) because "classically-trained economists … almost never analyse demand in futures markets"

In due course, after 2005 and more so after the 2007-8 crisis exchange traded funds started rising their stakes in the market too as chart 45 shows. As numbers indicate,

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[90] Financialisation of natural resources include the financialisation of the resource itself, as well as companies and utilities relating to it, or by financialising the very investments on resources, see Tricarico 2011.

[91] The chart also shows that investment in commodities remained unabated even after the crisis.

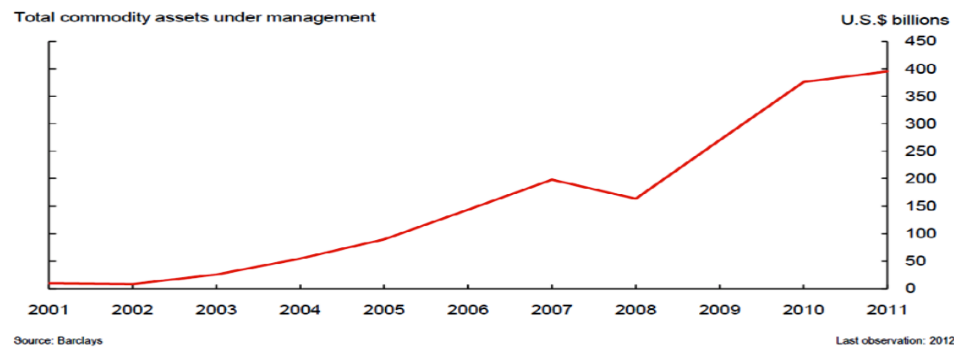
they took the place of index trading, which dropped from 65-85% of the total investment in 2006-2008 to 45% ever since, with active investors, such as hedge funds having a central role in the transition from the passive index trading to the active one of exchange traded funds (UNCATAD, 2011). High frequency trading has also been appearing in commodity markets (Lane, 2012), something that by its very nature does not denote a correlation with fundamentals of the market.

Moreover, the value of outstanding commodities' OTC also raised exponentially from 0.44 trillion in 1998, to 0.77 trillion in 2002 and to a further 7.5 trillion in 2007 (Newman, 2009b: 7). A spectacular rise indeed in just five years. In order to get a perspective with real economy, it is worth noting that in 2007 the OTC market was almost twice the value of commodity contracts on regulated exchanges (Ghosh, 2010: 78). Since then the volume of OTC commodity derivatives continued to rise, peaking at 13 trillion in the end of June of 2008, dropping to 3 trillion in end of 2009 and 2 trillion in the end of June at mid-2015 (BIS, 2015). Despite the decrease it still stranded at more than 4 times than it was in 1999. The sharp decline in over the counter trading has been attributed to three reasons: the collapse in prices in 2008, the greater awareness of counterparty risk and the reorientation of investors from passive index investments to more sophisticated active ones as exchange traded products and funds, as seen in chart 45 (UNCATAD, 2011: 15-16). Yet besides the sharp decline in OTC, the number of futures and options contracts, continued to increase even after mid-2008 as did the assets under management in relation to global GDP (UNCD, 2011: 15-16; charts 46 and 45).

Overall, it has also been proven that there is a strong correlation between the rise of the dollar value of commercial positions and the rise of index trading since as we have already mentioned and as seen in chart 44 from 2003 index trading has risen from 13 billion dollars to 260 billion as of March 2008, and in the same five year period spot prices rose by 183, indicating that speculation is the driver of this market (Masters, 2008). Chart 47 clearly illustrates how "as money pours into the markets two things happen concurrently: the markets expand and prices rise" (ibid). Commodity markets

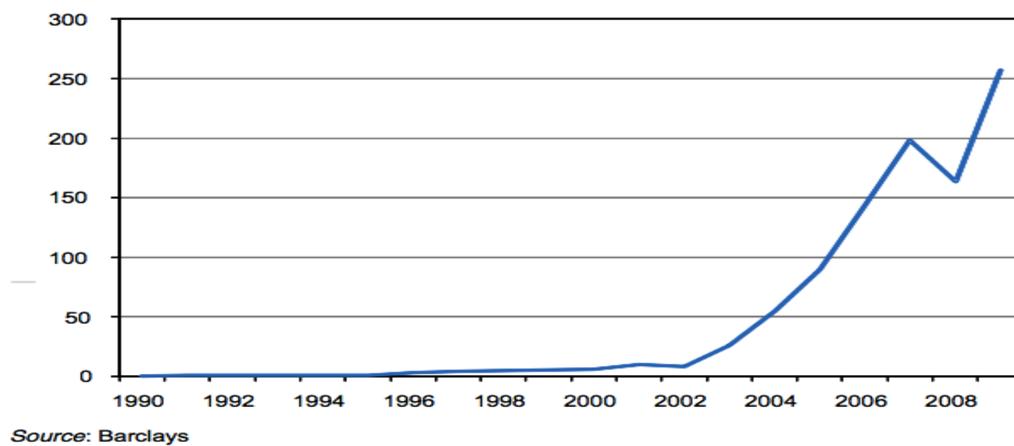
became detached from fundamentals, since as chart 48 shows commodity assets under management as a share of global GDP has risen sharply and the ration of notional amount of commodity OTC derivatives to global GDP. The former has been growing even after the crisis burst, following the general trend of assets under management. The latter decreased sharply after 2008, denoting the speculative character of the rise and indicating financialisation as the culprit of the 2008 crisis.

Chart (42) Investment flows into commodities



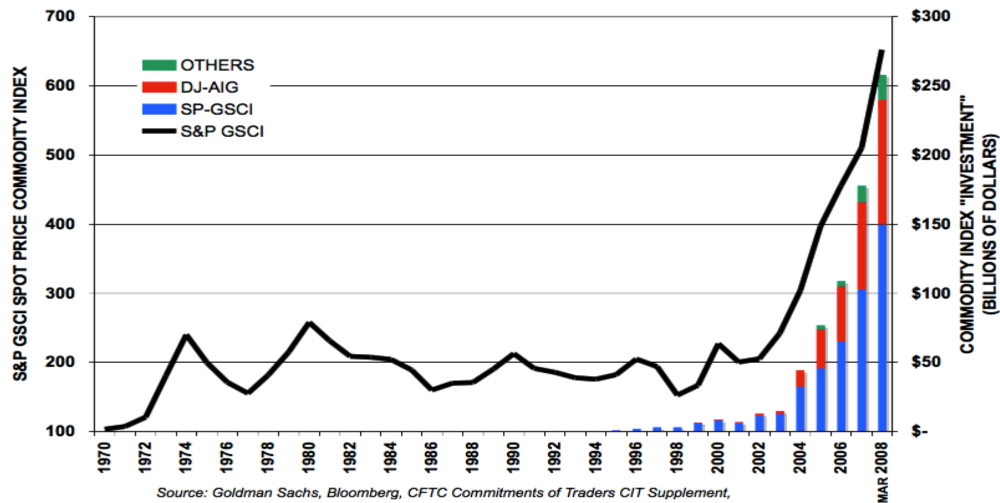
Source: Lane, 2012

Chart (43) Commodity Index fund investment (year end), 1990-2009



Source: Irwin and Sanders, 2010

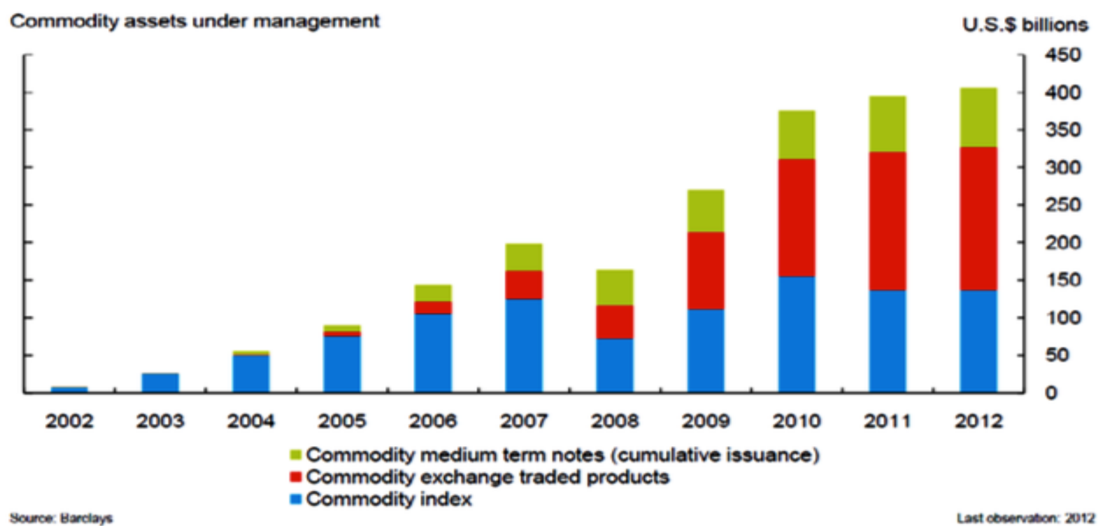
Chart (44) Commodity index investment compared to S&P GSCI SPOT Price commodity index



Source: Masters 2008

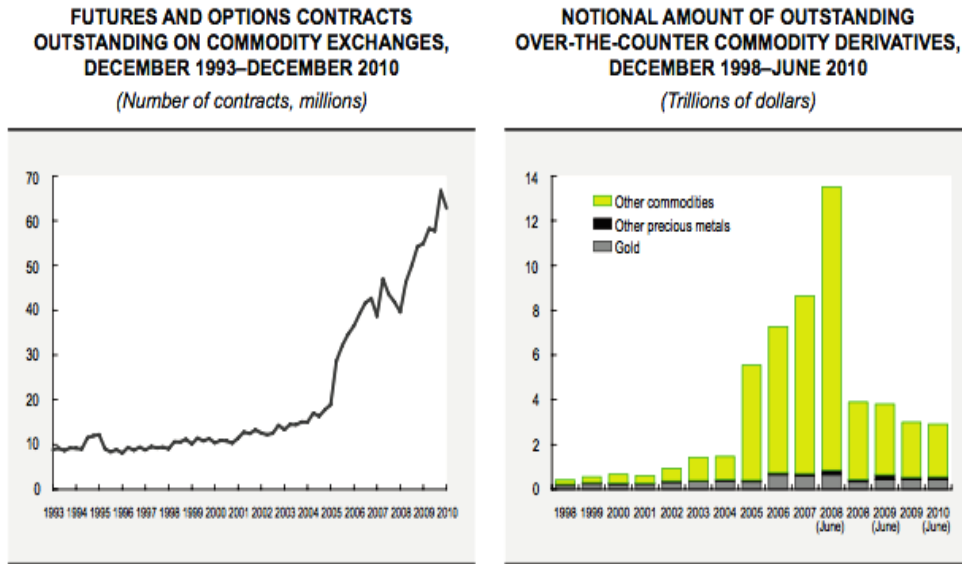
Chart (45) Composition of commodity assets under management (2002-2012)

(US billions)



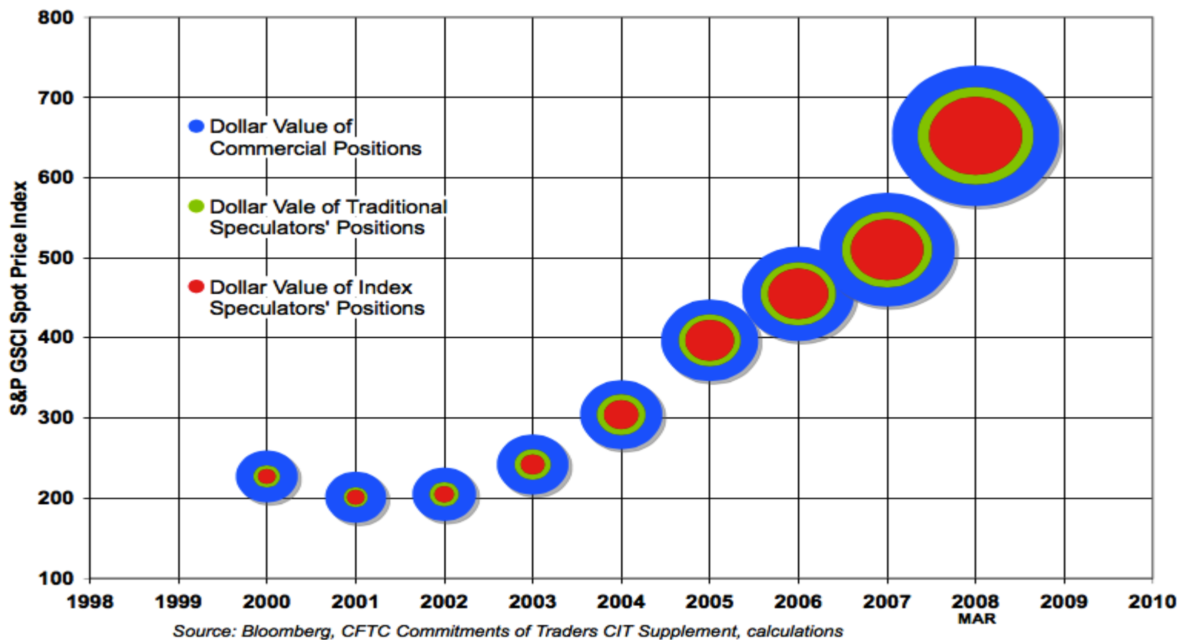
Source: Lane, 2012

Chart (46) Contracts and notional amounts of derivatives



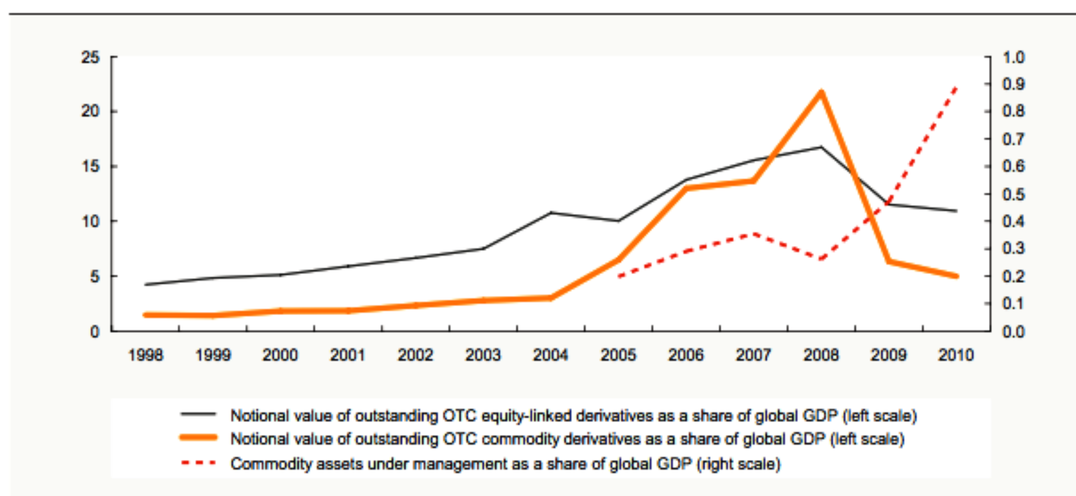
Source: UNCD, 2011: 15

Chart (47) Commodity futures market size



Source: Masters, 2008

Chart (48) Financial investment in commodities to global GDP (1998-2010)



Source, UNCD, 2011: 17

What the spectacular rise of speculative and OTC trading shows is that commodities from mere goods to be exchanged in physical markets and hedged in financial ones became capital assets of their own right, eventually making their financial value more important than their utility value. To me more exact it was not the actual commodities but the derivatives and indexes that were based on them that became a capital asset class. Yet as ABSs and MBSs, these secondary markets, determined the prices and conditions in the primary and real market. And as we are seeing it determined the very definition of what is a commodity. Eventually then commodities futures market transformed from mechanisms to manage risk for actual producers and consumers to "vehicles for a diversified portfolio of commodities … as an asset class" (Ghosh, 2010: 78). Yet for this to occur two very important issues had to be resolved: their perishability and delivery problems as well as their inability to be standardised. These issues had to do to the very substance of what is a commodity, their inherent qualities. This is where (financial) innovation stepped in to help.

First and foremost the perishable nature of commodities, which need to be stored and delivered some times in considerable distances –with subsequent costs and risk, often called "cost of carry"- was surpassed because investors did not have to buy the actual

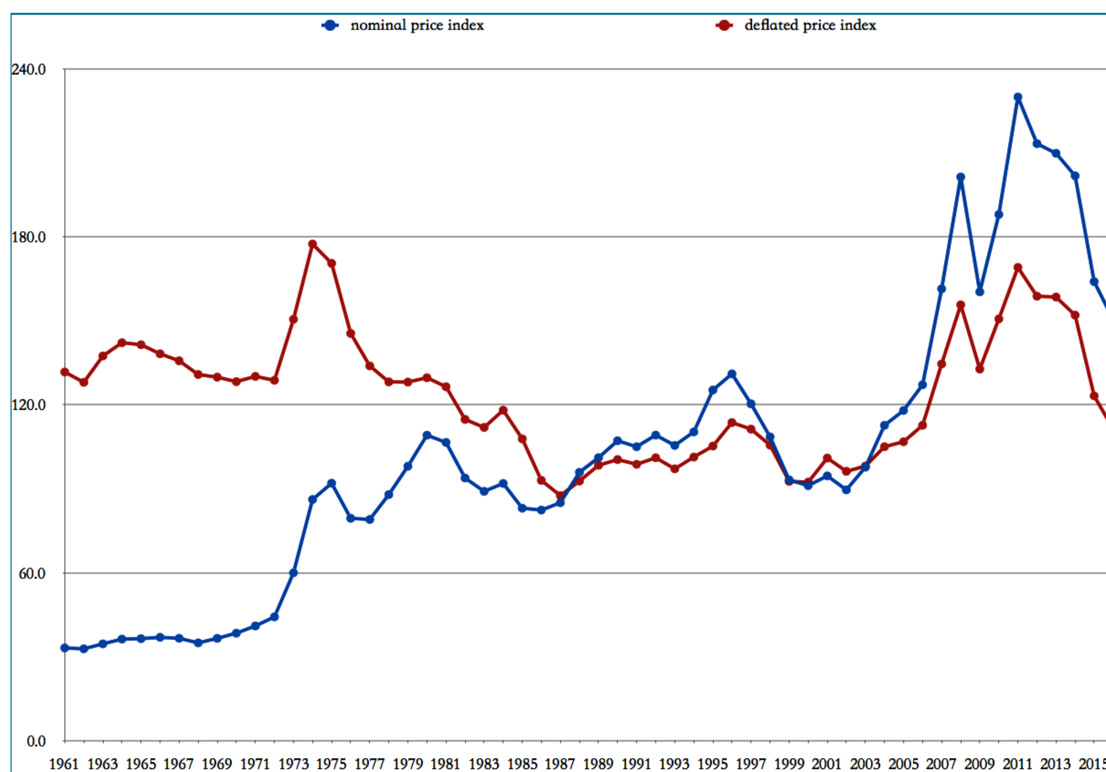
quantity of physical product. They did not even hedge on it. Actually they had no interest in the physical product or the real-economy market of the respective good. To paraphrase Newman (2009c), investors instead of buying and selling an actual quantity of a product, they traded paper commodities: they bought and then rolled over a part of a financial index which was managed by a financial company, which again did not involve itself with the actual market, but only with the future contracts referring to it. Consequently, real life problems such as perishability and storage problems became indifferent to financial investors, as did reality per se.

Secondly, the lack of standardisation was surpassed by patents and ownership rights. In primary products such as food or natural resources they were not applicable before. Food for example, in particular seeds, got standardised, through patents and ownership rights were attached to them. This was supposed to make their trading in financial markets more transparent, as financiers proudly proclaimed. Once these inherent difficulties were surpassed, commodities became liquid enough to trade on international financial markets (Kaltenbrunner et al, 2012). A new unregulated terrain then opened where speculative trading could compensate its declining profits from housing market.

To complement all the above investment banks presented a series of economic motives to big institutional investors in order to promote commodity trading, the most important of which was diversification of portfolios (Ibbotson, 2006). Commodity future contracts were presented to exhibit the same average returns, but "over the business cycle, they were negatively correlated with that from investments in equities and bonds", they had unique risk premium and they were less volatile than equities and bonds since "the pair-wise correlations between returns on futures contracts for various commodities traditionally has been relatively low" (Mayer, 2010: 77). Moreover commodity future contracts could serve as a hedger against inflation (in contrast with equities and bonds) and against changes in the exchange rate of dollar (ibid: 85).

In due course, the flow of new actors such as hedge funds and institutional investors (pension funds, sovereign wealth funds, university endowments) started to transform the market, distorting its traditional functions. Due to their size, their mere presence exerted an upward pressure in prices, historically unprecedented, resulting to three spikes in 2008, 2011 and 2012 (see chart 49 - FAO's food price index). Almost suddenly after mid 2000s and more so in late 2007 and early 2008, too much liquidity was chasing too few goods, which were even fewer due a series of fundamentals: drought, new consumers from emerging giants like China and India, climate change, and the rise of demand for bio fuels. In other words, a problem of demand and supply occurred which is supposed to be the main characteristic that produces volatility in this market (Mayer, 2010: 85). Yet while the supply was based on fundamentals and it was ample according to historical standards, demand was not entirely so, since it came mainly from commodities futures markets, and this type of demand has "gone virtually undetected by classically-trained economists who almost never analyse demand in futures markets" (Masters, 2008). The "needs" to be covered from supply then were more financial than real.

Chart (49) Food price index (nominal - deflated prices)



Source: FAO

But prices were not only raised by the mere presence of large actors. There were also the financial tools used that precipitated an artificial increase in prices, irrespective of supply and demand in the real economy. The most prominent one was index fund trading,[92] which is trading over the counter and which as we saw skyrocketed. Commodity indexes are a mathematical value largely based on the returns of a particular selection of commodity futures (De Schutter, 2010: 4). More particularly they measure the returns of a passive investment strategy which has the following characteristics: holds only long positions, uses only commodity futures ("consumable assets"), fully collateralises those futures positions, passively allocates them among a variety of commodity futures, taking no active view of individual commodities (Greer, 2005: 25). These indexes are pooling several commodities and/or natural resources into one financial instrument (Kaltenbrunner et al, 2012: 16). Moreover, they usually form the basis for a number of other financial instruments such as commodity index funds,

[92] Index fund trading is not the only financial instrument used in this market, but it is the one that was particular to this market.

commodity exchange trading funds (ETFs) and commodity index swaps (DeSchutter, 2010: 4).

The rationale behind the index funds was to drive commodity markets into "contango". In other words, their very design (initially by Goldman Sachs in 1991) was to drive prices upwards since they kept on rolling over their long positions before they expired, no matter how high the futures climbed (De Schutter, 2010: 4). Index speculators "never sell", so what they essentially do is to "consume liquidity and provide zero benefit to the futures market" (Masters, 2008).

Very insightfully De Schutter (2010: 3-4) highlighted the key differences between traditional speculation which was to some extend useful in the market and index fund one. He notes that traditional speculation was based on market fundamentals (above all demand and supply of any particular commodity) and it thus facilitated price discovery and hedging. In contrast, index fund speculation was momentum based, and in particular based on herd behaviour that was diving prices up (De Schutter, 2010: 4). Indexes then were not mechanisms to manage risk of the actual market but mechanisms which actively created risk -both at macro and micro level. After all, let us not forget that volatility is where bankers and brokers make their money, whatever its direction (Kaufman, 2012: 354). They "… need 'events' … a placid market with nothing happening and no volatility…" is no good for them (Blackburn, 2006). So they transformed conservative commodity markets into an eventful arena.

Moreover, and probably more importantly the main proclaimed virtue of market mechanism, pricing, was distorted. Future contracts usually are in what is called "normal backwardation", which means future prices are lower than spot prices, since the investor and/or speculator is taking up a risk; in other words, the lower price comprises its risk premium (De Schutter, 2010: 4; Gorton and Rouwenhorst, 2004: 4). But index fund trading required that future contracts rolled over continuously irrespective

of how high prices were (Gorton and Rouwenhorst, 2004: 4).[93] This is what economists called contago: when future prices are higher than spot prices. A market in contago eventually drives even spot prices up in a broad range of commodities, and since this is done through financial markets, it increasingly correlates seemingly unrelated commodities (Tang and Xiong, 2010: 18). Deeply differentiated fundamental conditions in real commodity markets are being homogenised and correlated with financial market trends due to financialisation dynamics. This from one part annulled the economic argument of diversification (Lane, 2012) -as any understanding of economic theory for that matter (Kaufman, 2012: 359)- and from the other it resulted to volatility and to bubbles which by definition bust.

On the way to 2008 food crisis, World Bank saw the volatility which was developing in commodity markets and suggested hedging (Kaltenbrunner et al, 2012:21). But in this new environment hedging became a complex, expensive and thus unattractive business for small producers.[94] Local farmers were thus forced to settle for lower prices and traditional investors to exit the market (Newman, 2009 a). The market power of the remaining players, then, become dominant and was setting the rules of the market, with little choice of deviation from local producers and traders. The rules they were setting did not only concern the prices. Their market power influenced the types of contracts in the spot market too. Contracts with fixed prices -the epitome of hedging in these markets for both primary and intermediary producers- transformed to contracts with prices-to-be-fixed (ibid), thus shifting all the risk –this new, beyond the fundamentals risk- to individuals with little or no market power. The farmer, or any producer for that matter was forced by circumstances to exchange security for insecurity.

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[93] Position in index fund trading were always long with a maturity of about 75 working days, which they sell (roll over) at about 25 days prior to expiry of the contract, using the proceeds from the sale to buy forward positions again. See, Mayer, 2010: 78.

[94] Big investment banks of course did not have that problem. They were the first to hedge commodity indexes with commodities futures, so they made money in every move of the market (even if it went up or down) plus their management fees (Kaufman, 2012: 360-361)

By focusing on coffee chains Newman (2009a) empirically establishes how the above consequences of financialisation (speculation, rise of prices) went as deep as to change the structure of international commodity markets as well as the social relations involved. The first issue she highlights is the change in the dynamics of capitalism, since the process of accumulation changed: non-financial, (international) trading commodity firms in coffee chains, now extract more profits from their financial investment than their actual, real-economy business. Although using financial tools is essential, in order to hedge from unforeseen events, such as weather, fall in prices or demand etc, what Newman explains is something of a totally different scale, which transforms the very structure and price setting mechanism of production chain, leading to what she describes –following Harvey- new avenues of appropriation.

The second issue she highlights is the connections of high finance with a small local farmer somewhere in Africa and the social relations in a local market. Her analysis shows how the prices set by future contacts in NY and Chicago, between investors who have nothing to do, and no interest at all in the real business of coffee production and distribution, affect local production chains, social relations and small farmers who know nothing of finance. She empirically documents how risk is transferred down the production chain, while gains and opportunities go up the chain, actually straight to the very concentrated top of the chain. An example is that there is a shift from fixed-price-forward contracts to price-to-be-fixed ones (2009a: 546) – something that resembles the shift from DB to DC in the pension provision, where again the risk –and we should stress, mainly the risk from markets- is transferred to citizens, who do not have the expertise or even the information to handle, and which risk probably they would not be willing to assume, even if they were informed of it.

In a nutshell, since commodities markets attracted investors with little or no interest in investing in the actual real-economy market, but only with an interest to gain from short-term changes in price (Ghosh, 2010: 78), speculation and high prices were inevitable. Commodities transformed into another capital asset class and the convul-

sions of financial markets, their information asymmetries and herd behaviour (ibid)[95] eventually were transmitted in physical markets adding to their inherent volatility.[96] Dominant players and especially fund managers and big investment banks had the power now to conduct the rules of the game globally, both in price setting and in the types of contracts. Thus prices had little to do with the trends of demand and supply in physical markets.[97]

Subsequently, the very price mechanism of Efficient Market Theory of neoclassical paradigm was annulled, falsifying the proclaimed efficiency of market mechanisms which is based on price signals. The new commodity financialised markets “allowed for inherently ’wrong’ signalling” (Ghosh, 2010: 79). So if finance was supposed to deliver transparency and lack of corruption in commodities market, it certainly failed to. Opaqueness and corruption simply changed faces. Moreover, the state was unable to help since it stripped itself from the power to do so. The “small fellow” was just left unprotected to bear the risk of situations they did not understand far less able to control or even influence. They were supposed to be rational individuals, free to choose the price that is fair for them, and not fair to incumbents. But incumbents, only changed name and mode of operation. And farmers got an even lower price than the one in pre-financialisation era. Newman (2009a) gives an illustrative example: farm-

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[95] Here on information asymmetries and herding behaviour it is worth quoting a very interesting piece of information from United Nations Conference on Trade and Development, 2011: 23: “The persistence of price deviations from fundamental values caused by herding depends on the speed and efficiency of arbitrage. An arbitrage opportunity presents the possibility of earning a positive return at no risk. Such a possibility will arise if prices diverge from fundamental values or across markets on which identical assets are traded.”

[96] Commodity markets were not based on herd behaviour (follow the trend and exit just before the rest). On the contrast their more profitable market participants “used individual, pioneering action based on their own private circumstantial information” since price discovery was not based to information derived from models or some standardised observable effects -as in financial markets- but on information from a multitude of sources (UNCD, 2011: 1-2).

[97] This was highlighted in the recent food crisis, when besides the general slowdown and credit crunch, food prices, in particular kept rising, for no apparent reason apart from the new money –a result of excess liquidity due to the flooding of the market from speculators, indicatively see Baffes and Haniotis (2010: 5)

ers in coffee perfection chains were agreeing to a lower price (ibid), than a potential bigger but uncertain one, which shows that the "small fellow" probably wants security over higher profits.

Furthermore, high prices and volatility led to the food crisis of 2007-2008 and later to the spikes of 2011 and 2012. In 2008 food prices skyrocketed and this was attributed in the mechanisms and processes described above, since global food production increased in 2000s and 2008 in particular was a record global cereal harvest (Suppan, 2011: 71). So scarcity and subsequent rise of prices did not come from the real market. It came from financial speculation. In just 52 trading days at the beginning of 2008 index speculators poured 55 billion US dollars (Masters, 2008) into a 150 billion market (assets under management), so for the mere presence of such investment, of such demand -albeit financial as we mentioned before- an artificial scarcity was created and prices were pushed up. Asset inflation appeared in food markets too.

Populations especially in poor and emerging economies started rioting, since the already large percentage of a household budget on food became even bigger and in some cases there were reported cases of famine. Food prices though raised again significantly in Feb 2011 and later in July 2012, in the midst of credit crisis and in spite of the general slowdown, something that was again attributed to excess liquidity deriving from the presence of large and speculative financial interests in commodities markets (Ghosh, 2011: 52).

World Bank (2011: 7) reported that the increases of 2011 deepened the poverty of 1.2 billion people already living below extreme poverty that is below 1,25 dollar a day and furthermore, added another 44 million to the global poor; in general caused food inflation in countries in which people were already spending the largest percent of their budget on food. Moreover, it stated that even though monthly price volatility of internationally traded food prices which has increased since 2007, did not prompt a new global food crisis after the spikes in 2011 and 2012, what started to consolidate was "a growing sense that high and volatile prices (in terms of frequent spikes) con-

stitute the new norm" (World Bank, 2012: 8, 6; UNCD, 2011: 34). This is a very interesting point especially since it comes from an institution of the mainstream orthodoxy.

Nevertheless, it should be noted that mainstream economists attribute these price spikes and volatility to fundamental volatility of commodities market and general factors such as global warming and increasing demand for biofuels. Especially for biofuels Baffes and Haniotis,(2010: 5) have shown that biofuels use a small share of land, so they cannot possibly push prices up. Yet, the subsequent sharp fall of prices after the first semester of 2008 and the continuing volatility since, totally undermines this argument (Ghosh, 2010: 75, 77). If the rise was based to fundamentals, the increase would either stabilise or continue. So speculation rather than fundamentals was the cause. Moreover, for almost sixty years, when commodities markets were regulated, despite wars, revolutions and oil crises, prices did not exhibit the volatility they did the last decade or so (Frenk, 2011: 45). This is historically unprecedented as we saw. What changed was deregulation that opened the path for financialisation to make the difference in this market too. And establish as World Bank noted "a new norm".

Facets of expanded financialisation in commodities

What we have mostly seen so far is the financialisation of existing commodity markets, examining the "financial ways" by which already tradable products were transformed into liquid financial assets. But financialisation expanded also the scope of what can be traded, and thus financialised. And here are some examples.

Carbon certificates, have promoted financialisation of nature in a strange and rather unintended way. Actually they did not financialise nature per se but rather they financialised air pollution, by essentially transforming it into a new product, a new commodity (Kaltenbrunner et al, 2012: 23). Since air pollution became a tradable product, effectively, a right to pollute was established via market forces. Because if air pollution is a commodity, thus something that it can be bought and sold, then whoever affords it, they can have it. If money is of no concern, or if in the balance sheet more

profits are made by polluting and paying for it, then one gets a legitimation to pollute. In other words, as long as one can buy their right to pollute, the carbon emission certificate extends them this right. The negative externality which infringes the social optimal is then surpassed. This might seem neither sound nor logical, not even imagined by those who introduced these certificates. Nevertheless this unintended consequence is a stark and almost irreversible reality. Furthermore, the market is expanding to the point that it is considered to be "very dynamic and able to create a future turnover … of up to 2000 billion dollars" (Alvater, 2009: 84). It seems then that social optimal dims in the face of market turnover and profits.

A second example is the financialisation of what has been called agri-food markets. Large scale investments of financial and/or institutional investors are buying agricultural land, infrastructure and production. In some cases this has resulted to what some commentators characterised was as 'land grabbing' referring to the acquisition of many hectares mainly in the global south but also in the global north. Farm land has become attractive to financial investors because it is supposed to serve as a safe way to store wealth, hedge against inflation and provide a steady income stream via rent payments (Magnan, 2015: 2). After all nowadays farmland is not only a source of food, but also a source of biofuels.[98] Furthermore, farmland is also serving the need for food security for some countries resulting to a strange mix of finance with political goals, like for example a sovereign wealth fund from Quatar which has been investing in farmland in Australia with the view of food security of Quatar state something that has raised considerable political debate in Australia about the ownership of farmland from foreigners (Sippel, 2015; Magnan, 2015). It seems then that a post-colonial then move of land grabbing has been precipitated, where finance was either the means or the end goal per se, and whose scale has been reported to be unprecedented in historical perspective (Sassen, 2014: 80; Cotula, 2012: 672).

[98] Here there is another major social problem that is raised but which is nevertheless at the borders of this thesis: land for biofuels deprives land for food especially in poor countries, were local farmers are being displaced by big national or international investors who turned the crops into maize or sugar-canes for biofuels. The result is more often than not hunger for these ex-farmers.

Actually, acquisition of land has not only be linked to farming either for food or bio-fuels, but also for its subsoil resources, mainly water (Cotula, 2012: 650) which is another "natural resource" that started attracting financial investors. And it attracted them not as a long-term investment but rather for its expected scarcity since there is growing demand for a stable supply (Bayliss, 2014: 301). Especially after mid 2000s financial companies have shown interest in water firstly as privatisation was proceeding and they were becoming owners of water supply infrastructure (Cotula, 2012),[99] and secondly, and most importantly, because they have created sophisticated financial products, like indexes, index funds and exchange traded funds, through which they are investing and/or speculating in water (Bayliss, 2014).

In advanced economies such as UK, other financial mechanisms too such as securities and leverage finance became important in the water provision market. (Allen and Pryke, 2013). Bills of everyday consumers were viewed as stable revenue streams in order for privatised water companies to opt for debt financing through securitisation (ibid: 431-432). These stable revenue streams are analogous to mortgage payments, yet they are far more "imperative" in their nature since one can afford not to pay a mortgage payment but not a water bill. It is far more crucial for human subsistence. The end result of this type of financialisation of water followed the same pattern as in other domains: the ones who benefited most were the shareholders -consortia of large infrastructure funds in this case- and the intermediaries; the former from high dividends and later from fees involved in structuring and managing the new financial tools. Everyday people on the other hand were put at risk of paying higher bills in the future in order to service these debts since it was not the equity and infrastructure of these companies that has not been promoted through debt financing (Allen and Pryke, 2013: 431-432). Thus in some point in the future the consumers will be called to pay the higher yield of investors in water business.

[99] In general financial investment in water supply infrastructure is not very attractive to financial investors due to high capital costs and the long term horizons for profit making (Bayliss, 2014: 296)

The main characteristic of financialisation of water though was not its scale (it is still rather limited as far as numbers are concerned), but the general tendency that has been developing: water increasingly has come to be seen as a financial asset to be traded and not as a public service that should be available to all. Adding to that, complex ownership structures of water companies and complex chains are connecting local residents with the world of high finance via a resource which is essential to human subsistence and thus dignity.

In poorer regions this meant "creating assets for financial sector in rich countries" instead of "bringing much investment in the water sector" (Bayliss, 2014: 300). In advanced economies it meant that households were reduced into a 'human revenue stream' since their water bills were used at least from UK privatised water companies as a base for debt financing through securitisation (Allen and Pryke, 2013: 437). What is even more alarming is the political 'ring fence' that places all these issues outside the political debate (ibid: 420). Natural resources then were financialised and were in turn used for the advancement of financialisation. This entailed a series of ontological transformations: water from a social good and a right of citizens, it became a commodity. Citizens were equaled to a stream of payments. Pollution to a commodity that can be bought and thus not criticised for.

Eventually, high finance managed to reach the most mundane, the ax of the local farmer and the fork of us all, not to mention the air we breath. Yet, besides this far reach to the mundane, the end result was the same as in other domains: finance ended up financing finance (Toporowski, 2008). This self referential capital where "financial flows built on other financial flows" had no interest in ownership of agricultural products -and any real economy commodity for that matter; its sole interest was in reaping a profit out of fluctuations of monetary values (Russi, 2013: 175).

In order to do this financialisation moved in a familiar way: from one hand it financialised the way traditional trading was being conducted something that eventually spread the logics of finance deep down to the "ganglia of societies" (Hardt and Negri,

2000: 24) and from the other it extended the terrain of traditional trading to involve activities and entities that were previously considered outside the scope of any form of trading or commodification. In due course a new kind of power was bestowed in the hands of financiers: they could not only determine the price of any good essential to human subsistence globally from their office in Chicago, New York or London, adjusting according the household budget anywhere in the world, but they effectively changed the meaning and function of institutional structures and concepts, as well as of social values established for centuries. What is a tradable good, what is a common one, has changed or at least the line between them blurred.

Inevitably, conceptualisations thus changed. Natural resources and basic rights of citizens to eat, to drink and even to breath transformed into liquid capital assets to be valued and traded according to the dynamics of financial markets. A citizen with rights to basic and essential products became just the end consumer of such products (Allen and Pryke, 2013: 435). And nature was not any more a system in which and from which we all live, making thus its respectful use a “rational choice”. It transformed into a source of capital which is to be fragmented into these kind of pieces that will have a tradable financial value. Finance started determining the value of social and individual rights in its monolithic way while at the same time creating scarcity where there wasn’t any, to paraphrase Deleuze (1981: 273). In other words, it got as political as it could get.

3.4. The long road to financialisation: a brief history

How did financialisation spread the workings, logics and volatility of financial markets and how did finance exceed its role and no more acts as an intermediator for investments or hedging risk. Which are the major historical steps towards financialisation which gradually till the 80s and more aggressively in the 1990s and 2000s "incorporated" Americans and later Europeans in the financial markets, both as borrowers and as investors, altering the incentives of management, transforming the nature and structure of capitalistic economies and interconnecting everybody into a fragile web of complicated and sometimes opaque financial networks.

The aim of this brief historical review is to show that financialisation as any phenomenon is not something that just happened in the last decade, or last couple decades. A series of regulations, events, intentions and discourses have accumulated through a longer period of time paving the road to its gradual birth and its entanglement with everyday life which will be the focus of the next chapter. Its seeds go a long way back to New Deal and post WWII US economic needs and role in global politics, as well as internal discourses and self-representations mainly in the USA. It accelerated with the Eurodollar market, a rather obscure loophole in the regulated system of Fordist regime and nurtured by the deregulation and financial innovation of the 1980s, 1990s and 2000s in the extremities that we will analysed in detail in the sections above (as well as to the ones that will follow). Needless to say that this brief history surpasses more than a lot. But its aim is not to give a historical report, but just a framework.

New Deal

After the crash of the 1930s, and well into post-war years US economic order was regulated with New Deal arrangements which kept the economic system "highly compartmentalised in which distinct institutions serving discrete functions were protected from direct competition with one another" (Krippner, 2011: 61). This resulted to a restrained system which had mild fluctuations and brief recessions (ibid: 63). With their pros and cons, these arrangements proved successful to maintain a relative

balanced order, where the economy flourished, along with social welfare of an increasingly growing middle class. Of course, the logic of the system presupposed that financial industry and the markets were not a world of their own, and their profit making had to have some relevance to the real economy. Real economy mattered for finance, and markets' growth had a reciprocal relationship with it. If financial industry was to make money exclusively from financial businesses as it does now when "finance finances finance" (Toporowksi, 2008), then the New Deal System would not have worked. Complementary to the arrangements of New Deal - up until Breton Woods- was the gold standard and then after Bretton Woods the gold-exchange standard. The first and to some extend the second (comparing it to what followed) had a disciplinary effect for a country's budget and for the stability of the system as a whole.[100]

Besides the relative balance that these economic arrangements resulted to, the seeds of financialisation had already begun to appear. First from the side of institutional environment: several acts and institutions were legislated all through the 30s, which helped expand the housing and mortgage markets. The most notable ones are the Housing Act of 1934 which, among other things, enabled the creation of a secondary market in mortgages, and Federal National Mortgage Association (Fannie Mae) which was created in 1938, assigned exactly with this task.[101] Secondly, and most importantly according to Konings (2007a: 20), from some real circumstances. Even from the Great Depression years what became obvious was the resilience of consumer credit, and its disciplinary effect on working classes. This was also evident in the Post WWII years of embedded liberalism and rather dormant high finance when "… against the background of rising workers' incomes … the growth of consumer credit and mortgages accelerated dramatically" (ibid: 20).

[100] For an excellent, yet rather "alternative" illustration of the differences between the gold standard and the gold-exchange standard, see Rueff, 1972.

[101] For an extensive review of the regulatory interventions of the 30s towards the financialisation of the housing market see Gotham 2012: 25-52, 32-35.

So a process of "financialising" the public, and integrating it in the world of finance, was under process since the Great Depression, and more so since the WWII. The culture of debt, in the sense of considering debt a natural route to prosperity, from home ownership to welfare, was since then interwoven into American society (Panitch and Konings, 2009). A society which gradually came to regard the protective character of New Deal arrangements as discriminatory against the middle class and in favour of the rich which were supposedly allowed by the system to have higher yields for their investments (Krippner, 2011: 79).

Bretton Woods: Les Trente Glorieuses

After WWII when the gold-exchange or gold-dollar standard was inaugurated, dollar became the numeraire currency, enabling US to ran deficits in order to provide liquidity for the rest of the world (Krippner, 2011: 89). And it was not only liquidity. A devastated from the war Europe who could not produce what it needed, turned to USA, who eventually in 1945 "was the greatest supplier both of manufactures and capital goods" (Newton, 1984: 393, 395-6).

This arrangement proved very convenient for US economy. On one hand US could exhibit a benevolent spirit for the reconstruction of allies through the Marshal Plan. On the other hand, this benevolence was not so entirely philanthropic: it originated from institutional obligations and more so from its economic interests, if not survival. To be more explicit, first of all, this way US assumed its responsibilities from Bretton Woods (Krippner, 2011). Secondly, the Marshall Aid was recycled back to the US because countries devastated from the war were buying American products (Newton, 1984: 394).[102] Actually it was crucial for the American economy to become the provider of goods and capital for the rest of the world. Because, as Newton notes, the fully extended American war economy would suffer from overcapacity in peacetime, unless export markets worth at least 14$ billion a year could be secured (ibid: 394).

[102] Out of need because US manufacture and agriculture was not devastated by the war and out of pressure from the US to devalue their currencies with the aim to enhance US's exports. For the latter see De Cecco, 1979: 60.

So there was an anxiety in Washington that "unless the flow of hard currency from the United States could be maintained, European nations would try increasingly to eliminate the dollar from intra-European trade by resorting to bilateralism, state trading, and exchange controls" (ibid). Lastly, "US foreign aid was … from the very beginning, mainly used to balance European capital exports to the United States" (De Ceccco, 1979: 60). The importance that the above have for the process of financialisation is that dollar started spreading around the world and especially in Europe and banks started to have dollars for liquidity and for reserves. The structural power of US started taking roots and did so through the rather imposed power of its currency.

In the late 1950s, a powerful mix of socioeconomic dynamics started to nurture "demands" for change. Economy was not growing as it was before, the restrictive environment of New Deal regulations limited the moves of investors and traders, and a series of crisis started to occur. Alongside these economic changes, the prevailing mentalities were changing. It was then that a market, already in existence from WWII, the Eurodollar market, was given an impetus. The Eurodollar market was a money market, based in London, holding deposits and providing loans to overseas clients, in either dollars or other foreign currencies. A "state-less" (Heillener, 1994: 82) market outside any regulatory control of any country, which started developing vigorously after the exchange rate crisis of Britain in 1957, when Britain raised interest rates to 7% and imposed restrictions on sterling credits in order to finance trade between non-sterling countries (ibid: 83).

Both Britain and USA refrained from regulating the market or its participants, even though they could (ibid). So politicians, governments in particular, helped create an environment where the "conatus" (Lordon, 2006: 23) of finance could thrive. By not regulating the Eurodollar market, when its real expansion started to show its potential, nor its participants, they left this empty space, where the "natural tendency of human nature" for easy profit thrived to such an extent, that it could not be managed even if politicians wanted to. Overall, Eurodollar market was a substantial crack in the system of embedded capitalism, that along with the developing desire of Americans to

have equal access to investments with the "rich", complemented the strive of American banks to find innovative ways to financilise more aspects of economic life.

In the 1960s the economy started boiling to the point of explosion something that could be due to the social movements of the 1960s, the Vietnam war and for other socially related reasons. Around that time financial innovations in US started cracking the New Deal system from inside.[103] The most important innovation of the era was the Negotiable Certificate of Deposit (CD) which was enacted early in 1960 and was a time deposit, typically issued in denominations of a millions of dollars, that banks created a secondary market for. Later in the mid 1960s, a respective certificate of deposits in smaller denominators was created, the savings bond. Certificates were always negotiable or marketable, but never before enjoyed an active secondary market, which would enable banks to secure continual access to credit instead of being just passive recipients of funds (Krippner, 2011: 65). Now they could "bid for deposits all over the world. At a price, funds would always be available" (Wojnilower, 1980: 285).

Alongside these developments, a fear of devaluation of dollar was spreading. In 1966 foreign central banks and governments held over 14 billion dollars; USA had only 13,2 billion gold reserves, yet only 3,2 billion available for foreign dollar holders (IMF, 2011). Gold traded 40 per ounce in London and US was exchanging it for 35 per ounce. Thus, confidence in the dollar was low and it was thought that it could no longer be suitable as a reserve currency. This precipitated a run on dollar in 1968, as foreign holders moved en masse to exchange dollars for gold, while the opportunity was still available (Krippner, 2011: 90, citing Collins, 1996).

These developments are important in the history of financialisation, because they show how from one hand finance was spreading and from the other what was then considered as a stable and real value for the world economy, gold, evaporated in the hands of its gate keeper. Even if there are no causal or complementing links between the two, they nevertheless show the developing reality, with a "hole" in one part and a

[103] Eurodollar market attacking it from outside

vigorous expansion in the other. Eventually, both led to the next big step that inaugurated an era of deregulation and re-regulation. In the former case, the state retrieved from any control over the markets, while at the same time handling over to them a series of social welfare provisions, that it used to administer before. In the latter, and the state enacted a series of legislative acts which developed a macroeconomic environment conductive to financialisation (Krippner, 2011).

Post Bretton Woods: The Trentes Glorieuses of financialisation

The next bid step was the end of Bretton Woods in the 1970s. The Nixon Shock was the direct result of the above lack of confidence in the dollar, along with the augmenting deficits of US due to the Vietnam War and the continuing decline in exports of US products. So on August 15, 1971, Nixon ended the dollar's convertibility to gold, breaking down the system of Bretton Woods and in the absence of an acceptable alternative "what Michael Hudson (2003) refers to as Treasury Bill Standard" was inaugurated by default (Krippner, 2011: 91).

The world had no other choice but to accept US treasury bills, because the dollar was no longer redeemable for gold, and if they sold those treasury bills, the dollar would depreciate, and this would in turn erode the value of accumulated dollars, as well as increase the competitiveness of US exports (ibid). But what Treasury Bonds essentially were, was debt; debt to the US government. In other words, gold was exchanged for debt! An unfortunate deal, as any imposed one is for that matter. Eventually, a gigantic debt by means of government bonds enabled an enormous capital flow into the financial sector (Zeller, 2008: 6). Moreover, in 1974 US initiated a trend to remove capital controls, followed by Britain in 1979, to be followed by other countries the next decade.

Complementing these macroeconomic developments, the almost mythic figure of American landscape, the consumer-saver (Krippner, 2011: 74), began to dominate the political discourse in USA. Besides the already growing demand for private credit already starting since late 1940s, in the 1970s, there was a "en mass entry of American

public into the financial system in its capacity of investor" (Konings, 2007: 18, 22). Actually the expansion of American finance in this period was driven exactly from this double role of American citizens (ibid: 23).

Legislation and banking products were supposed to be implemented just to serve the interests of this new symbol of american prosperity. Yet in reality from one part it served the interest of banks who were losing depositors to financial markets and from the other this financial deepening and engulfment of american public into finance served also the reproduction of US power in international markets (ibid: 11). So, as a consequence the system as a whole, from high finance to everyday people, started interconnecting to an unprecedented degree of scale and depth, which at the same time enhanced USA's structural power (ibid: 11-12). Following Konings' rationale, we discern a paradox, that USA's state power was enhanced at the very time it was deregulating. This paradox was realised exactly because finance was expanding, and more particularly because it was expanding to the mundane, the everyday person. A mysterious working indeed!

However this situation started creating problems. Credit and inflation were rising and the restrictive environment of New Deal only led to further disintermediation. It was then that monetarism offered to provide a helping hand. Through the Volcker shock (1979-1982) interest rates were raised in an attempt to cope with those internal problems. There at this point in time, USA and the world economy confronted a paradox, one of the many that followed in financialisation era. From one hand, the Volcker shock sprung surprisingly violent gyrations in the economy with federal funds rate climbing up and down in just a few months, borrowing making an abrupt halt, economic activity suddenly collapsing, unemployment exceeding ten per cent (10/100) in 1981, interest rate sensitive industries like construction, automobile and agriculture also halting and American exporters squeezing (Krippner, 2011: 118). From the other, the Fed realised, to its surprise, that it could simultaneously contain inflation without restricting credit growth. First of all because high interests rates "made investment in the manufacturing sector an increasingly unattractive proposition" and thus little of

the credit found its way into the real economy (Konings, 2007: 25), and secondly because the markets started globalising, and high interest rates attracted foreign investors (Krippner: 2011: 142). For one more time in history, the developing dynamic favoured USA.

Furthermore, following the Volcker shock the wave of deregulation began. In spring of 1980 President Carter enacted the Depository Institutions Deregulation and Monetary Control Act where the interest rate ceilings phased out, thus credit flowed to the highest bidder – interest rate ceilings no longer acted as speed limits for credit – price and not availability would determine allocation of credit (Krippner, 2011: 81). Then, “in the name of the American worker and the American dream the Reagan administration implemented a massive program of deregulation” (Konings, 2007: 24) that expanded the mortgage market and enhanced its liquidity (Gotham, 2012: 38-39).

At the same time, deregulation and lifting of capital controls was spreading all over the world. New Zealand and Australia in 1984-5, Scandinavian countries 1989-90 (Heillener, 1994: 8, 146) while EU signs the Single European Act in 1986, and later on 1988 committed its members to abolish capital controls by 1990. Black Wednesday of 16 September 1992, the crisis of pound sterling, and the attack on Italian Lira,[104] their eventual exit from ERM were the major welcoming events into the new reality of open capital markets! Nevertheless, EU exhibited a persistent -albeit not empirically founded- zeal to liberate its capital and financial markets, in a process of mimicking the American financial markets (Grahl, 2009, 2011).

For Krippner it was then in the 1980s and the 1990s that the basic elements of financialisation of the US economy were put in place, namely “a rapid pace of credit expansion associated with domestic financial deregulation, large foreign capital inflows

[104] For an illustrative explanation of the role of currency options in the crisis of Lira, as well as the role of derivatives, in generating systemic risk, see Aglietta Michel, 1996: 6-7.

and a monetary policy regime that "followed the market"[105] (2011: 143). Moreover, in this open space left from regulation, financial innovation excelled. Globalisation of the 1990s onwards helped the innovation experiment to run without restraints. Innovations gradually became so complex that were only partially understood even from market insiders. It is noteworthy to cite an interesting comment by Crotty (2009:570): "Contrary to the assumed transparency of financial markets, until SIVs began to collapse very few experienced financial market professionals knew they existed."

From the part of the general public and politicians, innovations in finance and lifting of capital controls were either indifferent or received with enthusiasm. It seems that nobody understood the medium and long term ramifications of such liberalisation. Politicians only saw a solution to problems of stagnation of incomes and a granting of favour to the big financial interests, while the general public welcomed the freedom from restraints in credit as part of democratisation of finance. The fact that one could borrow more was received as a blessing almost everywhere in the advanced world. Subsequently, in the 1990s and more so in the 2000s everything could be commodified, and transformed into a liquid, supposedly transparent asset to be traded worldwide. Risk itself was transformed into a commodity, bundled and sold in the global market, so it could be bared from the rational homo economicus who could handle it. Or so the narrative of neoliberal economic thought which prevailed uncontested would have it.

From the above brief history it became evident that the state not only chose not to regulate certain aspects of economic life, but also actively created institutional forms that helped finance thrive and determine the rules of its own game. For both, but especially for the latter the "justification" of the state was the welfare of the majority of the people: so that the people in all classes and ranks of society could benefit the promised welfare of liberal, capitalistic societies. While people were lured into the

[105] It is worth highlight Krippner's comment on how persuasive these "market forces" were, since as she argues that "Federal Reserve officials learned that when they operated behind the cover of market forces, they could impose a more restrictive policy than would be possible if they openly took responsibility for higher interest rates" (2011: 143)

easiness of credit and financial income, the economic system –global and national- was eroding from within: esoteric concepts -to use a term from Krippner- such as monetary policy, gold exchange standard, fiat money, liquidity through securitisation were pulling down the pillars of the economic system in a way unnoticeable even from the experts.

In retrospect, it seems that once a loophole in the system is found and/or created, or once a new space of activity opens, individuals are rushing into it in order to profit in a short term, short sighted way. In that moment in time, nothing hinders the way to profit making. No individual or firm can take a long term, wider perspective and think of the possible imbalances to the system as a whole or of the societal consequences of its actions. Money seems to have a blinding affect especially in the relativism of post-modern societies, and the elimination, along with the formal, of the informal institutional constraints. In other words, if the state leaves a space unregulated, or if it provides the regulatory tools for markets to provide stability through their own rules –e.g. through the price mechanism, through supply and demand- the system almost always gets out of control, needing the government to step back in and rescue it.

CHAPTER 4: The transformative power of finance

4.1. Introduction

In the previous two chapters we examined how financialisation spread not only in the domain of economy but even beyond that. Moreover it is became evident that financialisation characterises a particular historical era of capitalism, the one that unfolded after the collapse of Bretton Woods system; even though the seeds, both institutional and economic, have been spread long before, mainly in USA. Some Marxists, as we saw in our literature review, would suggest that this historical phase is an inherent or circular feature of capitalism. Yet this claim sounds more like a condemnation of capitalism, than an analysis of financialisation. It views the world through binary lens and intentionalities, rendering it eventually contentious and not analytically or even politically useful.[106]

We argue that the phenomenon could be analysed both in and of itself as well as in context, yet not necessarily as part of a critique of capitalism. With that we mean that financialisation, can be analysed both by focusing on its unique dynamics and consequences as well as in its historical and institutional context, through other theories, which capture its rather inconspicuous and permeative nature better than marxist ones. Ones that can help us comprehend how a social structure is being created, within which a certain type of individual is being nurtured, thus effectively making this individual the reproductive force of a given power dynamic and the conception of alternatives and solutions effectively improbable. These could not be mainstream perspectives since they lack the conceptual tools to grasp the subtleness and intensity of finance: the subtleness of its ascendance and the intensity of its dominance.

[106] Or borrowing from Foucault (2010: 164-165), the purely economic critique of Marxists on inherent features of capitalism is deductible to just the logic of capital which eventually destroys capitalism, while an economic-institutional analysis views capitalism as a result of both institutional and economic processes, thus opens up the possibilities of transformations. Our analysis tends to be institutional not in the sense of regulatory contexts -whose existence we too consider a determining factor in the development of financialisation- but rather in its conceptual sense: in the sense of institutional roles of different actors and institutions in modern political economies, both domestic and international.

So the aim of this chapter is to rethink the phenomenon of financialisation through theories that can better capture its ascendance and permeation everywhere. In order to do that, in the first part, we will present the conclusions of chapters 2 and 3[107] by way of abstracting the characteristics that financialisation bestowed to political economies. Merely, as an attempt of understanding this encompassing phenomenon,[108] we organised them in systemic (economically), political and subjective. In the second part, we will review some theories of power, and more particularly the post-structural views of Foucault and the various scholars that one way or the other followed his thinking combining them with aspects from the theory of Susan Strange on the structural power of finance and other theories which aspire to provide an analytical framework of understanding.

[107] Exactly because they are conclusions we refrain from detailed bibliographical reference which we have done in the previous chapters.

[108] Meaning that these categories do not exist separately in reality.

4.2. Abstracting the features of financialisation

Systemic: the structural and ontological changes of the economic system

In the economic sphere, financialisation resulted on one hand to excessive financial profits and on the other to decreasing investment in real economy. Rentier income became not only an welcome byproduct of economic activity but a goal in itself, as financial activities became a self-nurturing industry of its own right. These features had some crucial consequences for the transformation of the economy. First, finance was not anymore mainly an intermediator, as its "institutional" role and its very definition would have it. Subsequently, a sort of outgrowth of the economic body was created, which only reason of existence was to feed itself. In the words of Toporowski finance was financing finance, and credit became just debt (2008).

This is a crucial point for our analysis, or even more importantly, for what financialisation is for this thesis: one cannot talk of financialisation if the credit is indeed intermediating for real economy products, them being either investments, or actual products, new wealth and/or jobs. This way finance is just one of the "tools" of growth of the economy. If this "tool" starts feeding itself though, if its structural role changes from an intermediary into a business of its own right, then it is there where financialisation starts.[109] It is there where its structural and systemic dynamics become dominant and pervasive: where excess and disintermediation take the place of "medium" in its dual sense, as a "metron" (medium in ancient greek) and as an intermediary. That is what happened with financialisation: the institutional role of finance changed and finance, mainly through debt, became the main source of financing the

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[109] Of course an objection can be raised here. Financialisation could be seen as the phenomenon that denotes how finance becomes the only, or at least a dominant way of conducting business and investments. Even if it does not became excessive, this dynamic still denotes that practises and mentalities change. Which is indeed true, and to which we totally agree. But one has to see the end result of any transformation. If this transformation were to remain within limits, and as a medium for real economy investments, then it would be beneficial for societies. It would be the tool to prosperity and growth. Now though what has happened is that the tool became the master. This is something institutionally, structurally and even ontologically different, which as reality proved results in explosive circumstances which do not seem temporary and which have devastating repercussions to societies,.

economy. Eventually it became so permeating that it "dictated" not only the way the economy was functioning, but also the way a polity, societies and individuals were conducting, even the way and the contexts they were "thinking", their logics. So despite the fact that it became a something outside of everything, an outgrowth, a business of its own right, it nevertheless imposed itself to almost all aspects of political economy and even subjectivity.

Adding to the above and exactly due to financialisation dynamics, the nature of money changed, resulting to a series of illusions. Money started to be born out of debt, meaning that private banks and financial companies could create money at will, or to say it in more everyday language, out of thin air. This was enabled firstly through fractional - reserve banking: banks were keeping a fraction of their deposit liabilities as reserves, loaning the rest. Thus the money in circulation were "virtual" money born out of debt creation. Moreover the new financial instruments of derivative financing and securitisation functioned as a form of money creation: people were holding and exchanging derivatives and securities as if they were actually base money, feeling "confident" that the financial system could provide them with actual base money if they asked to. This was all assisted and sustained by high frequency trading where the flashes in the computer screens were considered liquid money.

The illusions that this new nature of money created were various. First and most important of all, it created illusions of liquidity: whole sale funding, debt created money, securitisation, high frequency trading, financial engineering created a virtual reality where liquidity seemed to have no limit. Then, it created illusions of what monetary policy can do. No longer could a central bank control this money creation through interest rate policy, even though this was not realised soon enough. Thirdly, another thing that was not realised soon enough and thus blocked economists and politicians into an illusion, was the new nature of bank runs. Waiting outside banks in order to get physical money was no longer the greater danger. Whole sale money markets which were the new machines of money creation, and they could dry up in flashes of a second due to a loss of confidence. The freeze of interbank lending following

Lehman Brothers collapse is a suitable illustrative example of the new forms of bank runs in the age of financialisation. Lastly, inflation too as a concept changed. Asset inflation appeared and practically nobody paid attention. So while trying to curb money inflation, asset prices of any kind were left unregulated, creating not only bubbles but also price inflation in an undetectable way.

Eventually, these illusions, which were attached to notions of an economic world before financialisation of the economies, created a feeling which in time turned to a demand that there is no limit to what one can do with financial engineering, since there was no limit to money creation. Excess, oversize, lack of boundaries and limits became an inherent characteristic of the economy, its "clergy" and eventually of us all, everyday people.

This "delirium of the unlimited" (Lordon, 2014: 34)[110] was enhanced by the capitalisation of almost everything. That is not only finance was transformed from an intermediary to an industry of its own right resulting to excessive rentier income, it not only changed the nature of money and bank runs, as well as the functional result of monetary policy, but it also spread its scope by "transforming" into an asset class activities, entities, public goods, natural resources and services that were previously outside finance's scope. This was done through the "knitting" of an allegedly social welfare system provided by finance, as well as the linking of high finance to basic human needs and natural resources. More elaborately, food chains, food itself, pensions, health care, university studies, public goods such as water and other natural resources, even sovereign states, were all either capitalised, that is transformed into asset classes tradable to financial markets or linked to high finance from various routes. From the cradle to the grave the new "universal financialised welfare system" equaled value only if it could be translated into money. It standardised activities and entities stripping them from other non-calculable values and depriving the evaluator the ability to think of themselves, outside the box of standardised criteria. The logics of finance pervaded the workings and orientations not only of economy but also of an increasing

[110] We will explain and expand on this concept in chapter 4, part II.

range of activities of states, societies and individuals. Economy enlarged and engulfed more sectors because finance needed the base to built its structured products. A base which was minimal relative to the edifice built upon it. A sort of an upside down pyramid which was bound to be fragile and unstable.

Moreover this virtual world of illusions, detached from productive activities, and commodifying previously un-commodifiable entities and activities became interconnected in various, almost mysterious ways bounding the fate of countries globally in the same almost inescapable path, or at least so it seems. Banks were lending to each other. China lending to USA, Germany to Greece and other southern states, local city councils from Europe buying securities in the American subprime market, all led to a tensely intertwined world. No country in this financialised world can pave its own independent way, but rather is has to take into account the logics and responses of financial markets. The same "trickles down the chain" to commercial enterprises, trade, social welfare and individuals. This intertwining makes the system fragile, since there is no differentiation in the booms and busts cycles: everybody is booming and everybody is busting. There is no counter weight. Thus every move within this logic is essentially pro cyclical.

Paradoxically though, this fragility which eventually caved its way under and through the economic system, was coupled with firm believes that the new financial tools of hedging and spreading of risk, made the system as safe as never before. It was believed that spreading of risk, minimised its effect. Nobody seemed to realise, first of all that this spread actually knitted the network and intertwined economies and sectors closer together, thus enhancing rather than diminishing risk. Secondly, what actually was happening is that risk was also capitalised, thus following the same logics of finance which were pulsating in the "delirium of the unlimited" (Lordon, 2014). Investors were actively chasing risk, and even structured new risks in order to provide for their structured products and vehicle finance tools. Mainstream theories of finance and economics did not provide the models and assumptions that could grasp these systemic changes. Therefore, nobody "saw" them happening.

Furthermore, in this illusionary world where (theoretical) perceptions of what was happening were stuck in theories that reality had surpassed, there were also “ontological changes” in institutions. The role of core economic actors such as banks changed: they were no longer intermediaries between savings and investments, but “transmission belts” (Panitch and Konings, 2009: 74) of loans to the financial industry. States on the other hand were seen and comported themselves as enterprises seeking finance in international markets.

Conclusively illusions included that there is no limit in what financial industry can standardise in order to transform it into a financial product. That there is no limit to risks one can take, because there is no limit to the hedging that financial engineering can improvise. That there can be limitless liquidity provided by modern finance. This lack of limit was only natural to create a frenzy, in which nobody seemed to understand that the nature of money changed. These illusions blurred the view of how deep the structure and thus the workings of the economy were changing. These changes were ontological in nature in the sense that they changed the character and functions of basic (economic) actors and tools. Excess, oversize, capitalisation of almost everything, networking and ontological changes created a fragile mix that transformed not only the economic landscape but also altered the political one.

Political: is financialisation political?

This restructuring had a considerable political blueprint: the power relations changed. Something that was not so obvious before the crisis. The mainstream economic mantra seemed to have convinced everybody that finance is something neutral and technical, immune to any kind of “capture”, thus it could only be beneficial for political economies. The post - crisis, “too-big-to-fail”, rescue schemes though showed the “leverage” of finance over politics. In other words it showed its political power. But how something neutral and by definition beneficial have such crucial socio-political repercussions? Is financialisation actually political?

A plain answer would be affirmative simply because intuitively finance proved to have “un-calculable" power. The crisis, as any eruption, disentangled and highlighted different aspects of this power. First of all, the interlinking of the world through financialisation, and in particular through one of its main mechanisms, debt, has enhanced global imbalances in favour of less advanced political economies. China is the main borrower of the huge USA debt. Some emerging economies have surpluses while almost all advanced ones deficits. If in a debt relation the power lies in the hands of the borrower then, these Global South or emerging economies seem to win in this new power game.[111] Besides the global side of these imbalances, financialisation enhanced imbalances in regional level such as in EU and in particular the Eurozone; yet here in another direction that benefited the more advanced countries in detriment of the peripheral ones. There is an ongoing discussion for its architecture and how the freeing of capital controls and thus foreign debt enhanced the South - North divide within the Eurozone. But even though global and regional imbalances are an evident feature of financialisation, it is probably not its most characteristic power effect.

This is probably debt. Both private and public debt, reached unmanageable sizes worldwide. Its excessive rise in combination to its use for non-productive investments has been one of the core characteristics of financialisation. The same applies to the rise of derivatives, securities and in general financial engineering “vehicles” whose exponential growth in a relative short period of time, showed their detachment from fundamentals of trade and production. They were used to feed the financial system, as a system of its own right, outside the workings of the real economy. Thus the logics and workings of finance permeated and dictated the logics of workings not only of the economy but also of the state as well as individuals. High finance was linked to

[111] Antoniades (2013) would rightfully point beyond these numerical features -which he would compliment with equity type liabilities like FDI and portfolio equity- towards the structural power of USA and the “structural biases” of the world economy that still benefit USA which linger if not even become stronger. Yet as the writer suggests USA can no longer impose its terms at the rest of the world, because the institutional landscape in world scale is becoming more representative and rising powers’ voices have been strengthened.

everyday life either through the channel of private debt and democratised financial investments or through public debt and the transformation of the state to an enterprise seeking finance to international markets. And then everyday life and state functions reproduced this power of finance in a vicious cycle with no operating centrifugal forces.

The change in the nature and conceptualisation of money is another manifestation of the political power of finance. Since money is not issued only from central governments, but also -mainly actually- created from banks and finance since it is debt created, then finance's political power is augmented. It controls the main medium of exchange but as the crisis proved, even insiders of finance -be it regulators, traders or investors- have not realised the ways this power is functioning, and what are its repercussions.

Furthermore, it is not only debt that has increased imposing itself by its mere size and scale in the political sphere. It is not only money that became commercialised and credit created, thus escaping political control. It is also that a large part of what were public funds such as pension and health care ones, managed by governments rather conservatively due to their social and thus political sensitivity, were financialised: that is managed by finance and the logics of markets. Priorities, then, inevitably and sometimes unwillingly changed. But this was not a one-direction relation between public funds and finance. The former have supported and even enhanced the dynamics of financialisation. More elaborately, through privatisation, deregulation -all pure political acts- a series of funds such as pension, insurance and to a lesser extent sovereign funds in time created a "wall of money" rolling around the globe in search of prof-

itable investments.[112] This search for yield has been argued to be one of the drivers of financialisation. Combined with the shareholder value orientation of firms, which had the same target, they created a fierce demand for financial products that could not be provided by the real economy and had to be "invented" (Lysandrou, 2011). According to this view, demand from investors forced the supply of products which "had" to capitalise almost everything in order to cover the needs not only of hedge funds and private equity but also of pension and insurance funds, that is of needs of everyday people. Thus a two-way relationship was established: finance financialised funds and funds promoted financialisation. At times these social funds destabilised some "socially sensitive" markets like for example food and commodity markets and they did that even by their mere presence. A paradoxical and complicated web of interrelations that financialisation enabled!

Eventually new sources of authority and power emerging or relating to financial markets, dictated the policies of elected governments, thus rising a series of questions on how they are legitimised in the Weberian sense of authority, or simply how they managed to acquire an unquestionable power in a form of an authority formerly bestowed to official institutions or religious leaders. For example rating agencies -private companies assigned to inform market players and proven wrong in their ratings repeatedly- were among "the untouchables" in post crisis regulatory and policy reforms, when at the same time sovereigns -the most powerful formal political institution of post Enlightenment era- became an asset class to be traded, rated, and speculated upon in financial markets. Along with rating agencies, international financial institutions (IFIs)

[112] It should be stressed that financialisation is not the only variable in the "construction" of this wall. As with any social, political, economic or simply human affair, the reality is complex and multi-faced, deriving from a series of events and processes. In particular, the construction of this wall was due to a neoliberal political program that had dominated the last 30 years in combination to population rise and subsequent social demands for benefits provided by the post-war welfare system. Pension and health care system, simply could not live up to the promises made to citizens, so they had to aggressively pursue more risky investments in order augment their capital. Neoliberal narratives and a Great Moderation illusion, in combination with permanent problems of potential mismanagement and corruption provided the stone and cement for this otherwise flexible and ever moving wall of money is search of yield.

such as IMF, World Bank, Bank of International Settlements (BIS), became a source of scientific legitimacy for financial industry. A new form of "capture"[113] then, that of financial capture has spread. Applying Antoniades's analytical proposition for the study of hegemony as a "movement of power" (2008) in order to understand this capture, we can discern that power came from finance, it was targeted everywhere and operated through the mechanisms of debt, financial engineering, new accounting standards, rating agencies, hedge funds, private equity, sovereign and pension funds, and through capitalisation of almost everything.

This movement is essentially political since it is not confined on technocratic matters and is not neutral sociopolitically, in the sense it has a strong sociopolitical blueprint as we saw. Pre-financialisation, state provided services such as health, pension and education. Now they are essentially provided through financial markets. Even food and basic commodities are financialised. Moreover debt burden either private or public, as well as the systemic changes in the economy prioritise the logics and values of finance in this continuously shrinking political space. Inevitably then discussions on post-democracy, Post-Westphalian state, anti-democracy tendencies of current capitalism come to fore. Does this movement of power of finance entail the hollow up of formal institutions? Is it just a matter of old conceptualisations that are not able to capture fundamentally changed realities (Sassen, 2014: 211-212)? Or is it something even deeper? Is democracy still operating? Or is it a pretence?

In order to answer these questions we need to ascertain what are the associated costs of the system of political economy that has been created as a result of financialisation? What kind of societies have resulted from financialisation? Are the current financialised political economies oriented towards their polites (citizens) which is according to our view what a political economy should do? Or the system does not need people any more as Sassen (2014) wondered in the formulation of her expulsions argument? An argument that "goes well beyond more inequality and more poverty" referring to expulsions "from life projects and livelihoods, from membership, from the

[113] Capture is seen here as an ultimate form of power.

social contract at the centre of liberal democracy" (ibid, 2014: 29). Sassen admits that her argument refers to extreme cases but which she nevertheless finds it heuristic for "a larger, less extreme and more encompassing dynamic" (ibid).[114]

Even though one might disagree with such an extreme stance, it would be hard to dispute that the societies that have resulted from financialisation are the Deleuzian "societies of control" where control is continuous and without limit resulting to a man which is no longer enclosed, but man of debt (Deleuze, 1992: 6).[115] Because it is evident, that polites (citizens) are not the end target of policies, but the target group of a power that serves rather exclusively financial circuits and not societies, states, real economy or individuals. These type of societies that ensued the foucaultian "societies of discipline", entail a hegemony of control (Antoniades, 2008): societies are controlled not with coercion or other restrictive institutionalised measures, but through an implicit consent, which seems to entail more than the sharing of norms and preferences; it is rather the internalisation of the logics of finance. The subject of this control, even if it not personified, has its source to finance, whose logics are the ones diffused as control mechanisms in the workings of political economies and in the mindset of individuals. After all finance is the "steam engine of our epoch", to use the words of Sassen (2014b), and is everywhere as we saw. It is this kind of control that resulted to an unnoticed and eventually uncontested prioritisation of economic values over all other social values and goals.

[114] For Sassen this development is not yet fully visible and certainly not generalised, but she considers that "it entails a gradual generalising of extreme conditions, that begin at the edges of the system" (2014: 29). A basic point she makes is that there has been a switch from the era of Keynesianism which brought people in to dynamics to one that pushes them out (ibid: 211, 221). Moreover, she shows how complex forms of knowledge, bring not only "robust profits" but also "astoundingly elementary brutalities" (ibid: 120, 220).

[115] Societies of control are the ones that followed societies discipline a concept introduced by Foucault. Stiller would go one step further than Delouse suggesting that nowadays societies have moved even beyond that, becoming uncontrollable because societies of controlled have exploited the "tendency of noetic being to regress to the level of drives, to that level at which they become furious" (Stiegler, 2013: 11). But this analysis is probably beyond the scope of this thesis.

So the societies that are being molded, be in the international or nation level, they are the kind of societies where all other values and political priorities are aligned and attempted to be accommodated to the logics and demands of finance. Are these the societies we really want? That is the core political question. Finally, why, in spite of the rage, intensity, scale and devastation of the crisis, there is no real discussion on these core issues which what they are essentially debating are the real repercussions of a financialised system? The repercussions for societies and individuals. The answer probably lays in the financialisation of the subject per se. Which brings us to the last feature of financialisation.

On subjectivities: Homo Financialis

The last feature of financialisation is its power over the individual, or the dividual to use Deleuze's term (1992). Financialisation created a 'Homo Financialis' which is an upgraded version of "Homo Economicus" as analysed by Foucault. Foucault (2010: 270-278) argued that the "economic man is situated in what could be called an indefinite state of immanence" is the sense that they are supposed to take rational, egoistic decisions in a world whose totality eludes them. So even though in theory Homo Economics ought to be an "intangible element with regard to the exercise of power", in reality they are powerless since they simply react amidst a totality that they simply cannot know, and, from the perspective of mainstream neoliberal theory, they ought not to know. It is the invisible hand that will take care of the totality; the individual has only to take care of their own individual, egoistic choices. Effectively, this 'invisibility', which is according to Foucault at the heart of neoliberal theory and politics, renders the "economic world naturally opaque" and the economic man eminently governable and manageable, since they are supposed to respond to events that they cannot know and/or control and which "could be artificially introduced in the environment" (ibid).

Nowadays the individual who is living in this financialisation period is a par excellence example of this governable egoistic individual in an non-transparent and opaque (international) political economy. Actually, the individual has probably turned into a

dividual as Deleuze suggested (1992: 5).[116] Deleuze did not elaborate on the concept, but just argued that the competition within a corporation not only divides individuals in between them, but also divides each one within (ibid). Appadurai (2016) would try to develop the concept (ibid: 165) by linking it to financialisation and more particularly to derivatives markets. He argued that “contemporary finance has produced … a dramatically contemporary form of new subjectivity”, a “more elementary level of social agency.” Actually, he would assert that finance would be “unviable” without it. And it has produced this dividual by “a process of endless division, granulation, slicing and dicing of the person .. through the visible means of credit scores, debt, mortgage, stocks and so on…”. This data gathering “atomize partition” in the sense that they view the subject into its quantifiable parts, rendering “irrelevant the idea of the “whole”, the classical individual” (ibid: 116, 239, 248, 249). Just as mortgages are sliced, tranched and pooled, the same way the preferences and qualities of people are being sliced and assembled in big data bases.[117] An individual nowadays is in other words an assortment of standardised criteria. A fragmented entity and not a non-divisible whole. But according to our opinion this is not only because they are an assortment of standardised criteria, but also and more importantly because they are just one elementary part of themselves: a non-thinking being, impulsively reacting in a world that they are not supposed, and effectively cannot, grasp in its systemic character and function.

In other words the exact opposite of the proclaimed self asserted, rational, laissez-faire individual of a world where financial markers guarantee transparency. Because on one hand, they are free to choose anything they want; free to realise their potential through democratisation of financial investments and tools; free to plan for their studies, health and pension schemes; they are able to buy a home early on in their lives,

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[116] Individual comes from Latin ‘individuus’ meaning the non-divisible and is contrasted to the implied ‘divisibility” of the ‘dividual’. The individual denotes an indivisible entity, while a dividual a fragmented as semblance.

[117] It is interesting indeed how the writer would link processes such as backwardation that we saw in commodity markets with performances in rituals, and how in general he finds similar functional qualities between sophisticated derivative markets and “pre-capitalistic ritual milieu” (ibid: 187)

pre-cashing on their future revenues. But this monetarisation of their future, does not guarantee their ability to manoeuvre, essentially their proclaimed freedom. On the contrary.

Their freedom to make rational decisions on their loan, their pension or health care scheme is confined because they either have not or cannot process all the information needed to make a decision to their benefit. Especially their long term one. This is because it is a complex world that not even insiders understand in its entirety or in its interconnection, informations on the risks and benefits of decisions are not accessible, because they are not comprehendible. Moreover, financialisation "imposed" such high speed in the spread and continuous change of information needed to take an informed decision, that it is humanly impossible to follow this pace in processing the information. There is simply no time to think properly. These are the practical manifestations of the above mentioned theoretical "invisibility" claim of neoliberalism.

Besides this "invisibility", the financialised globalised (international) political economy became prone to herd behaviour and consumeristic culture, something that is kindled by what behaviourists called "animal spirit" (Akerlof & Shiller, 2009). Yet, this linking of "animus", or to be more exact of drives, to the expansion and sustainment of financialisation functions eventually as a confinement of the supposed freedom to choose rather as its manifestation. This is because drives thrive -by definition probably- in the absence of rational thinking. Moreover, exactly because they presupposed the absence of rational thinking, they can be directed through control mechanisms which include discursive practises, regulation, norms, but even practical and seemingly technical tools such as the manipulation of interest rates, ratings and other financial mechanisms. The unleashing then of drives meant more effective control of behaviours. A paradoxical effect indeed. All these confinements of the supposed unlimited freedom denote what Rose and Miller (1992: 174) pointed out, that personal autonomy is not the antithesis of political power, but a key term in its exercise. What space and time is left then for the individual to think rationally for their benefit?

Adding to the above (senti)mental constrains, there are two external realities: debt and financial investments on life events (pension, health and education). Be it either private or public debt, an (in)dividual is increasingly devoting a large part of its income to its repayment.[118] Also a large part of their time and effort is devoted to that. They are living in a permanent state of stress to try to secure a job in order to be able pay back their loans, pay their insurance, otherwise they are under the threat to be left without a house, a health insurance or a pension. This new species whom Blackburn labeled as a “two-legged cost and benefit centre” (Blackburn, 2006) is essentially striped out of any other concerns besides earning money to keep up with payments in a system with no safety nets. As Langley (2008) highlighted a citizen is expected to be at the same time both a responsible and entrepreneurial individual, taking risks, but prudently, as if debt is something purely technical. Nevertheless, risk of any kind is something an individual should assume for the very sake of the freedom the system is supposed to bestow to him as a gift, or more so, as a privilege. It definitely sounds reasonable: why should a system nurture laziness and dependence on the state? On the contrary, it would be quite pedagogical to nurture independent, responsible and affirmative individuals who are asserting their livelihoods and have no institutional constrain in order to realise their potential. But is this actually so? Has it worked this way?

It seems not. People did not mature. They only became less responsive. It seems that sophisticated financial techniques instead of “producing” a responsible, free individual, they “produced” an individual and societies which are numb and a-social. What is the purpose of societal organisation if everybody is out for themselves, either to indulge their inner jouissance drives, or protect themselves from any danger or mishap or secure the income for living and for having a safety net? When the needs of mere survival are so imperative and a citizen has nowhere to depend upon, where will they find the time, the energy and the sentimental will to process rationally all this com-

[118] In the case of public debt this income does not come in the form of debt repayments, but in the form of tax increases or cuts in salaries or decreases in value of assets.

plex reality and make a rational and informed decision? Or even a sentimental one? Since drive based decision are not sentimental.

So, it seems that the "societies of control" (Deleuze, 1992), have jungle like characteristics, which denote that humanity is taking steps backwards instead of steps forward. This reverse route is also ascertained by the fact that mainly through debt, we seem to have deprived ourselves from a future. Scholars talked about colonisation of the future as a systematic occupation of the future by the expansion of financial markets (Lyssandrou, 2011: 341; 2015); about the no availability of a future "… to shape anymore, because all possibilities had already been used and bound by past operations" (Esposito, 2011); about the financial system being the institutional machinery that pulled future into the present (Streeck, 2011b), all of which denote a confinement in a stressful present, a shrinking of the time horizon and thus of a shrinking of perspective of change. After all as Stiegler (2004/2011: 43-46) points out the future is inherently undetermined and open -that is what makes it a future- and the fact that the current capitalistic age of credit wants to calculate it - in this inelastic way that it does- essentially negates its very existence and potentiality along with the potentiality of individualisation of human beings which is linked to it.[119]

Actually the current reality, especially the one of debt in any form, limits an individual's sentimental desire: an individual devotes themselves wholeheartedly to the pursuit of economic goals; they even desire to devote themselves wholeheartedly to that only. Constrained to this sentiment they do not give their desire a chance to open up their thinking and their way of seeing things. They do not have the sentimental desire, they have deprived themselves of the sentimental time to want something else than money, or what money can buy. So when they do not have any money, they do not have any other "tools" to understand themselves, and thus live.

[119] It might sound strange that we talk about potentiality of individualisation, but a human being is not born an individual but is becoming one.

Homo financialis then, is confined in a present with no other values but economic ones and practically no prospective of a more prosperous future or even a future at all; where one has to take all their life decisions on their shoulders with no safety net. Therefore, in this dense structure of their everyday life, it is only natural that thinking capacity is depressed to the point of annulment. Instead of a rational, free individual in a prosperous world as they were promised, they became a governable, manageable dividual of drives, controlled from a distance, living in the discursive illusion of a freedom that just cannot be realised in this interconnected, non-transparent world of financialisation. This dividual simply strives for survival in a brutal, jungle like world with no protection from the societal organisation. Something which is definitely not an accomplishment for humanity. As Sassen (2014: 120, 220) would have it, sophisticated knowledge needed to generate all these financial tools was effectively responsible for simple brutalities. The simplest and most important of which is this non thinking. So much effort, work and sophistication for simple brutalities!

By way of conclusion

Hence, the above characteristics make evident that finance has shaped the politico - economic system, and has even expanded far beyond it, deep into the social and the individual. This social effect has been so strong, transformative and pervasive, that it nurtured a new type of societies and citizens which in turn legitimised and perpetuated the system[120] within which they developed. Yet one can ask, is this time different than any other times in the past when finance spread too? We argue on the affirmative. The reasons being the following.

As we saw financialisation resulted firstly, to an ontological transformation of basic institutions of political economies; and secondly, to the encompassing within the sphere of the economy entities which were outside its scope. These ontological changes were coupled with a interconnectivity of economies worldwide, which not

[120] A system can be defined not only as an ensemble of economic and institutional processes (see for example the ordoliberals' 'phenomenological' definition of the system according to Foucault, 2010: 163), but also the series of discourses and practises that derive from this ensemble and which in turn legitimatise it.

only enhanced the risk it was supposed to diminish, but also from on hand actively created more risk and from the other it "ensured" that even if something escaped the previous ontological changes, it could not escape the fragility of the system as a whole.

Consequently, societies seem to have transformed into societies of control (Deleuze, 1992), where the control lies in the hands of finance, even though these hands are not identifiable, not personified. Nobody has assertively, and probably not even purposely, tried to impose this power. On the contrary, it worked its way through seemingly unimportant regulatory changes, and mechanisms presented as either neutral or beneficial. Politics and finance became a strange couple which benefited only the latter in the detriment of societies and individuals, which instead of living in a proclaimed prosperous and free world, they ended up in a a-social world of simple brutalities, with no future and definitely no prosperity.

So a crucial point to consider is how financialisation acquired such a systemic and fundamentally transformative character without anybody realising it. How such a supposedly neutral and technical dynamic managed to shape the political and social milieu as well as the individual within it. How the accumulation of different trends and functions, which by and of themselves were presented as beneficial to the system as a whole, resulted to the greatest crisis of recorded history. How proclaimed transparency of financial markets resulted to a mysterious world that nobody could understand. How sophisticated knowledge resulted to such thoughtlessness and imprudence. How financialisation proved so crisis resistant. Quite paradoxically individualism, supposedly neutral financial engineering, allegedly transparent markets, independent and rational agencies, all resulted to an advent systemic transformation of political economy in global scale and subsequently of capitalism as its dominant mode of economic organisation. These issues, which are essentially some of the most important politico-economic questions that our era raises, are not adequately explained from the financialisation literature or the literature on finance presented in chapter …. In the next part of this chapter then we will try to address them through

other analytical frameworks in order to understand them and explain the paradoxes they entail.

4.3. Rethinking financialisation and power

In search of theories and concepts that can capture the dynamic reality of the transformation that has been achieved by finance, a researcher is faced with a challenging task. How to choose among the different theories and concepts? What should the main criterion be? Kondylis (1998), a Greek philosopher and political thinker, commenting on how theories and analytical concepts can contribute to our understanding of the "real processes" he argued that "success is measured by results. And results are measured by the reply to this question: how many important empirical facts, how much of the living history have I managed to make more understandable. The question might sound naive to the highly sophisticated ears of modern epistemologists and methodologists, but I would prefer to hold on to questions which are naive and elementary".

Holding on this naïve and elementary question, we approach the phenomenon of financialisation, with an intention to understand this specific process that shaped and continues to shape the polito-economic, social and even personal realities almost worldwide, which in the words of Kondylis shaped the living history. This will be our criterion for choosing our analytical framework which as any analytical framework is helping us understand the specific research problem and specific reality, in contrast to theories which aim to explain all change (Stanley, 2012a). The analytical framework generates explanations, it categorises and tries to reduce the complexity of social phenomena in order to understand them better (ibid). In contrast to theories, it gives the researcher a freedom and a flexibility, so they can view and explain reality inductively, that is from facts to theories and not the other way around. Of course this process is not theoretically neutral, since it is based on ontological assumptions which for one clarify the conceptualisations used. (ibid). They are nevertheless more open ended than a theory and particularly useful in explaining evolving realities with an interdisciplinary character (ibid).

Almost immediately an objection can be raised. Some would assert that because financialisation, like globalisation is everywhere, it is essentially nowhere, thus it lacks analytical usefulness. How can one analyse something that it is everywhere? How can

one focus and form analytical questions and hypotheses to be tested? This type of questions have been answered mainly in the discussion of power, which is definitely a concept that one can easily link to finance. From Lukes to post-structuralists, theorists of power tried to point to less direct and more insidious and pervasive forms of power that can be diffused in politico-economic and social structures, as well as in everyday life, thus providing tools and concepts that can capture these phenomena which are "everywhere" –since they are of interest exactly because they are so. After all, as we saw in our review, the literature on financialisation started indeed orienting itself towards the societies and more so individuals, in order to explain the rise of finance and the crisis it has resulted to. That means it started to encompass as many parts of the 'everywhere' as it can, probably because less encompassing explanations and analysis have not proven persuasive enough.

Along these lines, in the thesis I will employ an analytical framework mainly based in post-structural theories of power which also include aspects of the structural power as theorised by Susan Strange, as well as concepts from other theories, such as Lukes's and Lordon's. The common thread of them all is that they shed light to the importance of mentalities and in general inner elements of human beings in the enforcement and dissemination of particular power dynamics. We deem that this approach appropriate so as to understand how finance become so dominant and pervasive, as well as the inconspicuous manner that it did so, something it is hard to explain merely through a view that focuses on official institutions and regulations and/or to realist, neoliberal or marxian forms of power.

Furthermore, post-structuralism encompasses the social and the individual in socio-political analysis, something that ought to be the subject matter of any discussion of (international) political economy, since it is there where the final stakes of every policy ought to be evaluated.[121] Besides this rather normative assertion, there is a more concrete aspect too: we firmly believe that both the pre-crisis exuberance and blind-

[121] We are of course conscious that these ontological concerns inform are the ones which our proposed epistemological and methodological assumptions.

ness, as well as the post-crisis numbness and effective inertia to conceptualise and implement viable social policies, are due to the fact that financialisation reached deep into the mentalities of individuals, be them politicians, economists, academics or everyday persons. This goes beyond cognitive analyses of behaviourism and entails a more systemic look, which according to our opinion can be captured through post-structuralist lens. After all the benefits of using post-structuralistic analysis is that structuralism as well as realism are not dismissed as non-existent, but they are included either explicitly or implicitly in the analysis of a given phenomenon.

It might sound strange that we use financialisation and power of finance in an interchangeable, rather tautological way. But since the pervasiveness is one of the main characteristics of financialisation, and its undeniable dominance over political and social affairs occurred not through an imposition of law (no law obliged us to take on debt, invest in the stock market and the likes), but through less obvious channels which nevertheless acquired a law-like status, then what financialisation literature essentially tries to understand is this power of finance.

There have been various theories of power. In what follows we will refer to the ones which we think would be useful in order to understand the power of finance in modern political economies.[122] It should be stressed again that our effort is to comprehend the phenomenon of financialisation which resulted to a kind of power of finance that in the IR parlance could be called hegemonic. In this effort, we do not align with theories focused on either agents or structures. This is a dilemma in social science that we consider non-existent. Reality is complex and influenced by both structures and agents, who interact and influence each other. We thus choose to follow Antoniades's foucaultian inspired analytical framework (2008b): "the movement of power", looking where power comes from, where it is targeted and how it operates. This holistic perspective of Antoniades "allows us to overcome the confines of agential approaches without treating structural influences as material/objective forces independent from social relations". Moreover, it helps us combine different theories, viewing power as a

[122] Obviously the range of theories is far more wide than the ones presented here.

social relation and not as a unilateral force, and focusing more on understanding the phenomenon of financialisation than applying pre-existing theories on reality.

One of the first scholars who analysed in particular the power of finance is Susan Strange. Actually she was the first to introduce the concept of structural power of finance or to be more precise to view finance as one of the four sources of structural power -the others being production, security and knowledge. Structural power with its four sources sets for Strange the framework within which states relate to each other, relate to people, or relate to corporate enterprises (Strange, 1988: 25). Through this concept Strange highlighted the fact that power is diffused through structures and involves "diffused sources and agents that contribute to the functioning of the global political economy" (Guzzini, 1993). This way she believed that a series of issues that neorealist and liberal notions of relational power left unexplained (among other things, why people act against their interests and they do that voluntary), can be explained through structural power. An important insight of Strange's structural power as far as finance is concerned is that what is invested in modern economies it is not money, but credit, and credit can be created and does not have to be accumulated (1988: 30). In other words, in modern era there is no point to talk about accumulation of capital, but of creation of capital. Therefore, she argued, whoever can gain the confidence of others in their ability to create credit will control the economy, thus introducing a non-technical parameter in a supposedly technical realm. The sheer quantitative presence of financialisation that we saw in previous chapters, both as a rise in areas where finance was already present, as well as its expansion in many other areas of social and political life, demonstrates finance's structural power according to Strange's analysis. After all money nowadays is debt created (Ingham, G, 1996). That alone is as structural as it can get.

Moreover the proclaimed democratisation of finance to include not just the rich but the working people, women, minorities and other social groups with limited access to finance gradually assimilated masses into the structure of finance enlarging its scope and subsequently embedding "financial norms and principles more deeply in the fab-

ric of American society" (Panitch and Konings, 2009) at first and others lately. As the structure then expanded, so did the power of finance, but since it went down to the everyday person it not only became wider but deeper too.

This embedding was paved through the proclaimed deregulation and retreat of the state from economic affairs, which nevertheless was essentially a re-regulation and a strong at times intervention of the state in favour of finance (Panitch and Konings, 2009). As we saw Konings established how the structural power of finance was constituted and strengthened through linkages between high finance, everyday life (low finance) and the state (2007). He placed special attention to the role of everyday life and banks in creation of new institutional dynamics, namely high interest rates and financial dynamism in post-monetarism USA (2007). Thus Konings effectively established the link between the role of low finance in conjunction with financial innovation of banks in the era of deregulation in reorienting US macroeconomy towards financial markets and subsequently strengthening US hegemony in international political economy (2007). In other words he uses insights from cultural political economy to "revise our understanding of how financial power works at the macro-level" (2007: 6).[123]

How politicians and citizens became convinced for the benefits of this deregulation and financial investment is probably best explained by what Engelen et al called "liturgical" power, a force that comes from repetition of the same story by expert authority figures (2011: 20). A power based on endless repetition of the same story (the neoliberal narrative of how an economy is supposed to work) from academics who used their academic authority "to convert assumptions of neoclassical economics into stories for lay people about the benefits of financial innovation and deregulation" (ibid: 6). A repetition that legitimised this development even to insiders, or to say it in John Kay's words: "in the self-referential world of finance, reiteration

[123] We need to highlight through that he is doing that through a Grampian concept of structural power that asserts that "even though formally the power of the modern state is limited, in a more substantive sense social life becomes even more politicised" (2007 b: 42)

appeared to validate these opinions" because it was convenient to repeat received wisdoms (2015: 321), since yield was being paid.

In retrospect, it seems that academic authority, especially of economists, had the same impact on people as did religion and tradition, because it dominated over individuals and societies the same way: not by the use of force or law, but by a kind of persuasion which did not entail dialogue. Based on these thoughts Angueli (2015: 19-20) argued that the function of authority nowadays might have been transformed, in the sense of it having plural subjects, of being transmitted in a faster pace between subjects with an apparent inattentiveness which nevertheless denotes some characteristics of our era. The author would suggest that this authority is not necessarily reprehensible as long as it does not confine the freedom of individuals; when it does though, it then becomes a kind of morality (ibid: 37). In financialisation era, this is exactly what happened: plural subjects from academic economists to politicians to insiders of the trade reassured everybody through public and academic discourse, that finance will be beneficial for all and will free their potential. Nobody actually challenged them. And this eventually came to confine people's freedom, in multiple ways, thus becoming a kind of morality as Angueli noted. Quite a paradoxical effect for a supposedly technical and neutral function. Moreover individuals subjected to this kind of power, became eventually the engine of its reproduction and thus reenforcement. Hence the plurality of subjects enlarged.

These power effects reminds us the third face of Lukes's power scheme (1974),[124] according to which through information, mass media and processes of socialisation, the powerful affect conceptions, resulting at times to people acting contrary to their inter-

[124] Lukes (1974) proposes this dimension of power to expand behaviourism's focus on former interpretations which he categorises in his two other forms of power. The three dimensional form of power described by the author as more insidious and effective (p:23) prevents any issue or conflict contrary to the interest of the powerful to arise.

ests.[125] Of course, this contradiction did not seem obvious to practically anybody at first. And nobody was willing -or probably not even able- to inform people otherwise. The crux of the matter is that academia's supposedly scientific rigour was used for legitimation of the new policies that favoured finance, addressing what in retrospect looked like “a suggestible but rather amnesiac audience” (Engelen, 2011: 33)

But this “suggestible and amnesiac audience” was not necessarily there before; it was constituted through this kind of repetitive narrative. Actually, if we were to adopt the views of a strand of American political scientists working on what they termed “agnotology”, one can persuasively claim that there has been from one hand a cultural production of ignorance and from the other, even a systemic wilful production of ignorance (something that Proctor called more specifically “agnogenesis”): elites used their inside knowledge and academic or institutional status to legitimate interests of elites, by deliberately producing ignorance.[126] And finance is par excellence a business where elite knowledge is inaccessible to general public due to its complexity -actually it is even inaccessible to insiders as the crisis proved- and it was indeed used as a form of authority in order to convince everybody from policy makers to investors and everyday people that finance is creating a risk-free, ever growing world, where everybody is allowed to realise their potential without limit. The very supposedly scientific vigour of the economic models and complex mathematics that were used were used in that persuasion endeavour.

One can say that this cultural production of ignorance as an analytical tool may have originated in Foucault (even though it is not so admitted from agnotologists). Because

[125] Lukes makes a distinction between preferences and interests, the former being what the public is persuaded to prefer which at times is contrary to their interests, yet a noteworthy discussion has evolved around this issue: who truly knows the interests of the public, and why should these interests be different from their preferences. Should the political scientist be the one to judge it?

[126] In order to be more explanatory, “agnogenesis” is part of the wider term “agnotology” which in general is preoccupied by ignorance (not only the deliberate kind) as contrasted for example to epistemology, which is the preoccupation with the production of knowledge. These arguments are also of Proctor. What Proctor highlights in his chapter is that besides the increase of inflow of information in our era, ignorance increases and it takes different forms, from cultural to purposeful.

Foucault when describing the function of neoliberalism, he rightfully claimed that its modus operandi presupposes a kind of "not-knowing", an agnotology of a sort, or what we describe as "systemic / institutionalised ignorance", since according to neoliberal theories nobody can or are supposed to know how the economy as a whole works. Individuals should mind their own petty business and interests and the system will take care of itself through the invisible hand (1979/2010). And this Foucaultian type of systemic ignorance is neither intended from a particular elite group, nor confined to the citizens only. Both insiders and outsiders to the financial system can "suffer" from this ignorance because it has to do with the rationality that underpins it. And this is a point that views this lack of "gnosis" from a more institutionalised, more systemic and less contentious way. Moreover it probably better describes reality if one is to bring in mind the surprise and lingering mystery of the causes of the current crisis. The literature would categorise such an approach as a post-structuralist approach on power.

These post-structuralist approaches are differentiated from realists' ones which are material, capability-based, instrumental and have a top-down understanding as well as from neoliberal and Gramcian ones in relation to the two latter characteristics (Antoniades, 2011). Poststructuralism approaches power as a relation, not a commodity or a capability, it is not something that operates and used instrumentally in a top-down way. Instead it is a force that operates bottom up, it is diffused and dispersed, productive in the sense that it is not only produced in the interaction between subjects, but also creates them. Therefore, it regulates life "from within". Thus poststructuralists try to answer the question of how power is exercised and not who is exercising it (a country, an actor, a ruling class).[127]

The most influential post-structuralist thinker of power is, as we already said, Foucault. He distinguished (1976: 139-141) disciplinary from biopolitical (biopower) power, discussing both under the concept of biopolitics which for him was a neces-

[127] Info in this paragraph are all drawn from Antoniades (2011: 497-498).

sary element for the development of capitalism.[128] Foucault's great contribution to the discussion is that he introduced the concepts of productive and positive power as contrasted to prohibitive and negative power: power is no longer only prohibiting somebody to do something; instead it urges people to do something. In his words: "power produces; it produces reality; it produces domains and rituals of truth" (1975/1995: 300). Thus this form of power has both a structural and a discursive effect, surpassing the agency - structure divide of social sciences.[129]

Furthermore, contrasting more positivistic perspectives, he considered power as a social relation, a social dynamic and not as a capability, as something to be possessed. Subsequently, its character is immanent and not external to other relations, being exercised from numerous points, coming usually from below, so essentially there are no rulers or ruled. These features imply that power can be "everywhere", thus explaining the omnipresence of finance nowadays. Yet for Foucault this is not a disappointing conclusion, neither analytically -since he is discussing this exact quality of power- nor politically, since for him where there is power, there is resistance, meaning that since power can be exercised from various points, so can resistance. Yet, he admits that biopower creates a norm more important than law and is thus normalising society in the sense that it creates a society of norms where the law operates more and more like a norm. This explains the law-like imperative character of financialised normalisations, and the paradoxical blindness they resulted to, a blindness that persisted amidst sophistication and advanced technical knowledge.

To fully understand Foucault's encompassing perspective on power it is worth quoting at length a passage that fits perfectly to current societies shaped by financialisation

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[128] The former is an anatomico-political form of power exercised on the body, and the latter a biopolitical which targets populations. Biopower, was according to Foucault "an indispensable element in the development of capitalism" (1976: 141) uses mechanisms which are continuous, regulatory and corrective. It does not aim to draw a line between obedience and non-obiedients to a sovereign power, but rather "effects distributions around the norm … by distributing the living in the domain of value and utility" (1976: 144).

[129] In the words of Foucault, power is neither an agency, nor a structure, but a metapower, a regime of truth.

(Foucault, 1975/1995: 275): "It (power) was also organised as a multiple, automatic and anonymous power; for although surveillance rests on individuals, its functioning is that of a network of relations from top to bottom, but also to a certain extent from bottom to top and laterally; this network 'holds' the whole together and traverses it in its entirety with effects of power that derive from one another: supervisors, perpetually supervised. The power in the hierarchised surveillance of the disciplines is not possessed as a thing, or transferred as a property; it functions like a piece of machinery. And, although it is true that its pyramidal organisation gives it a 'head', it is the apparatus as a whole that produces 'power' and distributes individuals in this permanent and continuous field." [130] The important points to hold from this quotation is this linking of top-down and bottom-up movement of power, its non-possession (nobody can actually be said to "have" power), its network effect even though it rests on individuals, and its diffused function even though it can have a pyramidal shape.

Fundamental in understanding power according to Foucault is the concept of "governmentality", which he defined as "the way in which one conducts the conduct of men". For Foucault governmentality is an analytical grid, a point of view which helps analyse relations of power by describing procedures of governmentality or analysis of micro powers (2010: 186). These procedures could include techniques that make societies governable by introducing a new mode of thought, in other words they could be social technologies, which essentially evolve out of some kind of technical, expert knowledge (Leibetseder, 2011: 18-19). Lemke (2001)[131] comments that "the theoretical strength of the concept of governmentality consists of the fact that it is construes neoliberalism not just as ideological rhetoric or as a political economic reality, but above all as a political project that endeavours to create a social reality that it suggests already exists" and that "the semantic linking of governing (gouverner) and modes of thought (mentalite) indicates that it is not possible to study technologies of power

[130] This description refers to disciplinary power which is a characteristic of what Foucault called 'disciplinary societies', the ones that preceded current 'societies of control' (Deleuze, 1992). Nevertheless the characteristics mentioned in the passage are easily discernible in current financialised societies.

[131] A German sociologist and political theorist who specialises in the analyses of Foucault and biopower,

without an analysis of the political rationality underpinning them". It should be noted that Foucault did not limit governmentality to government. He also thought that it is a concept to be applied outside the rationale of central government, that there could be non-state governmentality (2010: 191). He did not explicitly point to finance for that, but one can use the concept as an analytical grid to understand how finance conducted and conducts the conduct of men, how it governs their mentalities.

Following and extending Foucault at some points in their polemic analysis of capitalism, Deleuze and Guattari[132] in Anti-Oidepous, showed what effectively can be viewed as the power of desire. Desire, for these writers, is the source of power in capitalism, and this explains why people sometimes act against their interests. When they want something they are totally blind to their interests, and embark in a feverish struggle to acquire. Or to say it in Deleuze and Guattari terms: "…one can never deceive desire. One can deceive, set aside, or betray his interests, but not desire…many times one can desire something against his interests: capitalism exploited that…" (1973/1981: 298). And it seems that financial capitalism "invested" in this blindfold power of desire in order to expand.

Moreover, Deleuze and Guattari introduced the concept of antiproduction, and even though they did not link it to the power of finance, one can easily apply this concept there. Anti production according to these writers is this mechanism of capitalism that pervades every productive action not by blocking it (as for example state bureaucracy), but by arranging it according to its logics. This antiproduction mechanism mobilises all productive forces, even that of production of knowledge towards its aims which is essentially the absorption of any creation of value. According to Deleuze and Guattari the mechanism is antiproductive because from one hand it introduces a lack into abundance, and from the other it introduces stupidity into the realms of knowl-

[132] Deleuze, the French political philosopher, with psychoanalyst and philosopher Guattari, made a major contribution in the understanding of capitalism, and is one of the leading figures of contemporary french philosophy, whose arguments move beyond the conscious level into the unconscious elements of human nature. Thus here we only use just one of their central arguments in order to establish our theoretical view, and we by any means wish to analyse the multiplicity of their thoughts.

edge and science (ibid: 273). Applying these concepts in the process of financialisation, we see that financial capitalism indeed mobilised desires (for freedom, for a home, for independence, for having the same investment opportunities as the rich guys), but it ended up creating a system of antiproduction, where artificial needs were created, or real ones augmented and exploited and where effectively sophisticated knowledge and science ended up in stupidity, both for insiders of the trade, and definitely, for ones in Main street. This reminds us of Saskia Sassen's comment of how high sophistication in financialisation era created simple brutalities (2014).

This issue is further explored from Rose and Miller (1992),[133] who in their seminal 1992 article on 'political power beyond the state', combine Latour's action at a distance and Foucault's technologies of government in order to explain political power in the age of neoliberalism. According to their view the state has not a direct rule anymore over its citizens, but rules at a distance through a series of mechanisms; it administers the "private realms" (ibid: 180), so that "through this loose assemblage of agents, calculations, techniques, images and commodities, individuals can be governed through their freedom to choose" (ibid: 201). Even though they apply this power to the sovereign, twenty years later one can easily apply it to finance. We saw how boarding rooms or stock exchanges or rating agencies in the USA can impact not only the global world of finance but also mundane practises such as mortgages, coffee production chains or food markets in the other side of the world. The mechanisms of this 'power at a distance' are nowadays flashes in the computer screen, but still people are governed through their freedom to choose. How reducible are the choices they can realistically make though, is something hardly mentioned.

[133] Rose and Miller are British sociologists belonging what has been called Anglo-foucaultians "which is a strand of literature that extended Foucault's thought too in Anglo-saxon world -criticised for their one sided view of Foucault's work- focused on the micro-level of power relations ignoring the macro one, something that Foucault did in his later work (Jessop, 2010).

Hardt and Negri[134] have elaborated more on immanence of biopolitical power as advanced by Foucault, and later by Deleuze and Guattari: power operates on the plane of immanence, they argue, through networks without reliance to a transcendent centre of power or any structured sites.[135] One of the interesting points they make is that power in societies of control is biopolitcal par excellence, because it reaches the "ganglia" of social structures, subsuming societies (2000: 24) and molding hybrid and modulating subjectivities (2000: 331), whose brains and bodies are organised directly through machines, for example communication devices (2000: 23). Moreover, for the writers, the imperial power of 'Empire' constructs social fabrics that evacuate or render ineffective any contradiction. This point relates to the point made by Castoriades (1998: 59) on the disappearance of other values in the face of dominance of economic ones and it denotes too the one-dimensional orientation of the power of finance. Subsequently, great industrial and financial powers produce, according to these writers, not only commodities but also subjectivities, in the sense that they produce needs, social relations, bodies and minds (2000: 32).

Lazzarato, will elaborate even further on the construction of subjectivity in current financialised capitalism, by focusing particularly on the debt relation.[136] He insisted that the debt relation (the creditor-debtor relation) is a power relation which is "the strategic heart" of neoliberal politics (2012). This power of debt is not exercised through repression or ideology, but leaves the man "free", confined only by "the limits defined by the debt he has entered into" ; free as long as he assumes a way of life compatible to its reimbursement (ibid: 31). Lazzarato focuses on the exploitation of subjectivity through this debt relation, which he considers both extensive -encompassing every activity, not just economic- and intensive -since it encompasses a relation

[134] Hardt and Negri are radical political philosophers who have been influenced from Marx, Foucault, Deleuze and Guattari and wrote the influential trilogy of Empire (2000), Multitude (2004) and Commonwealth (2009),

[135]Actually, they contrast contemporary societies of control to disciplinary societies, by arguing that in the former power was transcendent while in the latter it is immanent.

[136] Lazzarato drawing on Nietchze, Foucault, Deleuze, and Marx wrote a seminal essay under the title "The Indebted Man" borrowing the term from Deleuze. Actually his essay can be viewed as an adjustment of Deleuze's comments in the context of financialisation.

with the self, in the guise of the entrepreneur of the self, exploiting not only social relations, but also the uniqueness of existence, the individualisation of existence itself (ibid: 52, 60). He distinguishes sovereign, private and social debt, arguing that it is the last one, through privatisation of welfare state, that exhibit the disciplinary and biopolitical power of finance, linking macroeconomic aspects of the economy to everyday practices and formation of subjectivities (ibid: 125-6, 130). We would disagree with this point, claiming that both private and public debt have exactly the same effects.

Drawing on Deleuze's notion on money, Lazzarato brings time into the equation of this power relation (ibid: 24) saying that "the flow of financing, that is, money as capital, is a mutant power, a creative flow, a set of "sign powers", because it engages the future, manifests a force of prescription and constitutes a power of destruction/creation that anticipates that which is not yet present … (so) the substance of capital is time" (ibid: 85). Moreover, aligning with french economist Orlean Andre, Lazzarato considers financial power "essentially a power of "public" evaluation", in the sense that it is based on subjective opinion –like that of rating agencies- and not on objective measure of value, as it was in production of manufacture for example (ibid: 138-139). Thus he challenges the supposed transparency and neutrality of finance, by arguing that its power lies essentially on opinions, ones, as we know, that are being paid for by the same industry that is being evaluated. Essentially he implies that finance's power lies on a kind of authority not on objective facts.

Moreover, elaborating on the dividual of Deleuze (1992: 5; see also above), Lazzarato highlights the fact that the power of finance exploits the infra personal and pre individual qualities of a citizen. He introduces a distinction between debt as a social subjection and as machinic subjugation, arguing that the former operates molar control on the subject though mobilisation of conscience, memory, and representations, while the latter works on "a molecular, infrapersonal and pre-individual hold on subjectivity that does not pass through reflexive consciousness and its representations, nor through the "self" " dismantling "the self, the subject and the individual" (2012: 146, 150)

Lastly, borrowing the concept of antiproduction from Deleuze and Guattari, he shares their opinion that antiproduction in post 1970s capitalism, first of all “introduces a lack where there is always too much” and it does that in whatever level of wealth a nation achieves (ibid: 154) and secondly, its expansion is linked with the “flow of stupidity that … ensures the integration of groups and individuals into the system” (ibid: 155). He considers the power of debt as a manifestation of the antiproduction of modern capitalism (ibid: 157). So by proposing that “the way to stop and turn back” is the capacity of debtors to think and act collectively (ibid: 157-158), he essentially locates the power of financialisation within the subjectivity. Overall Lazzarato believes that the power of debt “needs to be grasped through considerations of subjectivity and temporality, and also as an infinite process” (Charbonneau, 2014).

Stiegler[137] also expands the analysis of power suggesting that in control societies, power “penetrates into the consciousness, through which it harnesses libidinal energy, and thus reinstantiates corporal control, not only by harnessing conscious time but by soliciting the unconscious through the channelling of conscious time” (2004/2011: 82). The individual is desubjectified, disindividualised, resulting to societies that eventually “exhaust their own vitality” (ibid: 81,80). Thus the power of social control reaches further than Foucaultian biopower, deeper into the conscious and the unconscious of an individual. What he is actually highlighting is that capitalism used to be a libidinal economy,[138] but at this point in time it has reached an exhaustion of desire

[137] A contemporary French political philosopher,

[138] Libidinal political economy is a term first coined by Leotard in its book, Libidinal Economy, Theories of Contemporary Structure, originally published in 1974 in french. Following Lyotard a series of political economists and philosophers have turned to the Freudian subject of desires and drives in order to explain current economic phenomena from neoliberalism to financialisation (Gammon and Duncan 2012; Gammon, and Palan, 2006). Stiegler though asserts that we have moved beyond libidinal economy, since (financial) capitalism with its short-termism, its externalisation of memory and noein to cognitive apparatuses and processes, its deprivation of thought process from citizens and its consequent lack of hope, has indeed annihilated from one hand desire and drives, where consumerism was based upon, and from the other the perspective that made capitalistic bourgeoisie hopeful and inventive for ways to live its life beyond the satisfaction of basal needs.

because it liberalised drives.[139] And it did that because it deprived noetic soul[140] from its premier faculty, thought.[141] Actually the writer dares to say that this lack of thought threatens the very existence of human species in its totality, thus going beyond the ontological transformation we claimed above. He justifies his rather radical statements by saying that the free circulation of commodities does not need thinking beings; actually it purposely hinders the existence of thinking beings who desire and think not necessarily in tandem with the herdish behaviour that is promoted by the system as a whole (2006/2013: 76). Moreover sharing Deleuze and Guattari's arguments he claims that there is a "systemic stupidity" which he extends to financial elites too who have been "deprived of knowledge of their own logic and by their own logic" (2009/2015: 47). Overall, Steigler extends the biopower of Foucault to psychopower (2009/2015: 46),[142] a power of the system over "noein" which sheds light in the paradox that from one hand we have advanced technical knowledge (savoir faire according to Stiegler), but we lack the theoretical, noetic one (ibid), the actual thinking process. Even though it seems that he is quite close to Hardt's and Negri's as well as Lazarrato's approach, since the former talk about the organisation of brains through machines and the latter extends biopolitical power to minds, Stiegler develops a deeper understanding on the workings of modern capitalism.

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[139] Using psychoanalytic concepts, Stiegler, characterises our societies as psychotic (no desire), in contrast to neurotic (they suffer from their desires-compensation by overconsumption). In his words "if there is something with which the human being cannot negotiate, it's desire –but to the extent that one has it!" (2012), and current societies have exhausted desire.

[140] A term that he borrows from Aristoteles.

[141] For him modern technologies exploit the available brain time, resulting to lack of attention, and to a control of secondary identification as well as a destruction of primary one. In such a psychic ambiance consumerism thrives.

[142] Stiegler does not limit his analysis of psychopower to financialisation only. In general he criticises the psychopower that consumer capitalism exerts on people results to a systemic stupidity where both workers and financial elites are "deprived of knowledge of their own logic and by their own logic", in a system of what he calls cognitive capitalism where "the cognitive has been reduced to calculability …. logos has become … ratio" (2010: 47, 46). Moreover it should be noted that it is debatable if the term psychopower is indicative of the neurophysiological explanation of Stiegler; it is debatable in other words if the psyche can have its manifestation only in the neurones.

Furthermore he makes two other most interesting points as far as finance is concerned. First, he argues that financialisation enhances the general tendency of capitalism for "chronic and structural obsolescence, a system for which the normal relation to objects becomes dispensability" (2009/2015: 83). Consequently, both businesses and workers have become "structurally disposable as any other object of consumption (2009/2015: 83), something that reminds us the comments and empirical examples of Blackburn (2006) or Lordon (2014). Secondly, he highlights the fact that speculation, which is a major "manifestation" of short-termism of financialisation, "fossilises time, it freezes it into a wall of time where past and future cancel each other out, and where all forms of investment disintegrate" (2009/2016: 107). This annihilation of time results, for Stiegler, to annihilation of anticipation, which from one part destroys the dynamic of an economy that was based on desires and from the other part, it pauperises petit bourgeoisie not only practically, economically but mainly through what he calls "symbolic misery" (2009/2015: 60-70; 2013). These tendencies have become especially evident with the crisis, where the majority of the population is stranded in a hopeless situation which makes it either numb and non-responsive or on the other hand aggressive through extremist acts. Finance then reached deep into the individual, eventually acquiring a transformative effect.

Lucarelli (2010)[143] attempted to analyse financialisation as a practice of social control, which he equals to biopower, since he views financialisation as the contemporary accumulation regime of capitalism which "tends to lead every specific moment of individual life back into the processes of valorisation" (ibid: 119). He has proposed the term "financial governmentality" to explain the involvement of the population in the production of financial wealth, which according to his view creates a wealth effect that from one part favours consumption and from the other falling wages (ibid: 126). For him "financial governmentality" rests on the promise of a new world, first through the construction of the New Economy, the dot.com boom, which created a financial euphoria, and then through the real estate sector "after having disciplined a euphoric society through outsourcing". Essentially what Lucarelli is arguing is that

[143] An Italian political economist based on concepts of the French Regulation School and Foucault's,

involving the population in the production of financial wealth, either through investments and financial related remuneration, or through real estate, altered “the common sense” and priorities of societies, thus the biopower of finance lies “on the subsumption not only of labor but of life itself” which transforms social relations thus rendering financialisation a form of socialisation (ibid: 127). What is equally interesting in his perspective is that he views biopower of financialisation in connection to changes in concept of sovereignty, not in the sense that financialisation puts at stake “the immediate application of sovereign power but the directing of the whole of human behaviours necessary so that sovereignty is coherent with financialisation process” (ibid: 125).

A common thread to the above post-structural perspectives has been the power of finance over mentalities and desires. Desire is also discussed by a french macroeconomist, Lordon (2006), in the context of the rise of shareholder value and deregulation. He views these as the causes of fierce competition which puts external and internal pressure to firms and employees. He proposes that this pressure is manifested in the affects it causes, which inevitably, almost tautologically cause desires, thus interests, and interests is exactly where capitalism is based.[144] He thus views the power of financial capitalism, as an affective power.

To explain this kind of power he proposes a concept from Spinoza, the conatus, this will and energy to persevere in one’s own existence, in order to explain this “perseverance” of finance (2006, 2014). A strange concept indeed to be introduced in the discussion of financialisation. But Lordon explains that he purposefully tried to combine a spinosistic anthropology of passions with a Marxian theory of wage-labor which is structural in character. In other words he introduces psychology in the realm of (social) structures, thus offering an enriched theoretical understanding to political economy. Conatus helps explain the perseverance of the power of financial capitalism even after the crisis, but mainly “the conatus of financial capital” helps explain ac-

[144] The fact that he equals desires to interests has raised criticism especially from psychoanalytically inspired scholars, such as Stiegler.

cording to Lordon its rather autistic and self persevering nature which formed a realm of economic activity beyond the real economy that nurtured itself. Finance is financing finance according to Toporowski (2008), and Lordon is using the philosophical concept of conatus to help explain this fact "which perseveres". According to Lordon, in a fiercely competitive world, firms strive to survive with an energy analogous to conatus of a being. The same do the employees of these firms. Essentially this is translated in short-termism all the way down the chain. Individuals become "passionate automata" under the commands of an employer who "holds the key to the basal desire, the desire to survive".

Furthermore Lordon highlights another, crucial in our opinion, feature of financialisation. What he calls "delirium of unlimited" (2014: 74), which we have mentioned above too. Neoliberal capitalism, he says, tips into the delirium of the unlimited – in both quantitative (share of GDP, financial rate of return) and qualitative capture (mobilisation of employees)" (2014: 34). This is very useful in the understanding of the power of finance, thus of the phenomenon of financialisation, because the absence of limits is its distinctive part. Technology, deregulation and competition –in our postmodern word, let's not forget-, all nurtured this absence of any limitation to anything. Anything can be capitalised and traded. In essence he asserts that in a deregulated, highly competitive and thus unstable environment, that of financial capitalism, the energy to persevere and survive, that is the conatus of all the actors involved, has no constraints:[145] there is no limit to the tools employed, as well as to the goals targeted for. This way politico economic structures -such as competition between firms- translates into internal mobilisation, which is in essence desires, affects and passions. (ibid: 27). Economic tools, such as money, translate into confinement of employees to basal desires, such as the desire to (just) survive (ibid: 21). Conclusively, Lordon tries to combine structural power of finance, as viewed from a Marxian perspective, with a rather psychological and foucaultian inspired perspective that of the power of desire which is imposed on the subject in a rather monolithic way from the workings of the neoliberal economy, that is of structures, which power then recognises no limits.

[145] Constraints include boundaries set from other values and/or other priorities.

It is fair to mention though that the power of desire or more psychologised perspectives, are not a notion exclusively or predominantly discussed with critical political economy and philosophy. On the contrary, from Keynes to behavioural economists non-rational, non-maximising-profit actions have been the centre of debate (Akerlof and Shiller, 2009: 3). Psychological factors that incorporate inner, unconscious drives of individuals are proposed as a solution out of the collective myopia of dominant economic paradigms. Especially behavioural economics have focused in the inner impulses of man, its animal spirits in order to explain social phenomena. Indicatively, in their much debated work "Animal Spirits"[146] (2009), Akerlof, a Nobel laureate and Shiller, argue that more often than not economy is driven by panic, manias and illusions, while at the same time even in "normal" times confidence, an essentially non-economic, non-rational but rather psychological concept as well as narratives play a pivotal role in calamity of the economy in general and financial markets in particular, as well as in the "blindness" of actors. Their solution is to consider not only economic motives but animal spirits too, when drafting economic policies which essentially according to their view means more instead of less government. In other words, since they believe and try to prove that animal spirits and not rational behaviour drive the economy, an intervention is needed in order to avoid massive swings and chaos (2009: 173). But behavioural economists[147] focus only to behaviour of individuals and

[146] The writers clarify that "animal" in spirits originates from the Latin "spiritus animus" and refers to "of the mind", to "animating", to "a basic mental energy and life force" (ibid: 3)

[147] Apart from behavioural economists a series of other writers emanating from different schools of thought have emphasised on the role of non-economic, sociological and cognitive aspects of the functioning of the economy, essentially introducing a power aspect in the problematique –even though not explicitly so. Bronk, an economist who worked both in the field and in academia, highlighted that the monoculture of dominant neoclassical paradigms created what Skidelski called "symmetric ignorance" -contrasting the concept to the one of "asymmetric information" – a myopia induced by monovision (2011). According to Bronk the sheer volume and complexity of financial information "swamped the mental capacity of market participants to comprehend it" (ibid). What Bronk essentially emphasises is the power of discourses of truth of Foucault that come from epistemic and professional communities and that construct social reality to the point of constructing our ignorance. By essentially asserting that structures and discourses of neoliberal financial capitalism create certain ways of thinking, certain mentalities, he links, even though not explicitly, knowledge and structures to inner workings of subjects in the economy

not the nature of the markets themselves, seeing believes and preferences of individuals to be created through cognitive processes and not as a result of social structures (Black 2013: 40). Thus they lack the tools to understand how social structures can nurture certain types of behaviours, as well as certain types of societies and individuals.

Critical synopsis and proposal of an analytical framework

How can the above theories help us construct a framework for understanding financialisation? Using post-structural conceptualisations of power with aspects of the structural one of Strange helps create a holistic perspective on a power that proved authoritative, blinding, permeating, and persevering. There are various reasons that support this claim. Firstly, Strange's structural power of finance denotes that financialisation created a dense and expanded structure -hence interconnection- of essentially debt relations where the logics and workings of finance dictated the rules of the game, or the function of economic and political institutions, as well as agents. The density was due to the size of financial assets and in general the excessive presence of finance in many aspects of (international) political economy which was coupled with the encompassing into the sphere of the economy of entities, agents and institutions that were outside its scope.

Moreover, deregulation and re-regulation as well as the rationalities that prevailed through repetitive discourses of (academic) elites, created institutions that decentred the power of the state, effectively attributing law-like, and executive-like power to non-elected, private and thus non-publicly accountable institutions whose orientation was a societal benefit (and naturally so). Credit creation in combination with free capital flows gave private institutions, such as banks, the power to create money -formerly a power of the executive, the power to fuel global and regional imbalances, the power to impose with their mere size the direction of policies. A power that proved catalytically transformative in many aspects as we saw.

This power though has been then dispersed and diffused, thus it is not easily tractable. This feature made it seem as no coercive, to the point of giving the impression that there was no power at all. Instead people were told that they were free to choose what they wanted exactly because financial capitalism democratised profit making. Yet people were free to choose from what was made visible and possible. And what was made visible and possible were only the things that could be calculable and mone-tised. Here is where the post-structuralist theories of power -as well as other concepts introduced above- are proposed in order to explain this paradox of proclaimed, yet effectively unattainable freedom in a non-apparently coercive socio-political milieu.

These theories do acknowledge the existence of structure, which in their terminology has been called a machinery, a network, a social fabric which besides its pyramidical shape produced power from all its parts, not only from top down but vice versa too.[148] In time, this machinery, this structure acquired a life and a self feeding dynamic of its own, a conatus. And so, quite paradoxically, a man-made technical creation acquired a life quality, a perseverance to its own being, to the point of deeply influencing the workings of global and national political economies, as well as the mode of living and thinking of individuals. Something that explains, partly at least, why on the face of the most devastating economic crisis of written history, the prevailing politico-economic paradigm has not changed.

Secondly post-structuralist theories point to two very important characteristics of the power of finance: the power at a distance originating from all kinds of financial cen-tres, and the immanence of power, that lies within each and everyone of us and through which it is reproduced -as long as we permit it to.[149] Both characteristics de-note the covertness of this power and its paradoxical ability to be exercised through

[148] Obviously we are making use of the foucaultian terms and concepts introduced above.

[149] Here there is a foucaultian inspired discussion concerning the resistance to this power. Foucault claimed that where there is power, there is resistance exactly because we reproduce power up to the point that we accept this role. Our resistance is the knowledge of this nature of power, and our unwill-ingness to reproduce it in our everyday practises.

our freedom. A freedom though that is confined to what is doable and thinkable, and both are confined as we saw.

Thirdly, through post-structuralism we can understand how the power that finance acquired transformed into an ultimate form of foucauldian biopower. Stiegler would call it psychopower. Even though we do agree with Stiegler's views that financial capitalism addressed the unconscious and based its significant expansion in size and scope on targeting drives, we would not use the term psychopower, since it is not a power over the psyche, which entails the presence of 'logos' and thus rational thinking. We rather use a term inspired from Tsatsaris (2006) and call this 'upgraded' form of biopower, 'aesthesiogonic power',[150] meaning a power over/from the senses, which relates to the unconscious impulsive reactions (that can be socio-politically manipulated). Tsatsaris (2006) distinguished with clarity the difference between psyche (which relate to the conscious) and the senses (which are usually directed from the unconscious). He deems that the predominant feature of senses is that they are 'directed', due to their impulsive and what he quite insightfully calls 'voiceless' (alalos) character (ibid: 98).[151] In social sciences terminology it could be said that senses are "socially constructed" -even though Tsatsaris would not use these exact words (ibid: 96). Hence in contrast to the 'psyche' and the sociability it entails, the term 'aesthsiogonies' better conveys the meaning we want to ascribe to this aspect of power.

Because it is the unleashing of these impulsive reactions, the drives through which financial capitalism managed to conducted the conduct of men (governmentality) to the point of blindness and non-thinking. This was further enhanced and nurtured by

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[150] 'Sensogonies' means 'what is produced by the senses', and originates from the Greek 'senses' (aestheses) and 'gonos'. Ioannis Tsatsaris, who is a contemporary Greek philosopher, did not use the term "aesthesiogonic power", nor called about capitalism or financialisation. Yet his analyses and conceptualisations on the rein of aesthsiogonies (sensogonies) that render an individual into a directed and manipulated being, could help explain the expansion and unabated presence of financialisation even in the face of a crisis that has been proving socially destructive. It helps explain the anchoring of economic and financial mentality deep into the individual.

[151] They thus can be directer by either the conscious or the unconscious.

what, in a foucaultian spirit, can be conceptualised as institutionalised ignorance:[152] the very politico-economic system of neoliberal financialised capitalism was underpinned with such regimes of truth that imposed a systemic ignorance, as an ignorance of the system as a whole, as well as an ignorance diffused through all the structures. This systemic institutionalisation of ignorance goes beyond the impossibility to process the complex information of the reality of financial capitalism. It goes to the core of intelligibility, of the thinkable, and of the doable. In foucaultian parlance it is a regime of truth par excellence!

Consequently, societies are not living in the promised prosperity and ever increasing growth which is the supposed goal of every political economy. On the contrary, the realisation of Deleuzian societies of control which turned into the "uncontrollable ones" of Stiegler (2013), are living in a deprived reality with no future due, to a large extent, to the structural and biopolitical power at a distance of modern financial governentality. A faceless power with no particular origin, except the broad realm of finance, and a target towards everything. A power that builds on perverseness of financial logics everywhere, on a delirium of the unlimited (Lordon, 2014) and on unmediated desires for money making, either for profit and consumerism, or for repayment of debts.[153]

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[152] The limitation of intelligibility which implies that "there is no reality (perceivable) outside of techniques of truth" (DeGoede 2006:7) has been a preoccupation of post-structuralist scholars following Foucault (ibid). For example, what is doable and thinkable has been asserted from Bowman et al (2012) through a management perspective which focuses mainly on what the writers call point-value complex which essentially is the discounted value accounting system of modern capitalism, that does not allow for uncertainty as well as other broader economic factors of an investment: for example an investment could be chosen as profitable due to its low cost perspective, but the potential unemployment that it might bring to other businesses in the chain is not accounted for. Nor the value that it might create in the future.While this is a strong point they are making, we use the limitation of doable and thinkable in a deeper way in this thesis: the whole reality as it has been structured, mainly through the debt burden of all sorts, in interlinked globalised web has created conditions that limit what one can do, be it a government, a household or a business.

[153] It is of high importance to stress a basic tenet of this thesis: financial capitalism is not viewed as an "out of the blue", sui generis political economy arrangement. It is rather the current stage of series historical processes that altered gradually political economies, their philosophical underpinnings and the individual-citizen within them.

Furthermore, the individual who is taking shape (developing) in this context is a new kind of what we call subjectivity. “Homo Financialis” is a dividual (Deleuze, 1992: 5), a passionate automaton (Lordon, 2014), in a world that has legitimised the “delirium of the unlimited” (Lordon, 2014). They are not the socio-political individual, the citizen, they are supposed to be in a political economy because they have not entered into sociability. And they have not entered into sociability, because they do not have the sentimental time to devote to something other than acquiring money. Moreover, the Deleuzian anti production in which Homo Financialis is embedded, essentially means that they actions are anti-productive in their social character, their sociability. And if politico economic actions are not productive in their sociability, then we observe that there is a production first of inequality, another paradoxical consequence of democratisation of finance and then of extremism of all kinds, the other paradoxical effect of attempted control and homogenisation of behaviours.

Thus the power of finance is not only the excessive size and scope it acquired, nor the rents it bestowed to its high ranking insiders. Not even its structural power over the whole spectrum of the economy and beyond it. It is also that it was internalised in such a way that dictated the way of living and thinking (or non-thinking) of individuals, something that refers both to the world of finance as well as to everyday life. It reaches deep into mentalities, in a world that institutionalises ignorance, while at the same time creating a reality which is restrictive both in its present as well as in its future, not socially oriented and far from the proclaimed benefits that it was supposed to bestow.

Conclusively, the above analytical framework us understand that power of finance lies both in the creation of expanded, yet dense, confined and monolithic structures, as well as in construction of mentalities according to regimes of truth and at times regimes of ignorance. The combination of post-structural perspectives and structural perspectives though might be challenged as being inherently contradictory. However, we believe that in the case of financialisation, power is dominant both because it is a

capability and a top-down process (even though diffused through the structures), but at the same time it is a bottom up process, a relational form of power, one that has produced societies and individuals who in turn reproduce the power of the system in which they are nurtured.

In general, theoretically speaking the combination of structural and post-structural perspective of power can be compatible because as Lobo-Guerrero asserted “there is nothing post structural about post-structuralism” since in its critique of structure it essentially admits its very dominant influence. Post structuralists actually assert that post-structuralism is post not because it is not interested in structures, but because it highlights “… the ‘space’ and ‘gap’ in the structures and the failure of institutions to confer full identities …” (Panizza and Miorelli, 2013: 310) which is where political action could intervene (ibid: 302) and change a seemingly deterministic path where agency ceases to exist in a structure that fully determines them. Thus it complements structural view of power and completes our understanding of the encompassing and almost omnipresent phenomenon of financialisation. In other words, a structural view of the power of finance provides us with the “material” which gives our poststructuralist perspective the base to ponder and the headstall to stay with our two feet in reality. On the other hand, post-structural lens gives reality and structural parameters of power of finance a more profound and thus more socio-political context of analysis.

With the rationale of this framework -and up to a point following Antoniades (2009: 22)- in chapters 2 and 3, we presented findings from mainstream and positivistic literature, in order to interpret them through post-positivistic perspective. This was because are intention was to understand the impact of financialisation in the social and individual level, where its power and perseverance mainly lies according to our opinion.

Finally, one might suggest, especially in view of the scholarship presented above, that we prioritise psychoanalytical readings. However, the biopolitical analysis lately has

moved beyond the somatic, as introduced by Foucault, towards the inner mentalities of a being which are essentially psychological in their categorisation. Contributing to this analytical trend towards immanence, we argue that it involves primary what can be called the inner of a human being, understood here as the (senti)mental, non-tangible and immanent aspects of a human being which involve more 'aesthesiogonies' (Tsatsaris, 2006) and mentalities than the psyche per se, even though conventionally speaking it is relating to psychological qualities. In other words, we do believe that this "psychological" turn is the new frontier research in social sciences to which we align, yet we diverge in the conceptualisation and terminology of the concepts used to describe the new orientation. Actually, the crux of the matter for this thesis is that it is exactly this deep impact of financialisation that can explain both its unnoticeable ascendance and permeation, as well as its inertia, or, to use the terms from the above review, its conatus. That is it can explain, what we set forth to explain in this thesis. Lastly, let us not forget that the inner of a being, is the product of a social structure which is in turn created by the dominant dynamics of a certain era. And as we repeatedly noted, the subject becomes one of the reproductive forces of the system in which they are living. Hence this psychoanalytical aspect in our attempted analytical framework.

Part II

Part (II): Greece as a financialisation agent

Is the new reality and subjectivity that we referred to above relevant to the Greek case? Is Greek Drama the consequence of the dominant power of finance as described above? Was the power of finance transformative in a peripheral country of Europe? Does the concept of financialisation help us comprehend the evolution of Greece's political economy and a potential social transformation? And can the Greek case inform the theoretical debate on the subject?

In this second part the thesis we will be preoccupied with these questions. The focus will then be shifted from the broader global transformations triggered by financialisation onto a case-study, that of financialisation of Greece, or even financialisation and Greece. The aim is to examine how a global phenomenon interacted with the local political economy and what transformations and dynamics this interaction provoked. This way the thesis aspires to offer the theoretical contribution of Greece in the discussion of financialisation. Part II is structured as follows: in the first chapter we will sketch the physiognomy of Greece's political economy in order to see the historical and macroeconomic context that financialisation "encountered" domestically. Then in the following chapters we will examine the process of financialisation in financial sector, then in private sector, and finally in state, both in the state per se, as well as in the wider public sector (public insurances funds, municipalities and state owned enterprises -SOEs or DEKO in Greek).

"Welcome to the flat world.

Greece is the AIG of countries ...

Small size does not matter in a world

that is so interdependent”

(Ellis, 2010)

Introduction: Putting the analytical framework to work: a methodological introduction to the case of Greece

In this case study, we will follow the same analytical pathway as when examining financialisation's global dimension in the first part of the thesis: we will proceed inductively moving from reality, the material, in order to ascertain whether empirical facts potentially reveal a "movement of power" (Antoniades, 2008) of finance in Greece, which can establish a claim towards/for its financialisation. We choose to highlight this movement and depict what happened "on the ground" by seeing the evolution of macro and micro economic data which we will read through political economy lens. This perspective means that we will be looking to the people behind the numbers, so we can comment on the trends, transformations and structures that these data reveal. In other words, data are important because they will give us the structure of a system whose power lies in the hands of finance albeit in diffused often undiscerned ways. Within this structure a new reality and a new subjectivity has been shaped. Furthermore, data are important because of their extremity in the current era of financialisation since the mere size that finance acquired is an adequate element of its dominant nature in socio-political dynamics. The attempted combination of insights from different academic domains is an effort in and of itself to prove that there can be a fruitful dialogue between disciplines and theoretical frameworks as long as the goal is to explain and clarify social phenomena and not to simply infer social phenomena to theoretical frameworks.

Our analysis will follow an inductive and interpretive inquiry. This will allow us to see the particularities of financialisation in the Greek case, in other words the particularities of hegemonic global dynamics in a domestic political economy of a small, peripheral member of the EZ -the most integrated regional community. This way we will be able first to see the world in its variegated expressions and not only as a copy of what happens in the Anglo-saxon world. Secondly, we will be able to test theories of financialisation in a local context of a european country and in a wide variety of sectors. And lastly, complementing and extending the above, we might find in what ways Greece can inform the theoretical and analytical discussion of a global phenomenon.

This incremental process of understanding dynamics, processes and potential transformations will hopefully lead to new ways of devising and implementing policies.

There are two main characteristics of financialisation in the case of Greece: the extremely fast pace of financial integration of Greeks through loans and financial investments, and the excessive rise of public debt. Seeking to explain them, we will interpret the numbers through our analytical framework which reaches down to the inner drives of individuals in combination to the structural power of finance as conceptualised by Strange (1988). Our analysis will unfold a paradoxical similarity between the neoliberal, financialised subject and the Greek subjectivity, something that can probably explain the fast pace of transformations of social practises and dynamics in domestic political economy.

We need to clarify though that we take for granted what has been analysed in other works, that is inequality, poverty and social detriment that the world and Greece experiences nowadays as a result of financial crisis and austerity policies. Our concern here will be to shed light on the process that led to a point where the power of finance seems unchallenged and nonnegotiable, even when basic rights of citizens and socio-political accomplishments of western societies are being infringed in a provocative and unquestionable way.

CHAPTER 5: Historical and contextual parameters and dynamics

In this section we will try to sketch a brief picture of the development of Greece's political economy. Because in order to see what impact financialisation had in the country, if it transformed its political economy and how so, we need first to see what were its characteristics, prior to the wave of financialisation. We need to compare the situation in the 1970s and 1980s with one during the 2000s. This way we will understand the geneology of its potential financialisation. So we start with a brief introduction of the country in historical context, and then present the literature on Greece's model of capitalism and the limited one concerning financialisation of Greece. These will be followed by the evolution of some basic (macro) economic indices.

5.1. The Greek state in historical perspective[154]

The Greek nation-state which was established after the 1821 revolution, acquired some of the most progressive institutions in Europe at the time: Parliamentary democracy, universal education and universal voting rights for all male residents. These democratic institutions came to a society that has been characterised as a pre-modern (Ramfos, 2012c), a pre-urban one based on agriculture and trade (Kondylis 1991/2007, Melas, 2013). A society that has not passed through the Renaissance (Ramfos, 2012c) and the subsequent realisations in both individual and societal level, because it was for 400 years under the Ottoman Rule. Actually, scholars have been pointing to the fact that Greece did not pass through a feudal period and the monarchies that were ruling in that period, which were the soil upon which resistance, Renaissance, modern state and capitalism were born (Kondylis, 1991/2007: 17; Tsoukalas, 1983: 295).

Here democracy and universal voting rights were not institutionalised as an act of resistance to local oligarchies; on the contrary, they effectively served the interests of

[154] We cannot stress enough that these few paragraphs do not do justice neither to the history on the Greek state and political economy in general, not to the relevant literature. Works cited herein are only indicative to the numerous ones of prominent academics and scholars that have adequately delved into the subject from various perspectives. We just wanted to highlight some crucial characteristics of Greece's political economy in order to give context to our analysis.

local oligarchies ('prouhontes') against a monarchy which was imposed by foreign powers and whose king was not even Greek but of bavarian origin (Tsoukalas, 1983: 309). Subsequently, local oligarchies did not lose their political clout in local communities. The latter recognised as legitimate only the power of these "patriarhes" and not the power of the state which they viewed as rather violent towards them (Kostis, 2013: 192-3, 272, 353). So, despite their supposed well-meaning purposes for modernisation of Greece, foreign powers and the imposed Bavarian monarchy had in the end to accept the workings of a "technology of government" that locals recognised (ibid: 253).[155] Official institutions then, however progressive and democratic did not manage to take roots in the society, which insisted in more backward norms and practises.

One could argue that a rather politically immature society was given a gift,[156] institutions like democracy and voting rights to all men, which it did not know how to handle, even though its ancestors "invented" them. However, what is of interest for our analysis is that this paradoxical mix of advanced formal institutional settings and patriarchic relationships (Kondylis, 1991/2007: 20), was that it rendered Greek society unable and/or unwilling to conceptualise and organise an economy based on local productions and demand. Because in such a society democracy nurtures individualism and not sociability, it nurtures a kind of unrestrained freedom which is functioning in a fragmented way and not as part of whole. After all, Greeks were traders from ancient times and were thus used to pursue individualist, pass-through profit making and not for example the creation of viable and competitive local enterprises (ibid).

Accordingly, the newly born nation-state was stranded by a rather patriarchic organisation of society, where informal institutions, such as the Church, had more respect

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[155] According to Kostis (2013: 355) political life of Greece was in the hands of local oligarchies not only till 1910, but in reality till much later. Could it be true that it is till today, rendering this the core malaise of Greece's political economy?

[156] Tsoukalas would argue that Greeks were not "given" but considered "natural" to have those rights, since there was no feudal and that the whole population participated in the seven year struggle for independence, something unprecedented at the time, Tsoukalas, 1983: 297.

and authority to the public than the state (Gennimatas, 2013: 77; Ramfos, 2015: 99; Kondylis 1991/2007). The latter eventually became an arena of “exchange”: exchange of votes for personal favours. Kondylis would stress this point even further by saying it was an exchange of obedience from the side of citizens for protection from the side of local patriarchic oligarchies (1991/2007: 16).As a result, state grew to a proportion not justified by the needs of the nation, extracting the biggest part of economic surplus, only to distribute it to “the dominant classes” which were part of the public administration (Tsoukalas, 1983: 323); the dominant classes and their obedients. Consequently, citizens developed what Ramfos characterised as an Oidepodian attachment to the state (2013), which means that they act and think as children do towards their parental figure: repressed, depended, demanding and pathetically angry as children, but children nevertheless.

These processes, diffused the concepts of society and state, essentially the concepts of political. Moreover as in other pro-capitalistic societies there was a fusion between political and economical powers, even though in contrast to them, it was not economic power that was practising politics, but it was rather political power that was practising economics (Tsoukalas, 1983: 23, 253-254). The state became the bigger employer and capitalistic entrepreneur, a common characteristic to the capitalistic development of Southern Europe (Sotiropoulos, 2007: 80-100). However, another paradox occurred: despite the backward context and the paradoxical amalgam of modern formal institutions with pre-modern, pre-capitalistic informal ones, there was significant social mobility, probably more than in a capitalistic political economy (Kondylis, 1991/2007: 21).

Lastly, we need to refer to another feature of Greece’s political economy that mattered in shaping the economic policies and their implementation, and subsequently the cultural traits that were developed and/of enhanced because of it. Greek state took 100 years to geographically form itself. From 1821 till 1948[157] it was in a continuous series of military expeditions, which consequently resulted first and foremost to elevat-

[157] Including the world and balkan wars, as well as the post WWII civil war.

ed military expenses. These expenses were financed through public debt and not taxation since in the beginning there were "no citizens" to tax (the state took 7 years to form) and then the government did not want to further burden citizens who were already burdened with war efforts (Tsoukalas, 1983: 62-73; Melas, 2013: 68-71), simply did not want to tax the upper class (Melas, 2013: 68-71) or just wanted votes instead of revenues (Dertilis, 2016: 51). Consequently, this century-long military ventures resulted to continuous changes of economic planning and implementation due to the continuous change of arithmetic variables[158] and increasingly more demanding infrastructure requirements (Melas, 2013: 68-71) and in general to costs involving the gradual integration of new territories (Kostis, 2013: 567). Moreover, as Dertilis asserts the continuous military expeditions and elevated military expenses were the primary cause of the six bankruptcies of the Greek state since its formation in 1821, and one of the main -albeit not the most important- contributing factors to the seventh, the current one (Dertilis, 2016: 25, 109). Besides these economic repercussions (which we would examine in detail in 8.3. section), such long military ventures nurtured rather unrealistic social imaginaries, which inevitably hampered modernisation (Ramfos, 2013; Kondylis, 1991/2007: 28).

[158] Such as population change, land expansion, attending to the basic needs of soldiers and the likes.

5.2. Greek model of capitalism

Even from the above sketchy report on Greece's political economy, it became rather obvious that the country cannot be easily categorised into an economic and/or social model (Featherstone, 2008). Nevertheless, Greek scholars have ventured some attempts and characterised the system as a 'state corporatistic' one (Mavrogordatos, 1988), which after the 1974 fall of Junta became one of 'parentela pluralism' (Pagoulatos, 2003), a kind of neocorporatistic regime. If one is to follow the various classifications of capitalism, Greece could be characterised as a 'state capitalist' model (Schmidt, 2002), as a 'southern european one' (Amable, 2003) or probably more accurately (Featherstone, 2008) as a mixed market economy (MME), which is essentially the third type of the VoC categorisation (Rhodes and Molina 2007). As a welfare regime it has been characterised of a Mediterranean welfare type (Ferrera, 1996).

Argitis (2012) on the other hand is more descriptive in his attempt to understand Greece's system of capitalism and less eager to find or create a category to place it. He argues that the determining characteristic of Greek model of capitalism, is the culture of its business enterprise, something that sounds strange at first for a state-centred political economy such as Greece's. More specifically, he asserts that after WWII, the country adopted the culture of private enterprise without being able to develop the technology, innovation and a production system to sustain this culture. This antithesis is according to Argitis the essence of greek capitalistic system. As a consequence most of greek enterprises do not aim for profits, creation of wealth, economic and social power through production procedures, capital accumulation, innovation and the likes, but on the contrary through parasitic, non-productive mechanisms, (ibid: 52) which result to an introvert business sector, where corruption and lack of competitiveness thrive, something that in effect pervades all economic and social fabric (ibid: 58). For Argitis such a culture of easy profit through non-productive mechanisms such as tax evasion, informal labor relations, public procurement, European funds, off shore companies, gradually but steadily underpinned greek economy, creating a fiscal problem, a discrepancy between revenues and expenditures (ibid: 63).

He thus considers greek public debt to be a result of the inability of business sector to create wealth through productive investment and innovation. He considers public sector as a subsystem of the model of technoeconomic and social development of a country which depicts the relationships that have been historically developed in the private sector (ibid: 91). He thus reverses a stereotyped perspective that sees public debt as a result of a big and inefficient public sector, arguing that public sector is big because it tried to stabilise an economy with a small and inadequate private/enterprise sector (ibid: 94); and he bases his argument in very impressive set of data.

Financialisation made this antithesis more acute (ibid: 56). Argitis is not exactly clear how reciprocal this relationship could have been and if it started long before WWII. What is interesting though in his argument is the rather "post-keynesian" explanation of the increase of public debt. He attributes it to the speculative, non-productive enterprise culture in post-war Greece, which he considers as the central feature of greek capitalism. Investors know that with this culture Greece will not be able to produce the income to repay its debt. This is the reason why public debt increased: the way Greece's capitalistic system works, simply does not provide the credibility of serving its debt.

Tsoukalas, in his seminal works (1980, 1983/5), characterised Greece as a pre-capitalistic political economy, which means that it attained non rational characteristics manifested in the big size of the public sector as well as in the fact that the economy is mainly based on self-employment, very small and family based businesses.[159] The latter feature is something that has lasted in time and gives according to Tsoukalas "an inherent historical "exceptionalism" of a market capitalistic society" whose route to capitalism did not follow the usual track (Tsoukalas, 2013: 68). However, these rather backward features, at least from the point of view of dominant economic theories, did not stop the economy to grow at times with impressive rates and it did not stop social

[159] Tsoukalas attributes this tendency to self-employment and small businesses to the lack of feudal past.

mobility which ended up forming a large middle class of various levels.[160] Moreover, Greeks have proved rather firmly adherent to neoliberalism despite their supposed laggard political economy (2013: 218-221).

Stasinopoulos (2011) would add to Tsoukalas sociological comment some empirical evidence, by highlighting that Greek governments, even socialistic ones, followed neoliberal policies. This neoliberal orientation was firstly paradoxical for the socialistic governments that governed and the rather paternalistic and crony capitalistic features of the political economy, and secondly it was not according to Stasinopoulos the nexus of the problems of Greece's political economy (ibid: 166). On the contrary, as he rightfully asserts the underlying contradiction between market and the state that these policies presuppose, overlooks the real problem of the economy and the cause of its deficits which is the productive and technological lagging behind (ibid: 167).

So Greece's political economy appears to be a paradoxical mix of neoliberalism and local structural deficiencies resulting to what Tsoukalas called "hybrid" social formation (2013: 2018-220). This hybridity seems to be originate both from domestic mentalities as well as EU structural dynamics and global neoliberal "regimes of truth". Greece then might just be a variegated model of neoliberal capitalism -a quite "faithful" to its doctrines, if we might add- despite its alleged exceptionalism.[161]

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[160] For a more detailed problematic to the typology of capitalisms and welfare regimes see indicatively, Featherstone, Varieties of Capitalism and the Greek Case. For a general review of the typologies see Jackson G. & Deeg R. (2006) How Many Varieties of Capitalism? Comparing the Comparative Institutional Analyses of Capitalistic Diversity, 2006, MPIfG, Discussion Paper 06/2, p. 37. It should be noted that the research is not based on any typology of capitalisms first, because we agree with the argument advanced by Antoniades that "models-of-political-economy approach to IPE …. not only fail to capture the nature of the states under examination but also obscure significantly the social dynamics that govern social change in world politics and economics" (Antoniades 2009) and secondly because we share the view presented by Jackson and Deeg that the way forward for comparative approaches to studying capitalism "does not lie in choosing a particular typology or developing an alternative typology. Rather … by developing dynamic view of individual institutions, the linkages between domains and the role of politics and power"(Jackson G. & Deeg R. (2006)

[161] This claim is based both on the policies of its political elites, as well as in the functional result of the business practises of its active population.

5.3. Greece in financialisation literature

As we saw financialisation literature focuses mostly on USA, or western European economies. Only lately have some works been focused in the so called periphery. Furthermore, some scholars tried to incorporate peripheral countries in structural and systemic views on financialisation.

One of the first is Stockhammer (2010, 2011; Stockhammer and Sotiropoulos, 2012), a post-keynesian macroeconomist, who described two different growth regimes: the export-led one and the credit financed one. The former refers to countries such as Germany, which has been an exporting country. The later refers to countries such as Greece and other Southern European ones. The two regimes according to Stockhammer complement each other since the former prompts for a credit led demand from the latter and the latter encourages exports from surplus countries.

Then, Lapavitsas (2013b: 792-805) arguing from a Marxian perspective, has distinguished financialisation of developed and developing countries. The former has three main characteristics: that of financialisation of monopoly capital, of disintermediation of banks and their transformation into a fee generating business and lastly of reorientation of banks towards households and household expropriation. The latter is a financialisation of a subordinate character. This subordinate character has the following characteristics: these countries are hoarding dollars, they are part of reverse capital flows (capital going uphill), and their internal markets are being financialised rather late due to sustained foreign bank entry. Even though Greece is a peripheral country of the European Union and can be considered to have a subordinate type of financialisation, it is not a developing country and was not hoarding dollars, so its financialisation could not be considered as such.

Thirdly, Argitis and Michopoulou (2013), two macroeconomists of a rather Marxian perspective, have made a detailed account of Greek financialisation in the context of

FESSUD project,[162] placing the process in a historical frame. We engage with their work in the following sections, but at this point, we only want to emphasise that these authors see the financialisation of Greek economy as part of its neoliberal turn after mid 1980s (ibid: 186), which evolved in the 2000s in a leverage structure that was built in Greece and was in many ways unsustainable (ibid: 222). Conscious of the structural problems of greek economy, they argue that financialisation stimulated further structural imbalances in the real sector (ibid: 98) as well as a cultural change (ibid: 230-232). Overall, they argue that financialisation has taken place in all aspects of greek economy, households, enterprises, banking sector, and public finances, and that it caused income redistribution from labor to both fractions of capital, industrial and financial (ibid: 162).

Fouskas and Dimoulas (2013) also emanating from a Marxian perspective and writing specifically on financialisation of Greece, are proposing a crisis theory of financialisation or a crisis theory of debt, as they consider debt not only as fictitious capital (ibid: 49) but also as the main mechanism of financialisation. This crisis theory is informed by two important elements: the global fault lines and 'hub-and-spoke (informal) imperialism'. The former, global fault lines, factors in the analysis geographies, cultures, politics and security, national, regional and global (ibid: 2). This helps them surpass deficiencies of what the authors describe as ahistorical methodological approaches (ibid: 8) and place their analysis in the field of real politics "which is a field of division/conflict, a kampfplatz" (ibid: 3). According to their definition "global fault lines are the discursive articulation of economic, political, ideational and geo-political instances in a social formation divided into classes and determined by class struggle" (ibid: 44).

'Hub-and-spoke (informal) imperialism' on the other hand "is a method of imperial governance put forth and exercised by the USA in the aftermath of WWII in order to deal with inadequacies of precious European imperialisms" (ibid: 12, 51). It indicates

[162] Fessud (http://fessud.eu) is a european funded multidisciplinary, pluralistic project (yet essentially one that comprises mainly from macroeconomists, albeit with a strong heterodox orientation) that seeks to understand how finance can better serve economic, social and environmental needs.

“a subordination to the master of all other lesser powers of the core, because the arrangement dictated by the arch-imperial master can supersede or override in depth and strategic significance any other bilateral relation cultivated by these lesser powers” (ibid: 13). Within this theoretical framework the writers “insist … on the role of state security and geopolitics, which (they) … see as co-constitutive variables in crisis theory of debt” (ibid: 17), building upon Harvey’s ‘third-cut’ theory of ‘spatial fix’ and ‘accumulation by dispossession’ (ibid: 37). They argue that defence budget is the main institutional structure in which “geopolitical and security dimensions of debt are crystallised” (ibid: 38). Finally, they remark that this hub-and-spoke imperialism of post WWII USA is disintegrating, in the face of power shifts in favour of nations in the East like China and Russia (ibid: 54).

In Fouskas and Dimoulas (2013) theoretical context, Germany from one hand is seen as the current arch-imperial master in Europe, whose policies especially to the periphery are seen as “coercive and predator”, as destructive and as dangerous as war can be (ibid: 12). From the other, Greece is seen as “a dependent and subaltern social formation” (ibid: 5), a subordinate, that “sits in the fault-lines of a weak political economy and strong geopolitics” (ibid: 18), which constitute its two birthmarks, its two fault lines and structural constraints since the creation of modern Greek state (ibid: 60-62). Using Poulantzas's concept of comprador bourgeoisie -a bourgeoisie that is not based in its own capital accumulation but acting as a simple intermediary of foreign capital, subordinated to it economically, politically and ideologically- Fouskas and Dimoulas argue that especially after mid 1990s there was “a fusion of comprador and financial/ rentier capital in the Greek state apparatuses and political economy” (ibid: 47), who acted as intermediaries of foreign financial capital in the effort of the latter to imperially subordinate the periphery through financialisation procedures, mainly through debt. In other words, the comprador capital of Greece was the main creator of country’s debt, acting as intermediaries of foreign imperialism (ibid: 52). In this context, populism and political clientism are considered not as pre-modern characteristics of Greek political economy, but as “political strategies … in view of modernising against labour movement” (ibid: 48-49). Due to their marxian perspective financialisation is

seen as part of a class struggle in a world of binary oppositions, contrasting thus post-modern theories of power (ibid: 200, ft. 62).

From the above, one can see that overall financialisation of Greece has been examined through marxian-inspired perspectives that view its development as part of the dominance of neoliberalism which inevitably "reads" its evolution through a certain spectre of ideas, thus is a homogenised way and not in its particularities. Only Stockhammer suggests a more systemic, and less ideologically informed perspective, one that sees financialisation in the particular context of EU. But the focus of his analysis is not Greece. Greece is seen just as a peripheral country of the South among others. Aligning more with this systemic perspective though, we will try to shed light to the specific processes that took place in the country, and then try to interpret it in context.

5.4. Greece's macroeconomic context

Growth, investments and savings

Post WWII Greece managed to regain its pre war economic status rather quickly, despite the civil war that followed WWII; in the 1950s the economy was back to its prewar levels, starting a period that has been characterised as the Greek economic miracle (Kostis, 2013: 754-759). The golden age for Greece's growth though were the 1960s. It was then when real GDP per capita grew the fastest: from 43,9% of that prevailing in EU15 countries in the 1960s to 63,6% in the 1970. Social mobility and a general rise of prosperity, enlarged middle class especially of urban centres (Kostis, 2013: 764-5).[163] The growth and subsequent convergence to more developed european states continued albeit at a slower pace in the 1970s with real GDP reaching 72% of EU-15. Between 1978-1990 there was the decline in the rate of growth bringing the country back to 1968 GDP per capita levels, even though in absolute numbers Greece's GDP per capita then was 75% higher than in 1968. Then from 1995 there was an increase again, reaching 70,1% of EA-12 by 2009.[164]

In terms of rate of growth, during 1960-1974 Greece was growing at the impressive average rate of 8,6 % of GDP (Brissimis et al, 2010: 7; see also chart 50). Then, after a volatile period, starting early 1990s, there was a constant increase in the rate of growth since from the introduction of the Euro in 2001 till 2008 real GDP rose by an average rate of 3.9 per cent per year, which averaged almost 10 per cent in the decade, the second highest after that of Ireland (Dellas and Tavlas, 2012: 5). Actually, in current US dollars Greece's growth was higher than Ireland's (World Bank, 2015, see chart 51). During that period, Germany was considered a laggard in growth, because from mid 1990s to mid 2000s it was growing only at around 1 per cent per year, its unemployment was high reaching in 2005 11% and its population was ageing (Fernández - Villaverde et al, 2013).

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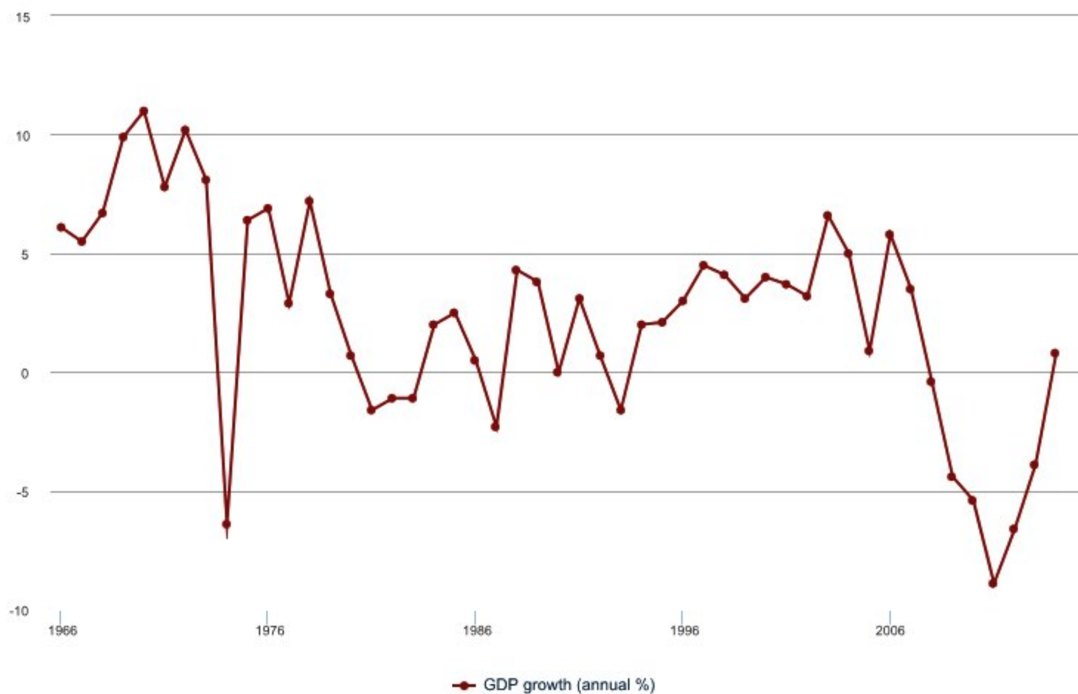
[163] This was true especially for Athens, the capital; in regions though the growth was not as pronounced contributing to inequality (Kostis, 2013: 754-5).

[164] With the crisis in 2012 GDP per capita went back to the level of the 1960s, less than 60%, and in absolute levels in the same level as in 2001. All data in this paragraph are from: Katsimi et, 2011.

Chart (50) Greece's growth rate (1966-2010)

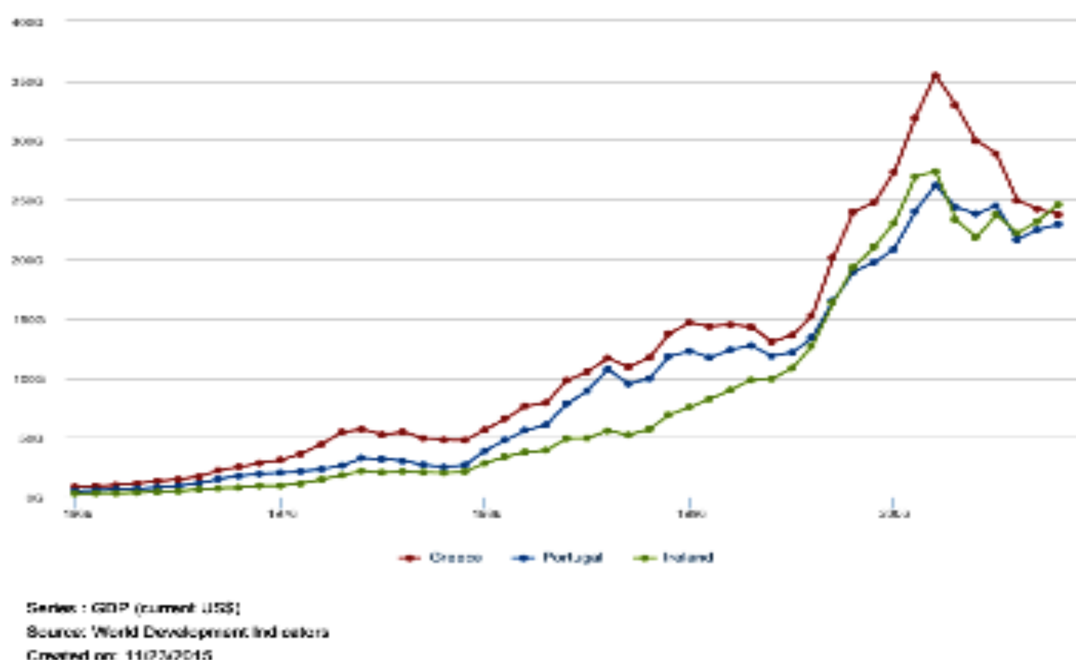


Source: World Bank[165]

[165] Definition in World Bank: GDP growth (annual %) Annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 2005 U.S. dollars. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. World Bank national accounts data, and OECD National Accounts data files.

Chart (51) Growth in relation to Portugal and Ireland

(in current US dollars)



Source: World Bank

GDP's impressive rise in the 1960s has been attributed to FDIs, financial inflows and a saving rate ranging from 10-36% of GDP (Brissimis el al, 2010). From the 1960s till 1974, investment of the private sector to GDP was ranging from 10-36% GDP, being for the larger part of this period over the percentage of investments to GDP which also peaked at 36 around 1974. After that date investments were declining rather sharply and then stabilised. Decline in investment has been attributed to various reasons: the country reaching its developed-country status, Greek industry losing its protection from the state especially after 1981 when Greece joined EU (Katsimi et al, 2011).

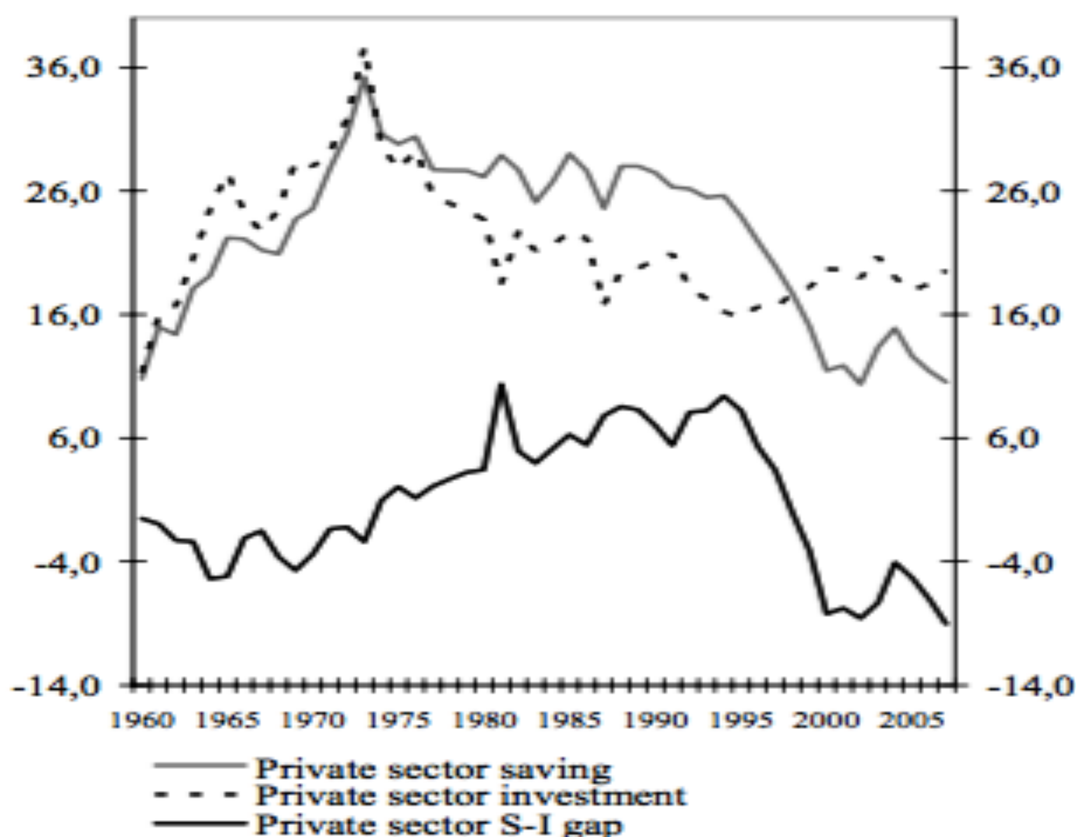
Savings of the private sector followed the same trend but their decline was not as sharp, at least not till the 1990s. Moreover till that period, they amounted to a larger percentage of GDP than investments. In general, gross saving rate in the private sector declined from 29,3% in 1988, to 27,2% in 1991, 22,2% in 1995, 18,4% in 1997, 11,9 in 2001 and 12,6 in 2008 (EC, 2014, Statistical Annex). Gross national saving[166] de-

[166] Gross national saving is the national disposable income not used for final consumption expenditure.

clined from 28,4% in 1970, to 28% in 1980, to a further 22,8% in 1990, to a 11,3 in 2000, a 9,1% in 2009, 6% in 2008 and a 4,2% in 2009 (ibid). Katsimi et al would argue that if one is to account net national saving -equal to gross national saving minus depreciation- then in the 2000s savings GDP was negative, meaning that national wealth started decreasing (Katsimi et all, 2011: 11; Brissimis et al: 2012: 14-15). This huge decline is attributed to the decline of private sector's gross saving rate which from 27% in 1988 it went down to 11% in 2008 (Katsimi et al, 2011: 11; Brissimis et al: 2010: 7,8, 35). It is noteworthy that the decline coincided with financial liberalisation of Greece's political economy (Bissimis, 2010: 8). The literature has attributed this decrease to the continuous decline of agricultural employment (who saved more than employees), the gradual extension of unfunded pension funds, the rise of social protection, the excessive credit expansion after 1990s (Katsimi et al 2011: 11) as well as contraction of disposable income due to increased taxation (Brissimis et al 2010: 8 ft).

So overall and as it clearly illustrated in chart 52, in the Golden period for Greece's growth, there was a rise in investment which was accompanied by high savings rate. The tipping point came in early 1970s when savings and more so investments started declining. As it is evident from chart 52, investments stabilised after mid 1990s, but savings continued their decline which became sharper ever since. As far as growth was conserned, it went through a volatile period, but started again in mid 1990s and grew stronger in the 2000s. So if this growth is not attributed to investments and it was not fuelled by savings, then we should examine other possible causes, like the rise of consumption either through rise of wages or through other sources, and/or the rise of exports especially in relation to imports. In order to realistically evaluate these indicators though, we should first look at inflation and unemployment.

Chart (52) Greece: private sector saving, investment and S-I gap (1960-2005)

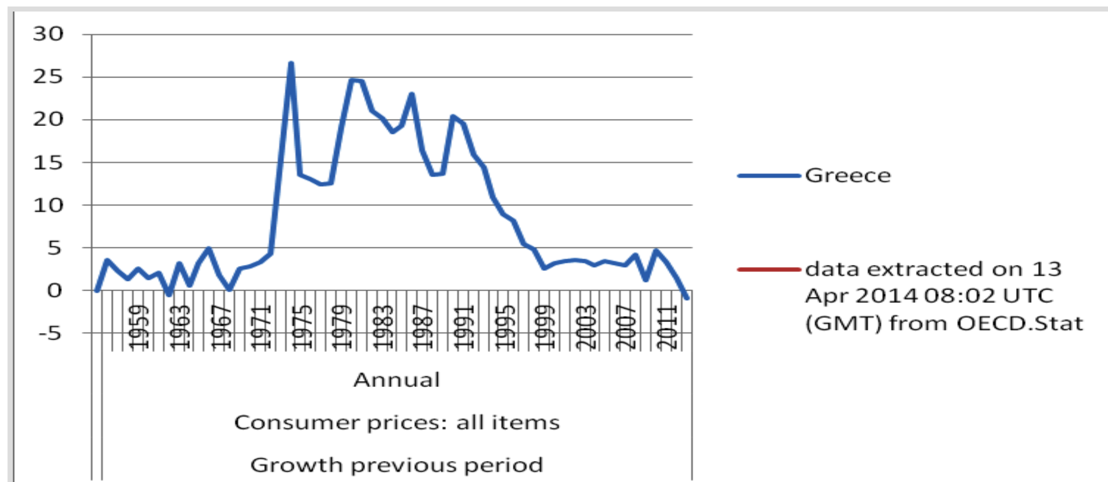


Source: Brissimis et al, 2010

Inflation and unemployment

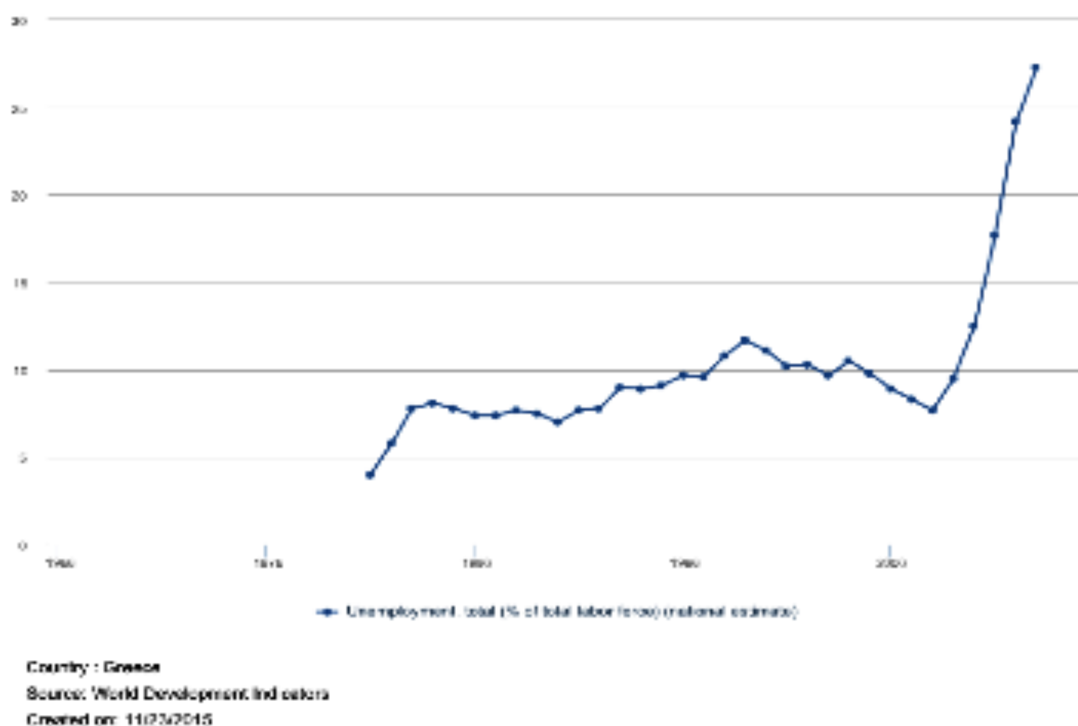
First of all, as seen in chart 53, inflation in the 1960s was lower than 5 per cent and then from late 1960s to 1991 inflation averaged around 17 per cent, with peaks above 20%. Then it sharply declined in 1991 averaging 3,4 per cent between 2001-2008, from almost 10 per cent a decade before (Dellas and Tavlas, 2012:5 and table below). Even though this was an impressive change for the economy, the percentage was still above the Stability and Growth Path criteria of 2 per cent. Subsequently, prices of domestically produced goods and services rose considerably. For example between the period of 1995-2009 the prices of domestically produced goods and services were raised by 72% while the total rise in Germany was around 11% and in Italy 18% (Ioakimoglou, 2011:47).

Chart (53) Greece: inflation (1959-2011)



Source: OECD

Chart (54) Greece: unemployment (1980-2010)



Source: World Bank Indicators

Unemployment on the other hand grew too if one compares it to the pre EU period. In 1981 when joining EU Greece’s unemployment was at 4%. Before the crisis overall unemployment reached 9,7% and long term one at 5,2% (OECD, 2015; Pelagidis and

Toay, 2007; chart 54). To be fair unemployment was not rising all through this period. It rose till late 1990s peaking to almost 12%, and then declined till 2008 reaching nearly 8%, yet from that time onwards it skyrocketed. This could be attributed to the rise of active population which increased from 36,4 % in 1981to 45% in 2008 of the total and in absolute numbers from 3.543.80 to 4.927.000, that is by 1,5 million (LABORSTA).[167] The rise of active population was not due to the rise of general population because this one did not increase significantly in that same period -it did so by 1 million people. It could rather be attributed to rise of female employment or the growth that started again during those years. This enlargement of the labour force then might have fuelled the subsequent rise in unemployment, since there were more available workers for the same amount of jobs.

Income and wealth

In this environment of rather high, albeit diminishing inflation and overall rising unemployment, real compensation per employee increased by 58,7% from 1970 to 2000 and from 2000 to 2009 it increased further by 18,5% (Katsimi, 2011: 9). The cumulative increase over the 1994-2009 period of private sector wages (excluding banking sector) was 137%, in public sector 291% and in publicly owned enterprises 356% (Fotoniata and Moutos, 2010). But according to BoG the total rise of nominal income was roughly equal to the rate of inflation and productivity growth (BoG, annual 2008: 89).

However, besides the nominal rise of income its level hovered under 2/3 of EU average for 30 years, and even though the gap has been narrowing, the pre crisis prediction was that it will converge with EU per capita income only around 2030 (OECD, 2005c: 1, 2, 4).[168] Conclusively, besides the fact that incomes were rising at more than 2% per year, following a trend of other European countries (with the notable exception of Germany), real income evolution was not as impressive as it has been present-

[167] Which means that unemployment might have not decreased as such by in relation to the variable whose percentage it is calculated.

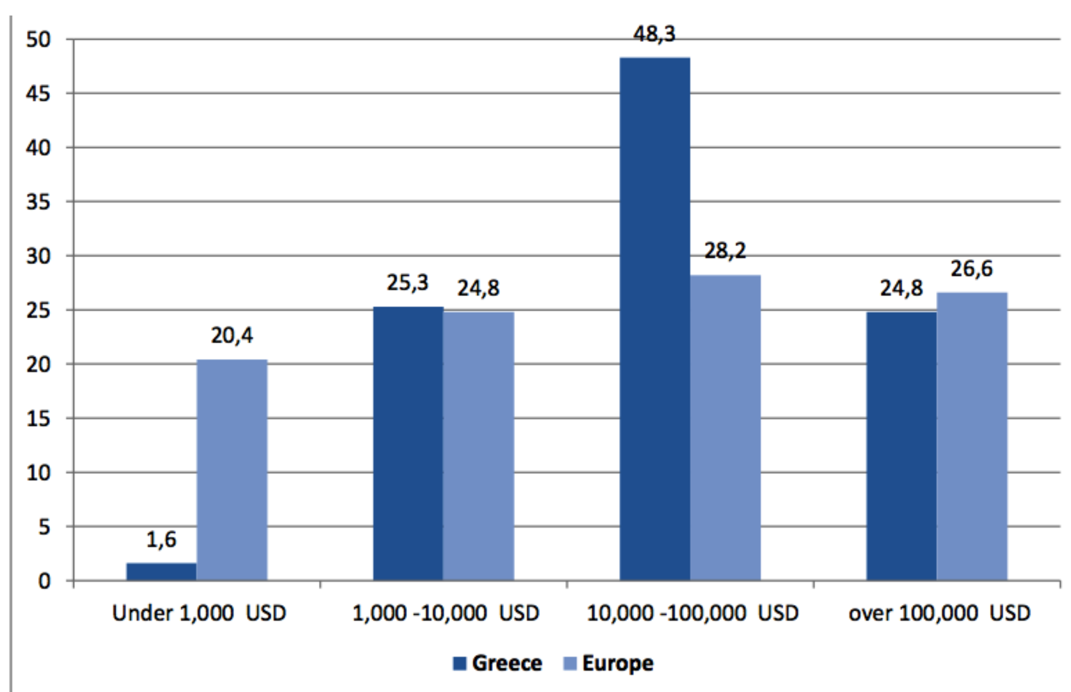
[168] This is in accordance with ECB Statistics (2013), which show Greek household gross income, both median and mean, is below all other countries, except Malta, Slovenia, Slovakia and Portugal.

ed. On the contrary it was rather stagnating or even negative, if one factors in the equation inflation (which was above EZ average and Maastricht criteria), or at least less impressive if one considers the low starting point of income which has barely reached EU averages (Ioakimoglou, 2011; OECD, 2005c: 4). Nevertheless the rise in incomes denotes a rise in consumption and thus GDP growth.

Besides lagging back in compensation of employees, Greece's wealth distribution as seen in chart 55 is more equitable than in other high income European countries and similar to southern european ones (ECB 2013,[169] De Grawe and Ji 2013, Katsimi et al, 2011). In comparison, Germany in 2013 had the most unequal distribution of wealth in the Eurozone, since most of the household wealth is concentrated at the top 20% and in national scale most of its wealth is not owned by households, therefore it should be owned by the corporate sector and the government (De Grawe and Ji 2013). This could be due to the fact that wealth especially in the form of real estate has always been a form of investment for Greek households, which counterbalanced the distrust of citizens to the inadequate provisions of the state, a distrust common to all southern european countries. Whatever the reason though, what these indicators show is that in post WWII Greece and more so post in 1980s Greece, a large middle class was forming whose nominal income was increasing and its wealth was somehow equally distributed, besides the fact that inflation eroded household income more than in other european countries and unemployment was overall rising.

[169] European Central Bank (2013b), "Statistical Tables to the Eurosystem Household Finance and Consumption Survey".

Chart (55) Population shares across wealth classes



Source: Credit Suisse (2011)

Source: Katsimi et al 2011

So overall while in Greece's golden period of the 1960s there was a growth which was investment led, with high savings ratio, the second wave of GDP growth which occurred during financialisation era and in the context of EU and later Eurozone, was not investment but rather consumption led, with diminishing savings ratio. How much this domestic demand contributed to GDP growth is something that we will examine in the chapters to come. At this point we will examine how the rest of the world contributed to this growth through exports, but also by referring to another characteristic of the Greece's political economy, the inflow of funds from abroad in the form of grants and remittances.

The rest of the world and Greece

Funds from abroad

There is a distinctive feature that mattered in the political economy of the country over the years: an inflow of funds from abroad in the form of grants and not loans. These started with Marshal Plan and continued with subsidies from EU. Adding to these inflows, there were remittances from Greeks immigrants abroad and people

working in merchant navy, who were sending money to their relatives in Greece all through the 20th century. As Stasinopoulos (2010: 95-99) rightfully highlights there was a "persistent orientation of dominant political and economic elites towards help from abroad" which in due course created expectations for receiving this help, not in the form of loans (as in other european states), but in the form of complimentary financial assistance. Moreover, Stasinopoulos proposes that this stance developed what Nobert Elias called "habitus" which was manifested not only through the formation of certain public structures and attitudes, but also though the formation or rather the enhancement of certain types of interpersonal stances (ibid: 99). In other words, this expectation for external help, resulted to an indifference for the public sphere and the enhancement of an individualistic and fatalistic attitudes that originated from local cultural traits such as the religious tradition (ibid).

Several empirical facts substantiate this view as well as the non-productive use of these funds. Firstly, while Marshal Plan was supposed to be channeled in infrastructure, the promotion of agricultural economy and in general the restructuring of Greece's economy towards productive activities. However, even though infrastructure projects -especially the road network one- were successful both socially and economically, domestic economic elites not only managed to use just 19% of loans available to enterprises, but furthermore used the funds from the loans (which they did not repay) for speculators purposes and not for productive ones, in other words for their own short-term benefit and not the country or their own long term economic gain (Stasinopoulos, 2010: 238, 244, 291-293).[170]

Secondly, EU funds in the form of Mediterranean programs, funds from CAP, structural funds and funds destined for regional growth, were also misallocated. To be more elaborate, money inflows from EU are said to amount to 200 billion euros (Kol-

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[170] From Stassinopoulos (2010: 120) we understand that this was a stance of local economic elite even before Marshal Plan: local economic elites have also used the loans granted to them from Britain and the Allies not in order to import raw materials and invest, but rather in order to buy golden pounds, in other words for their own gain and not for the gain of the country at large and which furthermore resulted to effectively speculatory pressures to the local currency.

lias, 2014). More conservative estimations from official sources, accounting though for just the framework-programmes-funding are estimating the inflow of funds from european budget to 70 billion (EC, 2011a), or 64 billion after the mid 1990s (Karvounis and Zaharis, 2015: 35). Or ranging from 2,4 -3,3% of the country's annual GDP for decades (Liargovas et al 2015: 5), or even 4% after early 1990s (ELIAMEP, 20). The truth of the matter is though that there are no reliable data on the exact amount received (EC, 2015). These funds though were not channeled to hard infrastructure programs such as roads or towards the rise of competitiveness and innovation (Kollias, 2014; Karvounis and Zaharias, 2015).[171] In the case of CAP, funds were allocated mostly to big producers in the most fertile regions which opted for single - crop farming, that substituted more useful food crops while at the same time damaging the environment (ELIAMEP, 34).

Lastly, transfers from Greeks who immigrated abroad or who worked in the merchant navy (remittances) were numerous. Greeks were immigrating since the end of the 19th century with stronger immigrant waves starting in the 1950s. This latter wave was exceptional in Europe and can only be compared with the large immigration flows of Ireland in the 19th century (Tsoukalas 2013: 84). The end result of these immigration waves was that almost every family in the countryside had somebody living abroad (Tsoukalas, 2013: 85) and they were sending in regular times money back home to their families. So there was a benefit for the families as well as for the economy at large: families depended on these inflows to supplement their meagre incomes and concurrently the current account was balanced (Tsoukalas 2013: 86). The same happened with the transfers and the money brought in the country from those working in the merchant navy.

In effect, there were considerably large amounts of money dispersed all through society that were not produced domestically and were not taxed likewise. Money used mainly for consumption, either in the sense of excess (as in the case of large industri-

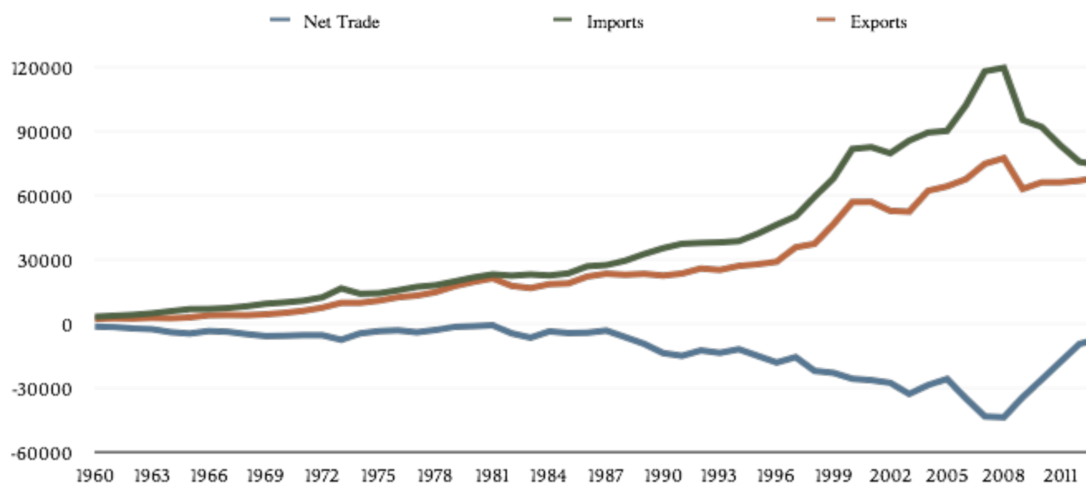
[171] If one wants to say more than the least, he can talk about profligacy and rents seeking behaviour in the use of funds.

alists and farmers, as well as incumbents) or in the sense of meeting purely survival needs of a rather poor population. All this inflow of funds from abroad could have created a culture of expectations, one that anticipates that there is always going to be some financial help from abroad. Money in other words could not necessarily been viewed as a result of productive activities, but as a gift -one way or the other.

Imports and exports

Furthermore, post war Greece was an economy whose imports in goods and services were always more than its exports, However, till late 1980s there was a counterbalance. The situation started to sharply deteriorate since then. As seen in chart 56, net trade went sharply negative, denoting an economy with no internal sources of productive activity. The volume of trade both in exports and imports did indeed rise as the country was approaching its Eurozone entry and more so after that, but imports were rising far more than exports. And since the economy became so dependent on foreign goods and services, the country did not have resilience to economic downturns.

Chart (56) Net trade, imports, exports (1960-2011)



Source: OECD (2015) Net trade, imports, exports

The paradox is that this was not supposed to happen. On the contrary, Single EU market promised that national production will utilise scale economies to the maximum,

through the structural adjustment of their production patterns and subsequently the enhancement of their competitiveness (Papazoglou 2009: 27). But Greece's structural weakness which made its products uncompetitive did not change with the Single Market as did for example in another small and peripheral economy, Portugal (ibid: 34-36).[172] Its exports did not manage to penetrate european markets and to the degree that they did, they were low technology ones showing that Greece's export potential remained -or even became- far lacking in contrast to its import potential (Papazoglou 2009: 35).

Actually, this non-realisation of what both political elites and economic experts expected is part of a bigger problem in the EU which has been linked to the global financial bubble and the way it has impacted peripheral countries. Fernández et al (2013) suggest that even though experts thought that the deprivation of monetary and supposedly subsequent tighter fiscal policy will inevitably lead to structural reforms to countries as Greece, Spain, Ireland and Portugal (actually they thought that this was a one way direction that things could follow), reality proved them utterly wrong. The expected structural reforms in did not happen because free and large capital flows, financial exuberance and subsequent low interest rates, factors that they were not expected and accounted for, led to the opposite result: "reforms were abandoned and institutions deteriorated" (ibid). The reason for that was that the prolonged credit bubble reduced growth prospects in these countries, since countries did not have any incentive to address their underlying imbalances (ibid). The authors explain that this lack of incentives is essentially the lack of "… ability and willingness of principals to extract signals from realised variables in a bubble, where everything suggests all is well" (ibid). After all, financial liberalisation made cheap money readily available. Why should anyone bother with politically costly structural reforms when everything is going well?

[172] Papazoglou Christos. 2009, Is Greece's export performance really low? in BoG, Economic Bulletin No. 32/2009, pp 27-37

We see then a link between financialisation and persistence of structural deficiencies and underlying economic imbalances in a peripheral european economy such as Greece. A globalised and then europeanised process, as financialisation, hindered the realisation of expectations of economists and politicians: the very results they expected and promised to the citizens were annulled with inherent dynamics of the very processes that were initiated. Instead of structural reforms towards more competitive markets from peripheral countries, a new pattern emerged which resembles the two growth regimes of Stockhammer (2010: 20; 2011) the export-led one and the credit financed one; a two-growth regime that the very EU architecture fostered. In other words, expected and promised modernisation resulted simply to financialisation nurtured in european structural dynamics and not only to exceptional features of Greece's economy.

So overall Greece was a country that in the 1960s and till about mid 1970s grew impressively. This is depicted in many indicators: in rise of GDP, of investment and savings of the private sector, as well as in the reduction of poverty and the formation of a large middle class. Nevertheless after mid 1970s -which coincided with the fall of 7 year Junta-[173] savings and more dramatically investments started decreasing as a percentage of GDP, something that exacerbated since early 1990s which is roughly the period when deregulation of financial sector and liberalisation of capital controls started. The sharp fall of national saving ratio led inevitably to the deterioration of the external balance with deterioration of the current account; actually it has been empirically proved that in the post-1999 period the fall in private saving accounted for all the deterioration in the external balance, if not more (Brissimis et al: 2010: 9-10). Since private saving could not finance public borrowing, the state started borrowing abroad, or at least that is what some suggest (Katsimi et al, 2011: 12).

[173] An interesting observation here is that during the Junta regime indicators of investments and savings did not decline as probably one would expect. Kostis (2013: 764, 780) attributes the fact that Junta did not change the growth trend of Greece's economy due to the liberalisation of institutions and loose monetary and fiscal policies, that allowed incomes to rise thus insuring tolerance of citizens.

Thus the second period of growth which was after the mid 1990s and more so in the 2000s was not investment led, since both investments and savings were declining. It was not export led either, since exports started declining while imports rising despite the contrary expectations from entrance in EU and EZ. So growth should have come from domestic demand and one way that domestic demand is raised is through rise of income. Indeed, income during this period grew in absolute numbers, yet if we factor inflation in the equation, the evolution of income was stable, if not negative, because inflation was constantly higher than other EE countries. Even so, demand could have been risen partly from the nominal rise of wages, but there were other factors too which as we saw were the funds coming from abroad in the form of remittances, EU funds and the likes. Greeks were consuming out of stagnant if not negative real income, and from funds that did not come from their own productive efforts. This denotes that financialisation found a fertile ground in Greece, since the population has learned through the years to receive "free" money "from somewhere", which it did not use for productive investments for the economy as a whole.

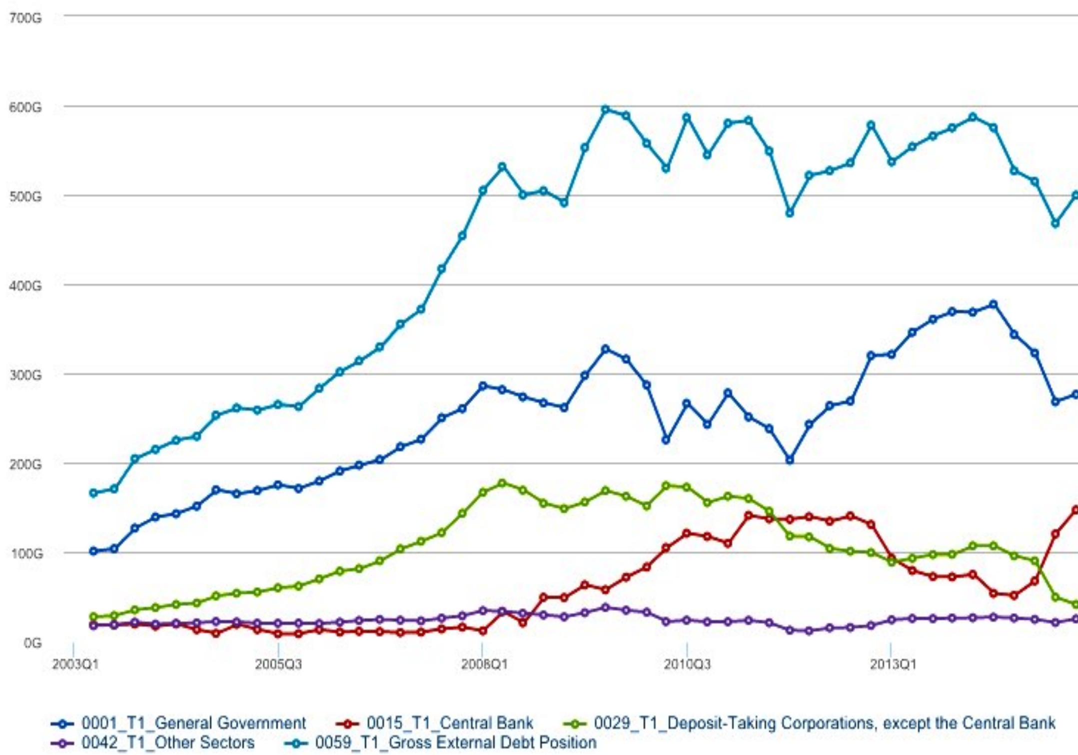
Nevertheless, pre-crisis Greece has managed to become a society where the most part of its population was in middle class limiting its poverty levels, curbing its albeit high inflation, converging to income levels of EU and growing at impressive rates. Moreover, its distribution of wealth seemed fairly equitable in comparison to other northern and supposedly more advanced european countries. The "dark side of the moon" registered high unemployment, rise of imports in detriment of exports, decline of savings and investment along with misallocation of EU funds. The model, from these indicators alone, pointed towards a consumption growth which ought to be debt-fed, since only income was nominally rising yet in real terms remaining stagnant or even negative. And since the economy did not produce the savings to nurture such a debt growth, debt ought to have been foreign. It is at this point that our analysis on the geneology of financialisation in Greece starts.

To get a first glance and context of the chapters to follow, we present chart 57, which shows the exponential rise of gross external debt rose since 2003. The chart clearly

illustrates that general government foreign debt and to a lesser degree banks' increased sharply with the former being of course an outlier. Private sector's external debt on the other hand was negligible. However, it should be noted that if debt is seen in the aggregate, in other words as "total debt to GDP"[174] then Greece ranks low among EU countries. Roumeliotis (2016: 233) citing estimations from Anglietta and Brand (2013: 55) rightfully highlights how Greece's total debt to GDP was higher - and slightly so- only from Germany. In the following chapters we will disentangle this picture in detail, albeit it is worth to keep in mind from the start that Greece's high debt followed a global trend, and in total (private and public alike) its levels were rather moderate if compared to other european and OECD countries. Therefore, "in the aggregate" the country was not exceptional or unique in its debt trajectory.

[174] As we have noted in p. 98 following Antoniades 2013, total debt is a very useful indicator so one can see a given country in comparative perspective.

Chart (57) Greece: gross external debt (2003-2013)



Country : Greece

Source: Quarterly External Debt Statistics/SDDS (New)

Created on: 11/13/2015

Source: World Bank

CHAPTER 6: Greek banking system: were banks really agents of financialisation?

6.1. Introduction - Historical background

Argitis and Michopoulou (2013: 15-23) argue that financialisation in Greece started in the 1960s and 1970s because back then financial sector quatraluped in size and gained in financial power over the political economy as a whole, more particularly in relation to government and industrial capital, due to combination of regulatory policy and increase in public and private deposits. They establish their claim through historical evidence that points to the "importance and influence that financial capital gained during the post war era" which superseded any surveillance from BoG, and connected a concentrated financial, more specifically banking capital, to political leadership as well as to industrial capital.

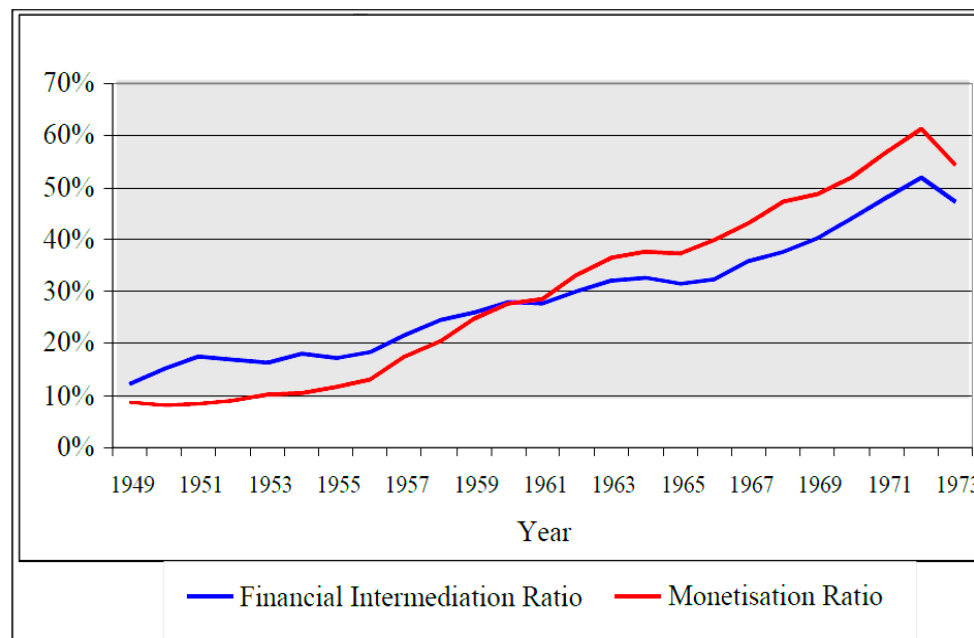
More elaborately, they argue -citing Zolotas- that "the banking system had to be the pivotal point for mobilisation of the internal resources and that economic policy had the duty to direct banking activities towards economic development targets by applying the appropriate credit controls" (ibid: 16). Therefore it was the state that gave banks a leading role to play in the productive activities of the economy and consequently established this network of relationships between the political and banking sector.[175] Then between 1954-1965, right after a successful devaluation of drachma, banking sector grew more than GDP; it actually quadrupled, while the GDP increased only 2,3 times mainly due to the increase of private and public deposits as well as to the velocity of money, which were signs of the growing confidence in local currency and the monetary policy of BoG (ibid citing Halikias: 17). Banks then followed the general growth dynamics of the economy at that time.

This effectively excessive liquidity gave banks the assets to reduce their dependence in BoG, expand the provision of credit to public and private sector especially after 1977-1978 and become the almost exclusive funding source of industrial sector, hin-

[175] Even though these connections can be argued to originate even from 1870 when private banking institutions were first established.

dering the emergence of non-banking capital market, thus enhancing their role in the economy as a whole (ibid: 18- 19). Consequently financial depth increased by 50% from the 1950s till late 1960s as shown by the two indicators in chart 58: (a) Monetarisation ratio: which is the ratio of broad money to GDP and whose rise illustrates the transfer of financial resources from non-financial sector to financial sector, in terms of a monetary aggregate (broad money) and (b) Financial Intermediation Ratio: which is the ratio showing the extent to which financial resources flow back into non-financial sector (ibid: 19).

Chart (58) Financial depth in Greece, 1949-1973



Source: Bank of Greece, Annual Reports, 1949-1974.

Source: Argitis and Michopoulou, 2013: 19

However, Greek banks were cautious in providing credit to industrial enterprises even though there were tax benefits for such a venture; Argitis and Michopoulou suggest that this was the reason why the state got involved in banking sector, by establishing state-owned banks (ibid: 20). Furthermore, the state intervened in the sector through compulsory holding of state bonds, a practise that started in 1958 aiming to control the money supply, and which effectively was used to finance increasing fiscal needs

(ibid: 21). Junta-regime years further enhanced ties between political class, certain industries and the state since loans were given to shipping and touristic sectors through a network of crony relationships (ibid: 22). Thus banks acquired not only economic power but also political one at least as far as economic matters were concerned.

Pagoulatos (2003) would be more explicit on the connections between the state and banks. He asserts that at first -in the post war period and more so during the so called golden age of Greece, the 50s and 60s- it was the state that "used" the banking sector in order to promote its developmental and essentially its industrial policy, as well as its political-clientistic goals, something that, following Zysman (1983), he called financial interventionism. In due course, banks "exploited" the power they have gained over the economic system, in other words "their privileged access to financial decisions to ensure that their interests will be well served" (ibid: 75). So according to this view, it was because of state policy and "BoG's orthodox determination" not to allow a shallow banking system that will lead the country to collapse under a potential banking crisis, that created the conditions for the establishment of strong connections between state and the banks. It was not a kind of capture of the state from banking interests, as was the case in Spain. It was a politico-economic choice of governments and an ideological stance of central bankers and economists. That is why governments chose to be "accommodative" to banks' high fees and large interest rate differentials. Pagoulatos tries to explain this evolution in the power game, by arguing that Greece as other late-late industrialisers "were the main adherents to institutional arrangements of administered credit" (ibid: 12). In other words, Greece had to adopt a sort of import substitution model with banking as the main tool of the government in order to promote sectors in the economy that the underdeveloped capital markets and timid private sector would not dare to pursue. [176] Nevertheless, the strong ties between poli-

[176] One can go even further back historically to establish this strong relationship between political sphere and banking sector, or better phrased between political and banking elite. Even as further back as a few decades after the independence of the Greek state when the first rich Greek expatriates came and established banks in the country.

tics and banks is a feature of Europe in general and not just a Greek one (ESRB, 2014).

For the purposes of this thesis though, what one should probably keep from this historical evolution of strong connections between political sphere and financial interests on one side, and industry and banking on the other, is that it structured a bank-based financial system. However, this was a phenomenon observed all around continental Europe (ESRB, 2014), thus it does not render Greece an exceptional paradigm of alleged corruption, political and/or banking capture, or backward practises.

Moreover, it should be noted that banking industry was highly regulated. Liberalisation of the sector (in general the financial sector and not just banking) along with liberalisation of capital flows started in the 1990s, mainly as a result of the country's membership to EU. Greece had to incorporate various EU legislation that prompted conditions of its financialisation in all economic domains, public and private. Regulation opened the pathways for Greece to transform into a genuine market economy. With an independent central bank who was not permitted to finance its state. A state which was now to borrow straightly from capital markets, and any financial "help" it got from its central bank to be in a form of a loan (in other words former "interstate" relations and public functions were financialised). Banks who were rendered free to make investment choices away from holding government bonds and a stock market which was "democratised" and engulfed a raising number of individual investors and corporations seeking capital. However, even though the depth of capital and money markets has increased after deregulation, with a peak in 1999 (Hondroyiannis et al, 2004), industry and corporate sector continued to prefer financing through bank loans rather than stock market, This "culture" too is consistent with the EU trend since EU can be characterised a banking based system, because 70-75% of enterprises and households are financed through bank institutions as opposed to 20-30% in US, who prefer capital markets for their financing (EBF, 2012: 28). So overall banking in Greece was comparatively consistent with European trends of bank based systems and not at all exceptional.

In what follows we will present the main financialisation indicators and trends in Greece's financial sector which will help us understand if and to what extent Greece's banking sector was financialised as did its Anglo-saxonian and other advanced economies' one. We will focus our attention in banking sector due to the nature of the Greek financial system, which as we said is bank-based and not market orientated. We will focus on the stock market in the next chapter, when we will present the stock market crash as an incident of financialisation of everyday life. At this point it suffices to say that following liberalisation, stock market capitalisation was on the rise -even though starting at a very low level- while the number of listed companies did not rise at the same pace, meaning that there were strong signs of inflated rather than real growth. After the boom of 1999 that resulted to a crash in 2001, the market had an increase till 2005, and then declined till 2009. Value of shares traded between 2000-2010 was below market capitalisation, which is comparable to other European states and contrasted with US and the global trend (US Census Bureau, 2012: 870).

6.2. Banking sector in financialisation era

As late as in 2004, when banks in USA and parts of Europe were well into the financialisation trend trading complex and sophisticated financial products, the IMF (2004) reported that the banking sector in Greece appears highly profitable, well capitalised, and adequately provisioned. This is indeed true. Even in 2008, when indicators started to deteriorate, the profitability of the Greek banking system remained higher compared to large banking groups of EZ (BoG, annual report 2008: 153), their capitalisation was strong, and almost all the indicators of financial robustness were high. It seems that banks were a victim rather than a cause of Greek crisis. But what were the characteristics of the banking system and how was it transformed in the financialisation era?

Historically as we have seen, Greek financial system was dominated by banking institutions, and more particularly by domestic banking groups (Borgioli et al, 2012: 15). Contrary to financialisation trend which was spreading globally, banking institutions' presence was increasing instead of diminishing in favour of stock market, following the European trend (ESRB, 2014). For example from 2002 to 2008 the percentage of financial assets owned by banking institutions (both domestic and foreign owned) to total financial assets raised from 77,6% to 87%, while the percentage of institutional investors during the same period decreased from 20,7% to 10,5%; other brokerage, leasing and factoring companies had a percentage of 1,7% in 2002 which from 2003 remained rather stable around 2,5% (BoG, 2009: 61), while two specialised banking institutions, Postal Savings Bank and Deposits & Loans Fund, controlled a further 8.3%.

At a consolidated basis though, the importance of banking groups is even higher because they own a large number of insurance firms, stock broking firms and mutual funds (Hardouvelis, 2006; BoG, 2003, interim: 113-114), something that was again a general european trend of universal banking (ESRB, 2014). Contrary though to what is observed in other European countries, cooperative credit institutions have a very limited contribution to the Greek banking system (they control only about 0.8% of

total banks' assets) and their clientele is concentrated in particular geographic areas of the country (Hardouvelis, 2006). Agrotiki (Agricultural) Bank, which was state funded and used from the state to give loans to farmers and peripheral regions of Greece, could be said to have the same functional role as small cooperative banks of other countries.[177] Furthermore the market is dominated by Greek banks since foreign owned ones slightly increased in numbers during 2004-2008 (from 23 to 30) but their percentage of financial assets to total financial assets remained roughly the same around 7,5% (BoG: 2009, 62).[178]

Another feature of the Greek banking system is its high degree of concentration. As measured by the proportion of banking assets controlled by the five biggest financial institutions,[179] it is higher relative to the EE-27 average but lower from small European countries with roughly the same population, such as Holland, Finland, Belgium and Portugal (BoG, 2009: 64). The smallest degree of concentration is observed in countries such as Germany, Italy and Spain, whose banking systems are characterised by the existence of a large number of local and cooperative financial institutions (Hardouvelis, 2006). However despite these various degrees, concentration in the banking system is a prominent feature of European banking systems at least if compared to USA one (ESRB, 2014).

Nevertheless, deregulation changed this degree of concentration. Because even though the first years of liberalisation, namely between 1990-1993, there was a wave of privatisations as well as mergers and acquisitions at first in the years 1990-1993, this was followed by a wave of newcomers in the banking industry in the 2000s.

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[177] Even though it was also used for political favours and in general operationalised a form of corny capitalism, as proved during the crisis, when the Agrotiki scandal broke, and which resulted in the breaking up of the bank into a bad bank -with all the non-perfuming loans- and a good bank which was sold to bank of Piraeus.

[178] We should note once again that these figures are pre crisis one, because post crisis there was a strong merger and acquisition wave which consecrated banking sector even further.

[179] Concentration as measured with the share of five largest banks increased even further after 2008, with the highest growth rates surpassing every other EE country in 2013, due to the intensity of mergers and acquisitions as a response to the crisis that hit the country (BoG, 2014:14)

Smaller banks appeared and there was a decrease of market share of the first in rank bank bank in favour of the other five, something that according to BoG, is an indicator of rise of competition (BoG, 2003, interim: 104). According to the same rationale, there was a decrease in interest rates exactly because banks were fiercely competing in order to acquire a market share especially of households, either as depositors and investors or as debtors.[180]

Furthermore, after deregulation of the 1990s, banks started expanding both domestically and abroad. Their expansion abroad started in 1993 but occurred mainly in the 2000s. Following a Western European trend eastwards (Raviv, 2008), they expanded in the Balkans and Turkey (and to a lesser degree in Poland and Ukraine), where they managed to acquire a significant market share in a rather short period of time (BoG, 2009: 66).

In contrast though to Western banks which expanded eastwards in order to redress their declining profitability in their already financialised economies (Raviv, 2008), Greek banks did not expand in the Balkans because they were facing declining profitability, and in any case they were not functioning in an already financialised economy; the market was not saturated domestically and their profitability was high. According to Bank of Greece the reason that Greek banks expanded abroad was strategic: they wanted to expand their revenues and profits, a move that differentiated from previous expansion strategies which were targeted mainly to Greeks living abroad and Greek enterprises abroad (BoG, 2009: 65). This was facilitated with the restructuring of banking sectors of these countries that started in late 1990s and led to a series of privatisations (BoG, 2006: 92), as well as the low starting base of loans that these countries had (BoG, 2006 monetary: 94).

So one could argue that expansion abroad was an effort to "financialise" both their activities as well as the political economies they were investing in. In other words,

[180] Some of these newcomers were later merged with bigger banks, with the exception of Piraeus bank which ended up being the largest of the four systemic banks in the country.

while externally the orientation seems the same with other western European countries, the qualitative characterises of expansion show different degrees of financialisation of economies and different needs that are being addressed. Of course, the net result might be the same for the local political economies where these expansions are taking place, since in both cases the ones who benefiting the most were foreign banks, because they were able to extract rentier income without actually helping restructuring and modernising the financial systems of these states. But this is the theme of another research.

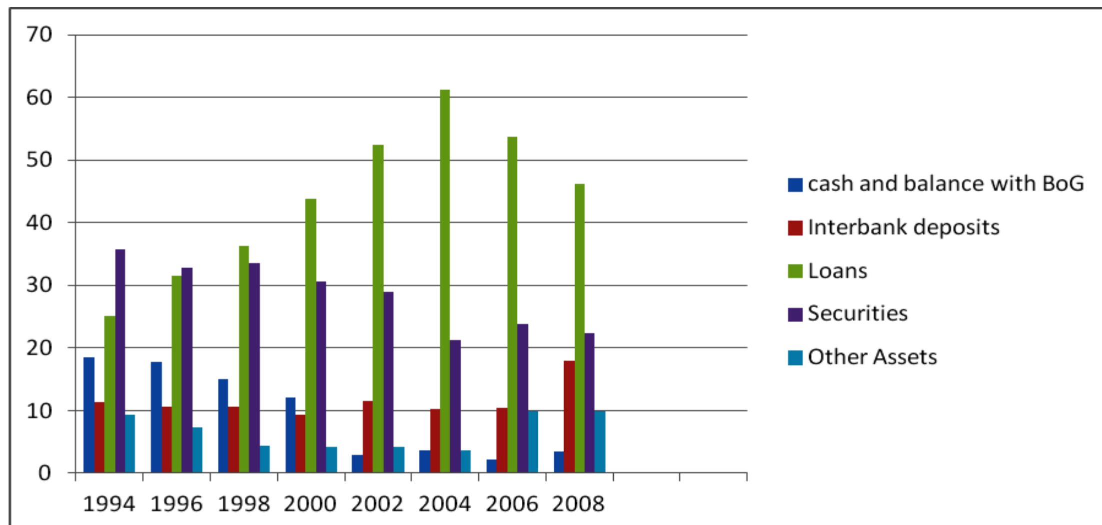
Elaborating on the characteristics of the expansion we see that Greek banks expanded by acquiring existing credit institutions, establishing subsidiary banks or new branches (BoG, 2009: 65-66, BoG, 2006: 92-93.). The percentage of employees and business units in the region more than tripled especially between 2002-2005 (BoG, 2006: 92-93). As a result in 2006 Greek banks controlled 14,3% of banking assets in Romania, 16,3% in Serbia, 28,3% in Bulgaria, 32% in Albania and 3,5% in Turkey (Hardouvelis, 2006). The total assets of greek banks in those countries amounted to 66 billion euros which equaled 53% of their GDP that year (Hardouvelis, 2006). The trend continued so that at the end of 2008 bank assets abroad (including EZ countries) almost doubled from 2006 amounting to 118,4 billion euros, which is equal to 28,2% of their total assets and 49% of Greece's GDP (BoG, 2009: 66). The biggest part of these assets, 42,7% was in the countries of so called Emerging Europe,[181] which equaled 1/5 of Greek GDP (BoG, 2009: 66).

Domestically, banks increasingly expanded their product, service and consumer base. New products such as consumer loans, holiday loans, a large variety of mortgage related loans, new types of business loans appeared in a previously underdeveloped market. Moreover a series of ATM and other market services became broadly available. Loan to Assets ratio of Greek banks rose in a much faster pace than EZ and US (Antzoulatos, 2011: 198,199). As chart 59 illustrates, loans started increasingly to ac-

[181] Albania Bulgaria, Ukraine, FYROM, Poland, Romania, Serbia, and Turkey.

quire a larger percent of banks' asset portfolio (OECD, Bank Profitability 1998, 2000, 2010).

Chart (59) Assets of Greek banks (1994-2008)



Source: OECD, Bank Profitability Financial Statements of Banks 2010, 2000, and 1998

As a result of this expansion, total assets of 15 larger banks in 1999 stood at 100 billion euros and in 2006 only 10 of them had almost tripled the amount of their assets which were then worth 273 billion euros (Chatzoglou et al, 2010: 1018). Besides its rise though, Greece's total financial assets[182] did not surpass those of other European countries. According to McKinsey, in 2006 Greece's financial assets were around 0,9 trillion dollars well below the front runner, Germany with 9,5 trillion and France with 8,2 trillion and close to Ireland 0,8 and Austria 1,00 trillion. However, what is a unique characteristic is the composition of its asset portfolio. First and foremost, 41% of those assets are government debt securities, a percentage which is an outlier. Italy which is second in percentage of government debt securities in its financial asset portfolio stands at 30% (McKinsey, 2008b: 30). Second, it has the lowest percentage of private debt securities (ibid).[183]

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[182] This sum includes equities, private and government debt securities and bank deposits

[183] We see a divergence between the McKinsey database and OECD one as far as the composition of banks' portfolio is concerned, but they both nevertheless show a trend.

As in Anglo-saxon and European countries, and in accordance -or so it seems-[184] to the financialisation trend, banks targeted mainly households in their expansion, especially since late 1990s and more so in the 2000s. The ratio of mortgage loans to total loans is indicative of the trend: in 1999 the ratio stood at 16% and in 2007, just eight years later, at 36% (with EZ average to 26% and 32% respectively). As a result, in 2011 mortgage and consumer loans covered 44,35% of total loans of banking portfolio (BoG, 2012). Yet this reorientation of banks has not been caused from the reduction of lending to enterprises, as was the case in Anglo-saxon countries, especially in USA.[185] Actually lending to enterprises more than doubled between 1994-2009, from 22,5% to 46,7% of GDP (Mosxos and Chrotareas, 2011: 60) which might not be as impressive a rise as the one of households loans (which rose from 3,8% to 33,9% of GDP) and consumer lending (which rose from 0,9% to 16,5% of GDP) but it nevertheless proves that expansion of loans towards households did not diminish banks' role in business lending. A proof of that is that as illustrated in chart 60 investments were not hampered by the reorientation of banks towards households, albeit savings were diminishing proving that bank credit was increasingly sustaining investments.

Furthermore, lending to enterprises was modernised through the issuance of corporate bonds. Even though corporate bonds are supposed to be market and not bank funding, in Greece they functioned more as another form of banking loans because their issuance was totally absorbed by banks, either through bilateral agreements or through syndicated corporate bonds (BoG, 2005, Monetary Policy 2004-2005: 111). The reason that enterprises opted for this kind of "bank loans" was the favourable tax treat-

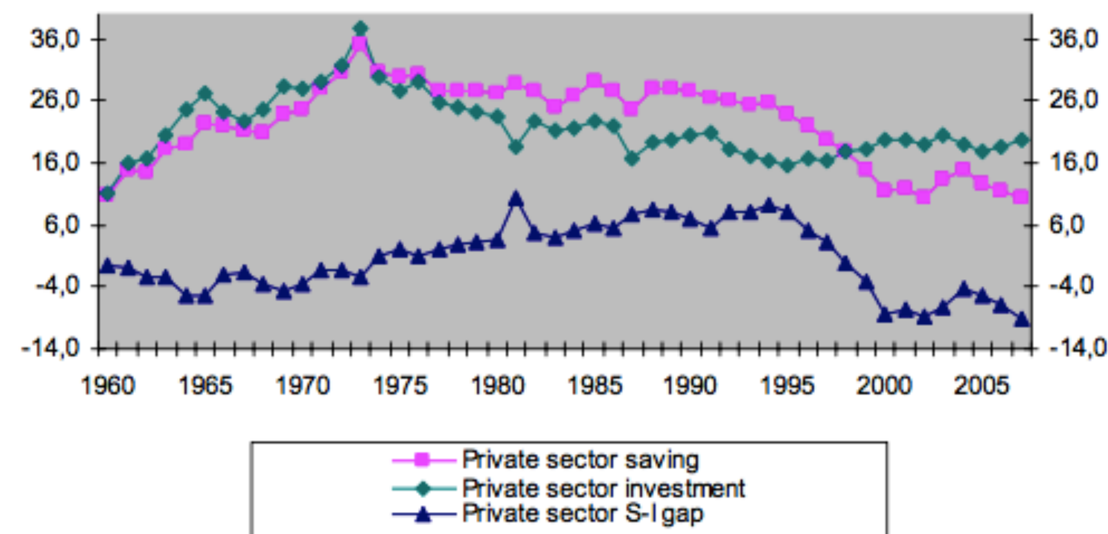
[184] The so it seems comment refers to the fact that at this section we are mainly referring to "external" characteristics of the evolution of banking system. Something like targeting the households might occur in two political economies, but in one it might be a sign of financialisation, to another it might not; it might just be a sign of modernisation of the financial system. Financialisation as a trend in households is a sign of reorientation of banks due to the reorientation of businesses away from banks and towards the stock market. Was it the same in Greece?

[185] One of the main arguments of financialisation literature is that banks' lending to enterprises slowed down, giving its place to household lending, while in Greece it is central government lending that mainly gave its place to households.

ment which in contrast to regular bank loans were not subject to any tax or contribution according to Law 3156/2003. Thus from January 2003 till December 2004, the outstanding value of corporate loans rose from almost 1000 million euros to nearly 6000 million euros, and from 3% of MFI corporate loans to 10% (ibid), eventually reaching 15,0% in 2006 and representing 34,4% of total net funds granted by banks to enterprises (BoG, 2006, annual: 172).

Chart (60) Private sector saving and investment

(percentage to GDP)



Source: Brissimis et al, 2010

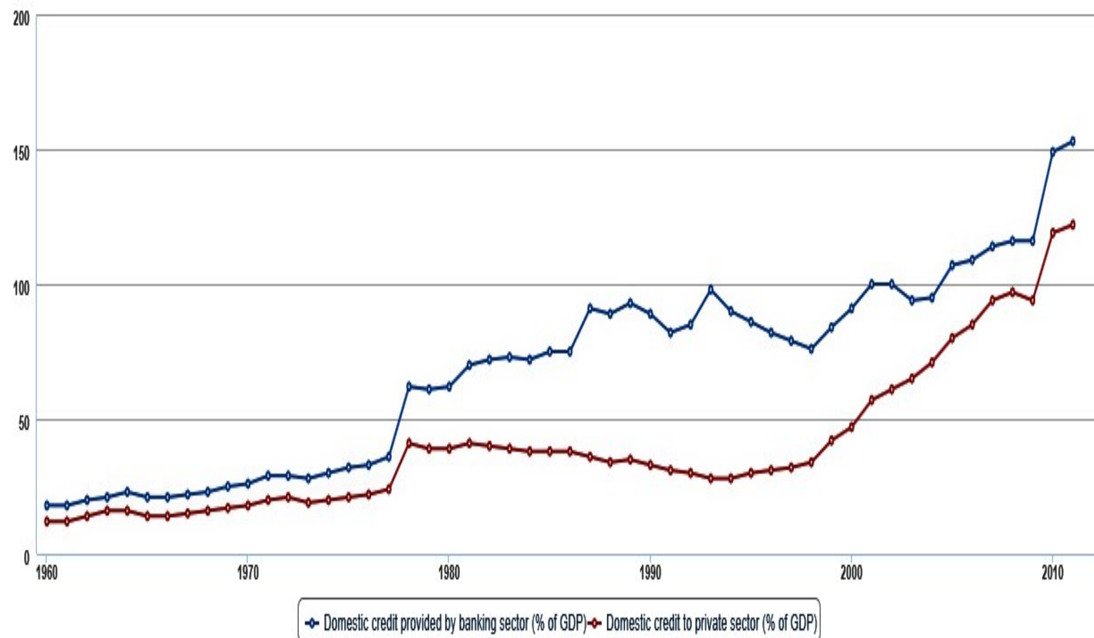
So in contrast to the states that have been studied so far from financialisation literature -USA and Anglo-saxon countries- in Greece lending to households did not substitute lending to enterprises and a subsequent or parallel fall in investments was not observed, even though many Greek enterprises entered the stock market. Both household and corporate loans continued to rise. Lending to households substituted instead the reduction of lending to central government (Dellas and Tavlas, 2012:20-21), especially since late 1990s, when regulation liberalised the sector and banks sold in the secondary market the governments bonds they were obliged to retain in their portfolios in the 1980s and early 1990s (ibid). In other words, it was rather lending to the government that lending to households came to substitute, since, after liberalisation,

government bonds have increasingly occupied a lesser degree in their portfolio.[186] This is evident in chart 61, where it shows that since late 1990s banks were loaning increasingly in the private sector, which made their private sector lending converging rapidly to their total lending. Let us not forget that since 01.01.1994 EU imposed regulation was passed that permitted the state to borrow straight from capital markets without the intervention of BoG. Since then the state reorientated towards foreign capital markets through its bond issuance and thus away from domestic banking institutions.

What happened was that banks found themselves with increased liquidity as regulatory obligations for holding Greek bonds relaxed and as BoG gradually reduced reserve requirements in accordance with Eurosystem rules (Brisimis and Vlassopoulos, 2009: 8). Subsequently, the very low yields on government securities induced banks to substantially reduce their holdings of government debt and shift their portfolios towards private sector debt, and mortgage lending was among their new targets (Brissimis and Vlassopoulos, 2009: 8). These factors related to supply-side changes also contributed to a robust growth rates of housing loans, which was an underdeveloped market in the Greek political economy with large opportunities to expand. Conclusively, focusing on empirical data, it seems that orientation of banks towards households rather modernised than financialised the Greek banking system, even though the expansion was mainly induced from the supply and not the demand side, as we will see in the following section.

[186] Actually banks became net sellers of the bonds they were obliged to hold before liberalisation (Dellas and Tavlas: 20,21).

Chart (61) Credit provided by banks in relation to credit provided to private sector



Source: World Bank

The above developments resulted to a rapid overall growth of banking sector, a growth that surpassed that of GDP something that conforms to EU's trend, if one excludes Belgium and Sweden who had an equal growth in both measures (Beck et al, 2012: 25; ESRB, 2014). To get a perspective between 1980 and 2007 financial sector (not only banking) grew by 12,3 per cent while GDP rose by 2,2 per cent (ibid). More particularly the size of banking sector in relation to GDP rose from around 150% in 1996, to 212% in 2009 and 231% in 2010 (BoG; Eurostat). However, despite its increase relative to the economy as a whole and its increase in absolute numbers to which we referred to above, it remained all through the period below EZ average, which hoovered around 300% of GDP (ECB, 2014: 9) and one of the smallest in EU, as seen in chart 62 which depicts the picture since 2008.[187] This situation did not even change during the crisis when GDP fell (ECB, 2014: 9; EBF, 2012: 46; chart 62).

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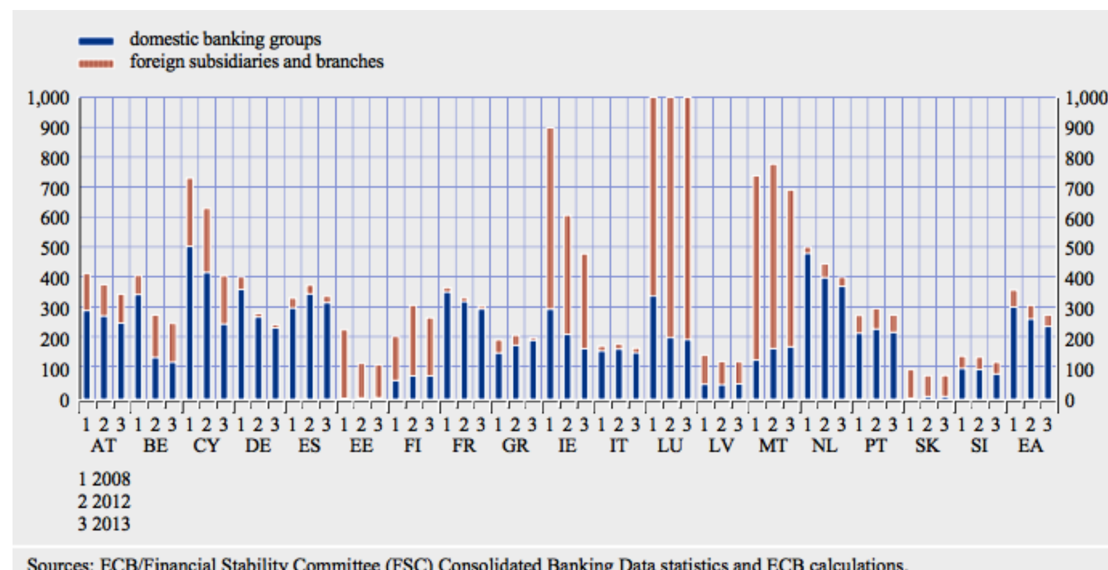
[187] Only eastern countries in EZ have smaller banking sectors (Hardouvelis, 2011: 17). Some databases place Italy as the bottom of the scale of banks' size in old Eurozone.

In order to get more qualitative comparative perspective, one can compare this evolution with Spain, because there the problem of private debt was the major cause of the crisis. One would assume then that there the percentage change of the size of the banking assets in relation to GDP was larger than in Greece. But besides the high growth rates of the sector there too, banking sector assets in relation to GDP rose only from 200% to 244% in the same period. Meaning that the pace of change was extremely high in Greece besides the fact that the end result was below EZ averages.

Chart (62) Total assets of domestic banking groups and foreign controlled subsidiaries

(in relation to GDP)



Sources: ECB/Financial Stability Committee (FSC) Consolidated Banking Data statistics and ECB calculations.

Source: ECB, 2014: 9

The size of Greece's banking sector is also moderate if one considers the number of branches which are 3 per 10,000 citizens below EU-12 levels of 5 per 10,000 citizens. Finally, financial sector's contribution to the economy, as a percentage of value added and as employment is rather non significant, or at least it did not rise as significantly as did the above mentioned indicators. More particularly, financial sector's gross value added was 4,9% of GDP in 2009 from 3,8 percent in 1995, which is a 28,9% per cent change (Argitis and Michopoulou, 2013: 29), but if compared to USA or UK of 8 and 9 per cent respectively (Haldane, 2010b), the contribution is rather moderate.

Also employment in financial sector, which means mainly employment in banking reached around 2,5 percent of the total employment (Argitis and Michopooulou, 2013: 29-32). Overall these indicators show that banks expanded but comparatively to other countries, their size remained small. The only rather worrying sign was the pace of the change.

Chart (63) Regulatory assets to risk weighted capital

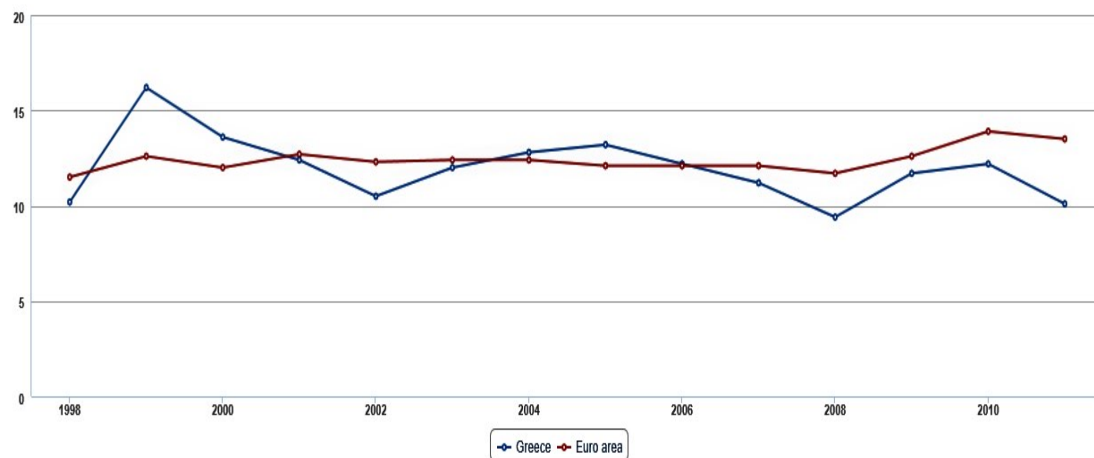
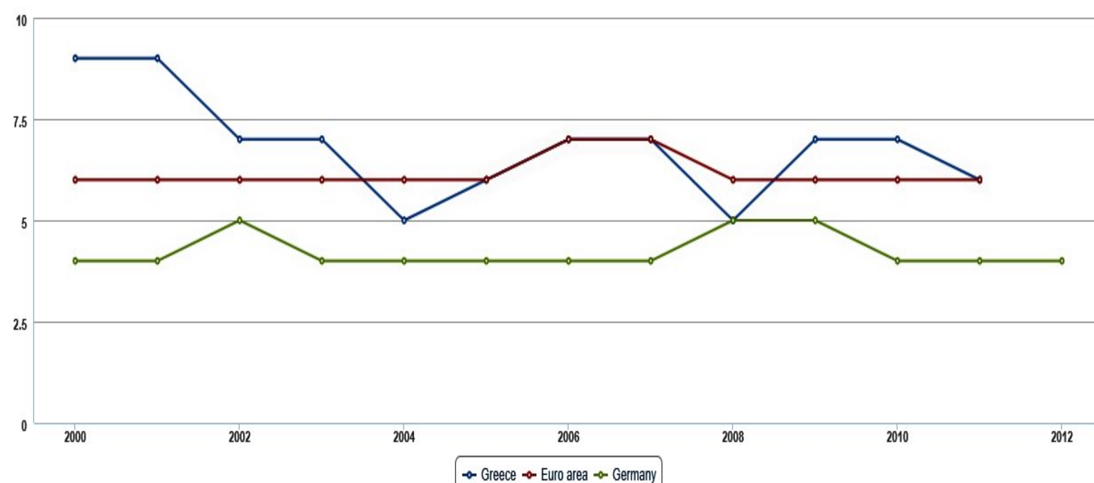


Chart (64) Bank capital to assets



Source: World Bank (03/06/2013)

However, their expansion in a short period of time did not shake the robustness of the sector. And there are several indicators that prove this point. Firstly, banks remained

strongly capitalised, even in their core capital and did not become highly leveraged (Hardouvelis, 2006; World Bank indicators; charts 63 and 64). In December 2010, well into the crisis Capital Adequacy Ratio (CAR) of Greek Banks was 13,9%, their Tier 1 Ratio was 12,2% and their Core Tier 1 Ratio 10,6%, in other words well above regulatory requirements (BoG, annual, 2010: 153; EBF, 2012). The leverage ratio at the end of 2007 was 12,7 and in 2011 13,8 almost half of that of large banks in the developed world, and in general trend below the EZ average.[188] By consequence the problem of Greek banks in the crisis was not one of lack of adequate capitalisation, but of lack of liquidity, which resulted mainly from the problems of the Greek state (BoG, 2010, annual: 150).

Moreover, they did not use securitisation, but only to an extremely limited degree amounting to less than 2% of their funding (World Economic Forum, 2012: 366), as was the case of EU as a whole where MBS amounted to 3% respectively (ECB, 2009:86).[189] BoG estimated that in 2008, the percentage of securitised loans made up only 6-9% of their total loan portfolio, a percentage that increased to 27-31% in housing loans but only for those banks that had securitised loans (BoG, Monetary -not interim-: 97). Actually banks started securitisation practises rather late and crisis caught them in the way. For example, securitisation of receivables from loans to small enterprises started in November 2006, while the first ever securitisation of receivables started in November 2003 (BoG, 2006, annual: 172, 180). Covered bonds was also below EZ average. According to BoG, Greek banks had no reason to invest in new financial products that caused recent financial crisis, because the investment opportunities in both Greece and Southeast Europe presented adequate opportunities of profit making (BoG, monetary interim, 2008: 126).

[188] An interesting footnote would be that while Greece as a sovereign was characterised as the Lehman Brothers of Europe especially in the periods of negotiations of memorandums, it is Deutsche Bank at from mid 2014 and all the way to 2015 who is really suspected to be Lehman Brothers of Europe due to its huge derivatives market exposure.

[189] ABS reached 5% in EZ (ECB, 2009: 51)

Furthermore, banks only recently used interbank lending which reached 12% of their funding, still less than half from EZ average of 28% (Michalopoulos, 2011). Actually it is this percentage of their funding that disappeared after the erosion of Greek sovereign debt crisis, and which caused troubles in Greek banks. Yet this was caused by factors not depending in their creditworthiness and capital adequacy, nor to the suspicion of having toxic assets. It was due to the credibility of the sovereign that banks lost access to a funding source, which was far below EZ average, but which nevertheless amounted to a percentage more than the core capital requirement.[190] This is an important point because it shows that in the Greek case, banks were not as thoughtless as their American and European counterparts, or at least that is what the numbers reveal.

Therefore, credit institutions continued to be funded mainly from deposits which covered around 86% of their funding till 2006, (Hardouvelis, 2006: 17). More specifically Greek banks' funding sources consisted of:

1. Deposits which were the main funding source. This is evident in the loan to deposits ratio which as illustrated in chart 65 was at about 90% in 2005, when the respective indicator in EU was 113% (Hardouvelis, 2006)[191] or just over 125% according to EBA (EBF, 2012: 13). The ratio surpassed the EU average only when the crisis started to rage, reaching 119,9% in 2010, 132,3% in January 2011 and 146,5% in January 2012 (ibid: 46), when EU-27 average was around 117% in 2011 and 114,7% in 2012.[192] From another perspective, banks in Greece managed an equivalent of 113% of GDP in loans, while holding an equivalent of 96% in deposits and repos (EBF, 2012: 46). This denotes a strong capital base, and a cautious business attitude on behalf of banks. It is worth noting that while households' savings ratio had a clear

[190] In other words their interbank lending percentage was not high but it was more that the capital requirement ratio of ECB, so by losing this source of funding it was as if they were losing their capital adequacy rate.

[191] As the deposits declined due to the crisis, this ratio reached 119,9% in 2009, 132,3% in 2011, and 146,5% in 2012 (EBF, 2012: 46)

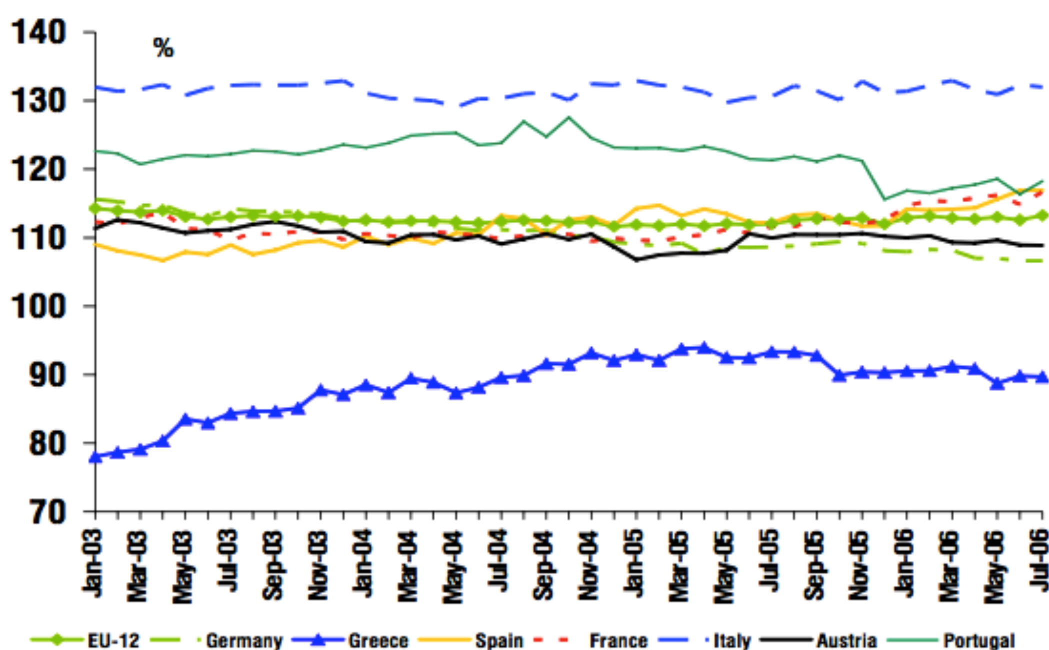
[192] This decline and convergence to EU-27 average denotes both fall of deposits domestically, as well as "a reduction in the on-balance sheet financial sector leverage vis-a-vis the real economy" in European level (EBF, 2012: 13).

downward trend since 1995, ratio of deposits to GDP has kept its ground and in 2006 stood at 91%, marginally above the Eurozone average of 88% (Hardouvelis, 2006: 17) but declining to almost 50% in 2012 (ECB, 2009: 51), obviously due to the hardships of the crisis and austerity measures, in other words unexpected real life events.

2. Money market funds (13,2% in 2000 versus 0,7% in 2005) which in due course were replaced by medium-term notes (0,2% in 2000 vs 12,5% in 2005) and securitisation (1,83% in 2005)

3. Revenues from IPOS and investment related commissions during the period of stock-market boom.

Chart (65) Ratio of loans to deposits



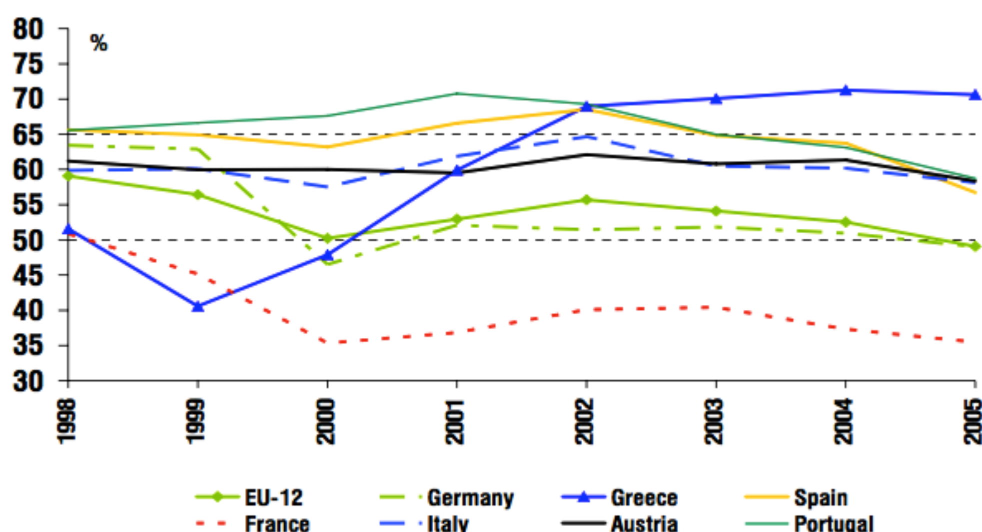
Source: Hardouvelis, 2006

6.3. Disintemediation?

Did the above evolution of the banking system result to disintermediation? BoG as soon as 1998 reported that "financial disintermediation is an indisputable fact, both for Greece and EU" basing this view in the exponential rise of mutual funds in Greece (BoG, 1998, annual: 231). But mutual funds in Greece as in other European countries were under bank management (BoG, 1998 annual: 232), by consequence what banks were losing from traditional deposits, they were gaining from fees and commissions on the management of those funds. Customers in other words did not opt for a capital market financial product (as in USA), but for a diversified banking one. Banks continued to intermediate between savings and investments.

OECD, on the other hand, twelve years later, in 2010, reported that banks profited from interest differential, which is a clear sign of intermediation and not disintermediation. Actually net interest revenues, Greece were ranking high. In 2006 banks' net interest revenues were standing at 70% of the total, net commission income at 18,8% and various other sources at 8,2%, when the EU average was more equally distributed, that is 50%, 26,4% and 24,6% respectively (Hardouvelis, 2006: 18; chart 66).

Chart (66) Net interest revenues to total operating income



Source: Hardouvelis, 2006

Another indicator of financial intermediation used by finance and growth literature (Beck et al, 2013), deposits money bank assets to GDP -which is claims on domestic real financial sector by deposit money banks as a share of GDP- was standing at 128,96 % in 2010, when Germany ranked just above Greece with a share of 130,36%. Ireland was the front liner with 245,11%, Spain second in rank with 229,55% and Denmark third in rank with 219,55% while USA was in the 40th rank with 64,63% of GDP. (World Economic Forum 2012: 352). This measure shows again that Greece was not showing strong signs of disintermediation.

Consequently, these two indicators show that besides the rapid pace and scope of expansion, as well as the sector's modernisation, there was no disintermediation in Greece, at least not the way that there was in Anglo-saxon countries.

Yet this is not the whole story. Banks' profits were not only based in interest differential prior to mid 2000s, even though as seen in table 2 interest spread was high in 1998 standing at almost 8,9 percentage points and by 2002 it was almost half, standing at 4,62 further diminishing since then. On the contrary and despite the high interest spreads, it was fees that were the main source of their profits. Actually their fees were more than the standard bank fees of other European banks. BoG (2003, interim: 106-107) reported that this was mainly due to the fact that they were not active in credit markets and were obliged to hold a significant amount of state bonds which did not have high interest rates, so they could not benefit from the interest differential between deposits and loans.

Table (2) Interest rate spread in Greece and the Euro Area

	Average interest rate on new loans in Greece[1]	Average interest rate on new deposits in Greece[1]	Interest rate spread in Greece (percentage points)	Interest rate spread in Greece with euro area weighting (percentage points)	Interest rate spread in the euro area (percentage points)
Dec. 1998	16.21	8.12	8.09	...	...
Dec. 1999	14.02	6.98	7.04	...	...
Dec. 2000	9.68	4.00	5.68	...	...
Dec. 2001	7.26	1.96	5.30	...	...
Dec. 2002	6.29	1.67	4.62	...	...
Dec. 2003	5.92	1.20	4.72	4.45	2.77
Dec. 2004	5.94	1.22	4.72	4.18	2.53
Dec. 2005	5.79	1.27	4.52	3.59	2.56
Dec. 2006	6.38	1.87	4.51	3.63	2.89
Dec. 2007	6.67	2.53	4.14	3.48	3.09
Dec. 2008	6.72	3.27	3.45	3.27	2.64
Jan. 2009	6.40	3.00	3.40	3.18	2.39
Feb. 2009[2]	6.19	2.41	3.78	...	...

Sources: Bank of Greece and ECB.
1 The average interest rate depends on the level of interest rates of individual categories of deposits/loans as well as on the weight of each type of deposit/loan in the corresponding total. Therefore, changes in the average interest rate reflect changes in the actual interest rates and/or changes in the weights of the instrument categories concerned. In order to smooth out the impact of abrupt changes in shares, the calculation of the average interest rate is based on the average of the shares over the past twelve months.
2 Data on bank interest rates for February 2009 were not available on the date of publication of this Report.

BoG, annual, 2008: 145

Moreover in the 1999 stock market boom, they managed to benefit considerably from trading of their own shares and securities as well as from commissions and revenues from stock market transactions and management of bond issues -part of which they again used to buy their own shares (BoG, 2000, annual: 203; Gibson, 2005: 16-17). The former meant that they used the money of their depositors in order to acquire and thus inflate their shares as well as the bonuses of their head chief executive officers (CEOs).[193] Everyday life then contributed trough a variegated channel to financialisation of banking sector and the political economy as a whole, without the gains of this transformation to be equally distributed between the "counterparties". Because banks were admittedly among those who gained from the boom of the stock market and did not lose in the blast as did everyday persons. Consequently, both fees and stock market earnings had as a result, their profits to be higher than that of banks of other countries -3% of their assets while EE average was around 1% in 1999. This percentage of profitability started dropping and in 2001 it was 1,4% -however again above EE aver-

[193] I thank Professor Roumeliotis for highlighting this point for me.

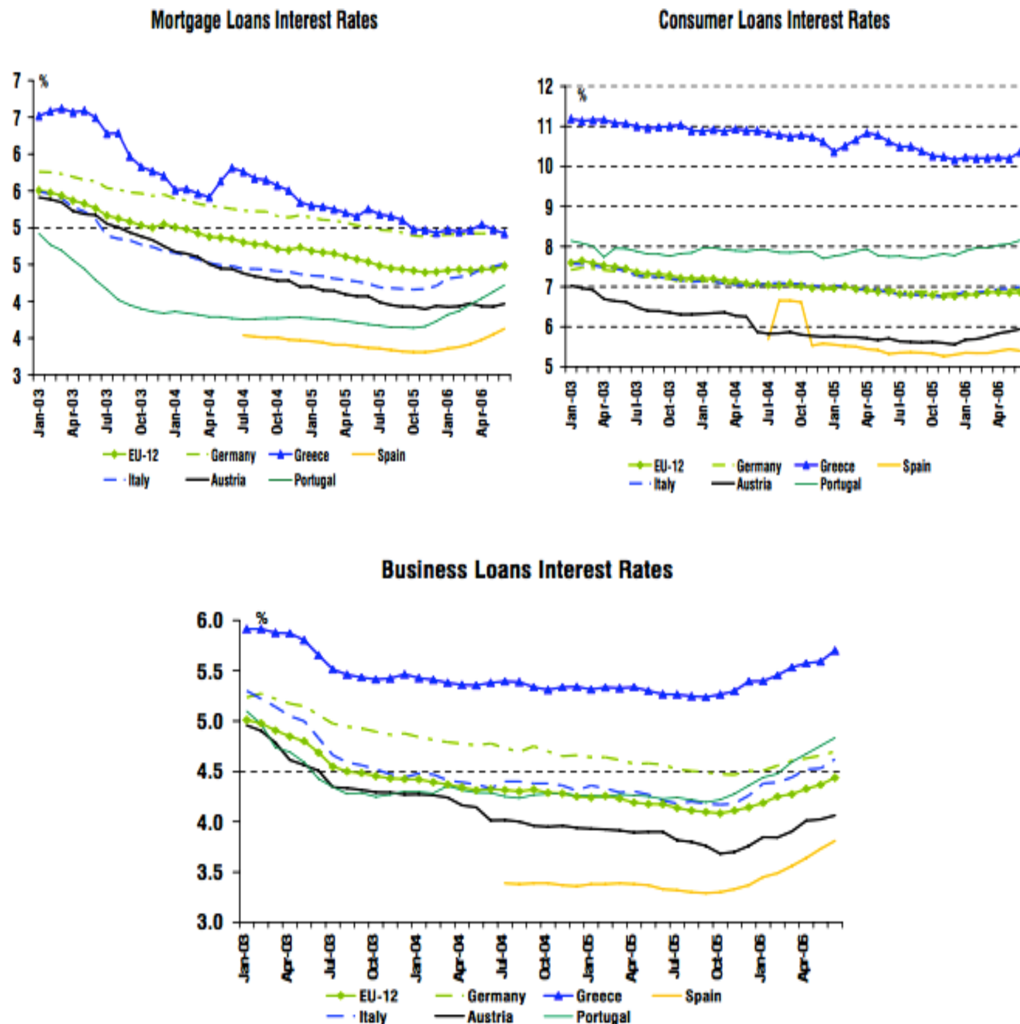
age- something that denoted adjustment to EE standard fee charges but one can argue that it was not so much due to competition and modernisation of practises but due to the cost of mergers and acquisition of that period (BoG, 2003, interim: 106-107). Competition and adjustment mattered more in the years that followed.

To see the situation from another perspective, in 2000 net interest income was standing at 55,48% of total and non-interest one at 44,52%, with fees amounting at almost 25% (OECD, 2010). Actually net interest revenues as a percentage of the total operational income was far below EE-12 average at the time as seen in chart 66. In the same chart we that that it was after early 2000s that banks gradually started making profits more from interest differential reaching to a point where net interest income made up 3/4 of their total income - in 2005 75,31% of the total, and in 2008 83,12% of the total (OECD, 2010)- something that was considerably higher than EU average of 63,1% in 2005 and the even lower on of EE-12 (BoG, 2006 annual: 52; chart 66). This means that as financialisation of the political economy proceeded banks conformed with the standard measure of intermediation -profiting from interest differential- contrasting financialisation trend which entails disintermediation and fee generated profits for banks.

It would be worth to note that interest rates of all types of loans in Greece are the highest in the EZ (chart 67). So even though domestically, money seemed cheap at the time, because as seen in table 2 interest rates decreased considerably since late 1990s, from an almost 16% to an almost 6%, loans were really “expensive”, if one considers their costs comparatively to other countries. Consequently when banks started gaining more from interest differential, they had an additional comparative advantage to their european counterparts: the differential was considerably higher relative to EZ average despite its steep decline in the 2000s (BoG, 2008 interim: 136; table 2). Bank of Greece justifies this considerable divergence from EZ average by pointing to the divergent composite both of loans and deposits, to a relative high number of small depositors and borrowers, to higher functional and interbank-lending costs of Greek

banks, to the longer time it takes to liquidate the collateral of loans as well as the higher percentage of non-perfuming loans (BoG, 2008 interim: 136).

Chart (67) Mortgage, consumer and business interest rates in relation to EU countries



Source: Hardouvelis, 2006

Even though one can have some objections in many of these factors what is indisputable is the core argument, the core rationale of this view: the fact that mere existence of a large little-man deposit and loan base as well as the preferences of this clientele (eg preference to credit card loans, something that does not exist to this extend to other European countries), in other words, everyday life is to "blame", at least

to a considerable degree, for the higher cost of loans and the limited profit on deposits, even according to BoG.

However, blaming everyday life for the expensive banking services if probably half of the story. Because Greek banks functioned under conditions of monopolistic competition (Hondrogiannis et al, 1999: 389) or at least of oligopoly (Argitis and Michopoulou, 2013: 133-4), even after financial liberalisation.[194] Of course this is probably a given factor for bank-based systems in general.[195] However, if this is coupled with the information barriers that foreign banks encountered domestically, then Argitis and Michopoulou are probably right to assert that liberalisation of capital flows and foreign exchange created "important structural benefits" (ibid: 134) to a sector already privileged with political and economic influence. Greek banks had to adjust their interest rates in lower levels as part of the globalised trend, albeit not to a degree that their European counterparts did (far more their USA ones). The conditions of the domestic political economy afforded them this space.

This very space allowed banks to offer intermediation services that could be characterised as predatory in nature. Because one of the characteristics of predatory loans as seen above in chapter 3, is excessively high interest rates or fees and unnecessary or abusive provisions that do not benefit the borrower (Carr J.H. et al, 2001). A proof of

[194] We choose not to include in this thesis a series of assertions based either on journalistic informations or reports from ECB which concern the cronyism of Greek banks, which allegedly during the boom years granted loans to friends and relatives of bank executives without sufficient guarantees and in detriment of banks' themselves. However, these alleged corruption practises are another sign of monopolistic power of banks or more so of bankers themselves. Albeit the difficulty in empirically establishing such claims in this thesis, led us to consciously avoid factoring this aspect of Greek banking in our analysis.

[195] In bank based systems, financing of firms and industry, as well as retail banking is more relationship-based than in market based systems. In the former this results to stronger ties between firms and banks, and since reputation is important for financing the entrance of new investors is harder to attract financing which gives financiers some degree of monopoly finance over the firms they finance (Bijlsma et al, 2013: 5). It is what Boot and Thakor (2008: 5) termed as "informational monopoly that may permit the bank to charge higher loan interest rates"and thus gain from "competition-immune" rents from the financing of new companies (however not necessarily from new ones).

this predatory character are a series of abusive/usurious fees and terms especially in the process of acquiring a loan, or in every day transactions. In some of these practises, numerous court decisions have been issued, albeit they were rarely implemented from banks, something that manifests banks' political and economic power as well as the lack of effective market dynamics and subsequent competition.

This predatory character and monopolistic or oligopolistic conditions in the local banking market are important to our analysis, because they highlight a paradox. From one part, in such an economic environment banks did not need to seek profits in securitisation practises, vehicle finance or any type of financial engineering products, because the local market and the expansion to South East Europe offered more than adequate opportunities of profit making and rentier income. Thus in financialisation they kept and rather enhanced their intermediation role. Free capital flows then and liberalisation of financial sector appeared to have the exact benefits that experts proclaimed. However, their predatory practises, with high interest rates and fees in loans' provisions as well as the terms of loan agreements, probably invite financialisation from another channel. This variegated form of Greek banks' financialisation could be epitomised as follows: Banks kept and enhanced their rentier income through high interest rates in loans and fees as well as their privileged legal position in loan agreements especially of everyday people, thus distorting their intermediation function. Attracting as many loan agreements was more important than the evaluation of the borrower's capacity to repay, because the fees and terms involved far more compensated the banks for their loan exposure. Banks did not became transmission belts in an originate and distribute system of Anglo-saxon countries, but the functional result of their practises was just about the same. In this case thoughtlessness and recklessness in attracting clients was not due to market dynamics but to domestic structure of banking market and regulatory leniency.

6.4. Conclusion

From the point of view of financialisation literature, and even though some Marxist perspectives might argue otherwise, Greek banking sector was a healthy financial sector till the erosion of the crisis. It did not acquire toxic financial assets, it did not take part in the global speculative trends in banking, and remained rather far from any shadow banking practises. Actually one could safely assert that there was no financialisation in the banking system, even though some financialisation trends were prominent such as an orientation towards households which became the main target group of banks, especially after late 1990s. Because banks did indeed target households, but they did not diminish their credit to enterprises, and thus investment was still funded through the banking system. Furthermore, investment did not diminish because of this expansion of banks towards households. In other words, banking sector, in contrast to Anglo-saxon countries, supported real economy by enhancing its institutional role through democratisation of credit towards households without abstaining from loans to enterprises whose investments eventually benefit society as a whole through the creation of jobs, income and new capital.

Moreover, Greek banks were strongly capitalised, with no toxic assets or off balance sheet items of any considerable economic weight. Banking sector size, as measured by bank assets to GDP, despite its strong rise remained lower that EZ average at any point in time. Interbank lending was a practice banks acquired rather recently and it was the "kerkoporta" (back door) that let Greek state's debt troubles invade banks' balance sheets. It was thus a liquidity problem, and not a capital adequacy problem that Greek banks faced in the eve of the crisis, even though their percentage of interbank lending of almost 12% was below EZ average. And since loans despite their exponential rise did not surpass EZ averages, then one can discern no sign of excess of any sort.

Therefore, overall, deregulation resulted rather to a modernisation of a system which was heavily regulated and restrained with the characteristics of oligopoly with no competition and a moral hazard attitude from the part of banks due to the "special"

connections of banking and political elites. From the point of view of aggregate numbers then, and financialisation indicators proposed in the Anglo-saxonian context, deregulation seemed to have had a general societal benefit fully in accordance to neoliberal narrative. It led to more transparency, to democratisation of credit, to lower interest rates without any of the drawbacks that occurred in Anglo-saxon or advanced economies which eventually had adverse societal repercussions. To challenge Turner's views on global and european financialisation trends (2012), credit creation in Greece exhibited social optimality. Or so it seemed.

Yet Greek banks were not saints. Well, actually they could be saints of an orthodox economic thinking, since the only thing they did is to fiercely compete for a market that almost did not exist before, the household one (both residential and consumer). But from a more socially oriented point of view which reads social reality beyond and behind numerical data, it could be said that their business practises were predatory in nature due to high interest rates, high fees, and contractual clauses that benefited almost exclusively the lender. Moreover, banks used everyday life for their expansion either though loans, or though fees on loans and stock market management or though the use of the money of their deposits in order to buy and thus inflate their shares in the stock market.

In more technical terms one can conclude that disintermediation, which is a core feature of financialisation of banking sector in the Anglo-saxon world did not occur in Greece. Even though new financial products such as mutual funds and corporate bonds that appeared in the market could have signalled an orientation towards capital market funding, the fact the banks managed and/or absorbed these new financial products, means that instead of losing their intermediation function, they were actually enhancing it. Si in a rather unconventional to financialisation way, as finance was spreading in scale and scope in the economy, banks started profiting more from interest differential than before, when the major part of their earnings came from fees. From a fee generating business then, banking became an interest differential based one. Therefore, global financialisation dynamics enhanced rather than altered their

institutional role in a political economy in fair contrast to Anglo-saxon and other European countries. And it enhanced it both in household and business lending; in the former through democratisation of lending and in the latter through retaining and doubling its lending as well as through modernisation of lending practises. However, there were variegated ways in which financialisation of banking occurred in Greece, and which effectively proved both speculative and "disintemediative": they speculated on high fees, high interest rates, predatory contractual clauses, and the use of depositors money to gain in profits and CEOs bonuses. Rentier money then which had little to contribute to real economy and its productive capacity diverged funds from productive and long-term investments into the short-term, excessive and risky horizon of financial ones which hampered rather than enhanced banks' institutional role in a political economy.

CHAPTER 7: Household finance: Greeks as debtors and "financial investors"

In the first part of this thesis we saw that one of the most prominent and characteristic trends of financialisation was the inclusion, or rather the expansion of the inclusion of households in financial circuits, most notably through mortgage and consumer debt, as well as through pensions and health care provision schemes. Moreover, household debt played a significant role in the ongoing crisis in contrast to other recent ones where sovereign (in Latin America and Russia crises) and corporate (in Asian financial crises) played the most important role (Liu and Rosenberg, 2013: 5). After all USA subprime mortgage market was the trigger of events that followed. Furthermore as developed in chapter 3 and 4 everyday life became an active agent of financialisation, or in the words of our analytical framework an agent of this power at a distance that financialisation resulted to.

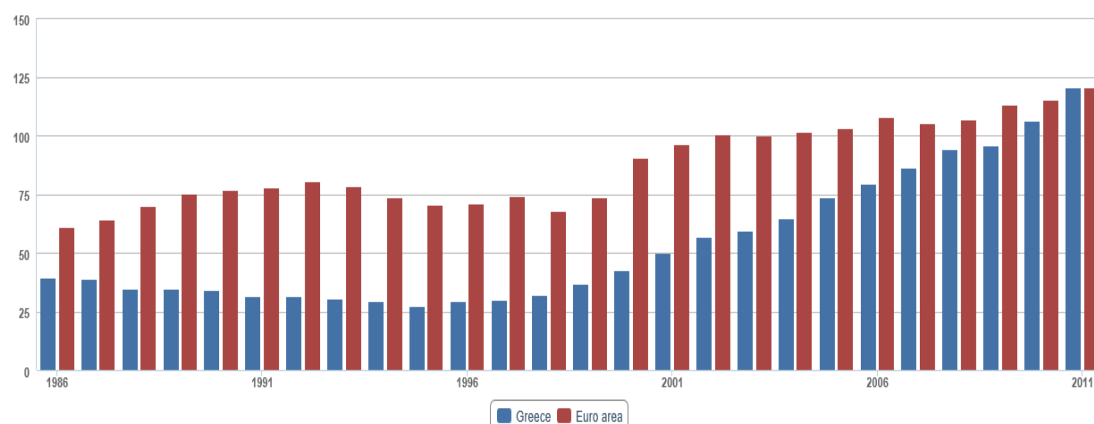
In this chapter, we will examine if Greek household sector was financialised and how. If Greeks became also the agents of this power at a distance. We will do that by critically elaborating on figures of mortgage, consumer and non-financial sector debt. We examine non-financial sector debt in this chapter, because a large part of it, the one granted to micro enterprises and professionals should be considered as part of household debt in the Greek case due to the structure of its political economy, where the relative importance of SMEs and micro enterprises is particularly high and where there is a high percentage of self employment and family run businesses (Eurostat, 2016). Finally we will see Greeks as "investors" in financial products, or better as holders of financial assets, focusing in the stock market crash of late 1990s as a case in point. The conclusions of each part will help us understand if numbers legitimise a claim for financialisation of Greek private sector, and in case they do, its particular features. In order to understand if there was a social transformation involved in each case we will try to describe the situation before the expansion of finance in each sector.

7.1. Greeks as debtors

Liabilities of households

Greek society had historically low levels of private debt. This was due to a wide-spread credit averse culture which was the effect of a strict regulatory environment and subsequent banking practises. But deregulation of financial sector, free capital flows, and tax incentives, made debt appealing to Greek households. Its rise was steady and impressive starting slowly in early 1990s with the deregulation, peaking strongly in the 2000s. Besides its impressive rise though it only reached EU average in 2011, as the following chart 68 shows. Private debt in Greece consists mainly from residential, consumer, car-purchase and business loans, since other kinds of loans such as student ones, are either not available or not common.

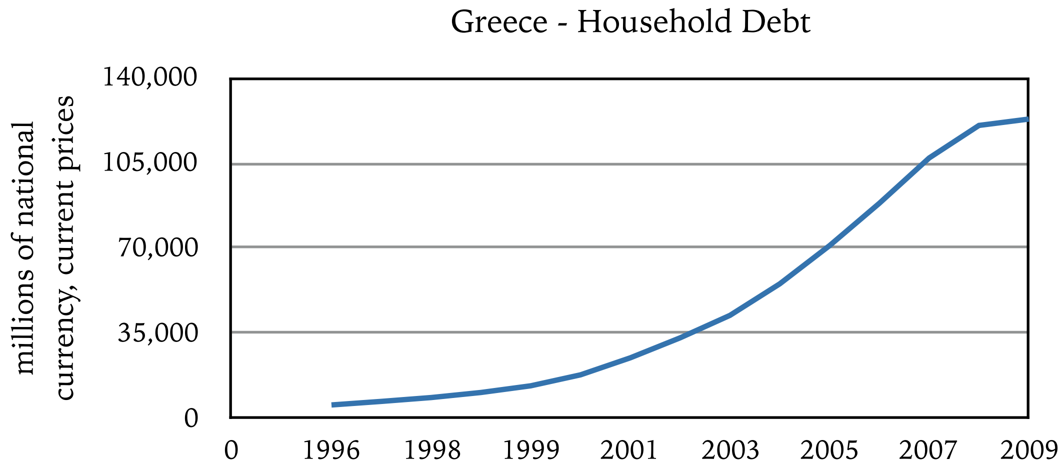
Chart (68) Private credit to GDP



Source: World Bank

Particularly, as far as households are concerned their debt obligations in 1995 amounted to 5-6% of GDP, and in 1996 the percentage started rising strongly (BoG, monetary 2002: 85), a dynamic that was to stop only with the crisis that reached Greece in late 2010. Chart 69 shows this impressive development in absolute numbers, and there one can see than from a negligible amount household debt started to increase in mid-1990s and more so in the 2000s reaching at its peak in 2010 around 140 billion euros.

Chart (69) Household debt in absolute numbers



Source: OECD indicators (2013 - accessed 08.04.2013)

According to a survey from Central Bank of Greece in 2007 almost half of Greek households did not have a debt obligation of any sort, and those who had debt, had more credit card than mortgage related debt: 60,8% of indebted households held credit card debt (of 54,4% in 2005), while 40,1% had a mortgage debt (of 37,3%).[196] Moreover this survey reports that for 78% of households debt service ratio accounts for 1/3 of their income, and if we raise this percentage to 84% the debt service ratio does not exceed 40% of household income.[197] Actually in the 2005 survey of BoG (BoG, 2005 survey; BoG, 2006: 84) it was found that the debt service of 12% of households with a loan is more than 40% of their income, but these households' debt represent 30% of total household debt, something that means that not only there is pressure to these households but that there is a considerable default risk for the banking system as a whole. Nevertheless debt to assets ratio of indebted households is considerably below EZ average -14,8 and 21,8 respectively- meaning that on the aggregate there is both a collateral for banks as well as a safety belt for households (ECB, 2013).

[196] Bank of Greece, 2008, "Borrowing and financial pressure to households: Results from Representative Research of 2007". This was the last of three surveys conducted in 2002, 2005 and 2007 in order for the Central Bank to see how households are coping with increasing debt.

[197] Survey of Bank of Greece under the title "Borrowing and financial pressure to households: Results from Representative Research of 2007"

According to another survey of ECB though the percentages are lower: only 36,6% of the population has been reported to hold some type of debt in 2009 (ECB: 2013), and only 17% of the total population has mortgages (ibid: 16). In the same survey Eurozone average of households holding some kind of debt is estimated to 43.7% of euro area households, meaning that Greece was below average (ibid: 50). Yet mortgage loans are the largest liability of households. According to post-crisis Black Rock Report, mortgage debt amounted to 31,37% of the total, while consumer debt –including credit cards- accounted of 12,98% (BoG, 2012-BlackRock report). In what follows we see each category of private/household debt in detail. In general and in absolute numbers, household debt according to OECD indicator rose exponentially since 1995 reaching almost 140 billion euros in 2010 from around 5 million in 1995.

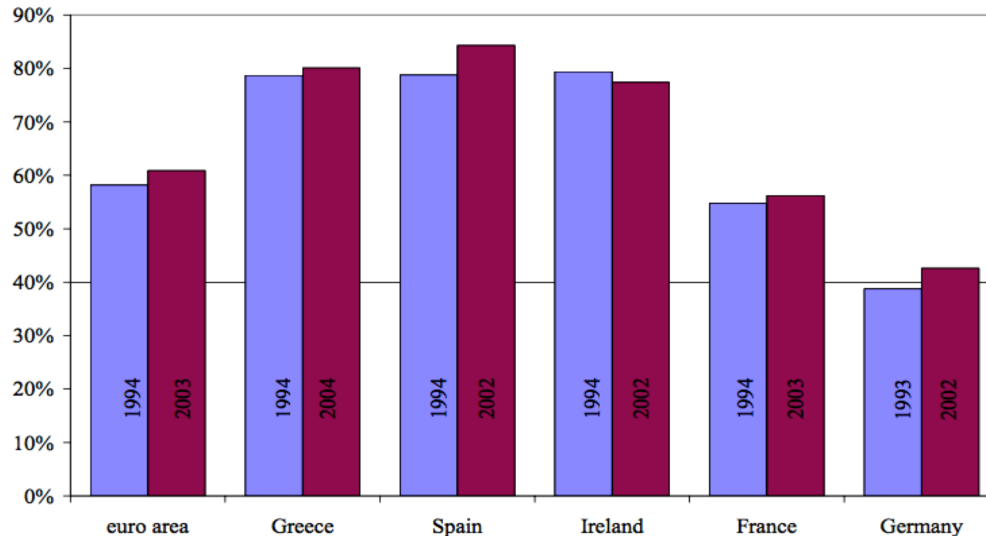
A. Residential related debt

Residential related debt is considered to be mainly the debt used to buy a house, as well to a lesser extent the debt used to built, extent, or restore a house. In all these cases though the house or land is used as collateral. The collateral takes the legal form of a "a pre mortgage registration (prosimiosi upothikis") in the local land registry which hedges banks' claims against borrower's potential default and is considered to be a prioritised claim against other potential claims against the same borrower.

If seen in the aggregate, as macroeconomists usually do, residential debt did not come to fulfil a critical social need. Greece had always high ownership rates and among euro area countries, only Spain had a higher home ownership rate (chart 70; Brissimis and Vlassopoulos, 2007). These figures were already very high by international standards at the outset of the deregulation of the mortgage lending market and have since increased further. Furthermore, household wealth seems to be more equally distributed in Greece (ECB, 2013c: 12), comparing for example with Germany which has the most unequal distribution of household wealth in the Eurozone (De Grauwe et Ji, 2013). Indeed households owning their main residence is far more dispersed and

well beyond EU average in all income and net wealth groups as well as in all sizes of households (ECB, 2013c).

Chart (70) Share of owner-occupied accommodation in selected euro area countries



Source: Brissimis S. and Vlassopoulos, (2007)

The reasons of this high and dispersed ownership rate are economic, institutional an and cultural ones. Economically, buying a house was the most profitable and least expensive investment available to households that could insulate their savings from inflation in a period when financial regulation was intense and capital controls were in place (Bissimis and Vlassopoulos, 2009: 9; Hardouvellis, 2009: 20). From an neo-institutional perspective Doxiades (2013: 42) argues that it was the rational choice for investment of a society of micro-enterpreneurs, because unlike western nations-states where industrial and large-scale investments needs savings to be pooled, the micro scale of greek economy did not have such an investment opportunity. In more technical terms it could be said that it investing in real estate can be the endogenous response in an economic environment characterised by higher general macroeconomic and political uncertainty and a low level of public good provision (ECB, 2013: 87).

Moreover there were institutional reasons that made residential debt quite expensive. Banks did not target households, probably because there was no social need to, no demand, so residential credit had very high interest rates. Moreover, and probably most importantly there were cultural reasons, since home ownership has traditionally been important: having a “keramidi” (a brick) over one’s head, as a popular saying goes, was considered a safety net and thus a life-time dream. People were saving in order to buy a house for themselves or for their children. It is quite common even for families at the lowest income levels to have a house in the city and a house or a piece of land "in the village”. Sellers of residential property on the other hand had a disincentive to sell to someone who was to get a loan, because banks disbursed the money some months after the transfer of the property with no particular guarantee that they will finally do so and with quite time-consuming and expensive legal procedures to get their house back in the case of non-disbursement. This was the situation till late 1990s.

Conclusively, with an almost eighty percent homeownership rate dispersed among all income groups, Greeks did not really need to borrow in order to own a home. From a quantitative analysis, and in an aggregate perspective, borrowing to acquire a home could be considered an excess, even an artificial need, or a lack where there isn’t any to use the words of Deleuze and Guattari (1981: 273).

Rise of mortgages – main indicators

Yet besides not really needing to borrow to acquire a home, the availability of cheap credit and fierce competition between banks after deregulation which was coupled with aggressive advertisement and promotion of mortgages resulted to a huge rise in residential loans. In this section we will try to gather all the relevant indicators in order to discern if there was indeed a financialisation of households, and what were the distinctive characteristics of this financialisation. We do that in a comparative perspective in order to realise exactly what, if any, is distinctive then. We should remind that according to the characteristics of financialisation that we have described in the first part of this thesis for financialisation to take place we need an element of excess

either in scope or in scale. Did the rise of household debt have this element of excess? Was household sector financialised through residential debt? What characteristics of the rise of mortgage debt lead us to conclude that the economy was financialised though this channel and not merely modernised?

Starting from the increase of household loans in comparison to loan portfolio of banks, we see in the chart 71 that mortgage loans for house purchase as a percentage of total loans provided by monetary institutions from 1999-2007 almost doubled in Greece: it was raised from around 16% to around 36% ranking Greece fourth in 2007 between Eurozone countries, while in 1999 Greece was fourth, from the bottom though (ECB, 2009: 42). That can only be compared with other countries starting from the lowest base of the Eurozone such as Italy, Austria and Luxembourg: Italy and Austria almost doubled their percentage, while Luxembourg had a rise but still retained almost the lowest percentage even in 2007. All three countries remained below EZ average - which in 1999 was around 26-27%, and in 2007, 32%- and only Greece surpassed it slightly in 2007 (ibid).

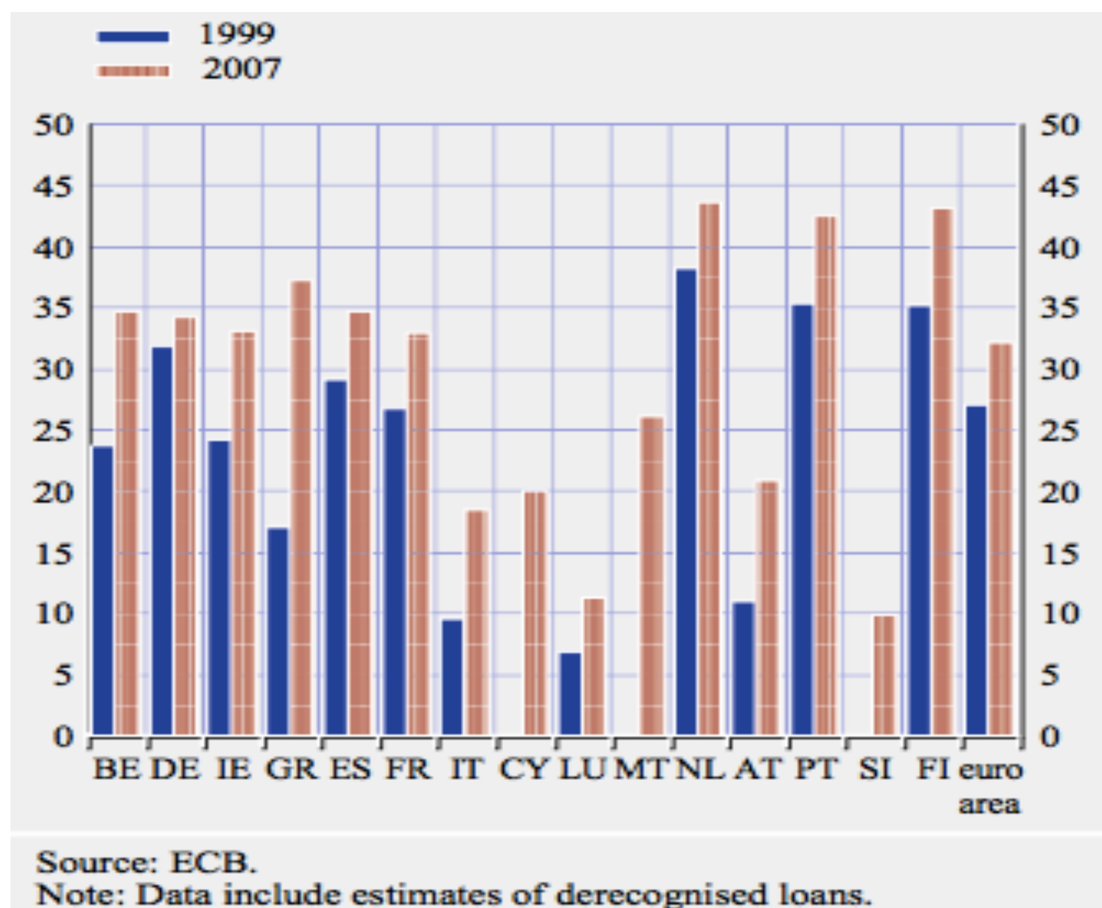
A more representative indicator though is households' housing related debt to GDP.[198] It remained stable at around 5% for about 15 years (from 1980 till mid 1990s) and then rose at a very fast pace as seen in charts 72, 73 and 74. To be more specific, as shown in chart 74, in 1999, the ratio was the lowest along with Italy in Euro Area amounting to less than 10% of GDP. Then in 2007 it reached almost 30% while the average in Euro Area was a bit less than 30% in 1999 reaching around 40% in 2007 (ECB, 2009: 12). So in less than a decade we had probably the most impressive rise of household debt in EZ, but still it remained considerably behind average. The sharp rise is something, that one can observe also in Italy, Spain, Ireland and Netherlands, albeit not in the same scale. The first three almost doubling their percentage in the

[198] It should be noted that the indicators reported here are not always depicting reality, which is complicated and usually determined from a series of factors. Household debt for example to GDP, or to income or to total assets does not necessarily mean hardship for households if they are high. Tax redemptions of debt payments or of main residence, as well as a series of public welfare provisions, such as health, schooling and pensions can elevate counterbalance a big monthly payment on debt.

above time period. Netherlands was always the front liner of all states all through this period, but still had a sharp rise. Italy was the only one of these countries that besides the sharp rise remained below average even in 2007, even below Greece at that period.

Chart (71) Share of loans to households for house purchase

(in relation to total MFI loans to EZ non-MFIs)

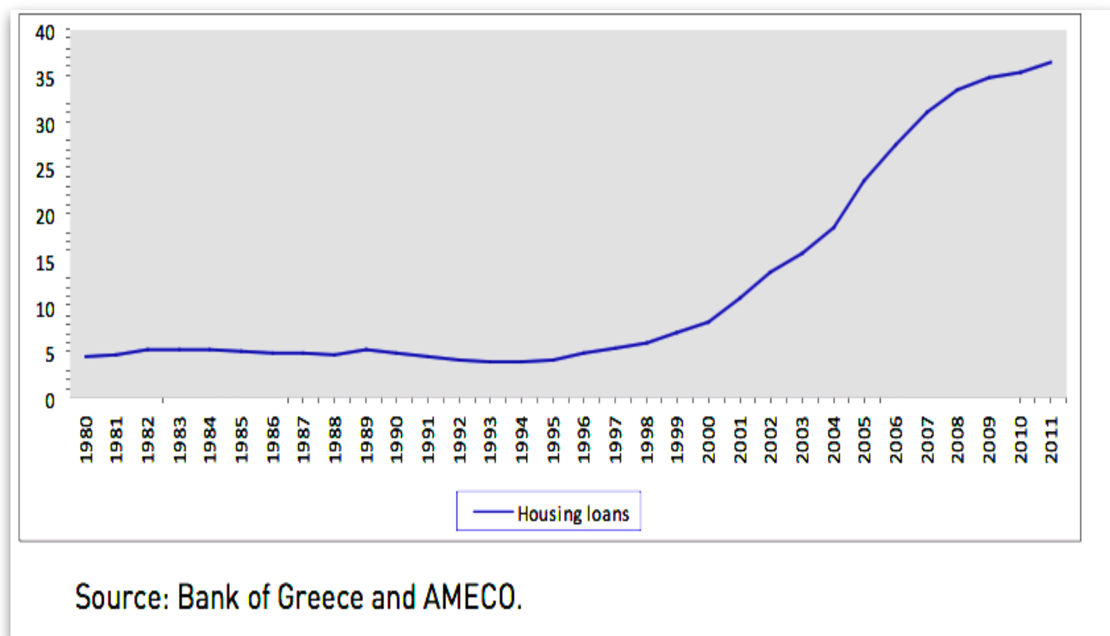


Source: ECB, 2009: 42

Overall, between 1999-2007 the growth rate of loan for purchasing a house rose the most in Greece -to around 30,3%- surpassed with only than of Slovenia (49%), while the average in the Euro Area was far below at 10,4%, with Germany's growth rate being only 3% and France's 10,1% (ECB, 2009: 14, 84). Even the countries that we saw above had lower growth rates: Italy had 20,3, Spain 19,8, Ireland 23,4 and Netherlands 13,4. Chart 73, is illustrative of this development since it shows the evolution of this indicator in comparison to EZ average, and chart 74 shows that among EZ coun-

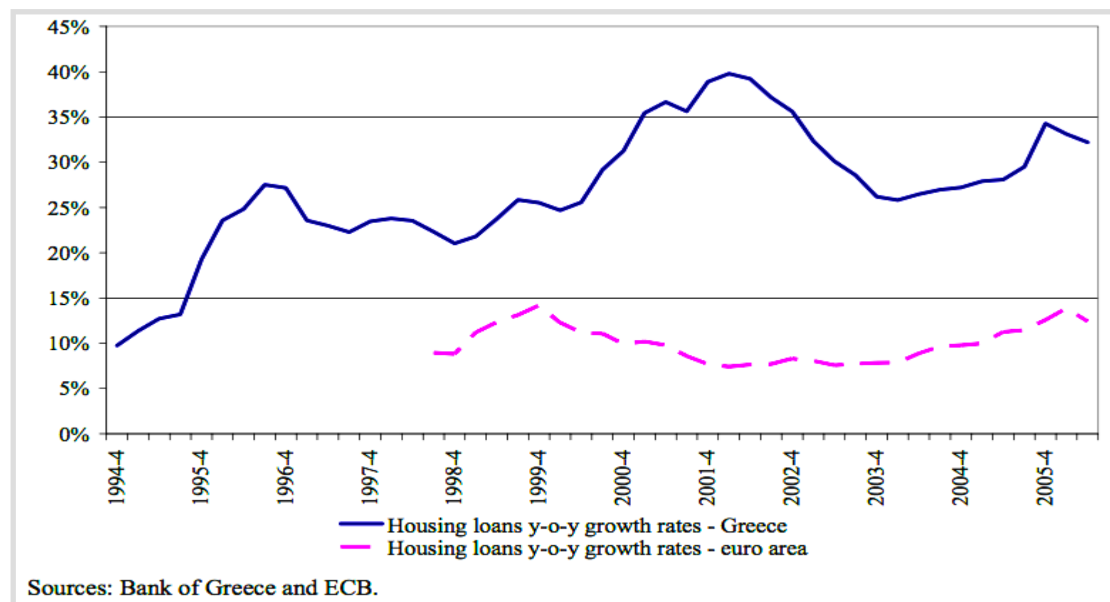
tries, it was only in Greece that household's housing relating debt almost quadrupled, between 1999-2007.

Chart (72) Housing loans to GDP (1980 - 2011)



Source, Argitis and Michopoulou, (2013: 36)

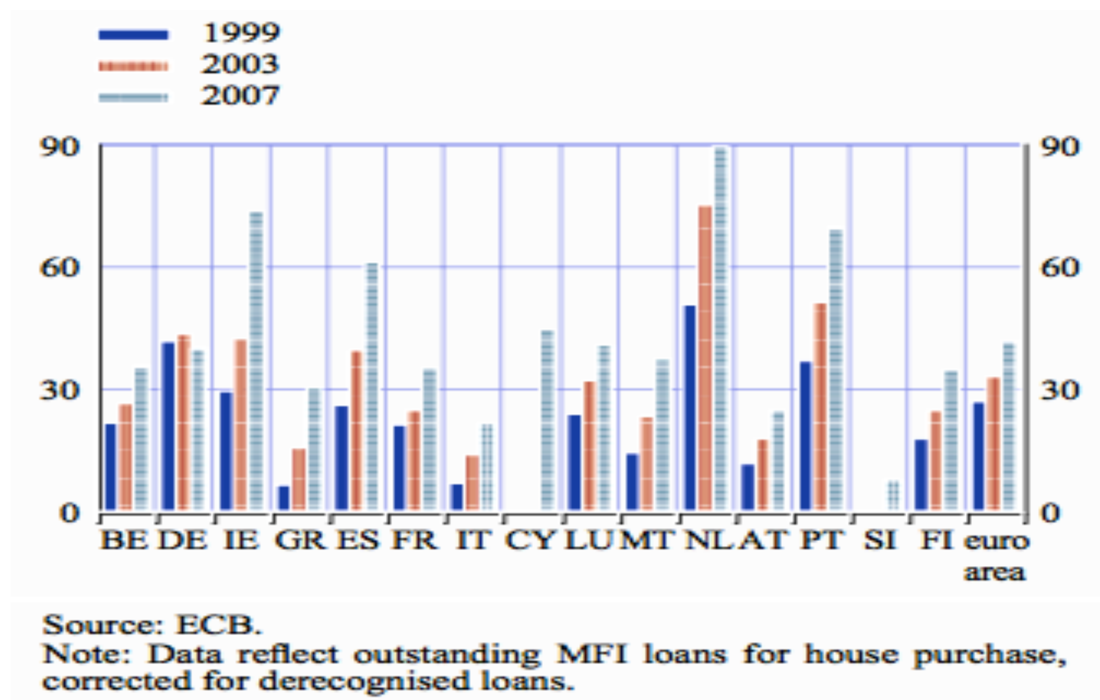
Chart (73) Annual growth of housing loans (in nominal terms)



Source: Brissimis S. and Vlassopoulos, 2007

Chart (74) Households' housing related debt in 1999, 2003, and 2007

(percentages of GDP)



Source: ECB, 2009: 12

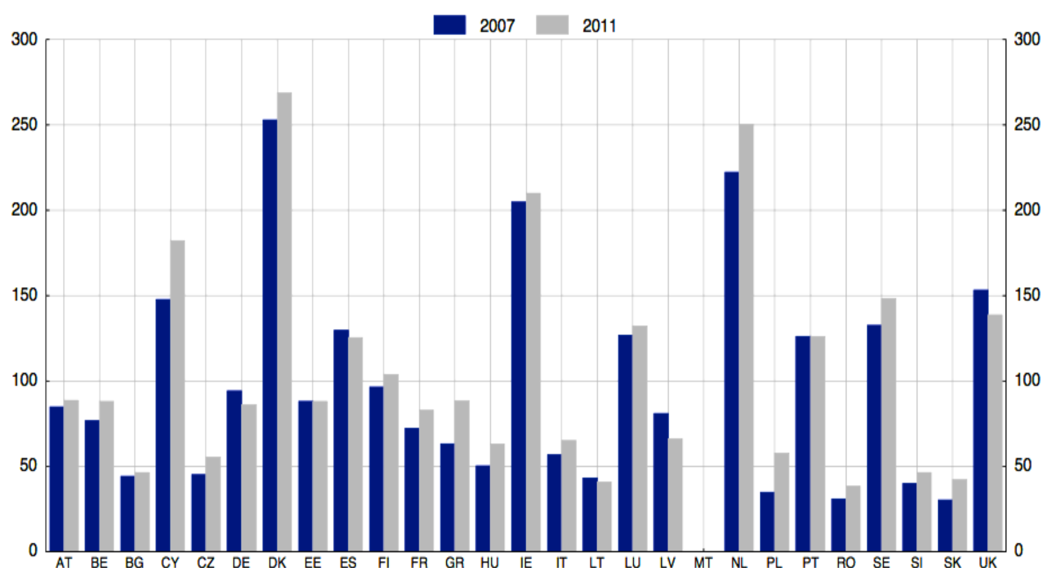
Consequently mortgage debt from almost non-existent in household portfolio in the 1980s, it became its most important liability (ECB, 2013). Yet the debt service to income ratio, which measures the amount of monthly disposable income that households pay for interest and to repay the principal, in other words their ability to repay their debt obligations, remained within average EZ range. According to ECB, even households in the lowest income class already devoted around one-third of their disposable income to service their mortgages in the period from 2005 to 2007, as did in Spain, Italy and the Netherlands (ECB, 2009: 19), meaning that there seems to be no subprime mortgages in Greek household market. But ECBs latest survey showed something rather impressive: median debt service is even lower. The mortgage debt service to income ratio of households with mortgage debt is 16,4% (EZ average 15,9%) while the debt to total gross household income ratio of all indebted house-

holds 47,2% (EZ average 62,0%),[199] which means that at least pre-crisis Greeks could service their loans with a more than reasonable percentage of their income.

Even if we include all households' debt (total not only residential)-to-gross disposable income, still Greece was around 60% in 2007 rising to 90% in 2011 which brought it close to EE average (see chart 75, ESRB, 2013: 12; OECD, 2013 - factbook). Median ratio of the mortgage to disposable income was well above 100%, yet the distribution among age and income classes raises the ratio even to a 284% percent (for the younger-age quartile). While this percentage could be shocking it should be noted that it is not at all extreme comparing to other Eurozone countries (ECB, 2009: 12).

Chart (75) Households' debt-to-gross disposable income ratio

(2007 and 2011 percentages)



Sources: ECB and European Commission.
Notes: Gross disposable income adjusted for the change in net equity of households and pension fund reserves. For Bulgaria and Romania, "last observation" refers to 2010. For Luxembourg, it refers to 2009. Data for Malta are not available.

Source: ESRB, 2013

Besides the fact that Greeks could cope with their monthly debt payments rather easily, the value of their mortgage was quite moderate if one compares it to their total as-

[199] ECB, 2013a: 66. It should be noted though that this debt service, does not include households holding only credit lines/overdraft debt or credit card debt, since no information was collected on those.

sets. This shows in the median value of the ratio of the mortgage to total assets which is a useful indicator of households' ability to pay back their loans, assuming that houses and stocks can be sold at prevailing prices if a household faces serious difficulties in repaying its debt. It was 20% for Greece, higher than Spain (around 18%) and Italy (around 13%) and lower than Netherlands (around 32%) and Portugal (around 30%) (ECB, 2009: 15). Household debt as a percentage of net financial wealth surged followed a trend of Ireland and CEE countries, reaching almost 60% in 2010 from almost 40% in 2005 yet it is still below EU average (Liu and Rosenberg, 2013: 4). In high income European countries, as well as in Spain, Italy and Portugal this increase was not as pronounced.

Finally we should note another dimension of household debt, the one in foreign currency. Till late 1980s foreign exchange loans to private sector (in general, not just households) were very limited. But a after a series of regulation (in 1987, 1988 and finally in 1994) and in the context of modernisation and deregulation of financial sector in Greece, foreign exchange loans were permitted first as short term loans to specific business sectors and then to a broad range of enterprises as well as households. Consequently the average yearly growth rate of foreign exchange loans were 43,6% between 1994-1999, when the respective rate in drachmas during the same period was 14,8% (BoG, monetary 2000: 37).[200] Following this trend, between 1998 and 1999 foreign exchange loans increased by 24,3% (from an increase at 13,8% in 1998) in comparison to drachma loans of that period which increased by 11,2% (in comparison to 15,4% increase in 1998) (ibid: 36). In this first period of rise of foreign exchange loans yen was the most preferred currency followed by USD (ibid).

This trend resulted to mortgage loans in foreign exchange accounting in 1999 for 11,2% of total mortgage loans (ibid: 40). Then in 2011, according to ESRB and as seen in chart 76,[201] Greece was third in EZ (around 7% of total outstanding loans) af-

[200] We should note that these figures do not refer only to household loans but generally to private sector loans.

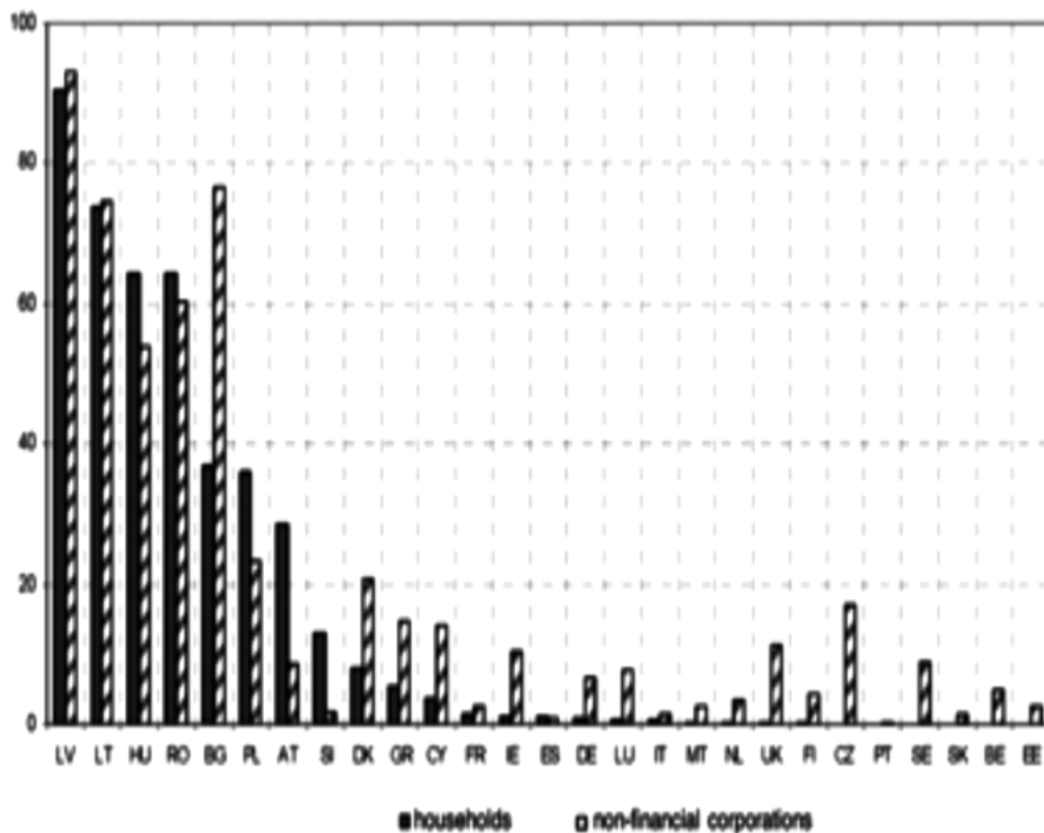
[201] According to ESRB Luxembourg had also a large percentage of foreign currency loans but these were mainly given to non-residents, while the data provided here concern domestic residents.

ter Austria and Slovenia in household loans in foreign currency and had the highest EZ percentage in non-financial sector loans -around 18% of total outstanding loans (ESRB, 2011);[202] a situation that lingered the following years as seen in chart 78. If one wants to look closer to the factors of high foreign currency loans, one can see that in Slovenia the reason is probably because it joined the EZ in 2007, so till then euro was a foreign currency. Austria on the other hand had an impressive rise of FX loans, especially of Swiss Francs, which were mainly taken from better educated, young, married, usually self employed, wealthier households usually living close to Switcherland (Beer et al, 2008: 116-7).[203] In contrast, Greece, whose one third of foreign currency loans were in Swiss francs (as shown in chart 77) and the other in other currencies (Yesin, 2013: 221), had a population which was financially illiterate, and they sure did not live on the Swiss border. People could not understand even if explained to, that exchange rate risk is one to be seriously considered. They adopted a short term, or rather present term outlook, comparing just present interest rates that these loans were offering. An attitude if not promoted, at least not challenged by bank managers and employees. So probably these loans were not part of the European trend of "small men's carry trade" (ibid: 220), but rather an everyday practice which financed finance, to paraphrase Toporowski's argument, based on ignorance rather than strategic financial investments.

[202] Recommendation of the European Systemic Risk Board of 21 September 2011 on lending in foreign currencies (ESRB/2011/1)

[203] Even though the study is prior to the sample we are referring to, we believe that the highlighted tendencies of Austrian households towards FX trading have no reason to change.

Chart (76) Foreign currency lending to households and NFCs

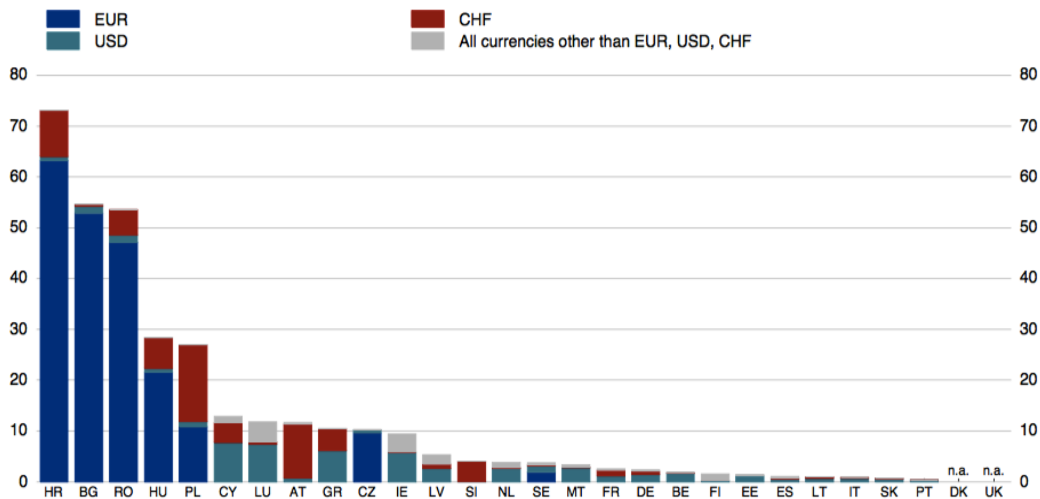


Source: European Central Bank (ECB) balance sheet items statistics (BSI) and own calculations.

Notes: This chart depicts foreign currency lending by monetary financial institutions (MFIs) to resident counterparties, as % of total outstanding loans, April 2011. Households sector include households and non-profit institutions serving households (NPISH).

Source ESC Statistics, accessed 11.09.2015

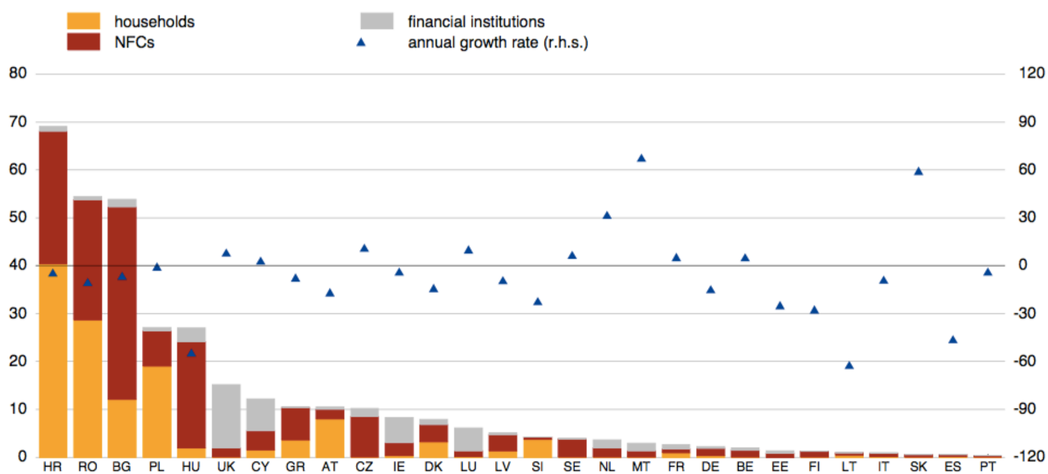
Chart (77) Foreign exchange loans by currency



Source: ECB.
Notes: Loans extended by MFIs excluding the ESCB to domestic non-MFIs. EUR is considered domestic currency for Lithuania. BG and DK have a regime of fixed exchange rates vis-à-vis the euro.

Chart (78) Foreign exchange loans by sector

(accessed 11.09.2015)

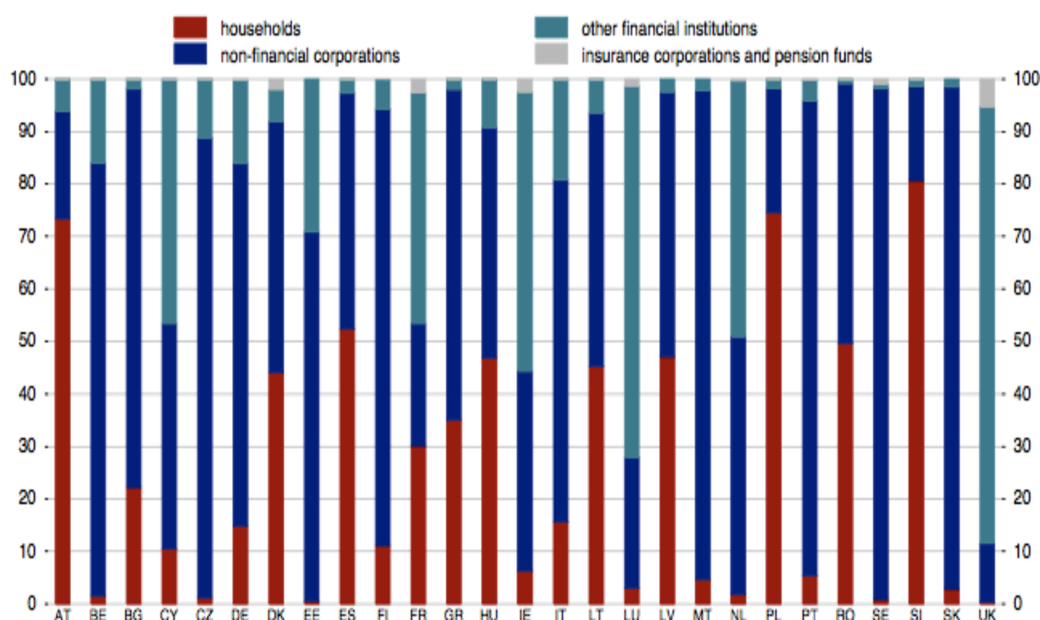


Source: ECB.
Note: EUR is considered domestic currency for Lithuania. BG and DK have a regime of fixed exchange rates vis-à-vis the euro.

Source: ESRB, 2013

Chart (79) Foreign currency loans by domestic sector

(Dec 2012, percentages)



Source: ESRB, 2013

Nonetheless, the combined interpretation of the above indicators shows that Greek households did not become vulnerable economically in relation to their EZ partners, despite the exponential rise of their financial liabilities in relation to mortgage lending. And this was due to three reasons. Firstly, household related debt was not alarming or excessive in any sense, and reached EZ average, in relation to GDP, just before the crisis erupted. Secondly, Greeks had the ability to pay off their debts since again they only reached EZ average of debt service ratios just before the crisis. And thirdly, mortgaged property is a comparatively small percentage of their total assets (20%), so if they were to face financial difficulties, they could afford to lose or sell it with no considerable loses.

However, one caveat could be proposed, and that would be foreign exchange loans. Even though they covered a relative small percentage of total loans (7%), if viewed in

combination with NFC loans[204] as well as the elementary financial knowledge of Greek population, they could pose a considerable risk to households and subsequently enhance their vulnerability to fluctuations of global financial markets. This has been proven by the numerous court actions taken from citizens who borrowed in swiss francs. And it is definately a sign of everyday life, meeting global financial markets through their ignorance rather than their strategic intention. But quantitatively speaking and on the aggregate the percentages of foreign currency loans could be considered insignificant. Overall then one can say that the neoliberal narrative for the benevolence of finance and the transparency it is to bestow to a political economy did indeed realise in the private sector of Greece.

A deeper reading of the empirics though would point to another direction: the unique fast pace of expansion of household credit in an economy with already one of the highest EZ home-ownership rates. In less than a decade as we saw Greece last quadrupled its household mortgage loans, followed by Italy, Ireland and Spain which only doubled their percentage. Finance permeated deep into Greek society in remarkable pace, engaging society almost half of Greek society at its "power at a distance" (Rose and Miller, 1992), by effectively creating lack when there was not any, reminding us the Deleuzian and Guattarian anti-production. So from one hand the fast pace of expansion of residential debt, as well as its anti-productive nature, could be thought to be a manifestation of the post-structural power of finance that we developed in chapter 4. Through aggressive advertisement due to competition between banks for this market segment (BoG, 2006: 65, 68)[205] and a omnipresent discourse prompting to easy profits and luxurious lifestyle, Greeks became themselves the agents of power of finance. That is probably why financialisation trend caught up so easily in the country.

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[204] We should note again that we account NFC loans to household sector since the vast majority of enterprises are small to medium ones, thus probably burdening household budget.

[205] This decrease also occurred in business loans but in consumer loans the decrease did not manage to reach EZ averages.

Causes and/or correlations of rise of credit

We saw the increase in mortgage debt. But does this increase means that the economy was financialised or simply modernised? To answer one needs to combine other variables of the (macro)economy. Low interest rates could justify all by themselves the rather moderate final outcome of this evolution, but were there other real economy fundamentals to justify the rise of debt, such as rise in prices, income or population. If these three factors were in place then credit responded to real social needs and financialisation probably did not take place through the channel of mortgage debt. In this section we will examine exactly that.

First we start with prices. Prices of residential property can correlate in different ways with expansion of credit: higher prices can justify higher lending or can create a housing bubble. In the former case, higher prices can rise the quantity of credit, because more financing is needed for a given property. In a high price environment, buying a house could become more difficult with traditional means, such as savings or family endowments. So credit is needed to fill the gap. A "financial accelerator" (Bernanke et al, 1999) mechanism can then start working, rising the collateral capacity of households and thus their ability to borrow. Yet in the literature the causality can run both ways, availability of finance can drive prices up and prices can drive up finance.

In Greece there was an impressive rise in the value of property, which coincided indeed with the post 1990s institutional environment of deregulation of financial markets and low interest rates. In table 3, one can see that prices were increasing the period between 1997 till 2008 with a deceleration in 2003-2004 and 2007-2008. In nominal terms, prices grew in average of 11% per annum between 1995 and 2005 –when rents were increasing at around 4% and inflation at around 4,5% (Hardouvelis, 2009). In another survey, ECB calculates growth rate of nominal property prices from 1999-2007 to 9,1%, which is still well above the EZ average of 6,1% (ECB, 2009: 84). The annual rate of growth started dropping from 2007, indicatively from December 2207 to February 2009 prices dropped from 3,9% to 1,6%, while rents only decelerated at the same period (BoG, annual, 2008: 67). House prices between 1995-2008

(mainly till 2002) increased 68% more than rents, when in USA -where admittedly there was a house bubble- the respective rise was 37% (continuing even after 2002) and in Spain -where private credit soared- was 28% (Hardouvelis, 2009: 44,46). The increase though was far lower than Ireland's and UK's (ibid: 46). Overall, between 1993-2007 housing prices soared by approximately 214% (Euromonitor, 2008).

Table (3) House prices (1994-2008)

Period	Urban areas-total			Athens			Other urban areas		
	Index	Percentage changes		Index	Percentage changes		Index	Percentage changes	
	1997=100	Over previous quarter	Year-on-year	1997=100	Over previous quarter	Year-on-year	1993 IV=100	Over previous quarter	Year-on-year
1997	100.0	9.7	9.7	100.0	12.5	12.5	134.7	7.1	7.1
1998	114.4	14.4	14.4	115.5	15.5	15.5	152.6	13.3	13.3
1999	124.5	8.9	8.9	129.6	12.2	12.2	161.5	5.8	5.8
2000	137.7	10.6	10.6	149.1	15.1	15.1	171.3	6.1	6.1
2001	157.5	14.4	14.4	175.4	17.6	17.6	190.2	11.0	11.0
2002	179.3	13.9	13.9	203.8	16.2	16.2	211.7	11.3	11.3
2003	189.0	5.4	5.4	211.9	4.0	4.0	226.8	7.1	7.1
2004	193.4	2.3	2.3	212.4	0.3	0.3	237.4	4.7	4.7
2005	214.5	10.9	10.9	230.8	8.6	8.6	269.3	13.4	13.4
2006	240.6	12.2	12.2	256.8	11.3	11.3	304.2	13.0	13.0
2007	251.6	4.6	4.6	270.1	5.2	5.2	315.8	3.8	3.8
2008	258.2	2.6	2.6	277.3	2.7	2.7	323.9	2.6	2.6

Source: BoG, 2008, annual: 64

While house prices were increasing loans were gradually becoming an important source of funding new homes. Loans to total residential investment rose from 10% in 1995 to 69% in 2007; this ratio between 2003-2008, its volatility aside, was 75%, making finance the most important funding source when buying a house (Simigiannis and Hondrogiannis, 2009: 91-92). It is worth noting that after late 1990s and more so in the 2000s, the majority of sale contracts involved a loan agreement. As a rule the only people buying without a loan were immigrants. An acquisition of new houses then, involved a relation of debt.

But nevertheless, Loan to Value (LTV) ratios have been reported at 73% which is less than the EU average of 79% (ECB, 2009). This shows that credit probably did not feed the prices and did not create a housing bubble, in other words, one can assume that even though funding for the acquisition of residential property progressively

came from finance, there was no housing bubble due to availability of mortgage lending.[206] Actually Hardouvelis (2009: 14) asserts that there was no housing bubble at all in Greece and that long term residential investment has been very profitable. Another quantitative argument to complement this stance is that sale prices and subsequently LTV is almost certainly miscalculated, due to difference the objective-tax assessed price and the real-non reported price of sale transactions. This difference was exchanged between parties without any official documentation or "hidden" under supplementary mortgage-backed loans for "reconstruction" purposes. Thus the difference between the value of a loan and the actual price of the house is far greater than shown in the LTV ratio. Subsequently, the impressive rise of prices is probably not due to availability of credit, and credit did not feed a housing bubble.

Complementing this argument, are the findings of Bissimis and Vlassopoulos who report that a contemporaneous bi-directional dependence among housing loans and housing prices is observed only in the short and not in the long term. Thus they proposed other explanations in order to explain the "developments in residential property valuations" like expectations from joining the EMU, demographic factors due to the inflow of immigrants and the single-person households becoming more common, as well as the low or negative real returns offered by most financial assets during this period (Brissimis and Vlassopoulos, 2009), in other words not just in the availability and rise of credit. Other studies too argue that house price inflation in Greece (and other countries, such as Ireland and Norway) was due to rising real incomes (Miles and Pilomce, 2008),[207] or to the decrease of other investment products such as Greek bonds whose interest dropped because Greece joined EZ (Malliaropoulos, 2007). It is indeed true that the cumulative increase over the 1994-2009 period of private sector wages (excluding banking sector) was 137%, in public sector 291% and in publicly owned enterprises 356% (Katsimi et al, 2011: 14).

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[206] It is important to note that there were several cases of overestimation of house prices from bank personnel in their effort to satisfy the need of clients for larger amounts of credit.This created a self reinforcing increase in prices and credit.

[207] For general literature on the impact of income to house prices see Borio and McGuire (2004).

But according to BoG the total rise of nominal income was roughly equal to the rate of inflation and productivity growth (BoG annual, 2008: 89). So we should be a little cautious attributing the rise of housing to increase in incomes because these did not rise in real terms. The rise cannot be attributed to population rise either because population increase in Greece is below average and ranks Greece in the lowest four of EZ average after 2001 (ECB, 2009). Also as far as immigrants are concerned they usually buy in low-price areas and without credit –actually they were the only ones buying cash in the decade between late 1990s and late 2000s- so their purchases probably do not influence house prices or their correlation to credit. Lastly, single-person households have indeed risen (OECD, 2011a: 19),[208] but definitely not to a degree to have an impact on prices.

Finally the decrease in yield of sovereign bond market -a popular household financial investment for Greek households- as well as the decrease of interest rates could be a reason of the rise of residential property prices and credit, which could be considered a response to fundamentals, that is to real economy and not to speculative intentions. But Greek households were rather financially illiterate, cautious and conservative in culture to respond strongly to changes in the financial landscape. Other fundamentals though stemming from segments of society which were financially knowledgable and not afraid to take up risks may have contributed to the rise of prices and credit: the rise of incomes from maritime industry as well as profits from the stock market boom, both of which were channelled into luxurious residential or land investments.

Conclusively, there was an impressive rise in prices of residential property and an impressive rise in the demand for credit. Yet the latter did not come to compensate for the former due to the low levels of LTV ratios, especially if we bear in mind that the values of the houses in this indicator are far lower the actual ones due to the difference between objective-tax price and eventual sale price of a property. Other demand

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[208] In the statistics of this OECD 2011a report it shows that the average size of Greek households did not change from mid 1980s to mid 2000s remaining in both cases above OECD 31 average. This might not show exactly the evolution of single person households, but it is indicative of a trend compatible with the Southern Mediterranean type of family in Greece.

side factors, such as population and income increase did not play a crucial role in the rise of credit either. Then again, rise of residential debt did not come to fulfil a demand of housing, because the ownership rate was already very high, population did not increase much and the rise of incomes was not above inflation or EU averages.

Subsequently the reasons for the rise of credit should be looked for at the supply side factors, with low interest rates being the first that comes to mind, at least from a macroeconomic point of view. Besides that a series of tax incentives, as well as aggressive advertisement and promotion by banks, which touched a deep routed tendency of Greeks to invest in real estate, played, according to our opinion, the most important role. These supply side factors strengthen the financialisation argument, which essentially argues that credit is not used in order to cover true needs in the real economy and is not a response to fundamentals, but either an artificially created need which seems to be a strategic move of the financial sector to increase its profits, and/or a result of “animal spirits" which in a mediterranean temperament have no difficulty to feed the “conatus" of finance. Furthermore, financialisation of real estate market could have come from the channel of stock-market profits invested in real estate: extremely high profits of a boom period were invested mainly in luxurious residencies which could have driven prices and credit up.

Creation of wealth - capital formation

But even if there was no real need, even if there were no fundamentals to justify the rise of credit except profit making from banks, even if stock market proved speculative, nevertheless money were invested in residential property. In other words there was capital formation, an impact in the real economy which means that finance intermediated for creation of wealth in real economy. Because if it did, then we might not talk about financialisation of the household sector, but of its mere modernisation because debt was not excessive since it did not rise above european averages. In other words if credit did indeed play an intermediary role for creation of wealth and jobs in the real economy, and was not excessive, then finance functioned its institutional role as an intermediator. A way then to see if it created a wealth, is to examine if the rise of

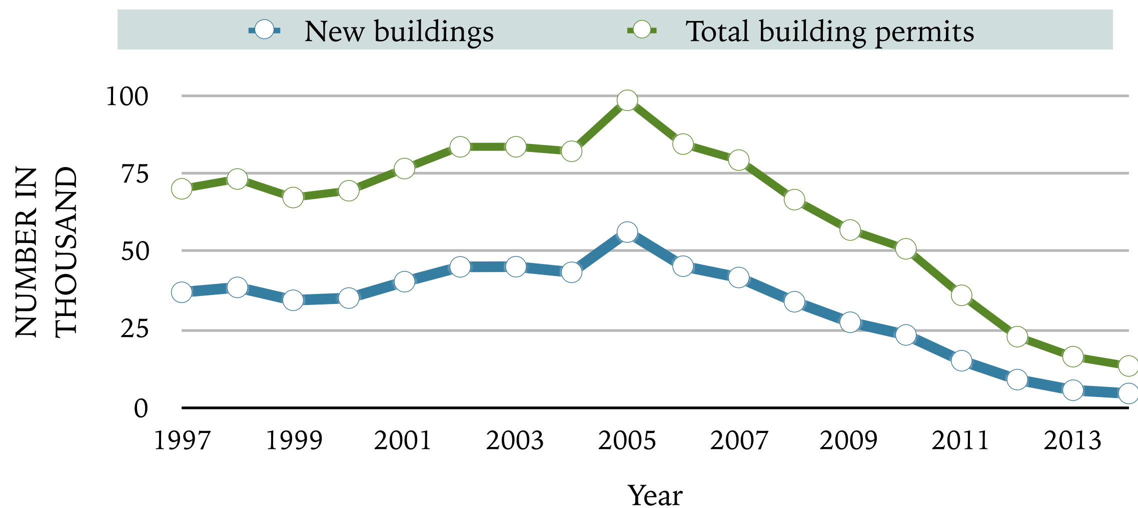
credit coincided with the rise of construction and in particular the rise of residential construction.[209] If this is the case, then the net result for the economy as a whole and thus for the society is beneficial, because new wealth and jobs are being created. Then incomes from this job rise recycle back to the economy which eventually has a considerable social benefit.

In Greece, it is indeed a fact, that credit growth coincided by a continuous increase in construction, residential investments and housing prices. Residential investment (buying a house) rose around 7% for the period of 1993-2007 and investment in construction (in general, not only residential) as a percentage of GDP rose around 13% over the same period, both of which were above EZ average, but below Spain and Ireland (Hardouvelis, 2009: 17). But construction in general during this period is not a safe measure because Greece was hosting the Olympic games of 2004 which resulted to a huge construction boom of infrastructure (stadiums, roads etc).

More particularly, and as shown in chart 80, residential construction as counted from the building permits for new buildings was on steady rise from 1997 till 2005, when it started declining, timidly in the beginning and more sharply after 2007 rather sharply (ELSTAT). Till 2007 on average forty thousand new building permits were being issued every year. This could be contrasted with Australia for example where mortgage lending did not result in construction with new homes but purchase of existing dwellings (Keen, 2009: 350). Total building permits include not only repairs, reconstructions and additions to existing dwellings but also a series of other projects not actually contributing to capital formation.

[209] We limit our discussion to residential investment because till 2004 when Greece was hosting the Olympic games there was a surge in construction that mainly concerned infrastructure and in general public sector construction, so we were to include the whole of the construction industry, our results will not help us in our research.

Chart (80) Permits for new buildings - Total building permits

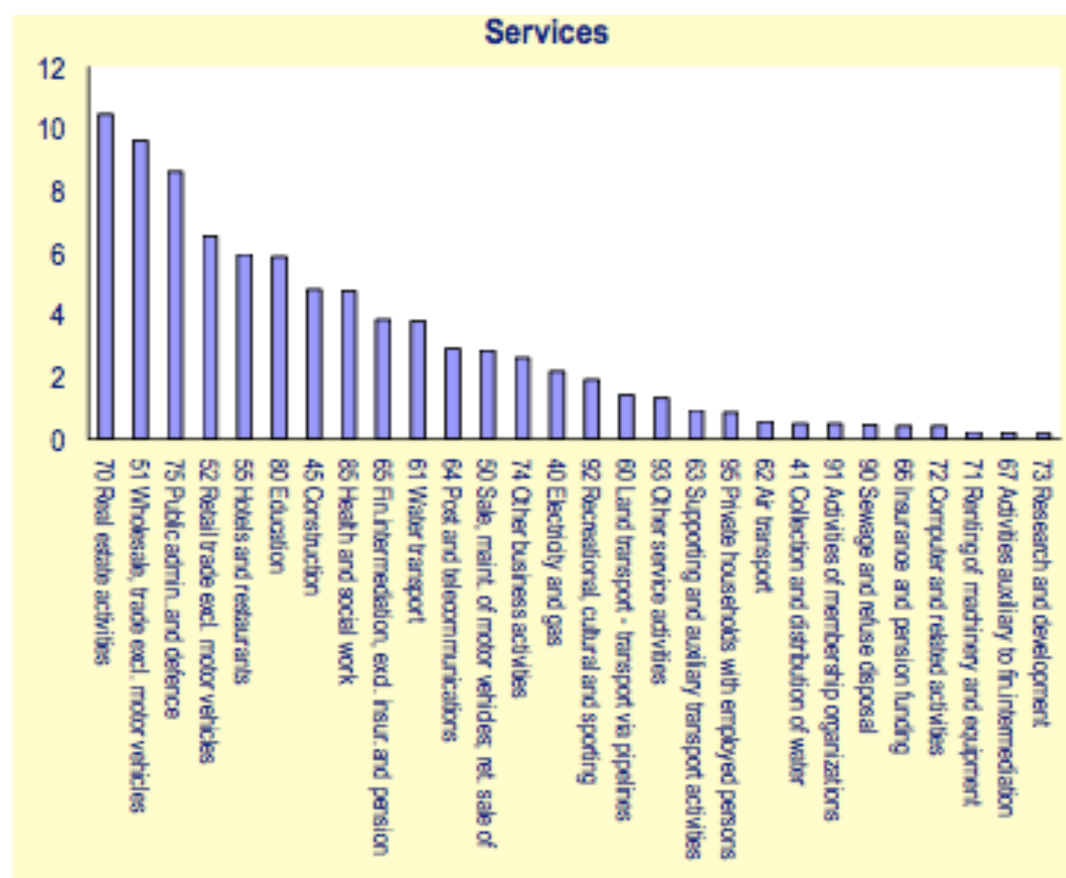


Source: Elstat, accessed 11.09.2015

Euromonitor also reports that from 1993 to 2007, construction output growth reached 15% per year on average, while house-price growth rate was 11% around the same period as we saw above. The boom is construction could also be viewed in the value added of both construction and real estate activities in services in Greece. Chart 81 illustrates the this indicator in comparative perspective with other industries in the year of 2008, a year in which crisis has not been felt in the residential market and which could be considered as a rather mature phase of it (not the peak, but nor the decrease that came in the later years). We see that real estate services in general contributed the most as value added and construction per se came seventh in the raking, denoting that the industry as a whole has been thriving and feeding the economy.

Chart (81) Industry level distribution of value added in Greece

(2008, percentage of total excluding agriculture)



Source: OECD STAN Database for Structural Analysis (Nace Rev 1.1 classification), Commission services.

Source: EC Quarterly report on the Euro Area, III 2010: 28

This construction boom was not matched by the rise in traditional deposits – considered here as the deposits made by euro area non-financial sectors – which remained relatively stable in terms of GDP (ECB, 2009: 42). It also exceeded the growth rate of GDP, which was already the highest after Ireland in EZ in the years 2001-2008. Subsequently, there was a rise in construction and residential investment which is more linked to rise of credit than rise of deposits or GDP growth, but this rise resulted to capital formation and new wealth instead of recycling the old one which leads us to assume that credit was actually productive.

Furthermore, construction sector involved 8,7% of the total employment (without including neither undeclared work, nor a series of professional services that evolve around construction and residence, such as lawyers, notaries, accountants and the likes) with the Eurozone average around 8,3% (Hardouvelis, 2009: 17). If credit then was to fund construction, the other productive consequence for the economy besides capital formation was employment.

The capital formation argument though can be challenged on two grounds. First, it has been argued that residential investment should be treated as consumption and not as investment, if it is not funded from domestic savings (S=I). Because if it is not, then the funding should come from foreign savings, thus increasing the current account deficit, which becomes the accounting match of investments for national accounting purposes (Bilbow, 2010). This is something that happened in USA. In Greece though the deficit does not have its accounting match in residential investment, nor in the private sector in general but in the public one, as we will see in the next chapter. Banks did not have an international exposure on toxic products or off balance sheet items, and , they were well capitalised, thus they did not use “foreign savings” to fund local residential investment. On the contrary, residential investment was partly funded from domestic savings either directly, or through bank loans from banks which had a more than european average deposit base. So based on the criterion proposed by Bilbow, residential investment should indeed be considered as such and not as consumption.

Second, a debt related acquisition of a home, is sensitive to changes in income and price levels, something that became dauntingly evident with the crisis. So any accounted wealth-creation effect could be annulled both for the economy as a whole and at household level. This sensitivity can be said to make debt acquired property resembling to consumption and not wealth. A household "consumes" the value of the house by living in it as if it was renting the place, while at the same time being burdened with not just debt and property taxes, but also with conservation and repair costs. Moreover, its continued “consumption” depends on its income and pricing of the house. Overall then a household had a temporary and provisional benefit to house-

holds and the economy as a whole, but not a permanent one as wealth and capital formation imply. Furthermore, this temporary and provisional benefit gave rise to the debtor-creditor relationship and the relating to that work-to-repay mode with all the effects on the individual that we talked about in chapter 4. Thus is was burdened economically, legally and "morally" as well as linked to the volatile and illusionary world of global finance without any permanent gain.

Conclusion

Financialisation of real estate market has some contradictory features in Greece, which are certainly different in comparison to Agglosaxon countries, as well as some Continental European and South-European ones. The most distinctive characteristic was the sharp rise of residential related debt in a very short period of time. As we saw, residential debt in Greece had most pronounced change in EZ. This, though, was not a result of real needs of the population in the aggregate, since Greece entered its financialisation period with an almost 80% homeownership rate.

An answer that economists would give to that is that interest rates were low and any first year undergraduate would tell you when interest rates are low, people take on more debt. Even though they probably do not actually need it to cover real needs. True! But we should note that Greek residential debt markets were very regulated and expensive for the average Greek, thus an ordinary person was excluded from them, and if somebody is excluded from a market it is natural that they are not familiar with this market, nor are they "responsive" to changes in interest rates because they simply would not know what this means for them. Furthermore, interest rates were low in all Eurozone, but it did not have the same effect in all countries, even in the so called PIGS. Mortgage debt did indeed rise in all four. But the sharpest rise was recorded in Greece -tripling debt to GDP in a decade. Besides that Greeks acquired a considerable amount of foreign exchange loans, in relation to the size of their economy and their financial literacy. So interest rates by themselves do not justify a rise in the greek context.

A more persuasive and realistic answer would be that low interest rates had an effect in the rise of household debt because they were coupled with a series of incentives from regulation, discourse as well from supply side factors. New mainly tax regulation provided the incentives for buying a property on credit, so even households who could afford funding their purchases from their deposits, they opted to buy on credit, or households buying they opted for larger properties or properties in high profile areas, ones they would not be able to afford before. Along with tax incentives there was an aggressive advertisement by the banks, in a fierce competition race; all this in a context of public discourse that encouraged luxurious living and stigmatising moderation as conservatism. As Maglinis (2010) reports in a newspaper article: "In essence, all that period, one did not look for loans; it was them (the banks) that were looking for you in order to lend you: everyone of us has received early morning calls, where a sweet woman's voice announces to us that "due to our good cooperation" the bank is approving a loan on your name of a new (credit) card with low interest rates etc". This combination of factors did not need a long time to appeal to a Mediterranean temperament,[210] which in spite of its financial conservatism traditionally, was attracted to something that was presented almost as a gift.

Still though the rise of residential debt reached average EZ levels, so one can reasonably claim that Greek mortgage market was just created or modernised, and we cannot talk of financialisation or expropriation of households, as Marxist political economists usually do. Besides that the spread of credit could be linked to a construction boom, which resulted to creation of wealth and jobs. The fact that it raised the prices of property cannot be well documented due to the particularities of pricing of properties in Greece and the rather contradictory signs from indicators as LTV and loans to residential investment. So data, if read narrowly, may show that financialisation was a force of growth and modernisation in household finance. And up to the point of democratising and standardising debt allocation away (or at least besides) from crony

[210] To any temperament for that matter, but a Mediterranean one is probably more prone to an easiness in profit making.

relationships as well as decreasing interest rates, it could be so, proving true the neoliberal narrative on benevolence of finance.

But this is not the whole story. More qualitative, contextual and socio-political readings of the data point to other directions which probably annul these benefits.[211] First of all, as mentioned in the previous chapter many of the loans were predatory in nature, due to high fees, higher than EU average interest rates and contractual clauses that benefited almost exclusively the lender. Secondly, as we already noted above, the benefit from the creation of wealth and jobs was temporary and provisional, and not permanent, something that is important for both households and the economy as a whole. Furthermore even though it barely reached EZ averages, it is undeniable that it established and enhanced the debtor-creditor relationship and the work-to-repay disciplinary effect of debt, something that is a manifestation of this power at a distance that finance acquired and had the repercussions we presented in chapter 4. Lastly, what is distinctive in Greece was not the scale -in comparison to other countries- but the pace of the increase in residential debt and the fact that in the aggregate it looks as if it was not addressing real needs of population. This rather sudden entanglement of local population in financial circuits is indeed a variegated face of financialisation of domestic political economies. And is an illustrative example of the antiproduction effects of financialisation which we talked about in chapter 4. What could be the societal effects of this fast pace of change towards financial induced antiproduction, disciplinary relationships, limitation of time horizons and mentalities? This is a matter that requires further examination and is probably one of the contributions of the Greek case in the debate of financialisation.

[211] In social life, as in life in general, beneficial and adverse effects could, and most often do, coexist. So in appreciating the end result of a development, as we are doing now with financialisation, we need to examine the counterbalance of these two contradictory effects. Our point here, and probably throughout the thesis is that data alone usually tell another story than what is actually happening in reality. And if this story is not accompanied by more contextual and socially orientated perspectives, it is usually persuasive due to the rigour that numbers have in mentalities. Yet as we saw it does not depict reality. Subsequently, analysis and policy should not be informed only by them.

B. Consumer credit

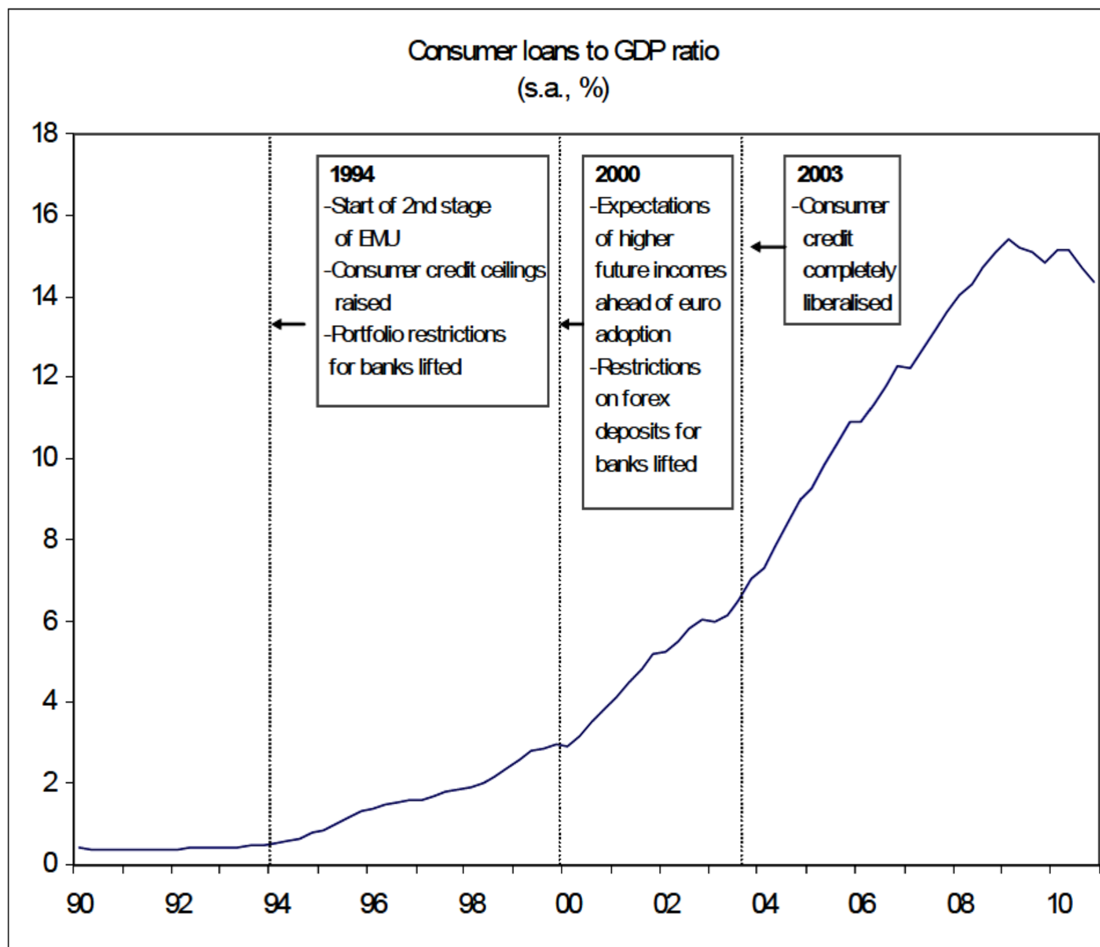
"The average Athenian, for reasons they themselves did not know,
was found to have money,
more money than their character could bear.
And they went on to spend it"
(Theodoropoulos, 2016: 61)

Consumer credit is the uncolletarised credit granted for purely consumption purposes. It should be noted that even though mortgage equity withdrawal is not available as a banking product in Greece -as in the rest of Europe, it is quite common that households get a reconstruction ("episkeuastiko") loan (which is a collateralised loan) with the same functional effect: that is using a house as collateral, in order to get equity for consumption purposes and not for reconstructing ones (Hardouvelis, 2009: 29). Yet the majority of consumer loans are un-collateralised.

Consumer loans were one of the faster growing components of post 1990s loan expansion. As seen in chart 82 which shows their evolution in relation to GDP, consumer loans were almost non-existent till mid 1990s (0,5%), when a skyrocketing increase started, reaching 4,1% in 2000 and peaking in 2008 at around 15% of GDP. Chart 83shows the evolution in comparison to other EZ countries as well as with EU-12 as a whole during the period of 2001-2006. It is fairly obvious that Greece had the most pronounced rise. The average growth rate of consumer loans in the period 1991 - 1999 stood at 41.4%, reflecting, inter alia, the very low, actually an almost non-existent starting base. In the 10-year period starting in 2000 the average growth rate decreased, albeit remaining as high as 27.1%, and in 2010 a negative rate of change was recorded due to the effects of the financial crisis (Brissimis et al: 2012: 9). Subsequently, consumer loans from 1,3% of total credit to the private sector in 1990, increased at 8,3% in 1999 and 13,7% at the end of 2010, when the EZ average of that year was 4,8% (ibid). Furthermore, the amount borrowed through consumer loans had a spectacular rise too as it is illustrated in chart 84: loans from around 10.000 in 1995 to 140.000 in 2010. Actually it is reported that some consumer loans were ranging

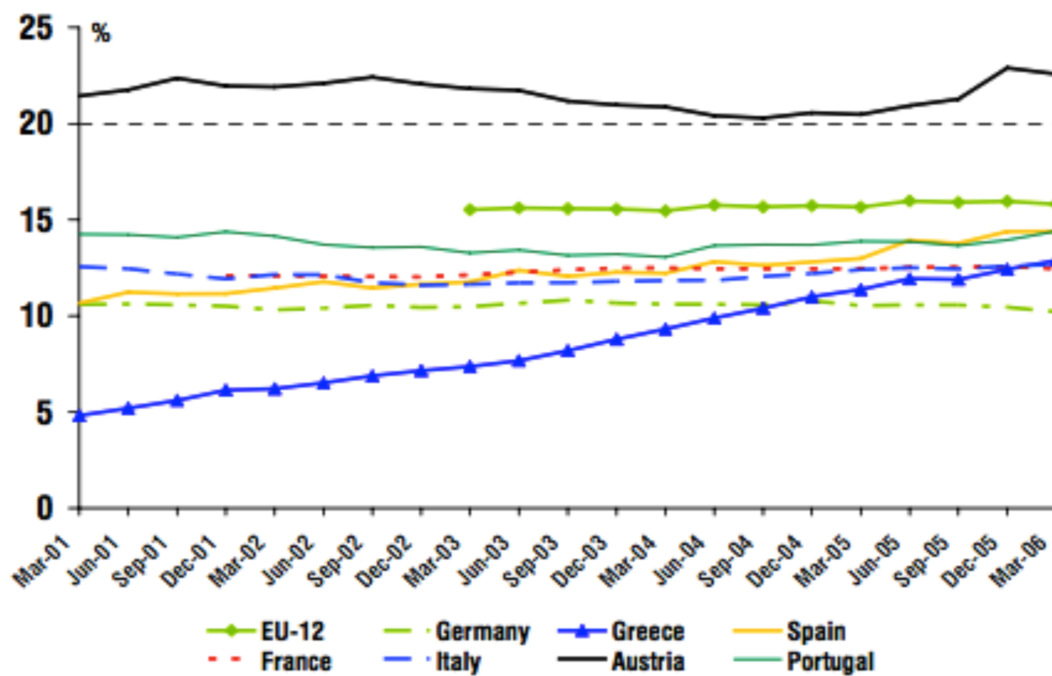
from 60.000 to 140.000 each denoting “special” relationships between banks and particular consumers, or simply negligence on behalf of bankers.

Chart (82) Consumer loans to GDP ratio (1990-2010)



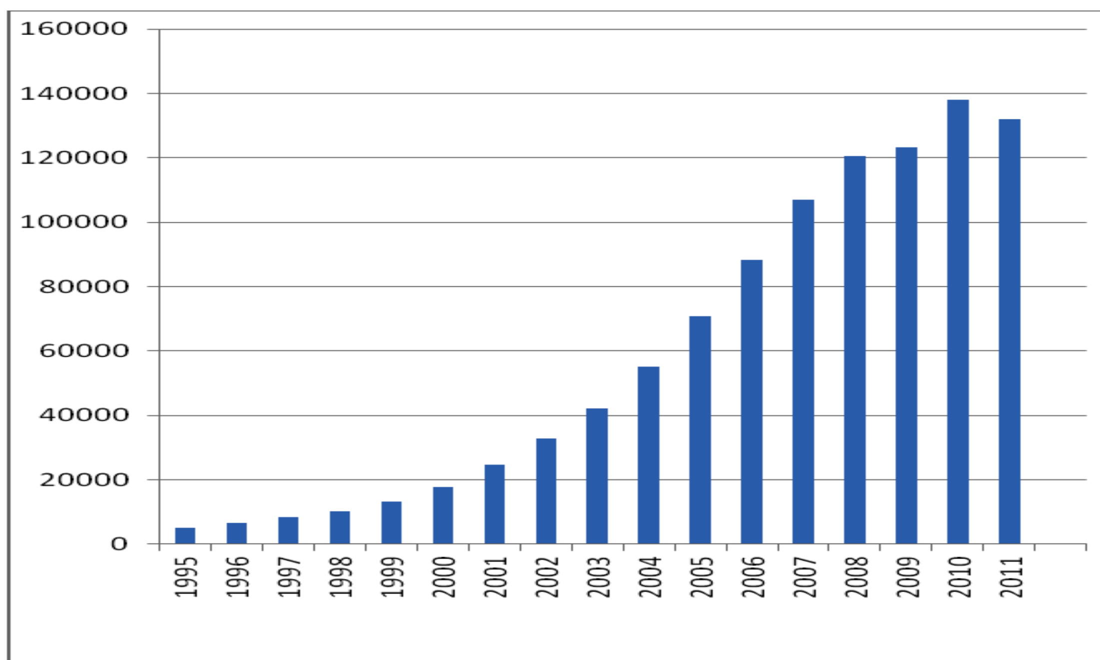
Source: Brissimis et al, 2012: 11

Chart (83) Consumer loans to GDP - Greece and selected countries



Source: Hardouvelis, 2006

Chart (84) Consumer debt in Greece



Source: OECD STATS (08.04.2013)

This spectacular rise in consumer debt was due to decreasing interest rates -albeit considerable higher from other EZ countries-, liberalisation of financial sector and

reorientation of banks towards households, where fierce competition resulted to a series of new products, like holiday-loans, Easter-loans, wedding loans or loans for the stock market which were aggressively promoted from banks through personal telephone calls and media advertisements. In due course people started using consumer loans to buy all kinds of luxurious goods, like home cinemas. In more technical and gentle parlance all this is interpreted as “the formation of expectations by banks, consumers and firms of higher future incomes, associated with the benefits from the adoption of the euro in Greece, which led to fast growth in consumption and greater willingness to lend and borrow” (Brissimis et al, 2012: 10).

Credit cards in particular were strongly promoted by banks. Especially in late 1990s and early 2000s almost all Greek adult population received phone calls announcing to them that they were granted a credit card (which they have not really asked for). Argitis and Michopoulou (2013: 231) note that between 2000-2003 banks issued 5.000.000 million credit cards to a population of less than 11.000.000 which they were granting without prior examination of financial and employment status. This signified according to the authors a cultural change which institutionalised a financial culture to a society which only some years before considered “plastic money” as something risky and dangerous (ibid). A financially ignorant society with a Mediterranean temperament was being offered a loan which was presented as a privilege, as a gift.[212] No wonder that many used credit cards as if they were granted free money. Reports in the newspapers of that time say that people were saying things like: “I did not pay anything to buy this, I bought it with the card” (Oikonomopoulos, 2007). As Theodoropoulos said (2016: 61), people did not know where the money came from, they just knew they had money to spend. That was their impression.

Consequently, growth in credit card loans represented 41.5% of consumer credit in 2000, declining, however, in subsequent years to 24% in 2010 (Brissimis el al, 2012: 26). In a survey of Bank of Greece in 2007 60,8% of indebted households reported having credit card loan, a percentage that rose from 54,4% since 2005 (Bog, 2007-

[212] This is not to say that the same thing did not happen to other countries too.

survey). It should be noted that credit card loans increased despite the very high interest rates which are on average 15,31% (ibid). In general, consumer credit in Greece has notably much higher interest rates than other EZ countries which BoG justifies to the considerable degree of credit card loans in Greece which have been used from consumers as a form of loan instead of a form of facilitation in transactions, in contrast to other european countries where credit cards do not represent a main form of loans since consumers are paying off their obligations (BoG, 2006: 68-69, ft. 29). This entails a higher operational cost from banks since credit card loans do not have a specific time horizon for repayment (ibid). Yet it is exactly these high interest rates which BoG sees as the main cause of the rise of net interest income of banks (BoG, annual, 2001: 231), in other words consumer debt is one of the main causes of banks' profitability.

Yet, despite the rapid expansion and the high interest rates -comparing to other EZ counties-, as seen in chart 85 debt service ratio in consumer and "on aggregate" was below EU 12 average till 2004 and then it was just slightly above it, meaning that one way or another Greeks could service their loans, even though some were refinancing the old consumer loans with new ones. But on the aggregate indicators hide differentiations which are important analytically and politically. According to 2007 survey of BoG that we referred to above, for 16% of households the debt service of their loans (mainly consumer ones) was above 40% of their income, which is above the percentage which is considered acceptable. Furthermore, and more worryingly, the share of these households' debt account for a rather high percentage of total households' debt, that of 36,6%. Of course, as BoG also notes, this survey results might not be representative, but they nevertheless tell a story which is worth considering.

Chart (85) Debt service ratio (consumer loans)

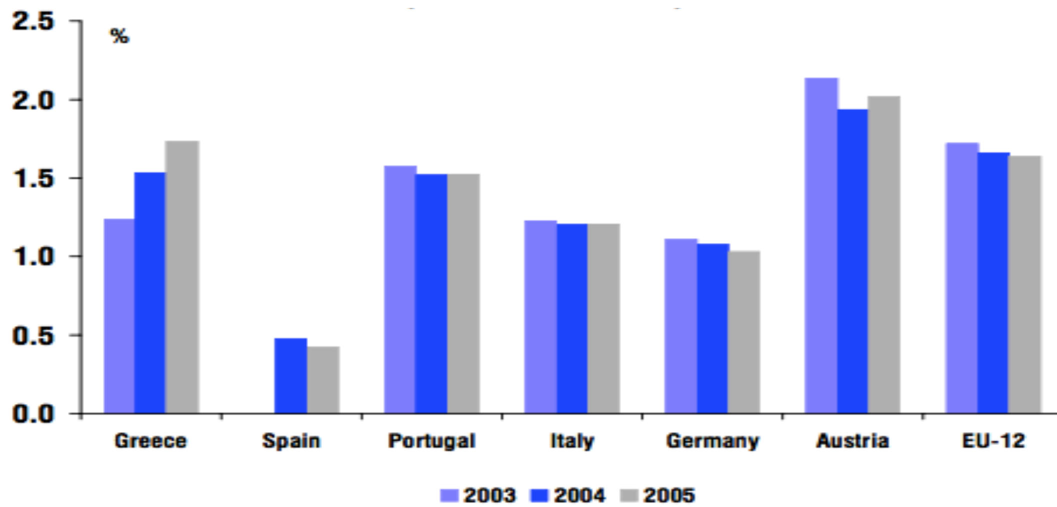
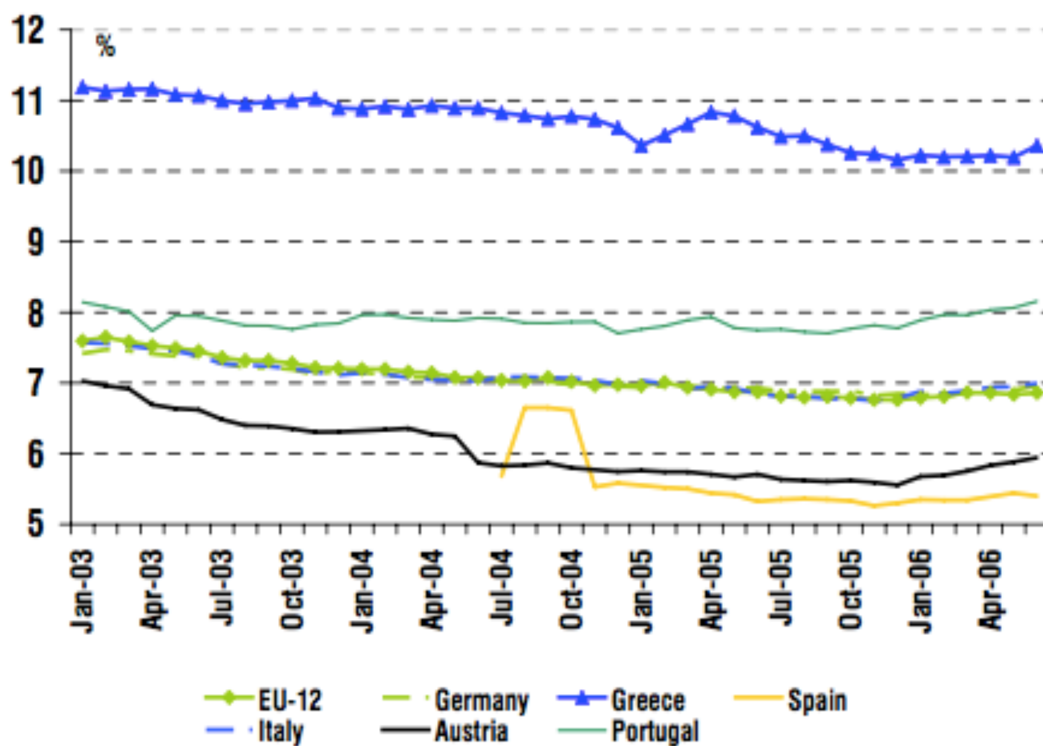


Chart (86) Interest rates (consumer loans)



Source: Hardouvelis, 2006

So overall consumer loans also increased in lightening speed in the country, and even though they seemed to reach EZ averages, thus considered safe for households and for

the economy as a whole, the fact that they started from a low base and augmented impressively especially after 2003, shows that the society was entangled with finance through a kind of a "financial shock", as did in household finance. Because originally supply-side and effectively demand side reasons resulted to an impressive rise of consumer debt, albeit non-rational in the neoliberal economic sense, since interest rates were considerably higher than EZ average and all EZ countries, as it can be easily observed from chart 86 (which shows Greece in comparison to EU-12 and a selection of European countries).

Yet these rather predatory interest rates did not seem to bother Greeks, probably because of their financial illiteracy, which neither the state, nor banks of course were interested to alter, coupled with the promotion of a luxurious lifestyle. Money from credit cards and consumer loans, seemed like free cash. The result was high profit margins for banks and a worrying 16% of households who held mainly consumer and credit card loans which required more than 40% of their income to be serviced and furthermore their represented 36,6% of total household loans. A percentage that did not appear in indicators that were showing the aggregate. Conclusively consumer loans promoted a luxurious lifestyle well beyond the middle class one, which benefited only the profit margins of banks while enhancing finance's power at a distance at the detriment of both the ones who were borrowing beyond their means as well as for the economy as a whole. In this case it was even more pronounced that credit was just debt, with no productive result, and a gain that was only temporarily and not permanent. Something that matters not only for a household's budget but for the economy as a whole. Furthermore it was not based on any type of rationality.

Actually to elaborate on that, there was a temporary economic gain for financial institutions, and an equal temporary, yet "aesthesiogonic" one for households, as defined by Tsatsaris (2006; see also chapter 4). This temporary aesthesiogonic gain though hollowed mentalities in the sense of assimilating the mental and sentimental energies of individuals into a here-and-now jouissance, that effectively blinded them and they could not think how they would be able to repay those loans, what would happen if

they lose their job, or if for some reason their income would fall. Consumer loans then was an obvious example of how financialisation's expansion depended to a considerable degree on everyday life, and as a matter of fact on non-rational decisions of everyday life. Consequently, the house of cards expanded, undermining households' budgets, and mentalities, and inevitably the economy as a whole especially if considered along with mortgage debt, expansion of financial assets and public debt.

C. Non - financial sector debt

In Greece large enterprises account for to only 0,1% of total enterprises because SMEs have a share of 99.9%, of which 96,5% percent are micro enterprises (EC, 2011b), a percentage which is of the highest in Europe. Despite their low percentage large enterprises offer 14,4% of jobs, and they create 28,3% of total value added, suggesting that productivity of these micro enterprises is rather low.[213] Nevertheless though the 96,5% of micro enterprises shows that there is a large number of people running very small businesses, often individually or family run. That is why we included their debt in the chapter of households. Because it is more than probably that their debt burdens households.

In general, non financial sector debt includes all credit granted to non-financial companies and professionals. According to the literature which draws its data mainly from USA and to a lesser extent UK and advanced western economies, non-financial sector debt rose but it was not channelled to productive investments. Instead it was channeled to financial ones, thus highlighting from one hand, a negative correlation between debt and productive investment, and from the other a profit rise from financial activities instead of productive ones. In Greece this was not the case.

Non-financial firms, were not heavily indebted comparing to other EZ countries since their debt besides its "convergence" remained considerable below EZ average as shown in chart 87 and in 2012 amounted to 73% of GDP, when the Euro Area average was 138% (IMF, 2012). Nor did they gain more from their financial activities than their productive ones. Even in 2011 and 2012, years of deep crisis, non-financial companies debt was far below the EE average, with only Chezoslovakia, Lithuania, Poland and Slovakia ranking lower than Greece (chart 88). This does not mean that corporate lending did not rise. Actually it almost doubled between 1994 and 2009:

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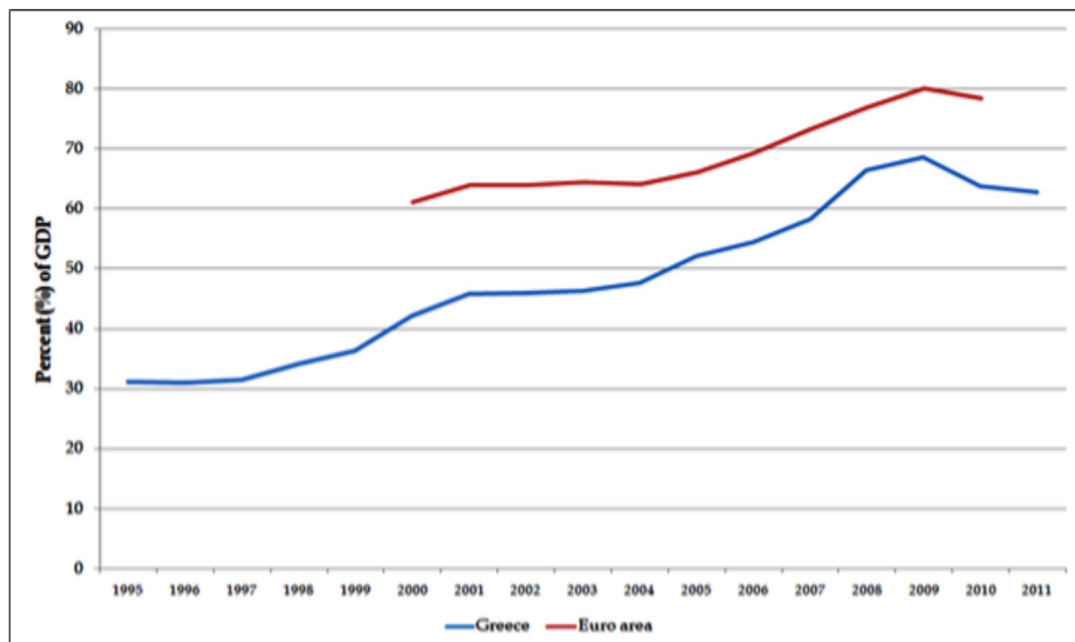
[213] Yet, it should be noted that compared to EU 27, there is not much of a difference. European Commission, 2011b, using data from Eurostat, which do not cover the enterprises in agriculture, forestry, fishing or the largely non-market services such as education and health.

from 22,5% of GDP to 46,7% of GDP (Mosxos and Chortareas, 2011: 60)[214] but private investment, besides its volatility, did not decline after mid 80s till mid 2000s, as did private savings after mid to late 1990s.[215] So one can argue that private enterprises used credit to substitute for decline of savings in order to proceed with their productive investments. In general though in comparative international term, NFCs did not rise as much as household one.

Chart (87) NFC debt to GDP, Greece and Euro Area, 1995- 2011



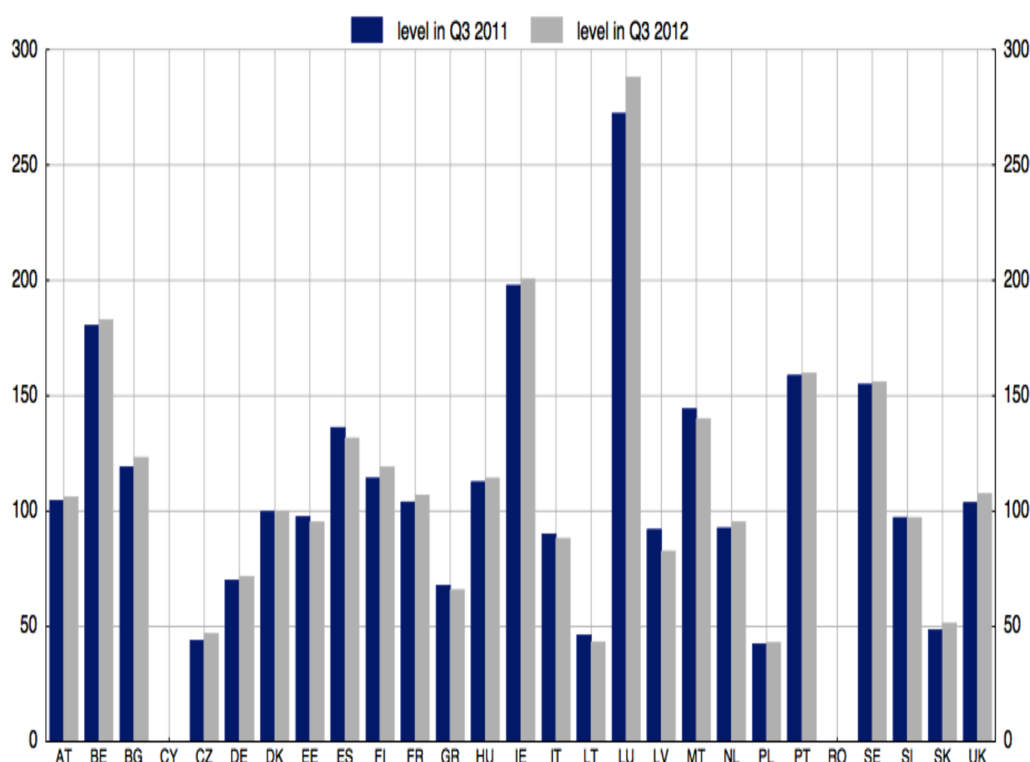
Source: Eurostat.

Source, Argitis and Michopoulou 2013: 41

[214] Argitis and Michopoulou, 2011 are reporting different figures -from 30% to 60% between mid-1990s and 2011- but still show that debt to GDP doubled.

[215] We should note that after early 1970s investment and savings declined sharply, yet savings net private investment-savings gap was positive till mid to late 1990s, when it turned negative and remained so ever since (Bissimis et al, 2010: 7, 35)

Chart (88) NFC debt-to-GDP ratio (2011 and 2012)

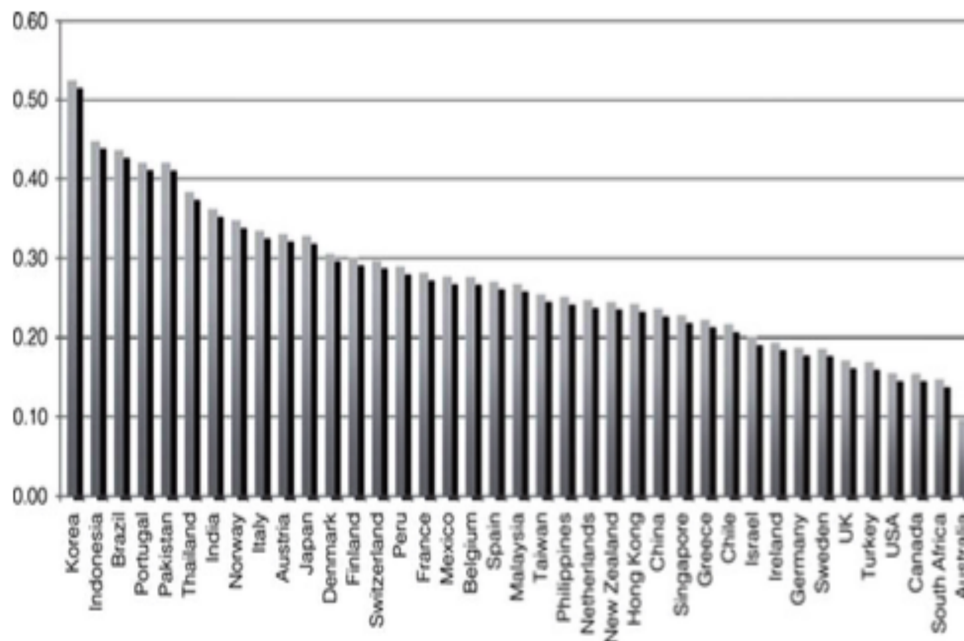


Source: ESRB, 2013

In an analysis of firms listed in the stock market in 50 countries over the period of 1991-2006, Fan et al (2012) find that Greek firms seem to have a median leverage ratio close to developed countries even though higher than countries like Ireland, Germany, UK and USA (chart 88). Yet their debt is short-term which means that it is comparable with countries with developing countries such as Turkey, Taiwan, Thailand and China. According to the authors this combination of leverage and debt maturity, is attributed to institutional factors, both formal (tax system, civil law system) and informal (corruption), as well as structural ones (source of supply of banks' funds, higher domestic savings, size of government bond market). In particular the authors find that countries with larger government bond markets have lower debt ratios and shorter maturity debt because government bonds tend to crowd out long-term corpo-

rate debt (ibid: 25), which is the case of Greece. Their finding though that countries with weak laws and implementation tend to have firms with higher leverage and short-term debt applies to Greece only as far as the latter is concerned.

Chart (88) Median leverage ratio of Sample Firms (1991-2006)



Source: Fan et al 2012: 33

We should note that corporate bonds started to become a popular source of banking finance from Non-Financial Corporations (NFC), especially after 2003 when a tax exemption law was passed,. Effectively, they raised from around 1,5% of total loans to enterprises in 2003 to more 8% by 2005 surpassing other enterprises in this form of funding (BoG, 2006 -greek-: 61),[216] reaching 18% by 2008 (BoG, 2008: 126; chart 89). In absolute numbers, their outstanding value jumped from around 1.000 million euros in 2003 to almost 20.000 in 2008 (BoG, 2008 monetary: 70; chart 89). Chart 89 illustrates this explosive rise in just four years.

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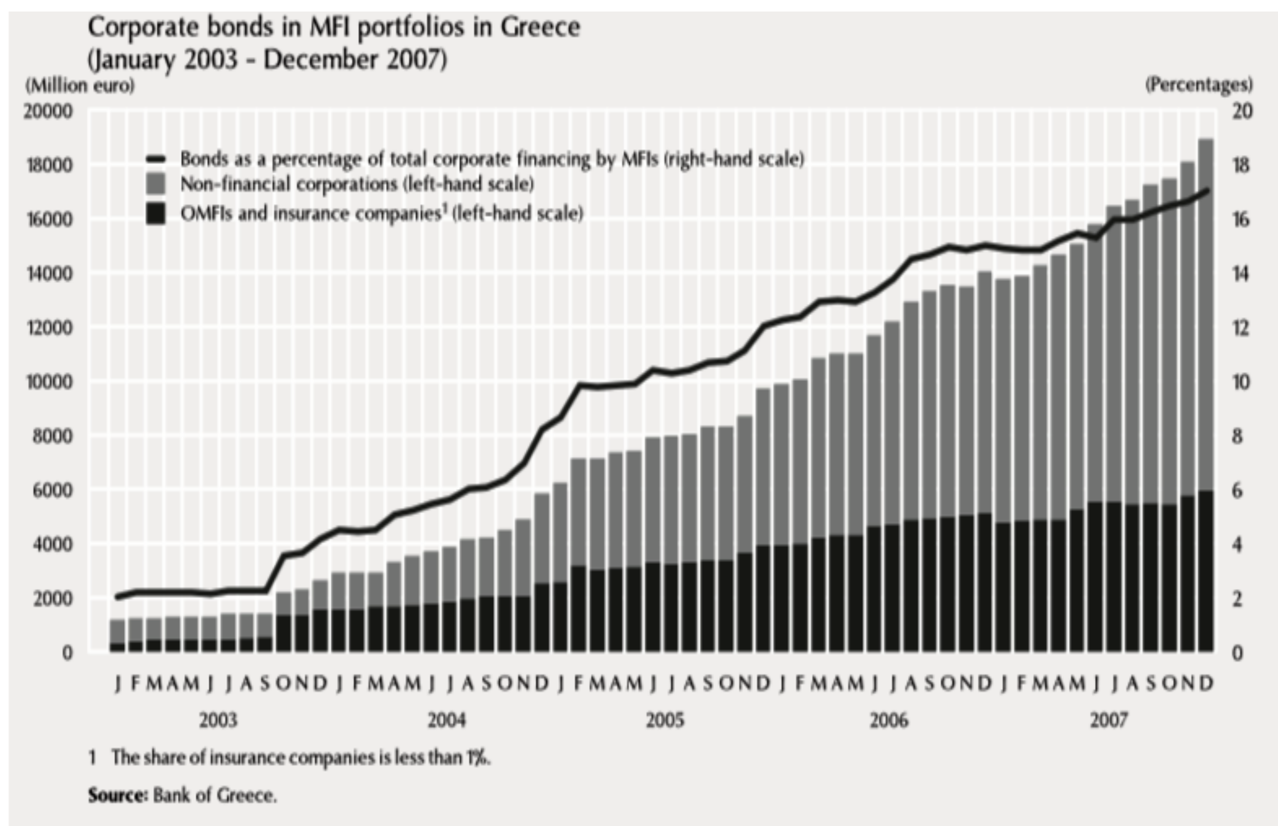
[216] BoG, 2006, Νομισματική Πολιτική, Ενδιάμεση Έκθεση: the change in enterprise funding orientation occurred after the law 3156/2003 which included tax exemptions for enterprises for these kind of loans.

Chart (89) Corporate bonds in MFI portfolios (Jan 2003- Dec 2007)



BoG, 2008 (monetary): 70

We are using data from the Blackrock report of December 2012 (BoG, 2012) in order to find which share of this debt is to SMEs, small business and professionals who form the majority of Greek non-financial sector and due to their size their debt burden is likely to add to households' balance sheet. According to this report (table 4) in 2012 of all loans and other credit exposure of banks, their domestic leasing, factoring and credit subsidiaries which equals 234,2 billion euros. From that total household liabilities including mortgage (70,1 billion), consumer (29 billion), SMEs (32,8 billion) and SBP (24,5 billion) loans reached 156,40 billion euros of total 234,2 billion euros, a percentage of 69,9%. In other words more than half of total loans to the private

sector.[217] This alters the picture of low percentage of household debt due to the particularities of domestic political economy. Which means since the structure of the economy is built mainly on micro enterprises which are individually or family run, then their debt, as well as professionals debt is burdening at the end the household budget. So while households look under leveraged from the perspective of mortgage and consumer debt -which are the standard indicators that show their leverage- adding SMSs and SBPs debt, households show leveraged above average. If this is combined with the pace of change as well as the qualitative analysis of the data that we cited above then the "neoliberal success story" does not hold, and more importantly the exposure of everyday life in financial circuits is far more intense.

[217] Including public sector but only as far as state-related business loans and mortgage loans banked and guaranteed by Greek Government, in words words public sector loans connected to private sector activities. If one is to exclude these state related exposures which amount to 22,4 billion -a considerable amount indeed in our equation- it makes the percentage of household exposure even higher.

Table (4) Private sector's debt: breakdown by sector (2011)

Type of portfolioTypTypre	amounts in billion euros		
Mortgage	70,10		
Consumer	29,00		
		Credit cards	6,9
		Auto Loans	2,5
		Other Consumer Loans	19,6
Corporate and SMEs	75,20		
		Corporate	36,4
		SME	32,8
		Leasing	4,00
		Factoring	2,00
SBP (small business and professionals)	24,50		
Commercial Real Estate	4,4		
Shipping	8,6		
State Related Exposures	22,4		
		state-related business loans	20,2
		mortgage loans backed by Greek Government	2,2
TOTAL	234,2		

Source: BlackRock report, BoG 2012

D. Conclusion on liabilities of households – Greeks as debtors

A main argument of financialisation literature is that businesses became more of financial companies deriving most of their income from financial activities, than real ones, thus leading effectively to a decrease in investments in the real economy. Also that banks reorientated their activities more towards households in detriment of business lending (which in Anglo-saxon countries started preferring capital markets for its financing). This did not occur in Greece, or at least not to the extend that it did in Anglo-saxon world. Household credit did indeed rise more spectacularly than business credit, but it was an almost non-existent market before deregulation and liberalisation of financial sector. And its rise just brought the market to EZ averages. Also, from their part, banks did indeed target household market after their liberalisation but business debt rose too, along with investments. Moreover, Greek enterprises did not become high leveraged, and their debt to GDP ratio remained below average even after the eruption of the crisis. There are no studies to show that they derived more income from their financial ventures than their real ones, and is not likely that this is the case at least in any considerable extent. Consumer debt is the first obvious caveat of this "neoliberal success story", since 16% of households holding almost one third of debt had to devote an over 40% of their income to service their debt. So on the surface of things, private sector in Greece seemed to have used finance as an "intermediator" and did not reach any excess.

More elaborately, from the above quantitative analysis of mortgage, consumer and NFCs debt, one can conclude that the observed financialisation of Greek households and more generally the Greek private sector actually synchronised the nation's political economy with other advanced economies. In this context it can be argued that financialisation was beneficial for households and micro entrepreneurs since it gave them access to credit, thus meeting a real need for credit of a previously financially backward and credit starving economy without reaching extremes since almost all its indicators are below or around average of either EZ or EU. Moreover, household wealth dispersed through societal groups created buffers for the volatility of debt that was rising. Lastly credit had a capital formation effect, creating new wealth and jobs,

since it seems that it was channelled to productive investments and not unproductive ones, which is a core feature of financialisation. So were financialisation dynamics in Greece just a modernisation force? A more attentive analysis of the data would prove that reality is more complex. We highlight seven points which denote financialisation of the economy and society to a worrying degree, and which might contradict the analysis so far.

First of all, a mainly debt related acquisition of a home, is sensitive to changes in income and price levels, something that is painfully realised with the crisis. So any accounted wealth or capital formation effect is annulled both for the economy as a whole and at household level, fuelling the already elevated consumption in Greek society. Secondly, if part of this rise in debt is foreign exchange denominated debt, albeit quantitatively insignificant "in the aggregate", it nevertheless means that a segment of the population is linked more intensely to volatility of financial markets in ways that were not realised due mainly to their financial illiteracy.

Thirdly, it has been proposed that the above indicators on households should be supplemented with the debt of small enterprises and professionals, due to the structure of Greek economy. SMEs for example have a share of 99.9%, of which 96,5% percent are micro enterprises (EC, 2011b). Their debt is bound to burden the household balance sheet. Using data from Black Rock Report (BoG, 2012), we find that total household debt (residential, consumer and micro-enterprise and professionals' loan) in 2011 accounts for 69,99% of the total private sector loans,[218] equivalent to 156,35 billion euros. Comparatively this is a higher than average percentage of household debt to total private sector debt which ranges around 40% in mature economies (IMF, 2006). Households were not under leveraged after all. More importantly the composite indicator of mortgage, consumer, SMBs and SBPs debt illustrates clearly the intensification of "the use of household sector for financial deepening" (Sassen, 2008: 196).

[218] We should note that after liberalisation, Greeks banks were mainly lending to the private sector, while public sector started using capital markets for its funding.

Fourth, both mortgage and consumer debt, did not seem to cover real needs. This is obvious for the latter. But even for the former, homeownership in Greece was already high before the liberalisation and subsequent availability of credit, so there was no real need, in the aggregate, to take credit to buy a home. Subsequently one could persuasively argue that buying a home was an artificial need, or with the words of Deleuze and Guattari a lack where there was abundance. A counterargument to that would be that it was the decline in deposits, which used to be one of the funding sources of home purchase in precedent years, in combination with a rise in property prices that created a real need for credit. This could indeed be true to some extent, but not to the extent to justify the most pronounced rise in mortgage lending in EZ when the country had already a 80% home ownership rate. Why should one third of the population acquire mortgage debt when 80% of them already owned their home? Except of course there were other factors -institutional and real- that played a role in the rise of credit, like regulation through tax incentives or money laundering from stock market and maritime industry earnings.

And it is worth to elaborate further on those. Firstly regulation definitely incentivised mortgage credit at lease for the first years of the boom. According to article 8 par. 1 of Law 2238/1994 there was a total tax exemption of the interest payments on residential loans used to buy one's first main residence, as long as these loans are granted from banks or financial organisations and secured by a mortgage. This coupled with the tax exemption of the transfer of this first main residence, the fierce competition, and a "diffused" discourse of rightful "eudaimonia", that could be translated in jouissance, made the market to boom.[219] Furthermore, according the Foundation for Economic & Industrial Research (IOBE), real estate is a preferable investment for Greek shipowners (2013: 65), which combined with the fact that by Law 3193/2003 shipping companies have been exempt from any real estate that they have acquired till 1 January 2003 (BoG, 2003, annual: 228), as well as the surge in sea trade globally in 2000,

[219] In 2002, when the market has already acquired momentum, or in the words of this thesis, a "conatus" of its own, with the Law 3049/2002 only 20% of the interest payments were deducted from tax.

(ibid, 245)[220] one can conclude that a large amount of shipowners' profits went to real estate, making it an investment for the elites.

Fifth, rise of private debt did not sprung from a considerable loss of income, as in the USA. Of course, income in comparison to other european countries was not high, or even average, since it hovered to two-thirds of the EU-15 average, for the past 30 years (OECD, 2005c: 4), and was hampered by a more-than EZ-average inflation. Yet nevertheless it had an upward trend, expect probably after 2005 when a series of factors, such as new tax regulation, food and fuel crisis deducted more from income. Thus Greeks did not borrow to sustain the same quality of life that the previous generation had, as in the USA, but to keep up with the Joneses who were also borrowing in order to upgrade their standard of living and more often than not, to live in excess. Kalyvas refers to an illustrative report from Nielsen according to which Greeks were first in world scale in the propensity to consume luxury goods (with a considerable difference from the second in rank, Hong – Kong), in order to emphasise this vision of dolce vita, which "disdained the persistent and insecure process of creating wealth" (Kalyvas, 2010). Of course it is a matter of debate if this persistent and insecure process of creating wealth was present before financialisation in the Greek society. Or if it was exactly this characteristic of the society -or rather the lack of it- that made the country such a fertile ground for financialisation to spread in this lightning speed.

Sixth, numbers represent an aggregate estimation which misses on qualitative characteristics. One of them, income inequality within and not between various socioeconomic population groups, as broken down based on demographic, geographical, occupational, educational or other criteria (BoG, annual, 2008: 92). This concern should be added as a factor that does not facilitate an already difficult task of data collection and reliability. Because people with the same level of education, and occupation, leaving in the same area might exhibit different characteristics in their capacity to repay debts. One example is the 16% of households whose uncolletarised mainly consumer

[220] Greek shipping industry is a leader in the market of sea trade, thus a large percentage of the profits made in 2000 due mainly to the surge in China's exports and imports (BoG, 2003, annual: 242-245) has benefited Greek shipowners.

debt represents almost 36% of the total households debt which as we saw devoted in 2007 more than 40% of their income to repay their debt, something that is economically unwise and represents this economic inequality that is not discerned at first glance.

Seventh, a crucial question arises as far as change in financial culture and literacy is concerned. Can a society by eroded in small steps, which individually do not seem of quantitatively or otherwise important, but when viewed in their interconnectedness as well in the pace of their expansion could result to a change in cultural trends or to a social transformation? Can the pace of change transform societies as does scope and scale? More particularly, was Greek society transformed and how, due to the sharp rise of credit in just a decade? Did that effectively cultural shock shape new mentalities? Was Greek mentality and culture financialised or simply modernised? Or none? One thing we can answer to these questions and which is obvious in the case of consumer debt, and less obvious, albeit strong in the case of mortgage one, is that financialisation stepped on a kind of "aesthsiogonic" power (Tsatsaris, 2006; chapter 4) in order to realise its lightening expansion, which inevitably means that it either enhanced cultural traits that were already present, or created norms in the foucaultian sense. If the former is the case it is interesting to observe that global dynamics do not alter domestic mentalities, but on the contrary they "step" and "rely" on them in order to expand. Thus any proclaimed transparency and modernisation is annulled, and then one has to wonder who benefits, or at least what is the societal benefit of this entretien of global dynamics with domestic political economies. Finally, if the latter is true then it is indeed interesting for social sciences to examine how can norms be created in such a short period of time. What are the prerequisites conditions for this to occur? And how permanent it eventually becomes?

So, a provisional conclusion would be then that despite the arguments pro or against financialisation of Greece's private sector, one feature is indisputable: Greek households through private debt interlinked with financial markets and their volatility, and thus they can be "controlled at a distance" (Rose and Miller, 1992). The scope and

scale of private debt might not be worrying, and might only denote a modernisation of the Greek society, but even this, points to a social transformation whose driver is finance. If the specific features of this transformation are viewed not separately but as part of a whole, and if they are combined with the reorientation of Greeks towards financial investment, as well as financialisation of households through the channel of public debt (with which we will deal in the next chapter), then one might arrive to a different conclusion. So we proceed to examine exactly these sectors.

7.2. Greeks as "investors"

In this section we examine financial investments of Greeks. The term might sound strange or connotative of grand financial investments, but it is merely used to denote the entanglement of Greeks not as debtors but as users of financial assets. In order to be able to appreciate their financial position we will first compare real to financial assets and then proceed to the latter distinguishing between traditional ones, such as deposits and financial investment products such as bonds, shares and mutual funds. A separate class of financial products are insurance-type products such as voluntary private pension plans and whole life insurance. In Greece they had recently an upward trend but pre-crisis did not occupy a significant percentage in households' portfolio, since voluntary private pensions and whole life insurance, with a share of 26.3%, in Greece is 7,7 %, the lowest in all EU countries involved in the ECB survey ((ECB, 2013: 35), probably due to the obligatory public health care schemes. Finally, as a case in point of potential financialisation of Greek households we will examine the period of stock market boom and eventual crash of late 1990s and early 2000s.

Post WWII, Greek households were traditionally investing mainly in real assets: residential or other real estate property. Actually even in 2012-2013, 92,2% of Greek households are reported to have real assets, which is slightly above the EU average of 91.1% and only 74,5% of them to have financial assets which are mostly deposits (73,45%), well below EU average which is 96,8% and 96,4% respectively.[221] From these real assets, households main residence is the most significant asset of households, well above EU average (according to ECB survey this percentage is 72,4% for Greece and 60,1% for EU respectively). This raised households' nominal net wealth at least till the crisis.

Greeks were conservative in their financial assets too, probably due to the non-existence of other options. So even though gross saving of the private sector fell from an

[221] According to ECB, 2013c, real assets include: the value of household main residence for homeowners, other real estate property, vehicles, valuables (such as jewellery, work of art, antiques etc) and the value of self-employment businesses. In the financial assets, public and occupational pension plans are excluded).

average level of 24.6% of GDP in 1992-1996 to 14.5% in 1997-2001 and 12.0% in 2002-2010, still Greeks had one of the highest EU percentages in deposits to financial assets, showing apart from their conservatism, the resilience of both households and the economy. De-composing the figures of Greek households' financial assets ECB reports that 80,7% of their financial assets consists of deposits (sight accounts and saving accounts) which is almost double the EU average of 42,9% (ECB, 2013: 35). This share is higher for households with lower income, lower net wealth and households with a young reference person. In other words while in all EU households, except Netherlands, deposits form the largest share of financial portfolios in Greece this percentage is the highest in EU countries, followed by Slovakia (75,15%) and Portugal (70,6%).

What interests us here though is also the relationship between savings and credit, and if that decrease in savings has something to do with the rise of credit. It has been argued that this fall is savings rate can be interpreted as reflecting a disparity between rising liabilities, as households borrowed more from banks, and financial assets, which did not rise accordingly (household deposits, which constitute a significant part of household financial wealth, grew annually on average by 9.5% in 2001-2008 compared to the corresponding average growth rate for household credit of 29.2%). This discrepancy between the rise in assets and liabilities is equal, ceteris paribus, to a decrease in households' net financial assets, i.e. their financial wealth, which in turn suggests that households were running down their savings (Brissimis et al, 2012: 14-15). But this is not just a Greek phenomenon; decreases in the savings rate following credit liberalisation were previously observed in other euro area countries (e.g. in Italy, see Casolaro et al., 2006).

So overall Greece had a strong depositor base which started to erode (albeit still remaining one of the highest in EU) right about the time of liberalisation of financial sector. This correlation leads some to argue that the rise of credit led to the decrease of deposits. Here we will examine the possibility of alternative financial investments

that became available to households and which could also have contributed to this decrease of savings.

New banking products

With the liberalisation of financial sector, a wide new range of financial products as a substitute to deposits was offered to the Greek population, thus expanding the savings options of everyday life (BoG, annual 1998: 490). This expansion was considered by BoG as a clear sign of disintermediation (BoG, annual, 1998: 232-3). However, more often than not, banks intermediated for the acquisition and management of these new financial assets in order to "respond" to this demand (ibid), thus making the assertion of disintermediation less persuasive. For example 80% of all mutual funds were managed by banks, a trend consistent with the EU one (BoG, 1999: 224; BoG, 1998: 233) which consists mainly of bank-based systems. Moreover, there was an increase in rather simple savings' products such as time deposits with maturities up to 5 years (BoG, 2001: 201), as well as an increase in more sophisticated ones, which were essentially investments (even though they were not marketed as such), like investment funds in general, money market funds, bond fund and equity fund shares, but there was no disintemediation.

Fouskas and Dimoulas (2013: 155) report that the overall increase in these type of new financial assets was a trend in all PIGS countries. But in Greece the change was the most pronounced not only in PIGS but also among many other European countries as one can see from BoG table 5 below. There it is evident that the asset value of mutual funds in Greece was 1,1 per cent of GDP in 1990 -on the way to Eurozone, grew to 22,4 per cent of GDP in 1997, while in Portugal rose in the same time period from 5 per cent of GDP to 26 per cent, in Spain from 3,1 to 34,9, in Italy from 3,7 t 18,9 and in Ireland from 5.5 per cent to 69,9 per cent (BoG, 1998 annual: 233).

More illustrative of the exponential rise is chart 90, where both assets and number of funds are depicted in the period between 1990 and 2008. As we see, both indicators were around zero in 1990. The number of funds reached a peak of over 250 in 1999

and their assets reached a peak of around 35.000 million euro in 2000 and remained at this level every since. Greece thus approached countries with mature mutual fund markets (BoG, 1998, annual: 231) in a very short period of time. Mutual funds continued to increase till 1999 and then in the first quarter of 2000, the value of their assets started to fall (BoG, 2001, annual: 179). In particular the decrease concerned mutual funds of money-market type and of equity type, while the assets of bond-type and balanced-type increased at least in 2000 by 18,2 % and 105,2% (ibid).

Table (5) Assets of mutual funds

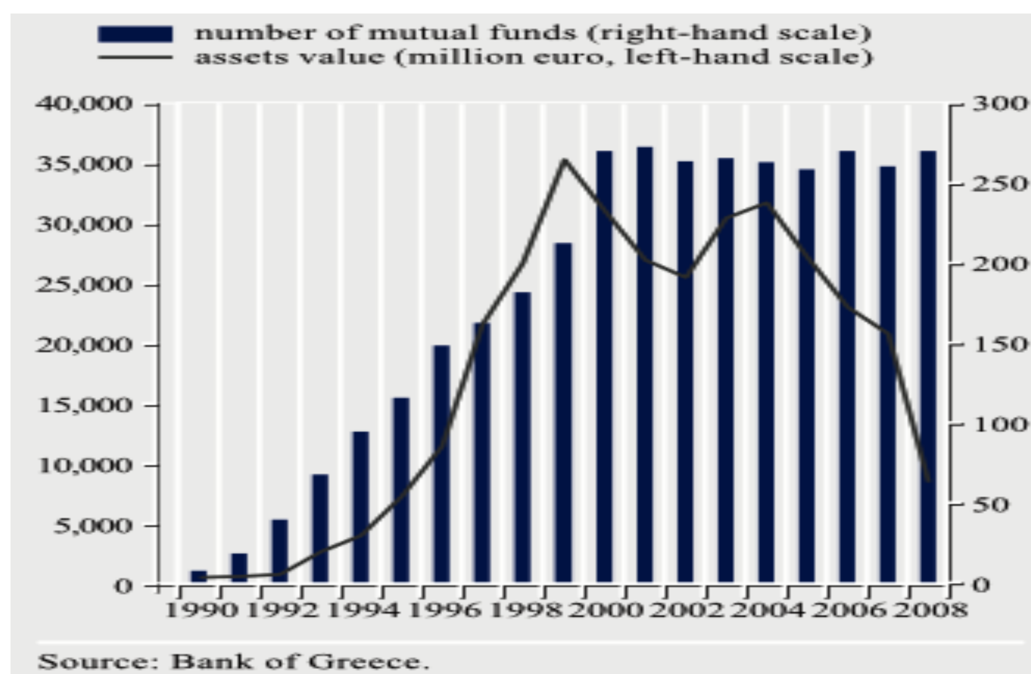
(end-of-year figures as a percentage of GDP)

	1990	1995	1997
Austria	8.4	14.3	22.6
Belgium	12.2	23.6	32.4
Denmark	3.0	5.0	8.0
Germany	9.9	16.3	24.7
Italy	3.7	7.2	18.9
Ireland	5.5	36.8	69.9
Netherlands	12.0	16.0	19.0
Portugal	5.0	17.0	26.0
Spain	3.1	18.0	34.9
Sweden	8.3	11.0	20.8
Greece	1.1	9.1	22.4

Source: Bank of Greece, and ECB (1999), “Possible effects of EMU on the EU banking systems in the medium to long term”.

Source: BoG, 1998 annual: 233

Chart (90) Mutual funds: number and assets (1990-2008)



Source: BoG, 2008, annual: 151

More specifically, investment funds from around 6.500 million in 1995 peaked in 1999 to almost 32.000 to go down to less than 5.500 in 2009. Money market fund shares from around 4000 million in 1995 peaked in 1998 over 17.000, following a downward trend since then and reaching less than 1.500 in 2009. Bond fund shares from around 700 in 1995 peaked in 2005 to around 11.000, to drop down to around 1200 in 2009. Mixed fund shares in 1995 were around 900 million, peaked in 1999 at around 7000, and went down to 750 in 2009. Equity fund shares were around 800 million in 1995 peaked in 1999 at 6.000 to go down to 3000 in 2002, and then after a surge that peaked at around 5.500 in 2006 it went down again to less than 2000 in 2009.[222]

In order to understand the interconnections between segments of the financial industry mutual funds and portfolio investments companies have been investing in shares listed in ASE and as an illustrative example we can see that from 402 billion drachmas that they have invested at the end of 1997, their investments more than doubled to 867

[222] OECD statistics accessed 08.04.2013.

billion drachmas at the end of 1998 (BoG, annual, 1998: 158), while in this amount raised in 4.204 billion drachmas complemented by a 394 billion drachmas investment in repos (BoG, annual 1999: 171). Consequently, at the end of 1999 40,2% of mutual funds portfolio was made up from ASE shares from 6,8 % in 1998 -the rest consisting of government securities of 21,8% and synthetic currency swaps of 21,8% (ibid). As the stock market receded mutual funds in 2000 turned more to synthetic currency swaps which made up 30,6% of their investments, followed by ASE ones of 23,7% and government securities of 24,7% (BoG, 2001, annual: 157).

What prompted this increase in new financial products? From an economic point of view, interest rates were high, therefore even small depositors chose to invest there due to high returns. However, the choice was not all that rational: there was a fierce promotion from banks towards these type of products, a fierceness which was due to the high competitive environment between banks. This was the trigger for the increase and the “animal spirits” did the rest. Nonetheless, these developments could not have been possible if it was not for regulatory incentives. As, BoG reports (2001, annual: 232) the deceleration in deposits was due to the fact that they were substituted with repos, because their yields were not subject to tax between September 1998 and end of 2001. Through similar incentives deriving either from particular regulatory clauses or the general liberalisation of financial sector and the ensuing baks’ competition, people were prompted to place their savings in financial assets which even though they were not new or probably not even sophisticated by international standards, they were nevertheless new and sophisticated for the Greek context. So one can probably argue that tax exemptions and deregulation induced a state-assisted financialisation in the sense that via regulatory incentives or opening of unregulated spaces, Greeks started investing in products whose yield was depended in (international) financial markets.

Regulation played a role in investment in repos too. There was an abolition of the 15% tax on repos’ yields in 1998 by Law 2642/1998, art. 10 par. 12, which increased investments in repos markets by an average annual rate of 86% (BoG, 2002, annual:

232). The tax was reintroduced albeit at a 7% in the beginning of 2002 by Law 2990/2002 shifting the preferences of Greeks back to deposits, especially time deposits (BoG, 2002, annual: 81, 184). The tax was increased to 10% on January 2005, resulting to a further decrease in repos (BoG, 2004, annual: 168). Thus the orientation of Greeks away from deposits and towards other financial products, was a political choice and thus a demand was created from the open space that regulation left.

The Stock Market Crash: the sudden entanglement of everyday life with financial circuits

The fall of deposits, the preferable financial investment of Greeks, might have another reason too: the stock market crash of 2001. Following liberalisation, there were two to three years of rallying in stock market prices, and then the market crashed. Specifically, and as we will see in detail in this section, the price of stocks rose initially gradually (from mid 1990s) and eventually exponentially (from last months of 1999 to the first months of 2000), only to plunge in 2001. How did it happen though?

For the majority of Greeks stock market was something unknown, Stournaras[223] has said (Vassilikos and Stournaras, 2011). Yet Greek government implemented a series of laws, with the view to restructure and synchronise the stock market, which included tax exemptions for capital traded and gained in the stock market, complicated and time consuming procedures for criminal investigations concerning stock market, and the creation of a public enterprise DEKA AE which was blamed of deliberately pumping up prices in the stock market in order to keep the general index above 5000 till the

[223] Professor of Economics, former Minister of Finance and current Bank of Greece Governor.

elections of 2000.[224] Adding to these, those entering the stock market were not required by law to prove where their income came from, so it became a legitimate money laundering business. Complementing this accommodative regulatory and political "ambiance", the macroeconomic conditions were uniquely favourable: Greece was converging to European standards in view of its inclusion to Eurozone, it was implementing structural changes, interest rates were decreasing, as was inflation.

This quite encouraging macroeconomic, tax and legal environment was coupled with very aggressive and explicit public discourse coming not only from (economic) newspapers, but also from the highest ranks of political leadership –domestic and sometimes foreign-[225] luring Greeks into the stock market. We will refer to two characteristic statements of then Prime Minister K. Simitis. In the 9th of June 1999 Simitis said: "Two trillion drachmas went from deposits to investments of enterprises through the stock market. Enterprises found money to make business… As long as the Greek

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[224] DEKA (ΔΕΚΑ ΑΕ - Δημόσια Επιχείρηση Κινητών Αξιών) was created by the Law No.2526/1997. Its main task was to buy and sell stocks of public sector companies which were to enter in the stock market and/or be privatised. Till 2001, it conducted many buying of old debt in order to substitute it with new debt under supposedly more favourable for the country terms like longer maturity and lower cost (Introductory Report of 2001 budget: 193). The effectiveness of this "strategic move" has been proved, but what we should also mention is that for these buying-back of debt, DEKA was using money from privatisation of SOEs (Introductory Report of 2001 budget: 193). So this move not only resulted to financialisation of the public sector which effectively proved catastrophic since it window dressed the fiscal problems of the country under the sophistication of modern financial tools, but also further burdened state finance's through speculative interest rates and terms, as well as fees to the financial companies involved.

To return back to DEKA and the stock market crash, it would be worth to mention that the president and 5 member of the board were blamed for pumping up the prices between 9.03.200—10.04.2000 by deliberately buying aggressively stocks so that the stock market did not show to have problems. In the introductory 2001 budget the government justified the buying of 390 billion of SOEs stocks whose largest part were sold in July for 288,5 billion drachmas to the "interest of investing public who trusted public enterprises and the need to successfully continue the politics of privatisations" mentioning that the selling of the stocks was conducted in prices above the prices that it bought initially!… At any case, the president and the members of the board were later not convicted on the grounds that no harm occurred to state's property and they did not intent to increase this way their property or the property of others.

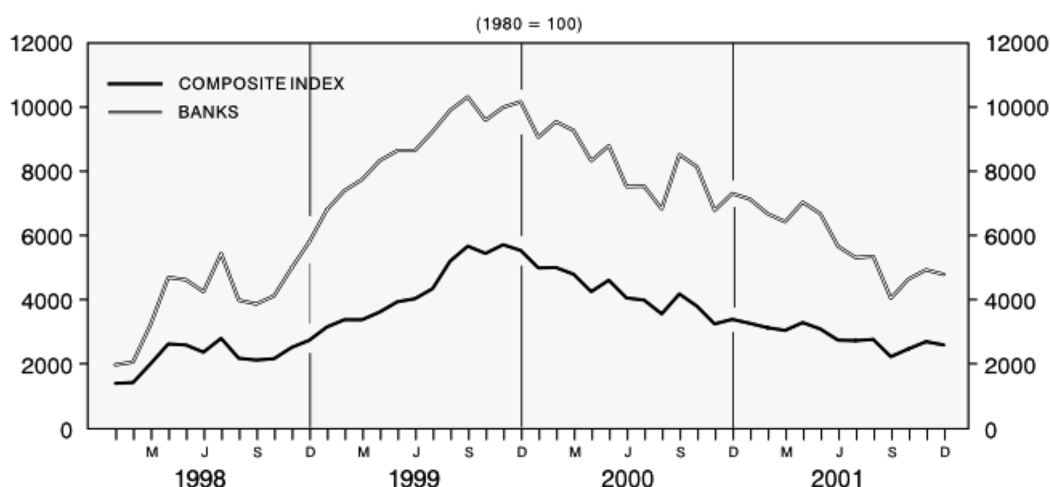
[225] For an illustrative assortment of "declarations" see Melas 2013, 155-159

economy is doing well, the stock market will go equally well too. The one depends on the other". In the 2nd of March 2000, a period when the market had started its downturn, he explicitly said that "I want to stress again that the prospect, in the long run, is positive", only to come in the 5th of June 2001 to announce: "Of course I am sorry that some were burned in this situation. I am sorry that some did not take care and now we have the obligation to attend so that these phenomena do not happen again…"[226] The "ones" "that did not take care" were 1,4 million people in a population of 10 million (Melas, 2013: 151) and of almost 4,614.499 million active population (HELSTAT, Population Census 2001: 1), in other words more than a third of the active population.

To get a perspective of what happened, we can refer to chart 91, which illustratively shows, that in the first moths of 1999 stocks started their upward trend, which became even stronger from August to mid September. Till the end of 2000 stocks showed to stabilise in these high levels. The composite share price index increased by 102,2% between end of December 1998 till the end of December of 1999, and the total increase of the index in two years, 1997-1999, reached 493%. In 1999 the lower level of the index was at 2.883,3 points in 15 January 1999 and its peak was at 17 September 1999 at 6.355 points; in 2000 the peak of the index was in 3 January 2000 at 5.794,85 points and its lower point 3.307,56 points at 22 November 2000 a fall of 38% (BoG, mon Feb 2000: 41; OECD, 2001) and in 2001 the peak was at 3 January at 3.360,5 to plunge to 2.105,6 in 21 September -its lowest point since the boom (BoG, mon March 2002: 83). So from the peak of 6.355 in September 1999 the market went down to 3.307,56 points in November 2000 and 2.105 points in September 2001. It is worth noting at this point that construction index fell by 63,1% in 2000, compared to a 586% increase in 1999 (BoG, 2000 annual: 152).

[226] These and an assortment of very interesting quotes of ministers are to be found in Melas 155-159.

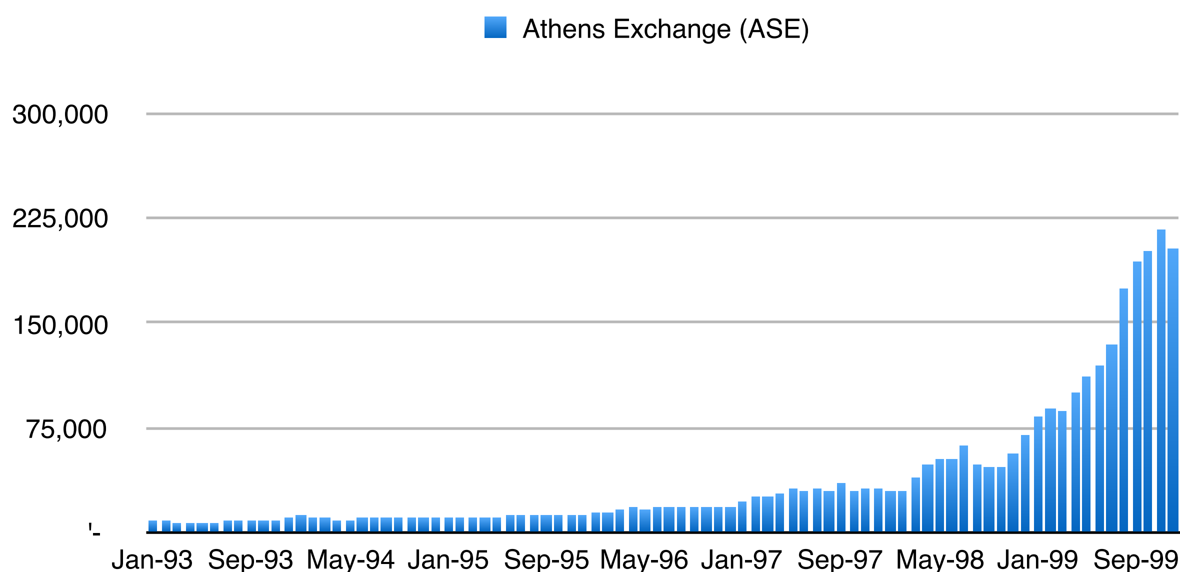
Chart (91) Share price indices from ASE



Source: BoG, 2001, annual: 175

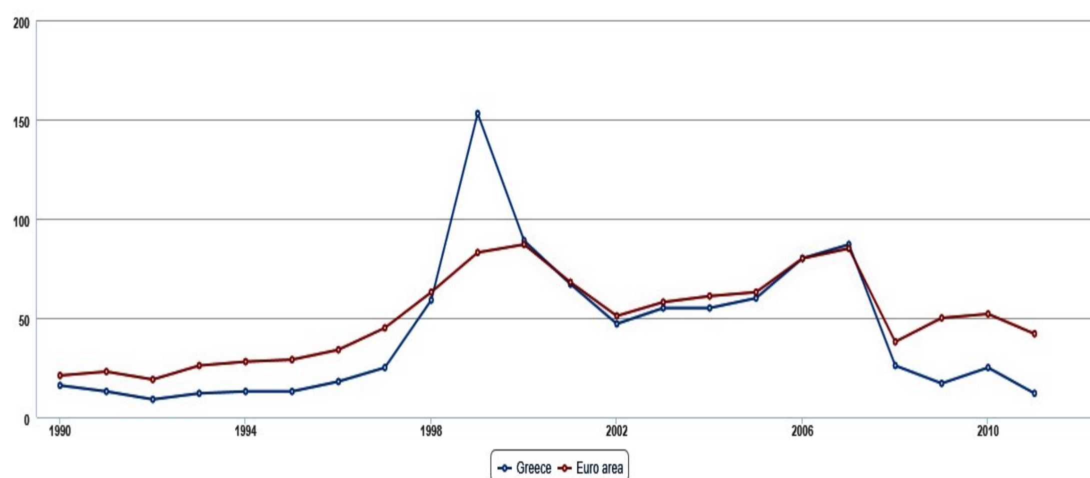
Consequently, and as seen in chart 92 market capitalisation was 8.347 million euros in January 1993 and reached 203.756 million euros in December of 1999 (FESE, historical data of market capitalisation). An impressive rise! If seen in relation to GDP market capitalisation from 20% of GDP in mid 1990s (OECD, 2001) peaked at historical high of 185% GDP (71.087 billion drachma) in November 1999, which made it that year second in the world after Switzerland and above US, UK and Japan (World Bank Global Financial Development Database and World Economic Forum, 2012; BoG, mon March 202: 84). At its peak point was also well above EZ average as seen in chart 93 which shows the spike of an otherwise moderate stock market which followed close EZ average. An illustrative example of the frenzy in the stock market is construction companies whose market capitalisation just in 1999 rose by 809% (BoG, 1999, annual: 166).

Chart (92) Market capitalisation data in million euros



Source: FESE

Chart (93) ASE's Stock Market capitalisation in relation to GDP (Greece - EZ)



Source World Bank

Market capitalisation was to go down to 97% of GDP in 2000, to 74% of GDP in December 2001 and to 47% in end of 2002 (BoG, annual, 2002: 206). The total value of trading in shares fell from 58.800 billion in 1999 to 34.343 in 2000 (BoG, 2000, annual report: 151). Daily trading reached 441 billion drachmas in Sep 1999 -from 84 in December of 1998- (BoG, 2000: 46) only to plunge to 136 billion drachmas in 2000

and further down to 57 billion drachma in 2001 (BoG, mon, march 2002: 84), in other words more than 1/8 down from 1999. In general, there was a tenfold increase of the stock market in just 3 years (Kolmer, 2001), which then led to a destructive plunge.

BoG interpreted the plunge first as a correction of the overvaluation which occurred in 1999 (BoG, mon interim, 2003: 95). Secondly, as something that can be explained from the international uncertainty in the markets especially after September 11 and thirdly as a result of the withdrawal of foreign institutional investors due to the upgrading of Greek stock market in 31.05.2001 from the category of emerging markets to developed ones something -supposedly because those investors were only investing in emerging markets (BoG, March 2002: p. 93, 94, 96). In other words, it considered the boom and bust as something within the natural course of events of liberalisation of the stock market and of the international context and trends of that time. In order to verify the truth of this claim it would be worth “to follow the money”.

It is indisputable, indeed, that during this time extremely high profits were made. First of all by banks: they raised a considerable amount of assets through stock market boom, by trading shares and profiting from fees over intermediation for stock market transactions and bond sales (BoG, 2000, annual: 203; BoG, annual, 1998: 158-160). This helped strengthen their capital base and their further expansion of credit either domestically or in the Balkans as we saw in the previous chapter. Actually profit making reached 3% in 1999 (BoG, 2003, interim: 107-115). Secondly, profits were also made by non-financial companies, especially construction and investment ones. In general profits in 1996 were up by 87,3%, in 1997 by 6,8%, in 1998 by 23,1% and in 1999 by 131,4% only to drop to -9,0% in 2000 and further 22,6% in 2001 (Hellenic Capital Market Commission, 2002: 42). Such a financial benevolence then ignited and legitimised a diffused discourse that made investment in the stock market a rational choice.

Furthermore, a neoliberal, mainstream discourse would argue that despite the expected exuberance once liberalisation started, this bubble quenched the thirst of investors

for capital, which was hardly accessible in the previous strained regulatory environment. Even the Prime Minister at the time, a socialist, has said just that. It is indeed a fact that capital raised in 1999 by private sector companies amounted to 8,5% of GDP, nearly four times the amount of 1998, which was already the largest in record, that is 2,30%, since before 1997 it was less than 1% (BoG, mon 2000: 66). This evolution is clearly shown in table 6 (BoG, 2000: 66) where it is interesting to see that in 1999 the funds raised accounted for almost 29% of investments of private and public non-financial sector enterprises (except in dwellings). Yet this is just the equivalent of the percentage in investments, it does not show that these money were actually invested.[227] Moreover, it is worth observing as far as financial companies were concerned, that they raised funds equivalent to 62,57% of their investments, verifying Toporowski's argument that "finance was financing finance" and not the real economy.

To elaborate on the funds raised which is important for the potential productive impact of the rise of stock market, we see that total funds raised from companies by means of capital stock increases amounted to 3.309 billion drachma in 1999 (50% of that amount was raised in the last trimester of the year) from 827 million in 1998. The most capital was raised by 13 banking companies (1.286 billion) followed by industrial (396 million) and investment companies (395) and then by construction ones (282 million) (BoG, mon, feb, 2000: 43). Then in 2000 the funds amounted to 2.994 billion drachma and in 2001 only 285 billion drachma, more than half of which (160 billion drachma) were raised from new companies entering the market in 2001 (BoG, March 2002: 84). Moreover in 1999 there were 156 companies that raised this capital (BoG, 2000:47), in 2000 there were 146 companies and in 2001 there were only 40 of which 21 entered the stock market for the first time in 2001 (BoG, mon, March 2002:

[227] In a relevant footnote in BoG, 2000: 66, the Bank would mention that "this does not, of course, imply that the funds raised during a given year are used to finance investments in the same year". Well it could imply also that they never did.

85).[228] Table 7 illustrates the the evolution of funds raised from both listed companies and ones listed for the first time through IPOs and new share issues. The differentiation with the numbers noted above is that this table denominates the amounts in euros. Nonetheless one can see the exponential rise that started gradually in 1997 and 1998, skyrocketed for 1999 and 2000 and then dropped remarkably - to say the least.

Table (6) Funds raised through ASE in relation to GDP and investment: 1995-1999

(in billion drachmas)

Year	Funds raised through the Athens Stock Exchange[1]		Gross fixed capital formation (excluding dwellings) by public and private enterprises,[2] at current prices	GDP at current market prices	Funds raised as a percentage of investment		Funds raised as a percentage of GDP	
	Total of firms	Non-financial firms						
	(1a)	(1b)	(2)	(3)	(1a):(2)	(1b):(2)	(1a):(3)	(1b):(3)
1995	87.1	69.6	2,852.0	27,235.2	3.05	2.44	0.32	0.26
1996	134.8	107.5	3,463.1	29,935.1	3.89	3.10	0.45	0.36
1997	535.5	305.8	4,182.4	33,021.8	12.80	7.31	1.62	0.93
1998	826.9	544.3	4,743.2	35,910.6	17.43	11.48	2.30	1.52
1999	3,309.0	1,524.6	5,288.1	38,319.7	62.57	28.83	8.64	3.98

1 By share capital increase through the issuance of new shares. Excluding the sale of existing shares, which amounted to 308 billion drachmas in 1998 and 791 billion drachmas in 1999.

2 Excluding all general government's investment and households' investment in dwellings.

Source: NSSG/National Accounts for 1995-1998 and Ministry of National Economy/Macroeconomic Analysis Directorate for 1999 (GDP and investment). For the funds raised through the Athens Stock Exchange (ASE): calculations based on ASE data.

Source: BoG, mon 2000: 66

[228] After the plunge of 2001-2002 the general index started increasing. In general the upward trend was mainly due to banking sector and fewer players in the market. For example, in 2005 the capital raised from companies was to 1.675,7 million euros which was raised from 14 companies, from which 5 were newcomers that year and from which capital 1.248,9 million euros concerned just two banks who raised their capital. So a rather dim rise in the stock market following the crash concerned 2 banks, which makes the boom of 1999 even more dramatic (for data see BoG, Νομισματική Πολιτική, Ενδιάμεση Έκεθση, 2005, p. 88). Then in the beginning of 2006, there was an optimism from these last months of 2005, as well as conclusion of important business deals and positive forecasts of forthcoming the privatisation of the State (BoG, 2006: p. 75). Then in 2007 when new capital which was raised in the market almost doubles and reached 9.121,3 million euros with the general index reaching almost 5.300 something that has not occurred since 1999-2000 (BoG, 2007: 78)

Table (7) Fund-raising in ASE through IPOs and New Share Issues (1990-2002)
(in million euro)

Year	Listed firms	Firms listed for the first time
1990	378	173
1991	289	156
1992	86	12
1993	237	58
1994	479	259
1995	191	65
1996	123	273
1997	1,511	59
1998	1,450	977
1999	8,587	1,124
2000	6,967	1,820
2001	367	470
2002	267	86

Source: ASE.

Source: BoG, mon inter, 2003: 96

Yet, it should be highlighted that the impressive rise of market capitalisation and daily trading did not involve the 20 high capitalisation stocks, since FTSE/ASE blue-chip index has increased significantly less than the general index, thus it was lower capitalisation firms shares that surged. According to OECD (2001) this points to underlying speculative demand. Another proof of the speculative character is the sudden rise and fall of the number of listed firms in both the main and parallel markets (table 7) whose number started to rise exponentially in 1997 and more so in 1999, only to fall with the same intensity in 2001. It is as companies were made only to pass through the stock market, rise capital and then simply disappear! A clear sign of speculation, then, even though BoG would argue that "the sharp rise has helped improve and breath and depth of the market and increase its contribution to the overall growth of the economy" (BoG, monetary, 2003: 94). Albeit the "breath and depth" cannot be values per se and the causal link to growth is hard to establish. Because on one hand it is true indeed that in 1999 -the peak of the boom- construction companies shares rose by 657,5%, which does indeed prove a link to productive economy, however the same year industrial company shares rose by a meagre 96,8%, while financial sector shares

skyrocketed: even though banks' shares rose by 86%, leasing which is managed by banks rose by 377,8%, insurance by 202,3%, holding company shares by 247,1 % and stock prices in the secondary market by 741,7% (BoG, 2000, monetary: 41-42), verifying Toporowski's argument that finance was financing finance.

Moreover and if one wants to look to the broader picture, investment had a slightly upward trend since the early 1990s, but remained rather stable after 2000, implying that money raised was not channelled in real economy, at least proportionately to the rise in stock market. Because if money raised was to fund real economy, then the rate of investment growth should have been equal or almost to the rate of growth of capital raised in the stock market, if not more. And let us not forget that this was a period when the infrastructure projects for Olympic games have started -however timidly. However, such an analogous rise in investment did not occur, something that points again to speculative gains. Fouskas and Dimoulas (2013: 151) would stress this point by saying that "as elsewhere in the West, the result of this speculative boom and bust cycle was to circulate paper assets and liquidity away from production, while concentrating wealth in the hands of a few speculators who 'cashed out and got out'…".[229] Lastly, a sign that strengthens the empirical data on speculative character of the boom is the fact that a considerable amount of the profits from the stock market was channelled into buying of luxurious residencies, especially in the islands, or luxurious cars and boats and in general purchases that denoted luxury and excess surged during the boom and right after it.

Of course amidst this speculative mania, some everyday people and some companies gained too. For example it has been reported that shipping, especially coastal shipping, companies took indeed advantage of the stock market boom and raised capital in

[229] Fouskas and Dimoulas (2013: 107) would also point to the appearance of unknown businessmen and companies amassing a number of activities in Greece, Balkans and the Near East, in the field of banking, defence equipment, large scale import-export, mass media, informatics and energy. But they way they present their argument is more class-inspired critique, than an analytically useful observation, because all these could have had a productive impact in the economy. But no productive impact seem to have occurred due to the stock market.

order to expand their activities (Kavouropoulos, 2014). They raised 146 billion drachmas in 1999 and another 99 billion drachmas in 2000 (BoG, annual, 1999: 145 and 2000: 132).

Besides the speculative character of the boom, it was also a par excellence case of everyday financialisation. As we already said the aforementioned developments in the stock market dispersed a discourse of euphoria and ‘rationality”, in the sense that it would have been irrational, even stupid, not to invest even a small amount of 2000-3000 euros, if this was to double in days. Subsequently, there was a marked entrance of everyday people in the stock market, many of whom were “people not familiar enough with the key characteristics of the market, mainly the size of risk inherent to such investment…” (BoG, 1999, annual: 56). More particularly, individual participation to the stock market increased to the point that Athens Exchange had the largest share ownership by individuals investors (31,1%), among the major 13 countries of Europe between 1999-2003. This high percentage diminished in the subsequent years, in 2005 (24,5%) and in 2007 19,4%, which is more than the average Europe-wide which is 14% (FESE).

Only in the third quarter of 1999, from July to September -where the big boom happened- 270.000 new securities accounts were opened in ASE and BoG attributes the sharp rise in share prices and value transactions of early August to mid-September of 1999 to “the small savers’ demand for shares” (BoG, 2000, annual: 166). Starting from 1998 and in 18 months 1.600.000 domestic investors entered the stock market. This number accounted for 27% of economically active population:[230] from those 700.000 were (probably are still) stuck in the market, since 67% of them reported loses –often of enormous scale-, 19% reported no losses or gains (in 2001), and only 14% of them reported profits. (Kolmer, 2001). Actually, BoG attributes the sharp rise in stocks from “the small savers‘ increased demand for shares” (BoG, annual, 2000: 166), their diversion from traditional depositors to capital market investors.

[230] Active population that year was 4.496,4 million (ILO, LABORSTA database, accessed 20.10.2015)

Another indication of the inclusion of everyday life in the circuits of finance is manifested also by the fact that in 1998 and 1999 many small stock-brokers' companies or in the parlance of BoG "Societe Anonymous for Receiving and Transmitting Orders" (BoG, 2000, annual: 166), called ELDE (ΕΛΔΕ) were established even in the smallest villages and people with no financial education or experience entered the stock market, investing all their savings, even taking consumer loans,[231] or selling property and/or cars in order to invest in what looked an easy way to multiply their capital. An unprecedented financialisation of everyday life, touching upon cultural traits, was taking place all over Greece, and not just in urban areas.

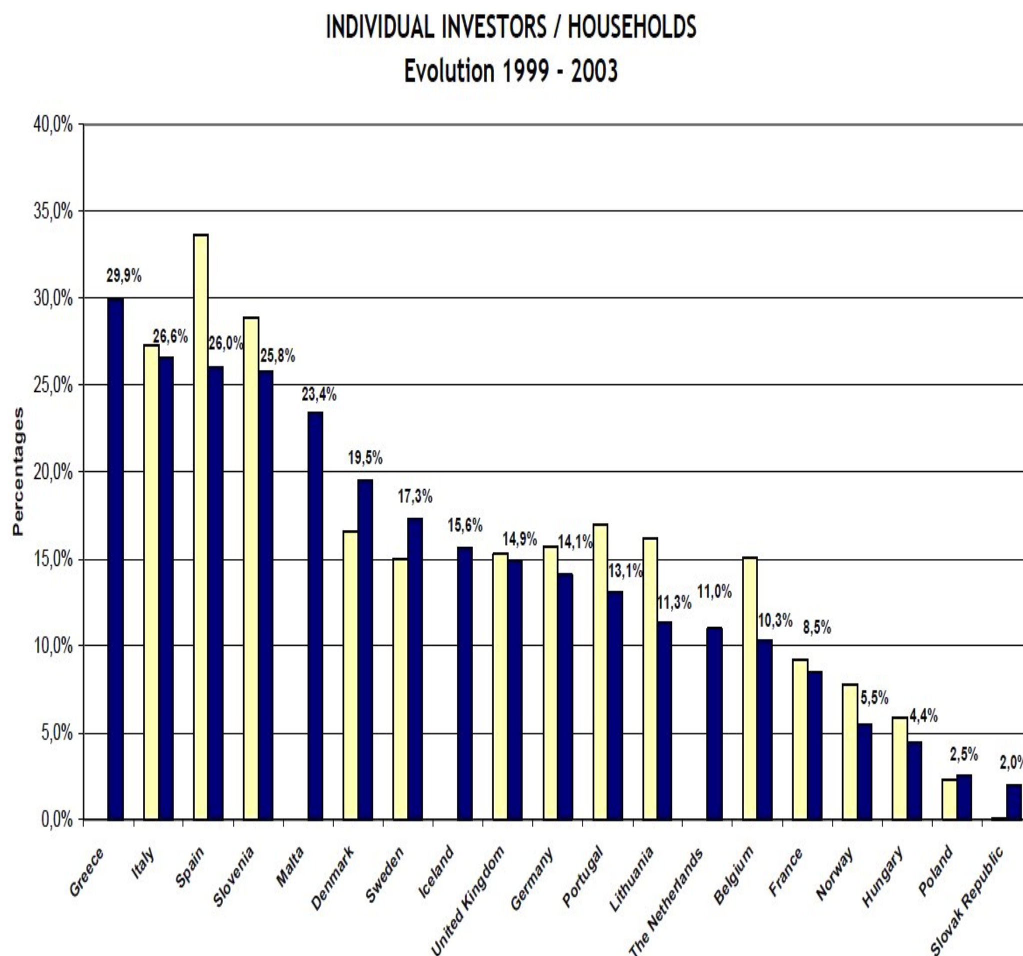
As interesting as these developments might be, it would be worth examine them in comparative perspective, in order to understand the context of the transformation that took place. For example Portugal, a small peripheral country of the EU, with a bank-based economy that is too based mainly in SMSs and which too liberalised its financial sector, did not experience such a surge, nor the entry of individual investors in the stock market in such a large scale (Lagoa et al, 2013: 65). The reasons for such a restraint in the "democratisation" of its stock market have been argued to be the following: being an SMSs economy, based on banks for financing, with limited firms listed (as was Greece before and after the aforementioned period), and a strong concentration of stock market to 10 firms, it did not need to look for financing in the stock market (ibid). Albeit, all of these conditions existed in Greece too. Since the fundamentals were similar, something of less rational economic reasons ought to have occurred here.

Another example for comparative purposes could be Italy which as seen in the chart 94 had the second largest percentage of individual investors. But nor there have things evolved as in Greece. Despite the liberalisation and despite the fact that its stock market between 1992 and 1999 was growing at a rate which was said to be the highest in the world at times, its market capitalisation only reached a peak of 62,1% GNP in

[231] BoG remarked that consumer loans had exhibited a tremendous increase in the second semester of 1999 due to the stock market (BoG, 2001, monetary: 39)

1999 (Gabbi et al, 2014: 185). Furthermore the profile its individual investor was one of a highly educated individual, of medium-high social class, mostly young, male and living in North West, a profile that "sets him apart from the Italian population, just as it does from investors generally" (Borsa Italiana, 2002: 67). A profile that had nothing to do with the average Greek investor of that time: which was almost everybody. So the overheating of the market from everyday life has some characteristics of uniqueness in Greece, and cannot be explained by purely economic parameters.

Chart (94) Individual investors / households (1999 - 2003)



Source: FESE, Share Ownership Structure in Europe, 2004: 13 (weighted average by market capitalisation 16%)

Following the crash private financial and non-financial investors gradually exited the stock market (the latter group reached a 7,6% in 2005 from 23,7% in 2003), and the

only group of investors which have steadily increased is foreign investors which from 23,9% in 2003 have reached 40,3% in 2005%, and 51,8% in 2007 (FESE). As we have already mentioned, according to BoG, the Committee of the Stock Market, and mainstream theory, this was firstly an anticipated correction of the overheating. After all, a boom and an eventual crash of the stock market especially when it being liberalised might be considered an anticipated reaction which should not be attributed to financialisation of the economy. Moreover, the fall was also attributed to both internal political events (elections) and international stock market upheavals (such as the New Economy downfall). Especially as far as institutional investors were concerned BoG (mon 2003: 83) attributed the exit in the upgrading of ASE from the category of emerging markets to a developed one; that is to "institutional", technical reasons. However, there have been a series of accusations for manipulation of stocks (some of which have reached the Committee of the Stock Market), signs of speculation as we have seen above, coupled by aggressive public discourse on the benevolence and fast gains of the stock market, which point to gains from short-term and anti-productive financial circuits in detriment of long-term ones with a wider social and/or police-economic blueprint. And as we have at length analysed in the first part of this thesis, financialisation is essentially the permeation of finance in increasingly more sections of the economy and the population which has a characteristic of excess and this exactly what seems to have happened in the case of ASE: from one part excess and speculative gains, and from the other the entanglement of a financially ignorant everyday person to the workings of finance.

Adding to these, the stock market boom and bust, resulted to a redistribution of wealth that went uphill, rather than downhill. Deposits, which were the saving net of a Greek household "against" a rather inadequate (welfare) state, evaporated, debt for just "gambling in the market" rose and a sociopolitical turmoil spread with no economic gains for the economy as a whole or the majority of citizens. Most of them lost their savings and/or were stuck in the market, which resulted to suicides and depression incidents. Those who gained were mainly banks, large investors and speculators. Furthermore, it should be viewed in context and in relation to the pronounced rise of

credit in a short period of time. Greece seemed to have entered a "financial shock therapy": financialisation indicators rose abruptly in many sectors of the economy in a very brief period of time.

Overall, one can conclude that Greeks were traditional and very conservative investors.[232] They were mainly investing in real estate and if they were to invest in financial assets they were preferring traditional deposits which they viewed more as a safety net, than actual investments. Such was the preference that even after the erosion of the savings, Greeks still in 2013 had the largest share of deposits in relation to financial assets in the context of EZ.

The liberalisation of stock market, new regulatory incentives and an encouraging public discourse resulted firstly to new financial preferences, such as mutual funds and repos as well as stock market investments. Secondly, an impressive increase of capital raised from the stock market which did not involve an analogous rise in the high capitalisation firms, and most importantly it did not result to a rise in investments in general, at least not as nearly as it should have done. Besides the speculative nature that these developments denote, there was a financialisation of everyday life since in Greece there was an entry of everyday people in a much larger scale than in other countries. One third of the active population got involved, most of which got trapped into a falling market.

So the availability of more financial investment products coupled with the revenues they created in a short period of time either through interest rates or stock market revenues tempted Greeks into easy profit, which was what the stock market, as well as mutual funds and other new banking products, seemed to deliver. This sudden interest to financial markets which actually gave real profit for a short period of time was the carrot for an ignorant financially society to enter a world whose dynamics it could not understand, and which public discourse did not make an effort to elucidate. On the

[232] It should be stressed that we use the term "investors" as it is used mainly in the economics literature. In polito-economic terms and in view of the social context of Greece, real estate purchases and deposits were more or less viewed as a form of secure savings.

contrary, politicians from Greece and abroad, media, academics, all encouraged what seemed the “rational thing” to do: to invest in the stock market, to take a loan to buy a house, to take another loan to go on vacation abroad. Yet the animal spirits that this “rationality” incited, avalanched into a mania, since ordinary people, individual investors not only used the vast amounts of their savings but also took loans in order to invest in the stock market, using their houses as collateral or started living a luxurious lifestyle far beyond their means. This made the bust more disastrous and the stick that followed the carrot far more painful for the society at large. A development that was unique in its scale at least in Eurozone and one that is an indication of biopolitical dynamics of power as analysed in chapter 4.

General Conclusion – Financialisation of Greek Households

Aggregate numbers might not tell the story of individual households which were probably overoptimistic and took loans whose monthly payments far exceeded one third of their disposable income, or whose property was overvalued so that target goals of banks be reached or whose life was ruined through the stock market crash. What they do tell though is that in the aggregate, Greek private sector was not over indebted till the crisis, and most of its financial investments were deposits, if one excludes the period of stock market boom and the rise of mutual fund investments. Actually Greeks as debtors were below EZ average in almost all indicators, despite the spectacular rise of mortgage and consumer debt in a very short period of time. One could even assert that neoliberal mantra of benevolence of financial deepening was proved to be true in the case of Greece’s private sector (at least as its liabilities side is concerned). Yet this is the problem with numbers: they usually tell half of a story. If not critically and contextually assessed they point to misleading directions both analytically and politically.

Because even though banks did not disintermediate, even though debt barely reached EZ averages, even though risks were not privatised in the way they did in the Anglo-saxon world and even though stock market and new financial products boom could be considered as a “natural” adjustment to a new reality, it does not change the fact that

finance permeated deep into Greek society in a remarkably short period of time, something that has the characteristics both of a financial shock therapy, and ones of a biopolitical power of finance.

We explained in detail the modalities and the particular ways that financialisation worked its way in Greek society through mortgage, consumer, SMEs and professionals' debt, as well as the stock market and new banking products such as mutual funds. Greeks from one hand lost a considerable amount of their savings (a much needed safety net) in the stock market and from the other got more indebted. And they got indebted under predatory contractual agreements which were the product of an olipolistic banking market (albeit fiercely competitive in between themselves). Furthermore and more important economically they got indebted not in view of covering real needs, but more as a result of regulatory and discursive incentives and in view of a more luxurious lifestyle, thus resulting to an incapacity to generate the income in order to cope with the financial obligations assumed. In other words the rationality that fuelled financialisation of private sector was not one of Homo Economicus or Financialis, to whom risks are privatised. The rationality was one of a right to enjoy things that were out of reach before. It was a rationality of jouissance, considered as a right, and resulting to excess, and a living beyond one's means with the "help" of financial tools whose logics and even obligations Greeks did not fully understand. Thus temporary profit was preferred, instead of a permanent one, which stabilises and promotes real prosperity to both the economy as a whole as well as to individual level.

This development was something that happened in a very short period of time compared to other countries. And even though indebtedness of private sector did not reach the levels of other EZ countries, it was nevertheless enough to make the economy more fragile, to further enhance the erosion of savings, to introduce it in the circuits of high finance, thus linking the economy to its volatility and subjecting it to a power at a distance; especially if considered alongside the rise of public debt which we will examine in the next chapter. The logics of finance permeated a society which 10 or 15 years before, was effectively excluded from bank lending and financial markets.

CHAPTER 8: Financialisation of the (Greek) state: a subprime borrower, a corrupt enterprise, or a sovereign as an asset class?

8.1. Introduction

In this section we will shift our focus from the private to the public sector. The aim is to examine the financialisation of the Greek state. Our focus will be on the financialisation of the state per se, and not only on the state as a facilitator of financialisation of the economy in general. Our purpose is to understand how Greece's public sector was financialised, and how the Greek case contributes and/or advances the theoretical debate on financialisation. In other words, abstracting from the specifics of the Greek case we will try to see how can a public sector be financialised; how can an economy be financialised through public debt, and if this type of financialisation entails a financialisation of sovereign per se and how so.

The literature on financialisation of public sector has not been adequately developed, either empirically or theoretically. Hardie (2011) tried to propose a definition, namely that financialisation of the state is investors' ability to trade risk in government bond markets, concluding that the more liquid a market, the more financialised a state is. This rather narrow definition is probably due to Hardie's focus on emerging markets. Nevertheless a first feature of financialisation of the state can be discerned: the volume of trading of government bond markets, assuming that more trading implies easiness in trading, thus a more liquid market.

A second feature can be found in the theoretical argument of Güngen (2012: 10) who defines financialisation of the state as the restructuring of nation-states in line with financialisation of the accumulation, viewing the state as the provider of legal-political framework for the expansion of finance and the facilitator of financial deepening, strategies of depoliticisation of public finances and internationalisation. This definition is based on the case of Turkey's financialisation, where the state issued sovereign bonds with exceptionally high interest rates and large turkish industrial conglomerates invested in those in detriment to productive investments. Yet this definition does not

illuminate financialisation of the state per se, but rather financialisation of non-financial companies, with the state being a facilitator of this process. Nevertheless his points can still be viewed as features of financialisation of the state.

A third feature of financialisation of the state is the use of financial engineering in order to hide fiscal problems. The work of Piga (2001) in this is indicative. He examined the use of derivatives by sovereign borrowers in developed countries including Germany, France, Netherlands, UK in the context of public debt management. His research results suggested that financialisation of a sovereign involves the use of financial engineering, especially derivatives in order to window- dress state's public accounts for the purpose of disguising public deficits. This essentially means that governments were using financial sophisticated tools to hide deficiencies and transfer crucial political issues to the future, consequently reducing the transparency and usefulness of national statistics. What is interesting in Piga's work is that the focus is on the state itself which one can say that is transformed to a commercial actor seeking to hide financial problems and/or expand beyond its means, as many banks did. In the same line of thinking, Dunbar (2012) highlighted the potential predatory, or even subprime-like character of agreed deals between big investment companies and sovereigns, due to the information asymmetries involved in these complex products, as well as the potential restrictions of competition they might entail and the opaque ramifications they might incur in medium and long term to the states and subsequently societies.

Furthermore, financialisation of municipalities can be another aspect of financialisation of the state. This can include the use of financial engineering from the wider public sector again in order to hide fiscal problems. Here the work of Lagna (2013) on Italy gives some empirical data and some theoretical insights. He asserts that financial sophisticated tools, such as swaps, were used by municipalities in order to hide and/or postpone problems in their fiscal balance sheets. Theoretically, he "translates" that as the effort of domestic political actors to deploy financialisation practices in order to

serve their domestic conflicts and interests. His theoretical stance places (local) agency over (global) structural dynamics of financialisation.

In both cases –that of Piga and Lagna- one can conclude that the state, its public and wider public sector are being financialised by their use of sophisticated financial tools in order to postpone dealing with political problems, which is what fiscal problems essentially are. Thus high finance becomes the helping hand of domestic political elites, interlinking at the same time domestic political affairs with the dynamics and logics of global financial markets, where the tools employed by governments or municipalities are being traded.

This interlinking can also be fostered by the acquisition of financial reporting and accounting standards by the governments. Robb and Newberry (2007), for example, elaborating on New Zealand, which is considered a pioneer in the adoption of International Financial Standards throughout its public sector, have persuasively analysed the threat this presumably neutral, transparent and efficient technical tool presents to the democratic principles of separation of powers in New Zealand's constitution. They point to the fact of how misleading and unfitted they can be in public debt accounting, since taxpayers have unlimited liability in contrast to the limited liability of shareholders of enterprises. Thus they are stressing the different "ontology" of a state and an enterprise. Moreover, to this critique, one can add the transmission of financial logics in the workings of the state through this acquisition of financial reporting standards.

Lately, another channel of financialisation of the state has been highlighted: financialisation of sovereign debt management (SDM). Fastenrath et al (2016) make a significant descriptive and conceptual contribution on this issue by presenting the two financialised dimensions of SDM: its governance mechanisms and its sense-making frameworks. The former "take place in a globally deregulated environment, and follows the logic of supply and demand" and while interest rates were politically determined in the past, they are now "subject to market fluctuations" (ibid: 5). Sovereign

debt nowadays is mainly marketable debt, held some times to a considerable degree by foreigners and at times it is even held in foreign currency, thus shifting from political "hierarchies and networks towards financial markets as governance mechanisms" (ibid: 7-11).

The latter dimension refers to the intellectual foundations that inform and legitimise such debt management. In the pre-financialisation period, it was classic macroeconomics that regarded SDM as an extension of monetary policy a tool for stabilising the economy (ibid), while financialised SDM take monetary policy as given, it is informed from financial economics and regard the debt as a portfolio (ibid: 6). Passive issuance of debt is thus replaced by active portfolio management practises similar to those found in the private sector (ibid: 15). Fatenrath et al note that although there are country specific trajectories towards financialised SDM, these take place in an increasing independence milieu of commonalities (ibid: 14). This most interesting piece of research points to a crucial political matter: since financialisation entered the core domain of modern democracies, public finance and debt, does this make democratic control over borrowing an intractable problem (ibid: 15)? This aligns with Livne's and Yonay's argument that new SDM strategies impact not only how states act economically, but also what states are, in the sense that states nowadays are a Janus-faced agency which from one part, privatises its pension and health care systems and from the other, it participates in the new markets that it created both as an investor and as a regulator (2016: 340).

In this line of frontier research into financialisation of the state, Wang (2015) coined the term "shareholding state" in order to refer to the refashioning of Chinese state into a shareholder and institutional investor resorting to a set of financial means instead of fiscal ones in order to manage its assets. The interesting point in Wang's analysis is that he sheds light not only to a non-western sovereign's financialisation, but also to a mutually reinforcing effect between sovereign power and financialisation (ibid). In other words, it is not capitalism that comes to exploit states, but states themselves "invent and mobilise financial technologies", thus not only liberalising and opening a

space for finance to flood, but also becoming active participants in financial markets and even forefront innovators of financialisation (ibid). We saw in our brief historical review (3.4), how USA institutionalised government-sponsored Fannie Mae and Freddie Mac and then capital markets created private companies with the same activities. Here in China, Wang presents how a socialistic state used financialisation mechanisms in order to exert its state control and how it financialised its income streams, prompting local governments to leverage their borrowing through securitisation. It is an illustrative example of variegated financialisation, not through liberalisation and deregulation, but on the contrary through the state per se as an agent of financialisation. To phrase it in the words of Wang, the state here was integral to the development of China's financial market, and what was financialised was the way that state intervened in a socialistic economy (ibid).

Finally another feature of financialisation of the state can be found in the literature that discusses financialisation of formerly public provided public services, such as pensions, health and education. The literature focuses on USA and to a lesser degree on UK. Debating on these issues, Soederberg (2014), through a Marxist analysis, introduced the term "debtfare state". Even though Soederberg used the term to denote the rhetorical and regulatory forms of governance that facilitate the expansion of credit to the poor who in the era of neoliberalism rely more on credit to cover their basic needs, one can expand the use of the term in order to conceptualise the ontological transformation of the state per se. What her argument is essentially saying is that social welfare is now provided through private means, namely financial ones: citizens with falling wages and social welfare benefits are relying more on debt and so called financial investments in order not only to consume, but also to study, and to provide themselves with a health and pension coverage.

Streeck (2014: 192-193), a non-marxist sociologist, would add that this development was not a result of an 'explosion of demands' from the mass of the population as it is commonly asserted, but rather one deriving from its upper classes. These have been paying increasingly too little into the public purse, thus "forcing" the state to privatise

and effectively venture on a “counter-revolution against postwar social capitalism for what it was” (ibid: 193). In other words, the state has “outsourced” one of its basic functions, using at times either its own regulatory power to do so or its regulatory inaction. And effectively it transformed into a “debt state” where a large part of its expenditure is funded through debt and not taxation (2014: 189-190). Streeck made an even “harsher” characterisation of what effectively is an ontological transformation of the state: he mentioned that some “democratic states (are) being turned into debt-collecting agencies on behalf of global oligarchy of investors” (2011a).

From the above we understand that while some features of financialisation of the state have been highlighted, the literature is scant and fragmented, so further conceptualisation and theorisation is needed. In an attempt to do that, we first organise the features in three main parameters by extending and interlinking theoretical arguments expressed in other contexts as well as applying some analytical insights we referred to in chapter 4. Then we try to introduce our own theoretical proposition, which we will then test in the case of Greece after reviewing the genealogy of this evolution. So how can financialisation of a state occur?

First, financialisation of public sector can occur through external public debt, because it links a sovereign and eventually the priorities of its policies as well as the logics of its functions to global finance –as does private debt. Debt is a main mechanism and tool of financialisation that eventually creates power dynamics in favour of financial markets whose nature -as we saw in the first part of this thesis- include both structural power features, as well as relational ones. Especially in the case of public debt, financialisation finds a way to permeate not only in the workings of public sector, but through that societies and individual mentalities too. For example, citizens who themselves probably did not take on excessive private debt, or no debt at all, will find themselves indebted, thus linked to the dynamics of global finance through the channel of public debt. Because as Robb and Newberry (2007) pointed out, citizens in contrast to shareholders of a firm have unlimited liability for their governments’ debt.

However, the mere existence of external public debt is not a sufficient condition for financialisation of a state and for the exertion of power of finance; in other words indebtedness is not a synonym to financialisation. It needs firstly to be excessive and secondly to be used not as a means for productive investments, but instead for "unproductive" activities; two characteristics that usually complement each other and need to do so in order to have a financialisation effect. The former is an indicative feature of financialisation as a phenomenon, or as a historical phase of capitalism. It is linked to what Lordon (2014) characterised as "delirium of unlimited" of neoliberal capitalism, both in quantitative and qualitative terms since financialisation is this phase of capitalism where there is absence of limits in many levels among which what can be capitalised (which is effectively everything as we saw in the first part of the thesis). Therefore the excessiveness of debt is either a preexisting condition or a natural consequence of this loss of limit.

The latter (not productive use of finance) denotes that debt is not fulfilling its institutional role in an economy as an intermediary for financing investment. Here we expand Toporowski's argument which he made in the context of corporate credit and debt. Toporowski (2012) essentially argued that debt, even excessive debt is not bad in and of itself, but only if not used for productive investments, which will eventually generate income in the economy, equaling debt to overall saving in the economy. This could be extended in public sector borrowing as well. If borrowing is used for consumption, corruption, or activities that do not generate analogous income or benefit in an economy and society as a whole, then it does not only accelerate and multiply debt, but it also transforms its institutional role from an intermediary between capital and productive activities to a tool for activities which hide and nurture pathologies or render finance an end in itself. Here we can say that an unproductive investment is a redundant one. This feature of redundancy is linked to the "delirium of the unlimited" (Lordon, 2014) mentioned above, since there is no limit to what can be redundant. Consequently, there is no limit to financialisation. Furthermore, a redundant element always functions as a dead zone, and in the case of an economy it functions as a form of dead capital, a kind of capital that is not used for another purpose,

but is an end to itself.[233] How politically and socially desirable is this kind of capital in a political economy?

A second way in which financialisation of the public sector is realised is through the ontological transformation of a sovereign into either an entrepreneur seeking finance in financial markets or an asset class. In the former case a sovereign resembles an investor, an enterprise or a bank seeking capital in international financial markets and ways to “manipulate its balance sheets” as many banks did. Or it could resemble a subprime borrower, who borrows in a boom period even though in some cases both counterparties of the loan agreement know that it would be impossible for the borrower to pay back its debts. Here big investment companies, institutional investors, and rating agencies give a helping hand to the sovereign, by suggesting an array of financial tools that the sovereign can take advantage of. The sovereign regards itself and is being regarded as a private actor, its debt is a portfolio which needs management under portfolio theories and financial economics (Fastenrath et al, 2016). Its political nature could be challenged and its institutional role as a representative of societies could be surpassed by both itself and the markets.

A third way of financialisation of the state is when a sovereign is viewed as an asset class. In this case, there is a reification involved: a transformation into a res (a thing), to be traded in international markets. Here, the same commercial actors -big investment companies, institutional investors and rating agencies- turn against the very sovereign they were helping. The sovereign becomes a product to be traded or hedged for in international capital markets. Just like any other asset class. So it is not only that fiduciary duties are surpassed from the aggressive risk management strategies of those firms, but also that these practises effectively become an extreme case of financial

[233] Dead capital is an economic term coined by Peruvian Economist Hernando de Soto Polar referring to property not officially recognised, thus bound with uncertainty (contrary to what property usually attributes to its owner) and inability to lend or borrow against (see https://en.wikipedia.org/wiki/Dead_capital)
Yet in this thesis and in connection to military expenses the term is used more as a metaphor, in order depict an economic reality: if an unproductive capital is being created then it resembles to a dead part of a body. This is not just unproductive, but it is also a burden to the whole of the organism.

markets' power over domestic political economies, and an extreme case of financialisation of almost everything.[234] Most crucially, that everything here is in essence societies, real people that are being represented from states.

Consequently, in this reconfiguration the "New Masters of Capital" (Sinclair, 2008)[235] are from one hand actually mastering domestic political economies while on the other, their function effectively alters the institutional role and the very nature of a state, of financial markets, of citizens, thus altering their ontology. Thus the argument that we are proposing goes beyond the emergence of what Streeck (2014: 201-4) called 'a second constituency' that of creditors alongside citizens on whose confidence the very subsistence of a "debt state" depends. Because it essentially asserts that this transformation is not just a matter of subsistence, but more crucially a matter of substance, since a state ceases to be a political institution. It transforms and equates into an purely economic entity, either as an actor, or as a res (a thing).

Finally and up to a point with the combination of the above two, a public sector can be financialised if it uses a series of financially informed tools, such as new accounting standards, new public management strategies, or if it "outsources" its socio-political functions, its public services, such as health, pension, education or utilities provision to private -essentially financial - actors.[236] Streeck's term of "debt-state" (2014) or Soederberg's term of "debtfare state" (2014) could symbolise this transformation which concerns both the logics of a state's function as well as its scope (even though the terms could be used to denote all three characteristics that we mentioned above). Moreover, this transformation could also be epitomised by the term financial citizenship of responsibilisation (Berry, 2014; Leyshon 2009), since social welfare is privatised under a discourse of responsible citizens who seek to realise their potential.

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[234] To paraphrase the analogous phrase from Leyshon and Thrift 2007.

[235] Even though Sinclair was referring only to rating agencies, we include big investment companies, institutional investors and other financial actor in the global markets.

[236] Financialisation of public services can occur not only through privatisation, but also through the use of financial means in order to invest public funds.

Essentially all these features are related to the discussion of the role and the ontological transformation of the state in modern political economies. If a state resembles, acts or is being treated as a corporation, as a subprime borrower, as an asset class, if it borrows excessively not for the benefit of its constituency, and lastly if it outsources its former welfare activities to the markets, what is left of the Westphalian state? What is left of basic principles that legitimise state action in a democratic political economy? What is really left of the citizenship as a concept and practise, if it is transformed into a financial citizenship of responsibilisation (Berry, 2014; Leyshon 2009)?

Basic philosophical tenets that have been the emblem of Enlightenment-political-economies of the so called advanced western world are being fundamentally challenged. Furthermore, they prove that financialisation has a strong political blueprint, even though it has been presented as something technical and a-political. Therefore, discussions over the loss of Westphalian sovereignty, like the ones on post-democracy (Ranciere 1998: 95-121, Crouch 2004), anti-democracy (Stavrakakis 2013, Lazzarato 2012), or post-sovereignty (indicatively Hardt and Negri 2000), could be a useful context in order to gain some wider perspective on this transformation and thus comprehend it and in order to reflect on its potential benevolent character, in other words in order to judge if financialisation of the state is something that conforms with the social world and the political economy we want to live in.

For example Lazzarato's (2012: 122) argument that through sovereign debt "the logic of debt has come to pervade what Foucault called "the social" resulting to a social capture,[237] is crucial if we want to see the deeper processes that are taking place. So does Lucarelli's one (2010: 124- 125) who asserted that financialisation does not put at stake sovereign power per se, but sovereign power becomes "coherent with the financialisation process" by directing human behaviours, in the sense that sovereign power seeks to be compatible with financial logics: population is controlled because it is "obliged" to produce "wealth within money's valorisation cycle" substantiating re-

[237] Mathieu Charbonneau, Debt, neoliberalism and crisis: interview with Maurizio Lazzarato on the indebted condition, Submission to: BSA SOC Journal, Special Issue Call for Papers, "Sociology and the Global Economic Crisis.

lationships between a master a slave. Besides these two rather post-structural perspectives, one can find the problematique on ontological transformation of the state in more mainstream writers like Streeck (2013, 2014) who argued on the evolution of a Schumpeterian tax state to a debt state and finally a consolidated state. The axis of this transformation, though, evident in all these perspectives, is the change in the logics under which a state is now functioning. This change of rationalities which prioritise the logics of financial market eventually transform the way a state functions and inevitably then its very nature. Definitions of what was are not any more definitions of what is.

Conclusively financialisation of the state is ontological in nature and has to do with alterations in the substance of definitions and concepts. This conclusion does not surpass the power relations involved, but rather includes them. These power relations have to do with the structural power of finance firstly introduced from Strange, but they extend to Foucaultian-inspired power analyses of microphysics and govermentality, exactly because these post-structural perspectives on power, shed light into the pervasiveness of finance in the realm of the social, of everyday life and of logics that spread throughout political economies, states and individuals through more insidious or at least less obvious channels.

In what follows we will examine the case of financialisation of Greek state because it is an emblematic case of financialisation of the state as analysed above. Systemic conditions were there, since Greece participated in the post 1970/80 world as an advanced economy, and as all advanced economies worldwide saw its public debt rise. Then as a member of the EU, it started liberating its capital accounts and "modernising" its financial system in the 1990s along with other European states. This modernisation along with the introduction of euro and contrary to the expectations of macroeconomists "caused gigantic credit inflows to peripheral countries", including Greece causing external indebtedness without the anticipated structural reforms (Fernandez et al, 2013). Modernisation of the financial system, deepening of financial markets, deregulation all served to hide and thus exacerbate pathologies rather than

eliminate them (ibid), while at the same time interlinking backward economies to high finance. A typical process of financialisation: adding more pathologies without actually eliminating none.

So how did financialisation proceed? When, how and why Greek external debt rose? Where was it channeled: to productive or unproductive investments? In which way did the entanglement of Greek state and high finance evolve? It should be noted that in the Greek case the third feature of financialisation of the state analysed above (i.e. privatisation of social welfare and new accounting standards) is least obvious till the outburst of the crisis. So we will focus in the first two, since the post-crisis situation is still evolving, starting from the evolution and size of debt and then proceeding with where it was channelled.

An obvious place to start in order to discern if debt is linked to non-productive activities is national budgets. There we see that from 2002-2008 the biggest part, almost half of public expenditures went to debt-interest payments, with the second biggest amount going to the renumeration of public sector employees (HSA 2011: 20, 26). So we will start by examining the size of interest payments and the size of public sector. Then we will proceed with the evolution and importance of military expenses in budgets, imports and consequently debt, which in our view is par excellence an example of excessive debt feeding an unproductive investment, thus of financialisation of the state, as analysed above. We find that in the context of the Greek public sector, the non-productive activities could be either expenditures which feed an ineffective, bureaucratic and big public sector, or investments which cover more imaginary than real needs, and thus create what could be termed as “dead capital” in the corps of the economy. This dead capital is the military budget which especially in the years following 1980s is mainly debt fed.

Then we will examine if the second feature that we mentioned above applies in the Greek case. In other words, we will examine if there was an ontological transformation of the Greek state into a private actor, an enterprise seeking finance in in-

ternational capital markets and its use of derivatives as part of its financialised active sovereign debt management. Thus we will look at what we call “a passionate relationship” between a sovereign and high finance. This relationship evolved in two stages. First the “love affair” when high finance embraced Greece and helped it hide its fiscal deficiencies through financial engineering. In this “love affair” we will see that Greece lost more than it gained. Here the Goldman Sach’s scandal will be viewed as a case in point. The second stage of the affair is when “love turned into hatred” rendering Greece into an asset class on which speculation of financial markets and in general their workings determined domestic politics. Our main quantitative tools in this part will be the use of derivatives from the Greek state, the evolution of the spreads of sovereign greek bonds vis a vis the German ones, as well as the ratings of credit ratings both in the context of the political events they precipitated. We will conclude with the general theoretical issues that are raised from the examination of the Greek case.

8.2. Why credit was just debt: the rise of debt and the composition of state's expenditures

Since debt is a main mechanism of financialisation, its volume is per se a manifestation of the phenomenon especially when it is excessive and/or when not used for productive purposes in the sense of Toporowski's argument that we cited above. Debt has actually been a perennial feature of greek polity since it started even before its formation: from its war of independence in 1821, when Greece borrowed from UK. In others words Greece started borrowing even from a non-state status.[238] In due course, and in particular during the period of the first king of Greece, King Othonas, it became a disciplinary device in the hands of the Great Powers of the time, especially of UK, in order to force their own political agenda to the young king of Greece (Kostis, 2013: 264-269). After all the country was in dire need for funds. Not only for the infrastructure needed for the newly establish state, but also for a series of wars that it got involved fora period of more than 100 after its liberation from Turks. Wars that were funded through foreign borrowing and not through taxation as we saw in chapter 5.1 and as we will see in detail in the following section.

After 1948, debt started to decrease, and the reasons for that could be various: there were no immediate war needs, Marshall Plan money were –partially- flowing in the economy,[239] and an increasing net saving rate started to appear. The income of the majority of the population was low, but because of the productive capacity of the country, citizens were able to save too. Gross national saving was increasing from 1960-1975, reaching above EA 12 average levels between 1970-1986; it started declining after 1975, more so after 1981 with a final blow after 1999. This post 1981

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[238] For an excellent economic analysis of the loans of the War of Independence of Greece, see Dertilis, 1980. See also the classical work of Andreadis (1904) as well as Levandis (1944) and Lignadis (1970).

[239] Even though Marshal Plan was aimed at restructuring Greek economy, local business elites used the money not for productive purposes, and political elite used most of the aid in order to cover fiscal deficits and finance the ongoing civil war needs. In general, corruption and short-sightness in both political and business level did not let the country benefit as it could from the aid. See indicatively, Stasinopoulos 2010: 227-332.

trend was contrary to EA12 average which remained stable at around 20% all through the period of 1981-2012 (EC, 2012: table 45).

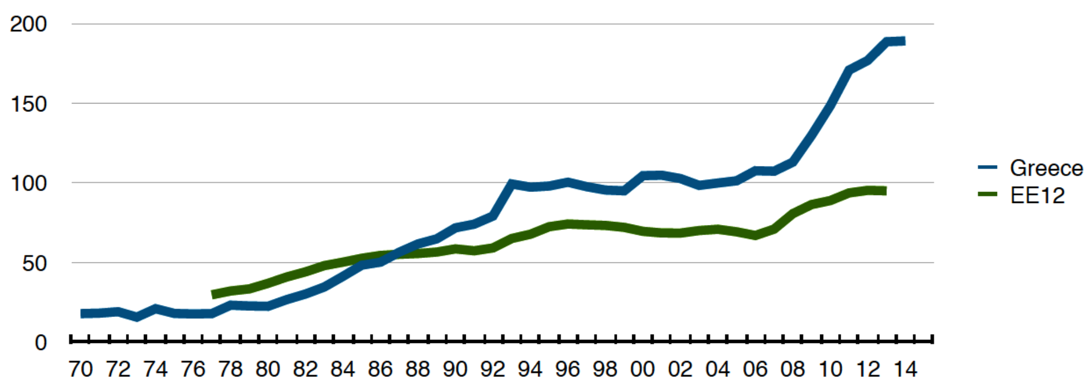
Along with a declining saving rate came the rise of external debt (chart 57), especially the liberalisation of capital flows. Or at least that is how the story can be told from a perspective of some macroeconomics: as we saw in the chapter 5.1 since savings could not finance domestic investment, foreign debt grew. Chart 95 shows the evolution of public debt in relation to GDP and in comparative perspective with EU-12 average. It is evident that starting with Papandreou's socialistic government in 1981, Greece's public debt climbed from almost 28% of GDP to nearly 65% in 1989.[240] Actually general government debt outpaced EE-12 average by late 1980s. The debt continued to increase during the coalition government that followed Papandreou's, as well as during the Mitsotakis's right wing government between 1990-1993 reaching almost 100%. Simitis's socialistic governments (1993-2004) stabilised the debt at this level, but another escalation occurred later in post Olympics Greece under the right wing government of Kostas Karamanlis, making external debt to climb above 100% of GDP, or –even more impressively- rising it by 100.000 million euros in absolute numbers, a 50% rise in 5 years: in particular debt raised from 201.244 million euro to 298.524 million Euro from 2004-2009 (OECD, 2010: 139-148). What was raised more significantly during the Karamanlis government was foreign debt which was risen by 1,5 times (see chart 57).

For the first escalation that of Andreas's Papandreou first government various reasons have been presented. From one hand, it has been attributed to his populistic policies something that the clientelistic system of Greek politics made it hard to curb even from the governments that followed. From the other, it has been argued that he attempted to enact Keynesianism in Greece rather late and on borrowed money. Roumeliotis (2012: 340-341) added that debt rose because the government wanted to save

[240] This story usually omits the post Junta Konstantinos Karamanlis government (1974-1981) when the public sector expanded through nationalisations and hiring of public employees and when there was a rise in military expenses (Sotiropoulos D., 2006: 204; Alifantis and Kollias, 1998: 44). This probably lay -at least partly- the ground for the subsequent rise of debt during Papandreou's government

some enterprises which faced problems due to the global crises of 1973 and 1979, as well as enhance the country's defence mechanism. Whatever the reasons though, it could be safely argued that fiscal expansion even for populistic reasons was consistent to Papandreou's socialistic party ideology. On the contrary, the same cannot be said for the second major escalation of debt that of Karamanlis conservative government, whose supposed ideology was contrary to such fiscal expansion and moreover, it occurred right after the completion of successful Olympic games. Papathanasiou -the then Ministry of Economy- reported (2011: 22) that 50 billion of the 100 rise went for interest payments on loans contracted from the previous government, 10 billion went to military equipment, 2,5 billion to debts of hospitals, and 7 billion to obligations of health and insurance funds that the previous governments had contracted.

Chart (95) General government debt to GDP in Greece and EE 12 (1970-2014)



Source: EC

Yet, although there was an exponential rise of Greece's public debt, it is worth noting that even in 2010 –a year after the crisis erupted in Greece and 2 years after it erupted globally- Greece's public debt was considered highly reliable. This is depicted in two indicators: the maturity composition of its debt and the composition of its holders (see table 8). The former shows that Greek public debt was consisting mainly from long term securities -74,1% of total, above the EA average of 70%- and long term loans -22,9% of total while the EA average was 18,1%- while short term securities were far

below EA average -2,8% of total while EA average was 9%- (Hartwig et al, 2011: 16, 17; table 8). Hence medium and long term perspective of Greece was considered trust-worthy.

The latter indicator shows that the debt was mostly external. In particular, and as seen in table 8 Greece was third after Austria and Finland in non-residents creditors in 2010 (69,65% of total, Austria 76,4% and Finland 71,1%), with EA average standing at 52,1% of total. As a measure of comparison, Germany's non-resident creditors were only 49% of its total. According to another estimation foreign holdings of Greek government debt rose by €169.9 billion, accounting for more than the overall increase in debt, so the share of Greek sovereign debt held by Greek residents fell from 56.6 per cent to 21.3 per cent while the share held by non-residents rose from 43.4 per cent to 78.7 per cent (Dellas and Tavlas, 2012: 20). Roumeliotis (2016: 230-231) would assert in particular for the case of Germany, that this investment in Greek bonds -among other southern countries- was a result of German economic policy domestically and more explicitly to the shaking of demand and recession due to the real decrease in wages after the implementation of Schroder's "Agenda 2010". Consequently, 2/3 of Germans' savings were invested in southern member states (ibid).

In general though and as seen in chart 96 european banks became holders of large amounts of Greek sovereign debt, even though these in absolute numbers are far less than the exposure of European banks to other sovereign debt markets of Southern Europe and Ireland. Effectively then as the crisis unfolded financialisation of Northern European private sector resulted to a financialisation of the Greek public one, which politically meant that the risk taking of Germans and French was eventually assumed through the channel of public debt by Greeks.

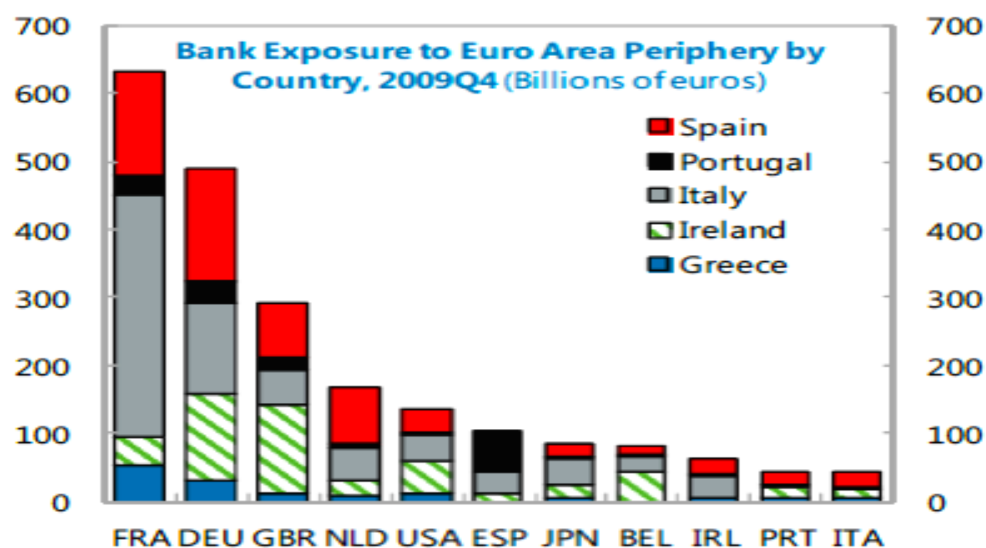
Table (8) Holders of general government debt, 2010

	Resident creditors					Non-resident creditors
	Total residents	Central bank	Other MFIs	Other financial corporations	Other residents	
	(a)+(b)+(c)+(d)	(a)	(b)	(c)	(d)	(e)
Belgium	43.7	1.4	23.5	14.7	4.1	56.3
Germany	51.0	0.2	31.5	9.2	10.1	49.0
Estonia	62.3	0.0	57.0	1.1	4.2	37.9
Ireland	-	-	-	-	-	-
Greece	30.4	3.2	23.9	0.3	3.1	69.6
Spain	58.5	3.4	28.4	7.9	18.8	41.5
France	-	-	-	-	-	-
Italy	55.4	3.6	27.0	15.6	9.1	44.6
Cyprus	50.3	14.2	22.3	6.6	7.2	49.7
Luxembourg	69.9	0.0	47.5	-	-	30.1
Malta	94.4	5.9	40.2	19.6	28.7	5.6
Netherlands[1)]	31.7	0.3	18.2	10.6	2.6	68.3
Austria[1)]	23.6	0.4	12.0	6.9	4.2	76.4
Portugal	36.7	0.8	22.4	5.8	7.8	63.3
Slovenia	42.3	1.0	27.7	10.1	3.5	57.7
Slovakia	63.0	0.0	62.4	0.0	0.6	37.0
Finland	28.9	0.0	12.5	1.2	15.2	71.1
Euro area	47.9	1.7	26.5	11.9	7.8	52.1

Source: ESCB.
Notes: Data refer to EDP debt. Gross general government debt at nominal value and consolidated between sub-sectors of government. Intergovernmental lending in the context of the financial crisis is consolidated.
1) Data refer to 2009.

Source: Hartwig et al, 2011: 36

Chart (96) Bank exposure to Euro Area periphery



Source: IMF, 2010: 8

Of course, external debt is not only a sign of trust-worthiness of a country. It is also a sign of vulnerability since because of it the country becomes prone to speculative attacks and to a potential unwillingness of foreign investors to refinance a debt in case of adverse politico-economic circumstances (Argitis et al, 2011: 35-37). After all, in a world where capital moves around the globe in seconds, investors are "voting with their feet", thus acquiring a structural power which increases vulnerability and susceptibility to market discipline (Hager, 2016: 295-299). So external debt is one of the ways that a country is financialised in the sense that it is intertwined with international capital markets and their modalities, therefore subjected to the power of finance. Without the globalised, unregulated financial markets with free capital flows, the holders of Greek debt would be confined domestically (as was the case in late 1970s for example), subsequently limiting the exposure and thus vulnerability of Greek state to the "whims" of global capital markets.

However, the point that we want to stress here is that according to this logic of financial markets that spread worldwide, creditors and markets in general trusted Greece: the very market dynamics that later punished the country, trusted it for all years, and did so well after the crisis erupted worldwide. One can argue though that this reliability of Greek debt was assumed by markets because the country was preparing and eventually joined the Eurozone. But as seen in table 8 other countries, presumably more reliable (i.e. Germany, Belgium or Luxembourg) or bigger (i.e. Italy or Spain), were also joining Eurozone, but they did not "enjoy" the same trust from investors. Conclusively, reliability and vulnerability have a paradoxical relationship in a financialised world.

Although this interconnection of a sovereign with global financial markets is indeed a clear sign of its financialisation, it is probably not a sufficient one. If a country was to use this debt for productive activities, and thus for generating robust income streams in order to repay its debts and grow in a steady and long-term perspective, then it would probably not be so susceptible to the power of finance because it would have

acquired its own strength and resistance to a supposedly superior force. Thus financialisation of a sovereign is a combination of international and domestic political economy dynamics.

Let us elaborate on this point in our case study. We established that the debt was rising in Greece in the last decades, but one could persuasively argue that debt was increasing but so was growth. Thus probably debt was financing a growing economy. A way to examine the validity of this claim is to see the correlation between the rise of debt and the rise of GDP. If for example the former is greater than the latter, then debt was not feeding growth, but was actually "becoming growth": debt was not financing investment or other productive activities which would be shown by a similar or greater rise in GDP than in debt. Giannitsis[241] (2013: 86-87), shows that every increase in GDP was accompanied by a far bigger increase in debt. More particular, he shows that in the first phase of Metapolitefsi –the period after 1974, when the 6 year Junta regime collapsed- for every one-euro-increase in GDP, there was a 0,38 increase in debt; in the period 1981-1989 this increase in debt was 0,77 euro, in the period of 1993-2003 1,09 euro and in the period 2003-2009 1,61 euro. This clearly shows that there was a debt-fed growth after 1981 and more so after 1993 and in the 2000s.

In order to cross check this debt fed growth signal we will examine where debt money was channeled. Was it channelled to infrastructure and productive investments or was it channelled to consumption and unproductive activities? We will first look to the amount of interest paid to these loans, then we will examine the size of the public sector as the main suspect of absorbing of public money and thus debt, and lastly we will see in detail military expenses which according to our opinion is a par excellence source of unproductive investment of public money.

As we mentioned above from 2002-2008 the biggest part, almost half of public expenditures went to interest debt payments, with the second biggest amount in the bud-

[241] A former minister in various posts including the Ministry of Economic Affairs and a professor of economics,

gets being public sector employees renumeration (HSA 2011: 20, 26). Of course, before the introduction of the Euro, interest payments were considerably high, making Greece an outlier in the EU. Greek governments have been acknowledging quite early that the cost of servicing the country's public debt absorbs comparatively high percentage of its revenues, thus imposing constraints on policies (Introductory Report on the Budget 1995: 121). In comparative perspective, as table 9 below clearly illustrates, Greece's interest payments in relation to GDP were almost double the size of EU average from 1997 to 2000, even though this was better from the preceding period since interests payments were triple the size of EU average in years 1993 and 1994 (Introduction Report of Budget of 1995 and 2001). Greece ranks first in EU countries in this indicator all through the period with the percentage being 9,7 percent of GDP in 1997 decreasing to only 8,3 percent in 2000. To get a comparative perspective, we see in this table that Italy that started at almost the same range -9,5 percent of GDP- yet managed to curb its interest payments considerably to 6,3 percent by 2000. Ireland too decreased its percentage from 4,4 to 2,3 percent. In absolute numbers, and as seen in table 10 which does not include interest payments serviced from the Ministry of National Defence, the rise is far more impressive: interest payments rose from 163,6 billion drachmas in 1984, to 3.253,3 billion in 2000. An exponential rise indeed! Greece's debt then was expensive and its interest payments amounted to a large percentage of its GDP, thus making this part of state's budget, by definition, non-productive.

Table (9) Expenditures for interest payments in relation to GDP (from 1996-2000)

Member-State	Year				
	1996	1997	1998	1999	2000*
Greece(1)		**9,7**	**9,0**	**8,7**	**8,3**
Italy		9,5	8,0	6,9	6,3
Belgium		7,9	7,7	7,3	7,0
Netherlands		5,1	4,9	4,5	4,1
Sweden		6,4	5,7	5,3	4,5
Ireland		4,4	3,1	2,7	2,3
Denmark		5,8	5,2	4,6	4,2
Spain		4,8	4,4	4,0	3,7
Austria		4,0	4,1	3,9	3,9
Portugal		4,3	3,6	3,4	3,4
Germany		3,7	3,6	3,5	3,5
Finland		4,3	3,7	3,2	2,9
France		3,7	3,6	3,4	3,3
Great Britain		4,2	4,1	3,3	3,0
Luxembroug **					
Average EU (14 countries)	6,2	5,6	5,0	4,6	4,3

Source: Introductory Report of the Budget, 2001.

Table (10) Expenditures of servicing of general government debt (1984-2000)

(in billion drachmas - excluding interest payments of the Ministry of Nat. Defence)

	Amortization			Interest			Parallel Expenditures			TOTAL
	Foreign-Currency	Drh	Total	Foreign Currency	Drh	Total	Foreign Currency	Drh	Total	
			(1)			(2)			(3)	(1+2+3)
1984	35,8	6,6	42,4	51,9	111,7	163,6	0,9	1,3	2,2	208,2
1985	58,1	8,5	66,6	71,7	168,4	240,1	2,6	1,4	4,0	310,7
1986	84,9	38,0	122,9	89,6	205,7	295,3	1,1	1,9	3,0	421,2
1987	167,4	93,7	261,1	97,9	310,0	407,9	1,7	3,0	4,7	673,7
1988	137,6	14,4	152,0	117,6	431,2	548,8	1,4	4,2	5,6	706,4
1989	129,7	75,7	205,4	145,5	484,9	630,4	1,7	7,0	8,7	844,5
1990	181,4	157,2	338,6	155,2	1.007,9	1.163,1	2,3	10,6	12,9	1.514,6
1991	244,1	677,2	921,3	185,7	1.246,6	1.432,3	4,5	11,3	15,8	2.369,4
1992	524,4	1.658,5	2.182,9	211,9	1.192,8	1.404,7	6,4	17,7	24,1	3.611,7
1993	477,0	1.127,0	1.604,0	235,8	1.886,5	2.122,3	8,9	37,0	45,9	3.772,2
1994	551,6	1.888,7	2.440,3	311,0	2.752,4	3.063,4	9,0	89,9	98,9	5.602,6
1995	665,0	2.029,1	2.694,1	413,7	2.686,6	3.100,3	8,8	95,9	104,7	5.899,1
1996	645,5	2.851,8	3.497,3	430,4	2.854,9	3.285,3	15,9	99,4	115,3	6.897,9
1997	1.041,8	2.415,4	3.457,2	459,3	2.542,5	3.001,8	9,8	94,9	104,7	6.563,1
1998	1.209,6	2.089,6	3.299,2	553,8	2.519,3	3.073,1	9,5	48,5	58,0	6.430,3
1999	913,9	2.238,4	3.152,3	522,1	2.643,7	3.165,8	6,3	28,3	34,6	6.352,7
2000	1.553,9	2.824,0	4.377,9	666,7	2.586,6	3.253,3	9,0	17,0	26,0	7.657,2

Source: Introductory Report of the Budget, 2001.

Following interest payments, the second largest share in public sector expenditures, was renumeration of public sector employees. This could be linked to a commonly held perception that Greek debt was feeding a large public sector, or better termed that was feeding a clientistic political attitude which wanted politicians to extend political favours by hiring and retaining public sector employees. Even though this has been an

alleged feature of Greek state since its creation in 1821, many studies lately show that the state is not big comparing to other European or OECD states. These studies are using a number of ways to measure the size of a public sector.

One measure that the literature uses is the sum of total tax revenues and social security contributions as a percentage of GDP. Data from Cesifo Dice Database, a rather orthodox think tank, showed that according to this measure, total tax revenues plus social security contributions as a percentage of GDP has constantly been below average on a particular selection of OECD countries for the pre-crisis period and in particular between 1965-2004. Greece followed the general trend of these countries: increasing its public sector considerably between 1965-2000, slightly reducing it between 2000-2004.

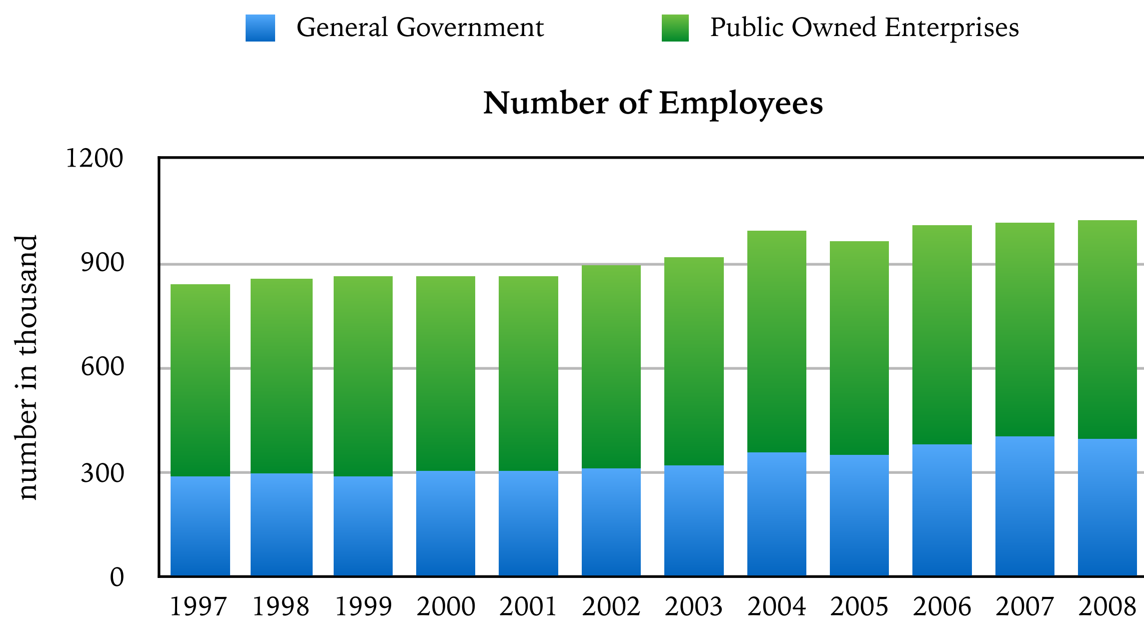
Sotiropoulos (2007, 2004) who has done an exquisite work in comparing all southern European states including Greece vis a vis Northern and Western European ones, measured the size of public sector through fiscal comparison with other states that is through either public expenditures and public revenues, and through a comparison between the size of the sector and the economy of the state as a whole. He concludes that public expenditures in Southern Europe, including Greece, were always lower than European (EE-15) average all through the period between 1974-2002 with a convergence trend (meaning they started from a lower base); their average being close to Western Europe's average and far lower than Northern Europe's, with Greece being slightly above average of southern and western European countries.[242] Public revenues on the other hand were far lower than EE-15 average in the period beginning in 1974 with a strong convergence trend, which approached EE-15 average in 2002. Greece was lacking behind (not far, but still behind) this convergence trend.

Sotiropoulos has also shown that in Southern European states between 1996 and 2000 the percentage of public employees to total working force was slightly below average

[242] Alfonso et al 2008: 34, using a sample of OECD countries and not just EU show that this convergence trend as far as Greece surpassed the simple average of their sample after 1990.

from Western European States, and far more so from Northern European ones. But the average share of wages and salaries in total public expenditures was almost double in the former than in the latter two categories. In other words Southern European countries had the same percentage of public employees with western Europe and less from northern Europe, yet they were paying more as a percentage of their total expenditures to them. This was especially the case for Portugal and Greece, while Italy had always a lower percentage and Spain limited its wage expenditures after 1991. However, even though the average share of wages and salaries as a percentage of the total public expenditures was so high in Greece, compensation of employees paid by general government as a percentage of GDP was around EA12, EA-17 and EU average all through the period of 1988-2002; it was only after 2002 till 2014 this percentage started increasing in relation to European averages (EC, 2012: table 62).

Chart (97) Number of employees in public sector



Source: ILO, LABORSTA database (accessed 17.10.2015)

So from the above the only indicator that can problematise is the remuneration of employees in relation to total expenditures since besides that Greece's public sector seems rather mediocre comparatively. But the problem with these metrics is one of definitions. What does one account as public sector? Is it only the core general gov-

ernment one, or are SOEs' employees included? In a recent census from the Ministry of Internal Affairs, the number of public employees was found to be around 700.000, but this number does not include employees in the state owned enterprises, or the military personnel and moreover it was conducted in the crisis after a series of layoffs and a wave of rushed retirements. From the statistics of ILO (see chart 97 above), one can see that between 1997 and 2008 public employees increased from almost 841 thousand to 1,022 million, with most of the increase occurring since 2002-03. During the whole period employees in public enterprises were more than double from the ones in general government. Moreover, the total number represented almost a quarter of the active population and only in 2008 it slightly fell reaching the point of representing 1/5 of them. This occurred in a country with a population of around 10-11 million (total population was 10.265 million in 1997 and reached 10.776 in 2008). Consequently, if public enterprises' employees and their wages were to be included in the above metrics, the results would certainly, and substantially, be revised upwards.[243]

Furthermore, what these numbers do not tell is the effectiveness of the "distribution" within public sector, its management and function. In other words, they do not show if some parts of the public sector are overstaffed, or staffed with unqualified or incompetent personnel (Sotiropoulos 2007, 2004). Or if the money were not allocated in proper ways that would increase productivity. In the standard reference work of Alfonso et al (2005), Greece ranks at the lowest rank of output efficiency, in contrast to its input efficiency which is close to EE average. This means that Greece did not use considerably more inputs than other EE-15 countries (input efficiency), but did not utilise these inputs in order to get the most out of them (output efficiency).[244] In fact, according to Alfonso's et al (2003) research, Greece could have had the same output with only 73% of its inputs (input efficiency), which is the EU average. Hence, the country had a waste of 35% of its given government expenditures, since its performance is 65% of what its public expenditures justify. Thus efficiency and productivity

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[243] As we will see in more details of the chapter on SOEs' debt

[244] See also comments of Rapanos (2009), and charts of Argitis et al (2011: 22-23).

were lacking behind, sketching an image of excess and unproductiveness in public sector.

So even though, the public sector was not big as far as the amount of employees employed in general government and their wages vis a vis GDP, there are two indicators that illustrate the unproductiveness of this part of public expenditures: firstly, wages in relation to total expenditures were considerably higher –almost double- compared to northern and central European states, and secondly, public sector's output efficiency is ranking at the lowest among other European countries. Both render the size of the sector big in relation to domestic political economy, thus attributing features of excess, redundancy and unproductiveness to the use of public money, and essentially pubic debt. External borrowing then was used to feed consumption and not productiveness, thus was debt rather than credit according to Toporowski's rationale, concurrently contributing to a debt-fed growth.

Notwithstanding the above there are three more observations which enhance the argument that public sector was indeed big for the size of the economy, and that credit was merely debt feeding non-productive and non-revenue-generating activities. First from the revenue side, revenues of the state were not enough to sustain its expenditures and debt service. As Argitis (2012: 95-101) argues -from a Post-keynesian, Minskian perspective- the problem with Greece's public finances lies not in its expenditure side, but to its revenue side. Giannitsis (2013: 76) also notes that the gap between expenditures and revenues as a percentage of GDP which is almost 8 percentage points lies far above E.U. average which is 2,6 percentage points. EC statistical data show the same. According to total current revenue of general government as a percentage of GDP in market prices is considerable lower than that EA-12, EU-25 and EU-15 (EC, 2012, table 58).

In other words, according to this view, the problem of Greece is not the amount of its expenditures, but its inability to rise revenues first through investments of its own or facilitation of investment of private sector and then through taxes. Actually, Roumeli-

otis (2012: 341) points to this inability to collect taxes as the main reason for the huge deficits of central government debt, something that is confirmed if one looks at EC statistical data on current taxes on income and wealth, where Greece had the lowest tax ratio between EA-12 and EA-17 in the period running from 1988 to 2014 (EC, 2012, table 54). This shows that the state had no revenue to back its borrowing, thus ending up living beyond its means, especially in a period when both Greek society and the state were trying to converge to European standards of living. Greece from one hand needed to spend more to “keep up with the Joneses” (fellow EU members) and from the other, the flow of funds through easing of external public debt provided no incentive to the political elites neither to curb the expenses of an ineffective public sector, nor to organise a more effective tax collection. Subsequently, even though the need for expenditures grew, while revenues remained lagging behind, free capital flows and pertinent financialisation dynamics did not allow for incentives to confront either of the two.

The second observation comes from the definition of public sector. If we consider only the central government as public sector, then the numbers may indeed depict reality. Actually the Maastricht criteria, and in general European accounting rules, such as the European System of Accounts (ESA 1995 and 2010) defined general government as comprising of four sub-sectors: central government, state government, local government and social security funds (ESA 2010 2.113-2.117), thus excluding public owned enterprises, or according to ESA definition, public non-financial corporations (ESA 2010 2.51-2.52). Yet public owned enterprises in Greece have two particular characteristics, which persist even after the privatisations of 1990s: there are still numerous and encompass a large scope of activities comparing to other countries (Rapanos 2009: 30). Moreover, besides the number of employees, there are two more issues concerning public enterprises that are linked to the country’s debt and in general to its financialisation.

On one hand, the Greek state ends up with a lot of shares from former public owned companies, which have now entered Athens Stock Exchange. These are the largest of

them and concern network and public utility enterprises, such as DEI (electricity company), EUDAP (water supply of Athens area), OTE (telecommunications). These assets of public finances are sensitive to dynamics of financial markets, but at the same time they are not so liquid as financial assets usually are (Argitis et al, 2011: 40-41), meaning they cannot be sold easily any time. On the other hand, and more crucially, Greek state was always guaranteeing their loans (in some cases even the loans for the ones who have entered Athens Stock market), and more ofter than not it ended up paying them, thus burdening public finances.[245] These enterprises were not accounted in public sector budgets and accounts, till post crisis IMF, EE and ECB demanded this, [246] so the indicators stated above on the size of public sector are not depicting reality.

Roumeliotis (2012: 343-346, 380-382) would shed light to these unaccounted for elements by pointing to stock-flow adjustment (SFA) which in the case of Greece derived mainly from consolidated obligations of third parties, namely SOEs, health and insurance funds, hospitals and in general obligations assumed by the central government, even though they were not registered in the budgets. These are elements that augment and/or decrease government's debt depending on their size. In a table from a bank of Piraeus report that he presents (ibid; table 11), huge SFAs are illustrated in

[245] Many of these enterprises especially the ones of public transportation, are not profitable; they have losses even though they are being subsidised by the state. This could be due to a social policy but there is no study as far as the effectiveness of their service. For a detail analysis see Rapanos, 2009: 29-34

[246] So we see how formal statistical rules, are not mere technocratic rules, but have major political role, since they create definitions, thus they create "borders" of what is included inside and what remains outside, thus they create politics.

years 1984, 1993[247] and 2000 while between 1981-1989 which is the years of the Pasok socialistic government debt was risen by 26% of GDP due to these elements, then during the subsequent coalition and conservative governments between 1990-1993 by 31%, following by a 13% between 1994-1999, and then between 2000-2007 debt was burdened by 25%; overall there was a 53% of GDP rise of debt due to these SFAs between 1991-2000 and a meagre 9% between 2000 - 2007 (ibid: 344-345).[248] Nonetheless even the 9% is still high in comparative perspective since european averages barely peaked at 4% ranging on average between 1% and 2,7% over roughly the same period (Von Hagen and Wolff, 2004: 7; Eurostat). Actually, 9% was the highest SFA percentage in the period of 1980-2010, but it was a characteristic of emerging economies with below average transparency (Weber, 2012: 14). Hence, the comparisons was not favourable for Greece.

Thirdly, there seems to be a number of off-balance sheet expenses, what is commonly called "secret funds" and which are not accounted for in state expenditures and/or budgets. They are said to exist especially in the Ministry of Foreign Affairs and more particularly its defence budget, something which is rhetorically legitimised by the secrecy that this part of a political economy is supposed to have in these politically sensitive matters, not just in Greece but worldwide. These expenses are definitely difficult to account for, but in the following section we will try to highlight the reported part of military expenses, which size seems to be by itself –without its more opaque

[247] In 1993 the debt of the Greek government to Bank of Greece started to be recorded officially as public debt, hence the huge increase (Von Hagen and Wolff, 2004: 8; Roumeliotis, 2012: 344). To be more elaborate due to EU legislation from 01.01.1994 Bank of Greece could not finance state's debt. The state and not Bank of Greece ought to go to the markets and get the money it needed. Hence whatever obligations the state had to Bank of Greece were transformed into a loan, so central government debt rose substantially in 1993. From that purpose alone it rose by 976,50 billion drachmas and between late 1993 and 1994 a total of 3 trillion drachmas of loan agreements were contracted with Bank of Greece and which transformed former state functions into private sector ones (Introductory Report of the budget 1995; BoG, annual 1995: 184-185).

[248] It should be noted that according to Roumeliotis (2012: 344-345), there are other parameters, such as the difference between the nominal interest accrued on loans and nominal rate of increase of GDP, the so called snowball effect which can mitigate the effects of primary deficits and consolidated debt obligations on the levels of debt.

part that is- a rather “artificial” and unproductive need, one of those that financialisation thrives upon.

Table (11) Analysis of evolution of public debt (% of GDP)

	Rate of Change of Debt as a percentage of GDP	Primary Balance	Interest - Growth Differential	Consolidated Obligations of Third Parties (Stock-Flow Adjustment)
1980	-0,2	0,4	-2,0	1,5
1981	4,2	5,2	-1,3	0,4
1982	3,4	3,8	-3,6	3,3
1983	4,5	3,6	-2,2	3,1
1984	6,7	4,1	-3,4	6,0
1985	7,0	6,4	-3,6	4,2
1986	1,9	4,9	-3,7	4,2
1987	6,2	3,3	-0,4	3,3
1988	5,2	3,8	-3,4	4,8
1989	3,2	5,5	-3,1	0,7
1990	6,9	5,1	-2,1	3,8
1991	2,3	1,3	-5,0	6,0
1992	5,1	0,7	0,4	4,0
1993	20,1	0,7	2,5	16,90
1994	-2,0	-4,2	0,8	1,4
1995	0,7	-2,2	0,8	2,0
1996	2,4	-3,9	1,8	4,5
1997	-2,8	-3,4	-0,3	0,9
1998	-2,1	-4,4	0,4	1,9
1999	-0,5	-4,3	1,6	2,2
2000	9,5	-3,7	0,4	12,9
2001	0,3	-2,0	-0,7	3,00
2002	-2,1	-0,8	-1,2	-0,1
2003	-4,3	0,7	-4,5	-0,5
2004	1,4	2,6	-1,8	0,6

	Rate of Change of Debt as a percentage of GDP	Primary Balance	Interest - Growth Differential	Consolidated Obligations of Third Parties (Stock-Flow Adjustment)
2005	1,5	1,0	-0,4	0,9
2006	6,1	1,3	-3,3	8,00
2007	0,1	2,0	-2,2	0,3
2008	5,6	4,8	0,3	0,5
2009	16,3	10,4	5,8	0,1
2010	15,6	4,7	8,1	2,8

Source: Roumeliotis, 2012: 381-382 (chart from Bank of Piraeus report and data from Ameco)

8.3. A special case of state expenditures: military expenses

Germany became Germany partly because for 62 years it did not have to think about military expenditure," said Angelos Philippides, a prominent economist. "For a long time Greece spent 7% of its GDP on defence when other European countries spent an average 2.2%. If you were to add up that compound 5% from 1946 to today, there would be no debt at all," he said.

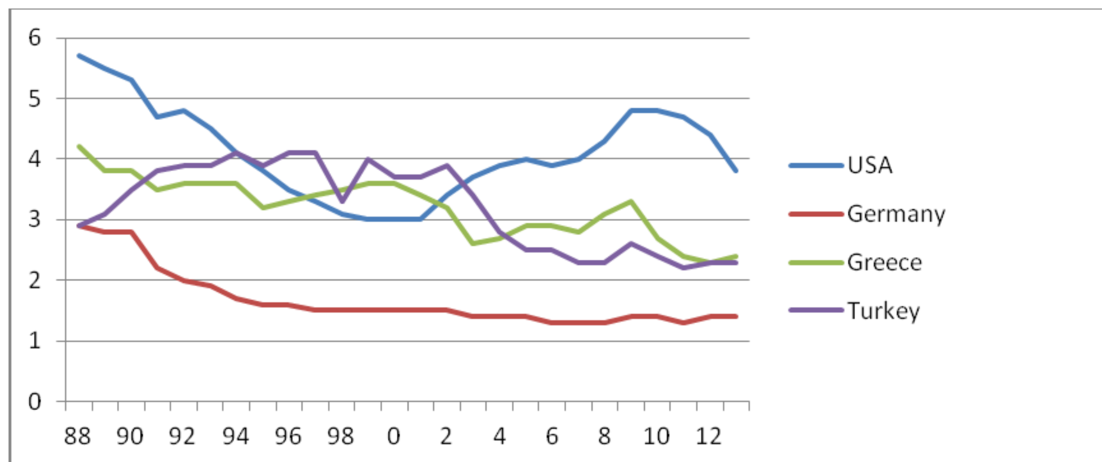
(Smith, 2013)

Besides interest payments, wages and salaries of public employees, a big percentage of public expenditure was military expenses. Military expenses covered also a big percentage of imports (Melas, 2013), which as we saw in chapter 5 outpaced exports since late 1980s. Taking a macro historical perspective Dertilis (2016: 26-27) would show that from 1833 till 1993 military expenses covered at least 17% of state's expenditures, and in 54 of those years it surpassed 30% of them. The reason was the 100 years military expeditions that Greece went through in order to acquire its present territory since the last annexation was in 1948, that of Dodecanese (ibid; Melas, 2013: 71). These expenses were financed through public debt and not though taxation (Dertilis, 2016; Melas 2013: 71). There were two reasons that governments resorted in this type of financing: firstly it would have been politically challenging to ask citizens from one hand to be ready for war and from the other, to tax them for that and secondly, there was a "a persistent respect" for the tax evasion of upper income classes (Melas, 2013: 71). Dertilis would be more strict in his remarks on the latter by arguing that Greek politicians did not tax effectively, because they wanted votes and not revenues for the state (2016: 51). However, even after 1974, when there were no compelling military needs, military-related expenses continued to be financed through debt, and as a matter of fact, foreign debt. It is indicative to see that from 1995 till 2000 -in the eve of the introduction of Euro- more that 90% of military forces debt was foreign (Introductory Report of 2001 Budget: 185).

Admittedly and in world wide scale, data for military expenses are hard to retrieve from national reports far more so from Greece's rather renowned public records. So

we retrieved data from Sipri's database,[249] according to which Greece's military expenses as a percentage of GDP hasve been competing with those of USA a superpower, and a hegemon of post WWII world. Between 1997-2001 it even surpassed USA as a percentage of GDP (chart 98 below). Turkey on the other hand has steadily declining military expenditures, which after 2005 was below the one of Greece, in relation to each country's GDP. According to Slijper Frank, an economist who prepared a report for Transnational Institute (TNI), Greece has been Europe's main military spender, since it had consistently, and for 4 decades till 2009, the highest proportion of military spending in relation to its GDP among EU, actually twice the EU average (Slijper 2013: 5, 6, and 11). And even though it decreased its spending in 2010, in 2011, in the midst of its worst economic crisis and consequent bailout schemes, it increased it again (ibid).

Chart (98) Military expenses as a percentage of GDP



Source: Sipri, accessed 08.05.2014

The aforementioned figures are more illuminating analytically if seen in comparison with the self - portrayed exemplary hegemon of EU, Germany, and its notably low percentage of military expenditures. They have been constantly low throughout post WWII, at first because the allies forced it to. This "freed" capital for Germany in favour of productive investments. Paradoxically these productive investments includ-

[249] Sipri is an independent international institute researching into conflict, armaments, arms control and disarmament established in 1966 and based in Stockholm

ed an industrial military complex, which was selling military equipment to Greece. More particularly, Germany was the second main supplier of weaponry to Greece after USA, to be followed by France, Netherlands and Russia. US contribution to supply of weaponry in Greece was declining after 1980, when at the same time Germany's share was increasing. Between 2010 and 2013 Germany came first by supplying around 54% of Greece's weaponry, leaving US in the second place with 21% and France in the third with 15% (France's share also slightly increased in this period).[250]

The result was that a small peripheral country, such as Greece, had analogous military expenses as a percentage of its GDP with the world hegemon, USA. This effectively drained a significant part of its financial resources away from productive investments, increased its debt burden and its current account deficit. Even in the post-crisis period of financial aid from Greece's European partners, their "help" was also extended to provision of weaponry, which is obviously to be paid by the money extended from them to Greece as a loan. Moreover, the situation illustrates the structural imbalances of EU as pointed by Stockhammer (2010, 2011) and Roumeliotis (2016: 230-242) in a very sensitive and less visible area of public finances, thus the inconspicuous dynamics involved: northern EU countries were exporting their military industry products to southern ones, which were financing these purchases through debt, and more particular foreign debt, provided again from these countries. An example of this is provided by Fouskas and Dimoulas who highlighted that during 2005-2009 "the purchase of 26 F-16s from USA and 25 Mirage-2000 from France represented nearly 40 per cent of total import of the country" Fouskas and Dimoulas 2013: 159).

However, one can argue that military expenses were important for Greece, because of its geopolitical location and tensions, especially with Turkey. That Greece could not but invest in military weaponry thus making this expense a productive and growth-contributing one since it is a provision for an imminent threat. Let us examine this argument first from an economic point of view and then from its geopolitical one. A

[250] Data from Sipri, trend indicator values (TIVs)

number of economic studies show,[251] that contrary to NATO's and military industry's arguments, military spending is not conductive to growth; not even in countries with a military industry as in USA. So one can imagine how bigger an impact it would be for Greece which had a weak and secondary military industry (Dertilis, 2016: 54-56). In the most cases it has been proven economically that military spending is a direct drain in the economy, so a sustained increase –as is the case in Greece- would hamper economic growth. If money were spend instead in education or public transportation, more than twice the number of jobs would be created (Sliper, 2013). The only case that military spending could be beneficial to growth, according to these studies, is only if the threat of a war is considered high (ibid).[252] And here is the economic argument that legitimise military expenses. Nonetheless, this threat could be real, but it can also be artificially created, a virtual need. For Greece the intuitive answer would opt for the former. But is it actually so?

Dertilis (2016: 52-53) would cast some serious doubts on that at least for the 100 years war-like period we referred above. Firstly he would assert that some wars could have been avoided and resolved through political and diplomatic routes, thus in most cases there was a real need for war equipment during this period. However, this is not the whole story. Military expeditions and thus relevant expenses had also less economic and more political reasons to increase. From one hand, they became politically necessary domestically (and not as part of the country's foreign policy), since it was imperative for "anarchic localisms" to be surpassed, especially amidst a fluid political landscape in Balkans with rising nationalisms, and for the insecurity that the threat of Ottoman Empire was still casting upon the newborn state to be moderated (ibid: 52). Actually, nationalism was not a Greek or a Balkan, and therefore peripheral trend; it was one that was dominant all over Europe (ibid), so Greece's followed a global trend too which does not always relate to fundamentals, in other words, real needs. Moreover, these extravagant expenses were stepping on the ignorance, political and eco-

[251] Information on these studies were drawn from Slijper F., 2013: 9 where a series of economic studies are cited in order to establish these facts (ft 42, 43, 44, 46, 51).

[252] Information of this paragraph were drawn from Slijper F., 2013 (ft 42, 43, 44, 46, 51).

nomic, as well as the “sentimental patriotism” of Greeks that no political or intellectual elite attempted to address and moderate (ibid). Inevitably then, all this created a cultural stance that politico-economically was rather paradoxical and certainly irrational: a small peripheral country with no strong industrial or other productive base, thought that military expenses was a proof of patriotism of its governments even though it had to borrow beyond its means in order to sustain such an endeavour. With this cultural stance -effectively a pathology- cementing through the years, one can wonder if the same political imperatives continued in the financialisation period that we are examining. In order to answer this, we would follow a genealogy of the expenses and the justifications suggested.

After 1974 which was the end of Metapolitefsi and the coup in Cyprus, Greece found itself in a weak military position and it needed to increase substantially its defence expenditure. Or at least that is what is argued from a number of researchers. Indeed, the government of Konstantinos Karamanlis at the time increased military budget by 69% and by 1978 it almost doubled it. As a share of GDP military expenses went from 4,1 per cent in 1973 to 7 per cent in 1977 (Alifantis and Kollias, 1998: 44). Subsequent governments continued the same practise. It is interesting that a government could present simplistic or technocratic arguments to justify the increases, such as “implementation of approved plan of military” and nobody would object to it. This for example happened under the socialistic government of PASOK when between end of 1998 and 2000, in less than two years, and just before Greece’s entrance to Eurozone, the outstanding debt of military forces rose from 938 billion drachmas equivalent to 2,6% of GDP to 1.968 billion drachmas and 4,8% of GDP (Introductory Report of the the 2001 budget: 185-6). Reportedly though only one third of debt for military expenses appeared in the budgets, not only because it was accounted for in the so called “secret” funds, but also because the rest of the amount, the two thirds, are being fragmented in future instalments. It has been reported for example that from 1997 till 2002 Greece was being burdened with 1,2 trillion drachmas of debt for military expenditures (Papadokostopoulos, 2002) without it appearing in the budgets of that time, exactly because of this fragmentation. Despite finance helping politicians evade

accounting for military expenses, was there a real threat from Turkey all these years to justify them, or was it overstated? In other words did debt fill real needs or artificial and/or non-productive ones?

Fouskas and Dimoulas, the only ones factoring military expenses in the discussion of Greek financialisation, are asserting the latter. They claim that military expenses were justified purely on ideational rather than real grounds, at least in the period after Metapolitefsi (after the end of dictatorship in 1974), stressing that this added to both the debt and the corrupt practices at the heart of the state benefiting what they call "comprador-military complex in Greece (Fouskas and Dimoulas: 158). In other words, according to their view, the need for defence spending was overemphasised, benefiting more industry interests and insiders than country's actual needs. This view is strengthened by a statement of Cohn-Bendit, who reportedly said that Germany and France did not want Greece to cut military spending because it would be harmful for French and German industries (Tran, 2012). Likewise Pagalos, an outspoken MP from the socialist party of Pasok and a former Minister of Foreign Affairs, as well as a Minister in various other posts, was reported saying that at times he felt "forced to buy weapons we do not need" and he felt "national shame" for them (Rhoads 2010). The fact that Greece's military procurement was more a political leverage game of "external balancing" than suitability and compatibility of weapons or real needs of the country for that matter, as well as an intense competition game between producers with large off-sets and coproduction deals has been also claimed by the report of Alifantis and Kollias for Sipri (1998: 52 and 54).

Lastly, Tsohatzopoulos[253] scandal highlighted another aspect of military spending, that of extreme corruption and bribes. Even though this is definitely not only a Greek phenomenon, it nevertheless stresses the fact that a debt-fed investment which is not productive and/or beneficial for the domestic political economy, and is not covering real needs, at least not to the extent of the investments, it also undermines political

[253] Former Ministry of Defence in socialistic governments of Pasok

economy through corruption. Debt became a tool for political elites to continue and further hide their corrupt practises.

Conclusively, it seems that military weaponry was forming a kind of “dead” capital in Greece’s political-economy-corpus. Dead in the sense of either idle and/or unnecessary at least to the extent that it has been acquired. More often that not it did not cover real needs or imminent threats, but rather artificial ones. This effectively becomes a drain in the economy, especially when it is debt-fed.

From the above analysis we saw that according to available data the rise of public debt did not feed a big public sector or did not expand it -at least not till Karamanlis the younger. Instead borrowed money was either channeled to consumption, such as paying of interest rates on previous loans and remuneration of public employees or unproductive investment such as military procurement (intermediate consumption for national accounting). Especially military expenses not only contributed to the self perpetuating dynamic of debt, but it also had a structural effect on the economy: it created a form of dead capital, in the sense of it being not-useful and thus unproductive, effectively becoming a drag in the economy as a whole. From that only upper political elite corruption was to gain and not society as a whole. Furthermore, credit came to fill in the revenue squeeze of the state, its gap of income, as it did with the average American, so that the state would continue its unproductive practises in a period of convergence to EU standards.

Overall then financialisation appeared in fiscal landscape in the form of huge debt which was not used as a means for productive but instead for unnecessary investments, as well as for the maintenance of pathogenic characteristics of Greek political economy. The supposedly transparent workings of high global finance came to match the workings of a supposedly lagging behind political economy of Southern Europe, stigmatising the latter rather than the former for mismanagement, recklessness and corruption. But the fiscal side of financialisation of the state, which is manifested through excessive debt used for unproductive activities, is only the part of the story.

8.4. A sovereign and high finance: a passionate relationship!

Another probably more straight forward feature of financialisation of Greek state, and a state in general, is the use of sophisticated financial engineering to cover up deficits, debts and fiscal deficiencies. In the case of Greece this was done with the help of big US investment banks. The mirage of finance came to give its helping hand to what later came to be termed "Greek statistics". Greece was presented as a unique case of irresponsibility and even deceit. But Greece was not as exceptional as presented. Many countries used derivatives or other financial tools to window-dress their debt exposure and deficits, especially on their way to Eurozone (Piga, 2001). Actually, a global trend of active sovereign debt management (SDM) appeared since late 1980s and gained strong momentum in the 2000s which altered conceptualisations and practises of public debt (Fastenrath et al, 2016). Its management was not left to state bureaucrats with passive and limited tools in their array, but was rather entrusted to "well-paid professional portfolio managers" who regarded debt as "portfolio" whose liabilities and returns ought to be managed actively and exposed to market dynamics (ibid). Furthermore, one should not forget that in an agreement there are at least two parties involved. Why should the blaming game point to one side only? The less informed and the one who benefited the least from the transaction as we shall see. Especially when it took place in a global environment which was heading towards this kind of governance mechanisms and sense-making frameworks (ibid).

Before we present the particularities of this entanglement of sovereigns and high finance in the case of Greece, it is important to highlight the reasons that make it analytically important in the case of financialisation.[254] First, it contributes to what according to Stockhammer (2012: 46) is a common theme of transformation brought about by financialisation with actors increasingly perceiving "themselves like financial institutions, manipulating their balance sheets, as if they were managing a portfolio of assets". One can say that this is a case of sovereigns deferring crucial political issues to the future, as any political leadership usually does. But it is more than that. It

[254] It also informs the debates on the design of the Eurozone, the legal repercussions for all parties involved, as well as general debates on post-democracy and post-westphalia regimes.

implies an ontological transformation of the most basic political institution of advanced democracies, which alters fundamentally their presumed socio-political role, creating a cleavage between conceptualisations and reality, between regulatory and normative role of institutions and their actual function. This could be a firm indication of a post-democracy regime, or even something beyond that.

Second, it helps highlight the potential predatory, or even subprime-like (Dunbar, 2012) character of agreed deals between states and big investments Wall Street banks, in favour of the later. The predatory character is grounded to the information asymmetries involved in these complex products, the potential restrictions of competition and the opaque ramifications they might incur in medium and long term in societies that governments represent. These ramifications could potentially challenge basic features of western democracies.

Thirdly, it aptly illustrates the new sovereign debt management governance practises and sense-making frameworks (Fastenrath et al 2016) which promote a new understanding of what a sovereign is. A new understanding which is not only how markets view a sovereign in the new finkncialised reality, but also how a sovereign views itself.

State in the loving arms of finance: active SDM and high finance

Here we will explore the case study of "a sexy story between two sinners"[255] (BBC, 2012; Bloomberg, 2012) to use the words that Christoforus Sardelis, an economist and former head of Greek Public Debt Management Agency. Goldman Sachs helped Greece hide and eventually augment its debt profile, a "cooperation" which was revealed in 2003 (Dunbar 2003), even though it dated back at least to 2000 and 2001. As usual, counterparties in a scandal put the blame on others. Indeed, both Goldman Sachs and the Greek Government attributed their cooperation to EZ accounting framework, (Dunbar 2003) which required, before a state entering the then newly formed Eurozone, all unhedged foreign currency denominated debt to be translated

[255] BBC News night by Dunbar Nick, broadcasted on 20 Feb. 2012

into Euro using the year-end exchange rate (Dunbar 2003). But at that time, early 2001, the then socialistic government presented the cooperation as a modernisation of state's function since Greece "through the use of modern financial products (such as swaps etc) attempts to take advantage of international circumstances so it can decrease its debt, as well as the cost to service it" (Introductory Report of 2001 budget). So swaps were presented in public discourse as the rational and legal financial tool for the purpose of decreasing government's debt and its servicing. Greece was to take advantage of the international circumstances and not the other way around. As we saw this was a global trend evolving in many OECD countries (Fastenrath et al, 2016).

With this rationality then (or at least so the discourse would have it), Greece entered in a cross currency swap arrangement with Goldman Sachs. It did so at a historical implied rate which diminished its debt by 2,367 billion euros, or by 1,6 percentage points to GDP: from 105,3% to 103,7% (Goldman, 2013). But since this was not in favour of Goldman Sachs interests, because way there was a simultaneously reduction in the value of its swap portfolio, the company entered into new interest rate swaps with Greece, paying the "coupon for the life of the trade and received the cash flows based on variable rates" (Goldman, 2013). Greece recorded an inflow of funds, reduced its deficit and deferred the problem for sometime in the future. Eurostat later reported this story putting the blame on Greece only:

"Greece should have made an equivalent payment in cash in order to compensate its swap counterpart, with an unfavourable effect on the government deficit. Instead the Greek authorities agreed that this above-mentioned lump sum would be repaid through an off-market interest rate swap that was structured such that the repayment by Greece would be spread by way of annual net interest payments until 2019, following a grace period of two years for such payments. The impact on the deficit therefore appeared over many years and the impact on the Greek accounts was low on a yearly basis" (EC 2010: 17-18).

Yet the story does not end here. First of all, Goldman Sachs immediately hedged the deal placing the risk with Frankfurt based Deutsche Plandbriefe Bank (Depfa), entering a credit default swap of 1 billion dollars, essentially buying protection on Greece for up to 20 years. Moreover between 2001-2005 it made a series of securitisation deals, involving the creation of Special Purpose Vehicles (SPVs) such as Aeolos, Ariadne, Atlas which were backed by revenues of Greek government: revenues owned to the Greek State by international airlines using Greece airspace, revenues from OPAP, the State lottery organisation, revenues from EU structural funds received by the Ministry of Finance, and tax arrears owned to the Greek Government.[256]

Eventually, Greece could not keep up with the interest payments and had to restructure the initial loan.[257] Goldman Sachs agreed and offered two restructuring, since the first did not work either. In August 2005, right after the second restructuring, it sold the swap to National Bank of Greece, at a mark-to-market price that was "exactly the market value of the swap at that moment and is to be considered as the value of the negative position for Greece, i.e. a liability to be paid" (EC, 2010: 18). This amount has climbed up to 5,1 billion Euros (Dunbar 2012). In other words, the original benefit for Greece's budget of 2,467 billion Euros was transformed to a liability of 5,1 billion in just 4 years. Furthermore, the swap after a further marginal restructure in late 2008, was securitised in February 2009 via a Special Purpose Vehicle (SPV) named Titlos that paid EUR 5,5 billion to National Bank of Greece (EC, 2010: 18).

But the story keeps going on. Besides "helping" Greece earning lucrative gains and hedging its help with Greek government revenue streams, and despite having sold its position to National Bank of Greece and gained from that too, Goldman Sachs along with other investment banks created the financial tools that helped investors bet against Greece. This was reportedly done through a iTraxx SovX Western Europe index created by a small company backed by Goldman Sachs, JP Morgan Chase and a

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[256] Info in this paragraph comes from Clerin Michel, What About Greece and Goldman Sachs?, Deutsche Welle 28

[257] It was not accounted as a loan till Eurostat came to view it this way in 2010, see EC 2010.

dozen other banks, which earned a flat fee by licensing investors to trade the 15 most heavily traded credit default swaps in Europe. The trade exploded especially between January to February 2010, severely aggravating sovereign debt spreads of Greece, and contributing to systemic risk (Schwartz and Dash, 2010).[258] In other words, by raising Greece's borrowing costs (effectively to prohibitive standards), it undermined Greece's ability to borrow, and thus its ability to pay back on the loans provided.

Overall, Goldman definitely gained from the deals since first of all it received a large amount of fees for its helping hand, reportedly 600 million accounting for 12 per cent of Goldman's reported revenue in 2001 (Bloomberg, 2012). Secondly it gained from a series of securitisations that were backed by revenue streams owed to the Government of Greece, in other words back by the executive power of the state. And thirdly it created financial instruments which helped betting against Greece, again gaining fees. What all this essentially means is that an investment bank effectively acquired through market procedures first a power at a distance over a sovereign, as well as a kind of tax collector capacity, which is the exclusive privilege of a sovereign and probably one of its last prerogatives left, while at the same time it treated this sovereign not only as an enterprise, a corporate counterparty, but as an asset class to be traded, in other words as a commodity.[259]

Greece on the other hand did not gain as much. Besides a very short deferral of its fiscal problems, the country doubled its debt in a series of deals to which it was at times blackmailed into since reportedly the head of the debt management agency at the time was told that, if he was to go to the market and check the price of the deal they were bargaining, the deal would be off (Bloomberg, 2012), that is if he checked its fair, market price. Overall it seemed that "the country did not know what it was buying and was ill equipped to judge the risks or costs" (ibid).

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[258] Info in this paragraph is based in Schwartz and Dash 2010.

[259] This is not to say that Goodman Sachs or any other (investment) bank for that matter is obliged to consider the socio-political ramifications of its ventures. After all it is a profit making company. The accountability probably rests with the legislative bodies which left a space unregulated for the "deliriium of the unlimited" (Lordon, 2014) to be unleashed.

The deal effectively proved that from one hand, strong information asymmetries favoured Goldman Sachs, since it gained from fees, from interest, from securitisation, from selling its position, even from betting against one of its borrowers, thus from every possible scenario, while the counterparty –the sovereign- lacked knowledge of the possible scenarios and the workings of the complex financial markets. This is probably true more generally for every sovereign attempting this new finkncialised active debt management strategies. On the other hand, the supposedly transparent workings of financial markets, through not so transparent financial mechanisms,[260] helped Greece hide away as well as exacerbate some of its chronic pathologies. Supposed sophistication then helped a backward status quo: a corrupt political leadership wanting to extent favours in short term, being totally indifferent in the medium and long term consequences. This reminds us of Sassen's comment on financial sophistication being responsible for simple brutalities, but it is not unique. Almost the same was observed in the case of Italy (Lagna, 2013). Lagna argued that domestic actors deployed financialisation practices in order to serve their domestic conflicts and interests. Of course his theoretical perspective is different than ours but it does not change the fact that proclaimed modernisation and transparency through the spread of finance proved once again to be an illusion.

The painful divorce: a sovereign as an asset class

"The situation in Greece, where we suddenly had financial markets betting against the country is, to me, criminal conduct"

(Sassen in Brown and Gilson, 2013)

But the passionate story between sovereigns and financial markets does not end here. By determining the price of a sovereign's lending, at times speculating over a state, sovereigns and markets have another heated encounter. Or at least that was what happened with Greece. The issue at stake here is firstly that finance's global web can

[260] Such as Goldman not-disclosing information to investors, off-balance sheet items, or borderline accounting practices, as well as vagueness on the cash flows which Goldman was promised.

serve as a transmission mechanism of convulsions in one country to another in another part of the world. Secondly, that borrowing conditions of a sovereign might depend purely on workings of financial markets, such as ratings, speculation and herding behaviour and not on fundamentals of domestic economy: in more technical terms: prices in the secondary market could be driving prices in the primary one. This is quite typical of financialisation. Lastly, that detachment from fundamentals, can eventually lead to the transformation of a sovereign into an asset class to be traded and speculated upon in financial markets, becoming thus the ultimate manifestation of the power of finance, structural and post-structural alike. In what follows, we will firstly present what happened, and then how academic debate tried to analytically understand these developments.

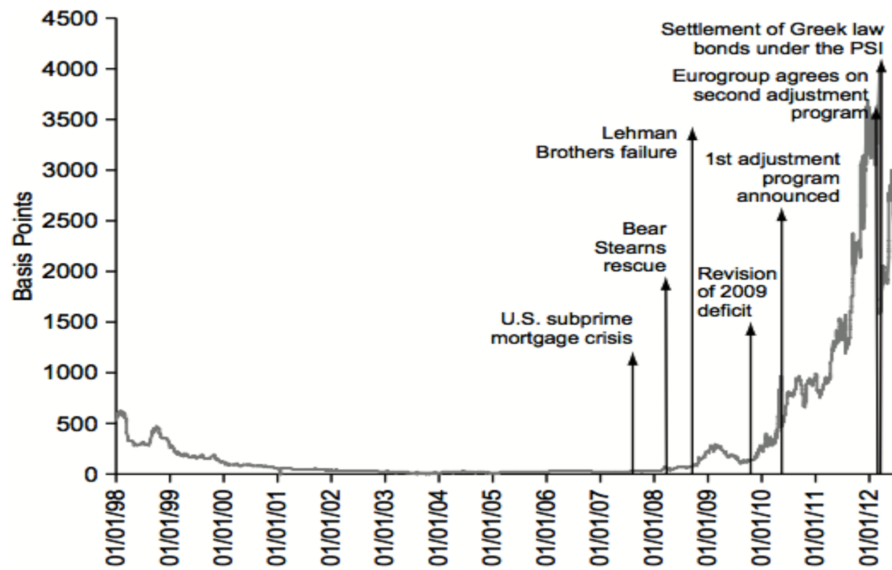
As seen in chart 99, government bond yield spreads vis a vis German bund fell from 600 basis points in 1998 to about 50 basis points in 2001 when Greece entered the Eurozone, hovering between 10-30 from late 2002 till late 2007 (Dellas and Tavlas, 2013: 493). Greece was fully converging with its EU partners in its borrowing conditions. However, as chart 99 shows, when Bear Sterns collapsed in March 2008 spreads widened to 60 basis points, and then with Lehman Brothers to a further 120 basis points (ibid: 499). However, ratings from all rating agencies continued unchanged for Greece (Gibson et al, 2016: 7). Then two events followed: an international and a domestic one. The Dubai incident in November 2009 and BoG's announcement in 19 October of 2009 that the deficit is not 6% but 12,7% (Roumeliotis, 2012: 52). Credit Default Swaps (CDSs), followed more or less the same route starting to rise as of the end of 2009 as shown in chart 100. CDSs spreads increased in other countries around that time, however Greek CDSs had the most significant rise by far (BIS, 2013b; BoG, 2010 fin rep: 45; chart 100).

Along with those events, ratings agencies started downgrading the sovereign. The evolution of their ratings is shown in chart 101. More elaborately, S&P had already downgraded the 10-year bond Greek sovereign from October 10, 2009 (ibid: 7). But after the announcement and in the context of convulsions that the Dubai incident

spread, ratings took a downward spiral. Firstly, it was Fitch which in 22 October 2009, downgraded Greece, justifying its decision by invoking the high deficit, the then looming recession and the shaking of trustworthiness of the country (ibid: 53). It was the very same day that Eurostat announced its estimates on Europe's fiscal aggregates, essentially repeating the announcement of BoG and expressing reservations on reliability of Greek data (BoG, 2010, fin stability: 46). From that point onwards the spreads started skyrocketing reaching to almost 4000 basis points in early 2012 (from a 230 basis points at end-December 2009) that led to the March 2012 on the second adjustment program (Dellas and Tavlas: 499-500; Gibson et al, 2016: 8).

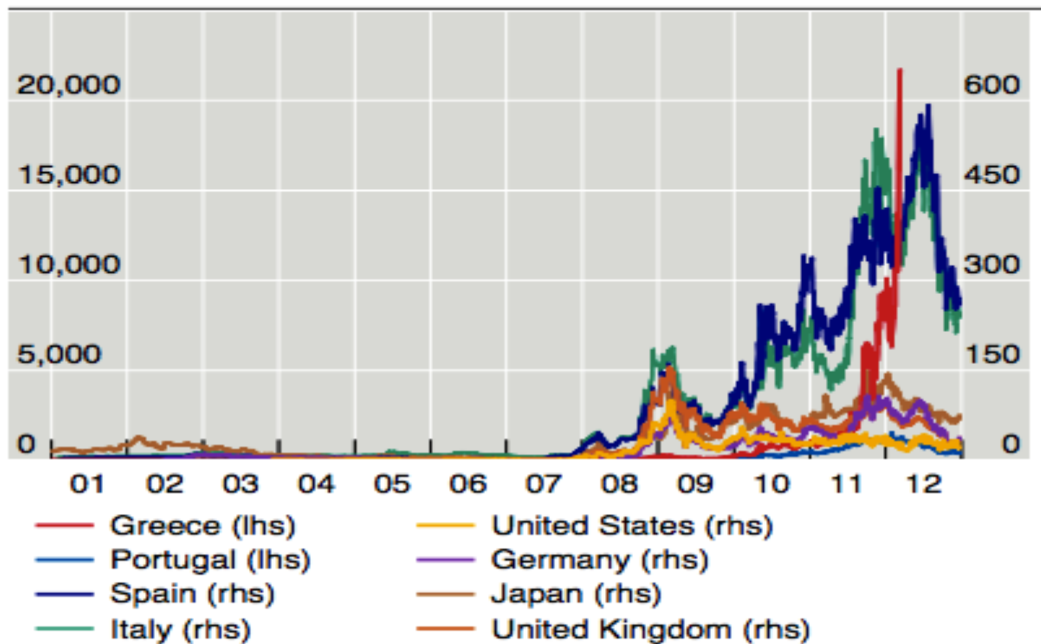
Therefore, by merely looking at these indicators, it is difficult to tell if it was the global event -the Dubai incident- or the local one -revelation of miscalculation of deficit- that triggered the rise in spreads. Furthermore from the charts it is not easy to discern if it was the secondary market -CDS derivatives market- that led the price of the primary market -sovereign bonds- or the other way around. Even if one looks at sovereign credit ratings in chart 100, again the causal thread is not un-contestable. It seems that downgrading of Greece, the rise of spreads in bonds and CDSs happened almost simultaneously.

Chart (99) Greek spreads: yields on Greek over German 10-year benchmark Bonds



Source: Dellas and Tavlas, 2013

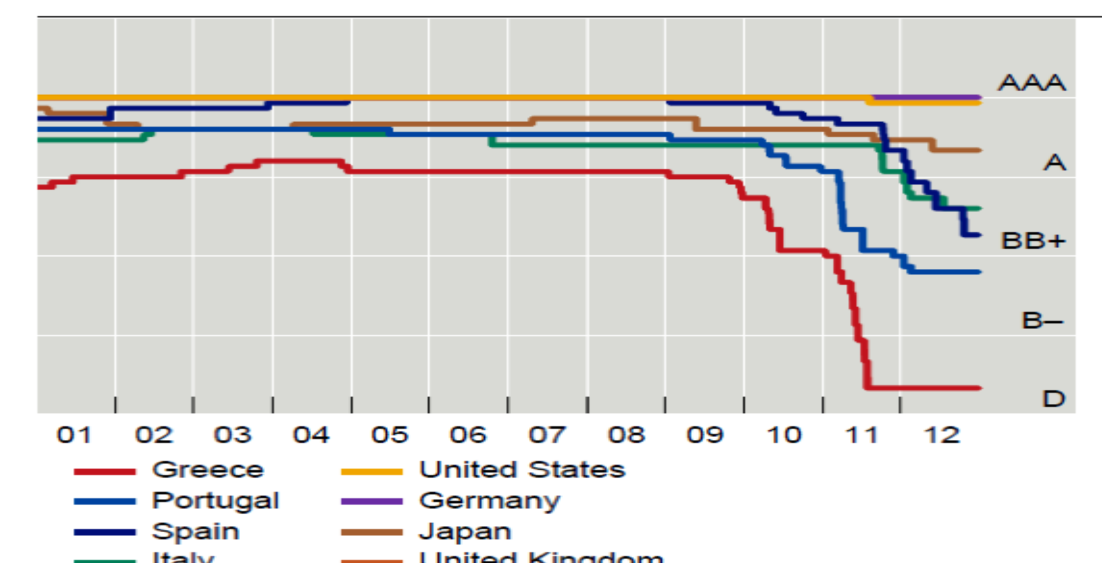
Chart (101) CDS spreads, in basis points



Source: BIS (2013b: xxiv) [261]

[261] Daily averages of long-term foreign currency credit ratings from Fitch, Moody's and Standard & Poor's. This BIS paper notes that the sources for its calculations are: Bloomberg; Markit; BIS calculations

Chart (100) Sovereign credit ratings



Source: BIS (2013b: xxiv) [262]

In political science, international relations and law, the debate over these developments and the attempts to follow the causal threads, focused on the power of rating agencies, since scientists in these fields are interested in knowing who pulls the triggers and whose decisions have a kind of imperative force on agents involved. Of course both markets and ratings can trigger herding behaviours, which as in a foucaultian inspired rationale have an inescapable, albeit inconspicuous, imperative force. However, ratings have a more entrenched, and thus not so easily discerned power, in the system.[263] Firstly, it is one allowed by law, since "in significant areas, credit ratings are hardwired into the regulatory regime, often acting as thresholds or triggers for regulatory actions" (Black 2012: 18). Institutional investors, such as pension funds, which have a large financial blueprint, are then obliged by law to withdraw from investments that have been downgraded after a certain level. This can trigger unintentional, albeit massive movements of capital, not based on fundamentals, but on technical and pre-determined criteria, that can are subjected to the volatile and interconnected financialisation dynamics, which can be potentially manipulated real-

[262] Daily averages of long-term foreign currency credit ratings from Fitch, Moody's and Standard & Poor's. This BIS paper notes that the sources for its calculations are: Bloomberg; Markit; BIS calculations

[263] For the adverse consequences of use of ratings in regulation see indicatively Cantor, 2013: 27- 33.

ising Rose's and Miller's "power at a distance" (1992). Moreover, this formal institutionalised role of ratings is also a vivid illustration of how small, seemingly insignificant regulatory rules which seem quite reasonable when legislated, effectively "outsource" sovereign power to market forces.

Secondly, rating agencies acquired a less institutionalised, albeit equally imperative power. Their opinions were followed as if obeying to law, since they were thought of as what Foucault would call "regimes of truth". Consequently, their essentially subjective assessment of reality were effectively thought of as reality itself. Hence if they pointed towards a way out of a country, a herd of investors would follow. It is strange and paradoxical indeed, how such sophistication of knowledge that is necessarily for making complex financial assessments, results to the creation of "regimes of truth" which inevitably entail a non-rational element which is crucial to their creation and eventual domination.

In the economics literature on the other hand, heated debates loomed mainly over what determines the price of sovereign bonds: the fundamentals of a country or CDSs markets, in other words, reality or financial dynamics which can be manipulated. Admittedly sovereign CDSs trade is a relative small market compared to the size of the primary one and compared to the size of the respective corporate one. According to one estimation, the size of the market in February 2010 was 85 trillion, so it was comparatively small to the 300 trillion government debt (Schwartz and Dash, 2010). According to another it net outstanding value in May 2010 was standing at 1,9 trillion, and by end-June of 2012 its the gross notional amount reached 3 trillion. Even though it raised in liquidity terms, after late 2009,[264] its size was still small comparing to the 27 trillion of the CDS markets as a whole and to its primary market, government bonds market, of 50 trillion at the end of 2011 (IMF, 2013: 59-60, 75; Delatte et

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[264] In Greece, while gross notional values in billions of US dollars almost doubled between 2009-2010, from almost USD 48 billion to almost 90 billion, the net outstanding amount for CDS contracts was around 2% of outstanding government debt in the same period, with Portugal's being the outlier of Southern European countries – less than 5% at the same period, see Gyntelberg and Hordahl 2010: 4, graph 5.

al 2012). So, from a quantitative aspect, the chances that CDSs market led the price mechanism are rather weak.

Complementing this claim, IMF (2013: 57-92, 71) has argued that there is “no pervasive evidence” that CDS markets were leading the market of sovereign bonds in developed economies; instead they reflected fundamentals, revealing new information on risk in a more rapid pace than sovereign bond spreads, thus being able to play their role as hedging instruments.[265] The study nevertheless casts some doubts, in the sense that it admits that “during the height of the European debt crisis, CDS (and government bonds) spreads in more vulnerable European countries rose above the level that can be explained by the changes in the fundamental and market drivers considered in our model” (IMF, 2013: 70).

Other studies suggest while in low yields countries of Eurozone sovereign bond market leads CDS markets, the contrary happens in high yield ones (Coubert and Gex, 2010). Delatte, Gex and López-Villavicencio (2012: 24-25) would find that in periods of distress CDS market leads the price mechanism even in low yield countries, and irrespective of the size or liquidity of sovereign bond markets. Through econometric analysis they point that in the case of Greece it was the CDS market that “has strongly determined the pricing of then sovereign risk” (ibid). So despite their relative small market size, CDS market can have a permeating effect in a far bigger market, the sovereign bond one.

But even if the causal effect between financial mechanisms cannot be proved with certainty, the case of Greece proved beyond doubt that the combination of bond markets, derivatives markets and rating agencies determines the reality of sovereigns, something that was made empirically evident from Gibson et al 2016. In other words it is the realisation of “power at a distance” of financial markets this time over the most central institution of western democracies. As bonds were rising, Greece’s debt

[265] Bibliography for the relationship between sovereign debt and credit default swaps has only recently been expanding to cover developed nations, since till the crisis it focuses exclusively on emerging economies, indicatively see Ammer, and Cai, 2007.

became more expensive and speculators raged over the country as if it was a prey. A sovereign became an asset class, to be traded in international markets, to be speculated upon, to be evaluated as if it was not representing societies and real people. Essentially the country was being gambled in financial markets, and its citizens became the epicentre of criticism and even scolding. Markets became the judges of politics and cultures. Rightfully some would suggest. The fundamentals of the country started shaking or were just revealed, the markets saw it, and reacted. Efficient market dynamics caught up the fraudulent and irresponsible practices of Greeks and raised the spreads in order to protect investors. But were markets effective or just caught up in an avalanching fear that spread and which had little to do with country's fundamentals? Or was it even the result of a purposeful orchestration of events for the mere benefit of financial intermediaries who were gaining on fees, commissions and bets? This is not to say that the country's fiscal status was not an issue, but there are serious doubts that fundamentals were "suddenly" revealed in the clairvoyant and innocent eyes of markets. And even if that was the case does this legitimise the fact that a sovereign was turned into an asset class? Is such a transformative power of finance acceptable for the democratic values of western world?

Lastly there is another aspect of financialisation of a sovereign that the case of Greece also brought into light: the extinction of the so called safe heavens. Sovereign bonds might have offered a lower yield than other investments, yet there were considered safe due to the power of the executive that stands behind them, and the mere fact that a sovereign could not go bankrupt in a form of a company does. Because if somebody goes bankrupt, they cease to exist and this cannot apply to a sovereign. After all, in contrast to companies, citizens have unlimited liability for their countries debts and financial obligations. As a commentator in BIS said: "We used to live in a world where sovereign risk was so low that investors could behave as if that debt was risk-free" (Caracuena, 2013: xxvi). This perception though was profoundly challenged by the crisis and financialisation dynamics that enabled and spread it, creating a world where there are no safe assets no more. A sovereign of the developed world is not

risk-free nowadays. It more or less started engulfing and representing risks which were prior linked to developing nations.

Viewed from another, more economic perspective, in the financialised world we are now living, a state can go bankrupt, just like an enterprise, without it "typically" ceasing to exist. Actually, if one really wants to make an honest observation, a state can now go bankrupt, in a world where banks' bankruptcies have become so non-permitted, as if they are prohibited by law (they are not –we need to mention that). It seems then that a capitalism without bankruptcies as Stockhammer suggested (2012: 39-40, 43) is valid for enterprises and not sovereigns, which are viewed from economists and dealers as enterprises when entering financial markets (Wilson, 2013: 132). Therefore basic economic principles of capitalism are being reversed. Power of finance not only administers sovereigns and their affairs at a distance, but it also proved transformative both of the ontological status of basic institutions of western democracies, but also of the very system it is supposed to envisage, capitalism.

8.5. Conclusion

To sum up, we saw that the Greek state resembled a series of key actors of financialisation narrative. It resembled the average American of the 1970s and 1980s, whose declining income drove him to credit, in order to keep up the standard of living his parents had. Only, in Greece it was also used to increase this standard of living to “European” standards. It also resembled big banks and companies which created off-balance sheet items in order to grow beyond their means. It finally resembled the new asset classes of financialisation era that were created out of everything, even in this case out of a sovereign.

However, there is something ontologically different between a sovereign and a person, or a company, or a bank. A sovereign cannot be viewed as an enterprise that is entering international financial markets in order to raise capital for profitable investments, as a mainstream economic view and new finkncialised SDM sense-making frameworks (Fastenrath et al, 2016) would assert. It is a political body representing societies and not shareholders. It is not an assemblance of lifeless parts. Moreover, it is not a res, a thing, an object to be traded, because at the end what is being traded is the lives of real people. In other words rendering a state, a sovereign into an asset class, and trading its “value” in the markets, is at the end a commodification of societies and individuals, a commodification of humans. It is rendering human lives and societies into an object of a commercial transaction, which essentially entails this object to be a res, a thing, since if it is not a res, a thing, it cannot be the object of a legal transaction. Thus, this seems to be the ultimate victory of economic values over all other social and political values ever conceptualised in human societies, and should be an issue of central importance, making the discussion on the morality or even legality of “debts should be repaid” imperative, a rather second order one.

Another equally important issue is that the citizens of the particular sovereign have not necessarily opted for huge indebtedness and reckless handling of political affairs from their political elite. Nevertheless they are legally burdened with an unlimited liability for debts incurred. Financialisation then applied the logics of finance to a

sovereign, rendering and treating it as an enterprise, but not to the extend of citizens liability. Moreover, citizens are not benefiting from dividends or (capital) gains, as shareholders of a company do. One can assert though that the money finally reaches citizens –essentially they "profit"- through public investments and expenditures, thus they should bare the economic and moral obligation to pay back the creditors. After all through democratic processes and eventually elections they can "check and balance" the acts of their politicians, so that they do not profit for themselves but for the general good. And this would be a legally and institutionally correct answer.

But financial markets have acquired speed, complexity and opaqueness that not even insiders can sometimes understand and manage. How can democratic processes compete with this speed and complexity? They can only intervene in the aftermath when legal and economic consequences have already taken place something that leaves little or no room to manoeuvre. Besides that, due to the burden and the shock of the reality that pressures of financial markets may render –as did in the case of Greece- democratic processes could not only be regarded as luxury, but also could be rendered "unthinkable".

Effectively, as the Greek case has shown, the New Masters of Capital to use Sinclair's term (including though not only rating agencies but financial actors at large) nullified sovereign power from one hand, while at the same time "demanded" their legal rights out of what a sovereign is representing. This matters in the context of (international) political economy, not only institutionally, structurally or academically, but because it affects the lives of people in societies worldwide. Furthermore, this new "power at a distance" (Rose and Miller, 1992) which is nevertheless very direct in everyday life, not only plays on weaknesses of both states and individuals (Dunbar, 2012), but also challenges basic social values of post-Enlightenment societies.

By way of conclusion, the entanglement of Greek public sector with financialisation, which as any public sector is essentially the administrative manifestation of a sovereign state, was first of all evident in the excessive rise of public debt, especially for-

eign public debt. This debt, to confirm Toporowski's argument in the context of public sector was not used for productive investments, thus not functioning as credit, but it functioned purely as debt: it was channeled from one hand to consumption expenses, such as feeding not a big but an ineffective public sector, and from the other, to unnecessary military investments which did not serve an imminent threat –at least in post 1974 Greece, even though some would argue otherwise- nor did it benefit the economy as a whole. Instead military expenses created a form of "dead" capital which burdened and drained the living body of the economy.

Moreover, Greece entered sophisticated financial agreements with big Wall Street investment banks, in order to window dress its debts –as did a number of other countries in their way to Eurozone. The paradox was though that the information asymmetries involved were in favour of the lender and not the borrower, since Greek officials did not fully understand the mid-term and long term workings of modern financial markets and in addition to that they were not in a position to benefit from any possible scenario, real or manipulated, as did Goldman Sachs for example.[266] Furthermore this entanglement of financial markets and a sovereign proved that the former can manipulate borrowing costs of a state, at the very least through Credit Default Swaps trading. The crisis also highlighted another serious aspect of financialisation, that of financialisation of a sovereign per se: in the process of "capitalising almost everything" a sovereign was rendered into an asset class to be traded and speculated on. This commodification of the state raises a series of profound and substantial questions about the directions modern political economies are heading towards. One can wonder: is this sociopolitical reality, is this world the one we freely and consciously decided to construct and live in?

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[266] This is not to say that Greek officials were the innocent victims of villain market forces. It only points to the fact that in these particular contractual agreements the lenders knew more than the borrowers and that they could manipulate the rules of the game in their favour, something that political elites of a particular country can not.

CHAPTER 9: Financialisation of the wider public sector

In this chapter we will examine the potential financialisation of the most important actors of the so called wider public sector: insurance and pension funds, municipalities and State-Owned-Enterprises (SOEs). Data for these sectors is extremely hard to retrieve, due to poor and rather obscure bookkeeping, so empirics are not as robust. However, they do show the trend that developed.

9.1. Financialisation of public insurance (health and pension) funds: the structured bonds scandal

Greece's health and pension system - which is is a typical pay-as-you-go (PAYG) system- is mainly publicly provided. Thus the insurance and pension funds belong to what is called wider public sector. Managers and member of administrative boards of these funds are appointed by governments. Till recently and certainly before the crisis, public health insurance and pension provision were provided by numerous funds since professionals and working people had different insurance and pension funds depending on the profession of their members. The contributions these funds required by their members[267] and benefits provided were admittedly quite unequal. Due to what was essentially public management in a highly regulated environment, the funds were usually conservatively managed. Managers or boards were not even thinking of placing "the money of the insured" in the stock market or in financialised products. All this till financialisation hit the door of the funds too, which happened first through the

[267] It should be said than some contributions to the funds did not come from their members, but from the general public known as "taxes on behalf of third parties" e.g. one had to pay to the fund of journalists and those working in the mass media a certain amount called 'aggeliosimo' (αγγελιοσημο) it they were to place an advertisement in either newspapers, television or radio. Most of these "taxes on behalf of third parties" were abolished as late as the summer of 2016.

stock market boom and eventual crash and then with the politically heated and much debated "structured bond scandal."[268]

In this section we will examine the latter because it gives more interesting empirical facts on the entanglement between global high finance and local wider public sector. This way we can see how financialisation penetrated in conservative public structures, and thus shed some light to the workings of the power of finance. The crux of "scandal of structured bonds" was that boards of the funds were buying overpriced financial products, which were hard to liquidate before maturity, thus resulting to real damages, while at the same time incurring huge profits to intermediaries. Financial investments in complex financial products was a break from previous investment practises and not a result of a carefully formulated portfolio investment plan. These investments were made in a two years time between 2005-2007, as if somebody discovered a new opportunity and rushed to capture it. Furthermore, there are serious doubts if there were real needs to be covered through the issuance of these bonds.

For these developments to occur, high finance cooperated with local public officials of the state and of funds' boards in order to open profit opportunities for both regardless the cost for the funds' assets and societal benefit. Furthermore, for Greek government officials these bonds were a way to window dress public debt. Thus chronic pathologies of a rather backward Greek state apparatus aligned with sophisticated finance to bring about a classic incident of financialisation, where finance came in to fill artificial needs and where financial agents gained more than the principals. Actual-

[268] According to the November 2010 Parliamentary Committee Report, structured bonds as opposed to simple bonds are financial products that are composed in part of simple bonds and in part of financial derivatives, and they are not priced in the secondary market, as do simple bonds. They are essentially priced in maturity (2010: 12). These products are considered high risk ones, since fixed coupons (teasers) only at first, and then it the coupon yield mainly according to interbank market trading, and they are not traded in markets, but they are privately placed (they were structured with specific customers in mind, that is why they have limited tradability). Their yield then is not assured. According Kiriakopoulos and Mavralexakis (2011: 235) structured bonds are usually everything that is not a "vanilla product", meaning everything that does not have a predefined and well understood level of risk and is instead opaque with undisclosed or unforeseeable risks.

ly principals' interests were rather significantly damaged. In other words, for one more time finance was working for finance and not as an intermediary. Means became the goal. As usually happens with financialisation incidents, they developed under the veil of transparency and modernisation and in a proclaimed process of getting rid of regulatory structures that were allegedly costly since they prevented funds to exploit investment opportunities. Adding to this "autistic" gains of financial interests, there were parallel "autistic" gains for central government who was window-dressing its debt. Instead of transparency then, financialisation enhanced chronic domestic pathologies while its circuits were benefiting financially.

In order to explain how public investment funds with a conservative investment profile, started using sophisticated financial products, which effectively proved damaging for their finances, falsifying "the promised" results of deregulation, we will start with the regulatory context and proceed with the main aspects of the story as summed up in the examining committee of the Parliament.[269] This way we will see how an other channel opened up for global dynamics to enter local political economies. We need to mention though from the start that the investment in structured bonds followed a global turn towards this market which from 1999 started rising and from 2003 exploded reaching in 2010 roughly 1.8 trillion euros in issuance, with the global champion being Germany which started with 3 billion euros in 2000 and reached more than 340 billion euros in 2010 (Kiriakopoulos and Mavralexakis: 246). So financialisation of practises of these funds is not a local but rather a globalised phenomenon which reached even a peripheral country of Europe.

How regulation opened up a space

With the Law No 1611/1950[270] the reserves of Greek insurance funds were kept with the Central Bank (Bank of Greece). Thus management of these funds acquired in-

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[269] Most of the data here in this section are from this Parliamentary Examination Committee, unless otherwise stated. In this report there is a detailed list and description of the structured products, which if included in the text here would have cluttered the section instead of helping to understand more what happened.

[270] This is a special kind of law, called obligatory law (anagastikos nomos)

evitably a very conservative investment culture: they did not have any incentive to try to learn and look for other investment opportunities. The interest rate they were receiving though was far lower than inflation, resulting allegedly to a 58 billion euro loss between the period of 1951-1975 (Hellenic Parliament, 2007a). It is worth noting that this allegation was made in Parliament by the Communist Party, known for its anti capitalistic stance.

However, this conservative management started to change in 1992, when as part of the modernisation process of Greece's financial regulatory system, the Law No 2076/1992 passed under the government of the conservative party of New Democracy. It gave insurance funds the ability to place 20% of their reserves in the stock market. Then with the law 2672/1999, article 40 -passed under the socialistic government of PASOK- this percentage was raised to 23%. So fund managers started investing in Athens Stock Market (ASE) and as the stock market boomed in 1999 so did the exposure of funds' reserves, inevitably leading to a loss of allegedly 3,5 billion euros with the crash that followed. So modernisation and essentially financialisation came with a high price from the start.

Following the stock market crash, a ministerial decision of 2002 that established rules on investment behaviour of Insurance Funds (Ministerial Decision 2002), allowed them to freely buy Greek state bonds under two conditions: as long as they made decent management and as long as they were priced exclusively from electronic market of secondary titles (HDAT). These stipulations of the law were mandatory, and were not left to the discretion of management. Finally, in 2007, and after the burst of the scandal of structured bonds, law No 3586/2007 for the institutional context of investments of Public Insurance Funds[271] was legislated with the aim to form a more flexible framework of investment decisions and actions which would "enhance, actually, concepts like corporate governance, transparency in transactions, and full information of people insured as well as other competent bodies" (Hellenic Parliament, 2007b).

[271] This is a law concerning the institutional framework of Investments concerning the promotion of property of Social Insurance Funds

This law included restrictions on investments of structured products even if they were issued from Greek government. It also incorporated the ministerial decision cited above, as well as many provisions of previous laws, in an attempt to organise a safe framework for investment transactions of insurance funds. Most importantly though, it established a procedure of pricing of structured products especially over the counter ones, which did not involve the electronic market of secondary titles (HDAT), thus highlighting the shortfalls of the previous regulations. So regulation opened a space for financialisation to enter one of most the conservative and socially sensitive domains of domestic political economy, a space which it later tried to regulate. Once the space opened though, financialisation dynamics were swifter and more effective in their swiping results than post-liberation regulation which tried to contain them. And here is a case in point: the structured-bonds scandal.

How finance overflowed that open space

In breach of the above mentioned 1999 law and the 2002 ministerial decision, a series of illegal financial investments were transacted by 13 insurance funds during the period 2005-2007 and "in two waves", one in July 2005 and another the first semester of 2006. In particular, and according to the findings of a 2010 Parliamentary examination committee (Hellenic Parliament, 2010), in the three year period of 2005-2007 Greek State issued eight (8) structured bonds of total nominal value of 1.800 billion euro.[272] Custodians in these bonds were foreign and greek banks and financial companies–like BNP Paribas, Deutsche Bank, JP Morgan among among others. These bonds were then sold through banks and stock-market companies to the insurance funds. These transactions occurred in the very same day. Thus a bond originating from the Greek government ended up in the hands of its wider public sector -to which it was designed to end up from the start- after having passed through high finance intermediaries, all in the same day!

[272] In the period between 1999-2010 the Greek government issued 2.34 billion euros in 11 issues (Kiriakopoulos and Mavralexakis, 2011: 249), but here we refer only to those which "constituted the scandal"

By reading through the above report of the Parliament, one can easily conclude that from the Greek side the main reason behind these investments of the insurance funds was another attempt of successive governments (of both major political parties) to hide or present the public debt lower than it actually was. This happened in two ways. First because through new structured bonds the state could replace old debt with lower cost one -or at least so it seemed at first. Secondly and more obscurely, because the new debt would be essentially intergovernamental since as we already said insurance funds are part of the wider public sector. So any debt between the government and them is considered, according to accounting rules, intra-governmental, thus it is not in scripted and counted in public debt. What is counted in the budget is only the interest payments which are very small comparing to the total amount of the bond. A logical objection to this would be that the state could not know who was to buy the bonds, so it could not have counted on its intergovernmental nature. But as the parliamentary committee proved it was obvious that state officials knew. To put it plainly, the boards of the funds had decided to buy structured bonds of the Greek state with particular characteristics before the state issued them. Both sides knew who the end buyer will be. It just passed through the workings of global financial markets. Thus from one hand this is a typical example of financialisation of the state since it uses sophisticated financial tools in order to window dress its debt. From the other, it is a typical example of a recurring paradoxical pattern of financialisation: how technical and for this reason supposedly neutral sophistication is used in order to create illusions and moreover how it is used in order to window dress chronic pathologies, in this case chronic pathologies of the role of the state in domestic political economy.

If hiding the debt was the main reason from the Greek state to issue the bonds, one needs to wonder about the intentions of the two other counterparties to the deal: financial companies and the funds themselves. What were their reasons to enter these deals? For the former the answer is obvious: another profit opportunity. That is what financial companies do anyway. How about funds though? Which as we saw were conservative for all the post war period and even in 2005 their main investments were placed in Greek state bonds, the plain vanilla ones. How did they decide to change

their investment culture? How the new trend caught them up so suddenly and so massively? One possible answer could be political patronage, since their boards are appointed by the government. Another one could be financial illiteracy and shortsighteness. To look into this change in trend we will follow the most debated story in this scandal, a 280 million structured bond, bought by 4 insurance funds, whose custodian was JP Morgan. The story offers many empirical insights for analysis.

What has happened was that in November of 2006 Acropolis, a greek brokerage company, "knocked the door" -literally with a letter- of four insurance funds, offering a structured bond with a teaser yield of 6,25% for the first two years -when the plain vanilla Greek government ones offered a mere 4,5% at the time. The teaser was attractive so the funds agreed, but at the time, Acropolis did not actually have a product to offer; the structured bond proposed to the funds simply did not exist. So after getting funds' board approval Acropolis approached North Asset Management a London based hedge fund which then approached JP Morgan in order to act as a custodian to the deal. Both thought that this was an opportunity since the teaser rate offered in the first two years would be more than counterbalanced from the lower rates and the conditions after the two-year period and in any case they could hedge the bond deal with derivatives, thus gaining in every possible scenario. And so they did. They structured a bond worth of 280 million in nominal price of which 20 million was the negative value of the embedded derivative (Dunbar, 2014). Now the only thing remaining was the Greek State to agree to issue it! Actually JP Morgan issued a brochure in October 2006 that such a bond is going to be issued by the Greek state,[273] without officially having any agreement or expressed intention from the government.

So in order to get this agreement from the issuer, the Greek State, JP Morgan went to the Organisation of Management of Public Debt (ΟΔΔΗΧ, in greek) with the offer.

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[273] The Parliamentary committee reported that this brochure was issued in October 2006, which is before November 2006 when funds received the letter of offer from Acropolis. So the route from Acropolis to JP Morgan might have been taken from the opposite direction.But dates have been hazy even in the official reports. We propose to surpass them, since there is not a court procedure here, and keep the elements of the new finkncialised trend that was developing

However, the organisation refused on the grounds that the loan needs of the state have been covered for that year. Within 2 months JP Morgan approached the committee D-23 (Δ-23) of General Accounting Office which is competent –among other things- to issue bonds and in general borrow for military needs, and offered a borrowing contract (not a bond) of Schuldschein type. This type of agreement has two characteristics: it is confidential –in the sense it is not traded in any capital market, because it is considered a contract and not a title- and then it is not transferred unless the borrower –in this case the Greek state- is notified in advance and cosign the transfer. D-23 committee refused again on the same grounds and mentioned that they will discuss again JP Morgan's offer in the beginning of next year, 2007. Nevertheless JP Morgan did not give up: it tried again and asked this time not for a borrowing agreement of Schuldschein type, but for the issuance of notes of structured bonds which should carry though the characteristics of a Schuldeschein type of agreement, in other words they should exceptionally not be traded in the stock market, but should receive a confidential ISIN.[274] And a confidential ISIN is given only for trades concerning military needs. This offer was accepted from the Greek State and a deal was finally signed in 06.02.2007.

The paradox is that the Ministry of National Defence made a request for these military needs AFTER the structured bond was issued and already bought from insurance funds. So it seems that financial markets helped the state "realise" that it needed to borrow money for some "confidential" reason and thus one out of public scrutiny. However, the Parliamentary Committee which examined the scandal concluded that relations were far more intertwined than that: it was not just a case of villain capitalists taking advantage of innocent states. It seems that JP Morgan seemed had the confirmation of the executive, in other words of the government, for the deal that is why it insisted and that is why the hesitations of public administrative bodies such as the organisation of the management of public debt and the general accounting office were surpassed at the end. Furthermore, the very same day that the bonds were issued at 280 million, JP Morgan bought it at 260 million -extracting the value of the negative

[274] International Securities Identification Number

derivative of 20 million- and reselling it to the funds through North Asset Management at 280 million. “A free lunch on the expense of the funds”, Dunbar (2014) would conclude. And it was clearly so. Financial intermediaries gained from every possible route.

Summing up the above and the conclusions of the committee, one can first of all observe the obvious: the deals were illegal, since the law required that the investments, even when they concerned Greek state bonds had to be priced exclusively from the electronic market of secondary titles, which they were not (2010: 17) and also to be part of a decent management. As we saw, they were neither. In at least one case also the assets invested were around 27% of total, something which is again contrary to the limit of 23%. In any case, the structured bonds could not be priced in an everyday base, since their actual value is at maturity. This is contrary to law in two ways: first because the law requires investments to be priced according to electronic market of secondary titles and they cannot, since they are valued at maturity, and second, exactly because they cannot be priced in everyday basis or even at the start, the whole portfolio of the insurance funds cannot be calculated, so the 23% percentage that it the limit of law for financial investments beyond the state bonds, cannot really be accounted for (2010: 14). Conclusively, law for one opened up the space and created the conditions for these deals to occur, and at the same time, there was a breach of this very law.

The deals were also contrary to the investment practice of funds till then. In the preceding period, investments were characterised by a motto “small but sure”. Yet suddenly in 2005, 13 insurance funds decided to invest in more risky, complicated and definitely new for their practices financial investments (2010: 19, 40). In the case example we referred to, one fund chose to invest in a rather complex financial product, that even though it bore the name of bond, it was in fact a sophisticated financial tool, firstly because it was “structured” and then because it was coupled with derivatives’ contracts which in this particular case were only contracted by financial intermediaries, with funds not taking the other side of the derivative. Even if nothing else is

added to the picture, the mere fact that in at this very particular time frame, 13 insurance funds, suddenly and massively, decided to invest in sophisticated financial products, is by itself a sign of a 'non-decent' management strategy, which makes it both illegal and irrational, in other words both contrary to law and dominant economic thinking. Moreover, it is a clear -and sudden- indication of financialisation, even if one can argue that it was just financial illiteracy, to say the least, that led managers of the funds to a light-hearted change of conservative attitude.

Besides being contrary to law and funds' previous practise, the investments were also detrimental for the insurance funds even from the start, since they were overpriced: while the bonds were finally sold to the insurance funds without the accompanying swap deal, they were nevertheless priced at their nominal value, something which is contrary to the (global) market practice. The market practice globally is that the price of the derivative (swap) contract is deducted from the nominal value of the bond. In this case it was not, something that means that the intermediaries benefited from the price differential probably by exploiting the financial illiteracy of the management of the funds. In any case thought it means that the bonds were overpriced.

Kiriakopoulos and Mavralexakis though present a different story: they claim that the average overpricing of Greek structured bonds was milder than the overpricing occurring in international markets and their pricing was much closer to mode prices elsewhere (2011: 263, 266). They surpass the fact that intermediaries bought cheaper than the funds by saying that derivatives cannot be priced the same way by all participants due to different degrees of sophistication and system of reserves they have for hedging (ibid: 267). In any case they consider overpricing as part of the complicated character of a structured product and not a particular (ibid: 266), suspicious characteristic of the Greek insurance funds' structured bonds. Even though the mathematics are there, their argument is not convincing because in the case we are examining the transactions occurred the same day and as it has been proved in the committee the bonds had been designed for the particular investors, so there was no reason for differentiation of pricing. Moreover, Kiriakopoulos was one of the 10 accused for the

structured bonds scandal, thus his scientific credibility is questionable. Overall, one can safely argue that the deals were lucrative only for the intermediaries which were banks and financial companies, mainly foreign and important market makers.[275]

Finally, the political involvement in the deals have been assumed from a series of events. First, financial intermediaries, both local and international, were negotiating the structured bonds with the final investors, the funds long before the official approval of the issuance. This approval was denied initially by two administrative bodies in the case of the 280 million SB of JP Morgan, before finally agreed under a confidential ISIN for military needs, which needs were realised post-issuance of the SB. The government or at least some of its ministers should have known of the illegality of the deals, since the head of the insurance funds are appointed by the government, and their boards have decided on the investments months before financial companies and banks issued the bonds.[276] Secondly, institutionally assigned monitoring committees were conveniently not performing their legal duties. More particularly: (a) A committee from the government, especially assigned by the law to monitor these transactions of movable assets of the insurance funds was inactivated since 2004, due to governmental negligence and (b) Central Bank (BoG) and the Stock Market Committee who are institutionally obliged to check the deals of financial companies and banks did not take action on the deals which were obviously overpriced.

Conclusively, these investments have the characteristics of financialisation first of all because parts of the wider public sector which used to place the money they managed in conservative investments, started using the routes of high finance. This was even a demand from the Communist Party, a party not known for their capitalistic orientation, which alleged that the funds lost billions of euros by not investing in something other than Greek state bonds.

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[275] From the conclusions of the Parliamentary committee one can see that they also resulted in money laundering for some of the political intermediaries.

[276] For a detailed account of the political personnel involved in the scandal as well as alleged money exchanges for the political backing of the whole process see the November 2010 Parliamentary Report

Secondly, financial intermediation was not used as a means to an end: neither the State had real or productive needs to cover -rather it seems that artificial needs were being “constructed” along with the structured products- nor the insurance funds gained from their investments. The only persons, who gained, were the agents, either financial or political, and not the principals,[277] verifying the claim that the benefits incurred from financialisation are not concerning society at large. A lot can be said of who is using who in order to gain: financial agents exploiting domestic pathologies or domestic pathologies reproducing through supposedly modernising financial tools. But reality, as reality always is, is probably mixed: insurance funds’ managers were probably financially illiterate but this is not only a characteristic which makes them the pathetic part of the deal, since they too were obliged from their institutional role to learn what were the repercussions of the deals and practise the decent management that the law required. Furthermore the potential political patronage is another feature that blurs the picture of bad financial markets who exploit local good and innocent public sector funds.

Thirdly, investment funds were damaged from their financial investments both when they participated in the stock market boom and eventual collapse, as well as through the structured bonds they bought. The funds thus did not use structured products in order to differentiate and counterbalance their portfolio, something that would be both rational -as required by the economic theory- and decent -as required by law. If they did that, then we would indeed talk about modernisation of the sector and benefits of finance. On the contrary, structured products incurred damages in the funds because

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[277] We should note that because of the scandal JP Morgan offered to buy back the structured bonds from 4 insurance funds initially at its market value and then at its nominal one. The paradox was that the funds refused the offer if it was not accompanied by the teaser rate for the semester that they were holding the bond. In order to appease the situation the Greek state had to step in and subsidise the funds with 3 million euros an amount that covered part of the yield they were asking. So even though one might argue that in the end the bonds were not detrimental to funds’ finances per se, it was detrimental for the state.
Eventually all those accused for mishandling the issue with the bonds were not prosecuted by the court. Among other things the accused alleged that structured bonds were eventually beneficial for the insurance funds because they were under English law and excepted from post-crisis haircut of Greek bonds (Euro2day, 2013).

the products were overpriced and could not to be sold for profit in the market before maturity. Thus a large part of their assets became essentially illiquid through the use of supposedly liquid tools. We should mention that structured bonds are considered to have "unfair pricing" in general -not just in Greece. And behavioural finance is employed in order to explain the irrational preference of investors opting for structured bonds (Kiriakopoilos and Mavralexis: 237-240). In essence what this view is saying that the structured bonds was an irrational investment to begin with.

Finally, finance did not attribute more transparency or modernisation to the system. Instead, more obscurity, dressed in financial sophistication, enhancing already corrupt political practices. In a way, it helped the problem of corruption and of course public debt hide further away from public scrutiny, thus making it harder to solve. Sophistication hided even the fact that the deals were illegal. This new financialised investment trend served either artificial needs and/or unproductive activities which included benefits to global financial intermediaries, whose intermediation was more iconic than real, since the buyers were there before the bond was issued. It seems that financial markets were looking for yet another profitable investment and the local officials were more than willing to provide them the space for the realisation of this investment, without caring for the long term benefit of the citizens. Two "short sightenesses", a financial and a political, met and cooperated for mutual gains with society at large and public insurance and pension funds in particular being absent from the deal. The final question that encompasses all the problematique here might be, were financial intermediaries crucial to the deal and for whom? Couldn't the state ask the funds for the same exactly deal without the intermediation of capital market makers, financial companies and banks? Why should finance financed finance on the expense of public sector?

More broadly financialisation of insurance and pension funds showed how regulatory openings, new management techniques, new rationalities of a globalised trend combined with corruption both local and international allowed predatory financialisation to thrive. This paradoxical combination seems to be indeed one of the characteristics

of the entanglement of finance and domestic political economy. The law opens up a space, seemingly modernising and insignificant, and then the space is flooded with an amalgam of new management techniques, new rationalities and corruption. Then the insignificant and supposedly modernising regulatory opening effectively financialises the workings of a conservative and rather bureaucratic segment of the public sector without modernising it. Chronic pathologies of corruption and governmental interventionism seem to take advantage of the easiness that financialisation trends offers but they end up being taken advantage of, through predatory deals. They become agents of financialisation by spreading it in the public sector and at the same time their numb servants. Their own actions within their domestic political economy advance a structure of globalised dynamics in which they are eventually caught without an obvious way to divert the direction they themselves choose in their freedom to choose, and in the mode they are used to operate. Thus the power of finance proves to be not just a top-down, enforced process but a fusion of regulations, structures, discourses and practises, used by (global) financial and domestic actors to further enhance their interests. Lagna (2013) has reported as we saw similar indications of financialisation in the Italian context. Yet the difference of our approach is that we do not consider that local actors manipulated and/or related to institutions and discourses in this 'triadic' manner of agent-agent interaction mediated by complex institutional and discursive architectures that Lagna proposes (ibid: 60).

Lagna according to our opinion misinterprets the Foucaultian and ignores the post-foucaultian notion of power where the subject is the agent of power diffused in structures, actually the subject is one of the core reasons of this diffusion, and far more of its undetectable nature. Subsequently, the subject is not conceptualised as passive and at rare times as resistant to diffused power, but as its very agent. It is the life within the subject that would erode the structures for sure, but it is probably in rare times that it does so. But meanwhile structures do not give much space for Lagna's and pragmatists optimistic stance. Furthermore, what seems to be one of the core issues of financialisation debate is (and which is evident in this particular section) that financialisation builds upon or rather within the structures of a given political economy. Actors

seem to manipulate them, but effectively they are being manipulated by the new structural dynamics of financialisation that penetrate a political economy in a diffused way and as a matter of fact in a way “acceptable” by the domestic milieu. To take one step further there could be no intentionalities of manipulation from either side -as Lagna’s view probably implies. A combination of structural and post-structural perspectives on the power of finance avoids exactly this rather slippery -analytically- road. It advances the fact that a series of small and insignificant acts can assemble into an imperative ensemble of new social technologies. These structures are then the ones that conduct the conduct of men to use Foucault’s governmentality concept, even though the path that they do that resembles the local modalities and pathways of a domestic political economy.

9.2. Financialisation of Greek municipalities

The aim of this chapter is to focus on financialisation of municipalities. It is important to see if financialisation trends reached so deep into the institutional structure of the country, in local governments. Because Greece is not USA which has a long history of independent financing of its municipalities through capital markets. Greek municipalities have been depended and still do to a large extend from transfers from the governments and to a far lesser degree from locally imposed tax and/or other revenues. So for them to interact with financial sector and more so with foreign financial sector is indeed a transformation. Further municipalities are one of these parts of Greece's political economy where obscureness in available data -even to the government- and lack of any sort of rational management are considered to be the emblem of their backwardness. One that has been "accepted" by governments and political elites in view of political alliances. Only now with the Excessive Deficit Procedure (EDP)[278] and in general the Troika's requirements have municipalities been obliged to provide some data, but still if one goes through the reports on the methodological visits, it is obvious how still the structures of inertia are adamant.

Therefore, the examination of their potential financialisation would be interesting because we will see how the interactions of backwardness and sophistication evolved, how such a localised institution of a peripheral country -being then the periphery of a periphery- integrates into global financial circuits. It would be a telling example of the expansion of the power of finance deep into the "ganglia of societies" (Hardt and Negri, 2000: 24). Furthermore, it would be interesting because a discourse of independence and freedom of choices was employed in order to "convince" municipalities to accept the decentralisation dynamics that EU started imposing -following the global trend- and subsequently self-financing through debt. In other words, a similar discourse like the one used in the USA and the Anglo-saxon world for the privatisation of risks towards the individual: financialisation seems to step on regimes of truth that proclaim freedom into order to lure either individuals or institutions into debt.

[278] Indicatively one can see the 2010 Report on the ECP methodological visits in Greece (Eurostat, 2010)

To elaborate on the international context, we see that even though the last few years municipalities financialisation has been a developing issue internationally, availability of data is limited (and mostly referring to USA), its access a rather challenging task and the relevant literature meagre. Nevertheless, from the available data and literature, one can discern that financialisation of municipalities can occur through different channels. Firstly, though rising levels of debt, either traditionally through bank loans, or through the issuance of bonds. Secondly, through the use of financial products, such as derivatives. And/or thirdly through the use of ratings and international accounting standards. The last might seem insignificant, but it shows that municipalities in their attempt to acquire good ratings are conforming with the logics of finance. Even though in the case of Greece in general and municipalities in particular this might not be reprehensible since it can be considered a sort of "disciplinary device" towards modernisation, transparency and thus efficiency, nevertheless this conformation inevitably canalises political choices and priorities, as much as confinements that a debt burden might do. Because the rating agencies are interested in certain things and a certain way of depicting reality. Social and everyday issues are either trivial or "undetectable" for them, however they are crucial for citizens. And this is a tension for political authorities, or at least it should be in a normative level. Social issues might then be sidestepped in favour of paying debts or acquiring good ratings. In other words, reality that financialisation structures confines the political space and canalises mentalities towards certain priorities, intertwining local, subnational governments into their global network.

In Greece financialisation of municipalities occurred through two of the above channels: bank issued debt and the use of ratings from two municipalities, the City of Athens (capital) and the City of Amaroussion (which was the city that hosted the Olympic games of 2004). Municipalities debt came from bank loans issued mainly from domestic banks and to a lesser degree from foreign ones. Its distinctive feature is that it raised alarmingly in a very short period of time, as did other debt indicators in Greece. In this chapter then we will start with the municipalities that used ratings

placing their choice to do so in international and european context. Then we will proceed with the debt assumed by them, using the City of Athens as a case study due to lack of available data from other municipalities. For other municipalities reliable data are almost impossible to retrieve, and most of the ones used for the purpose of this chapter come from newspaper articles or internet news sites. Likewise here we will show the trend in context.

Ratings: local governments introduced to global markets

Probably the only municipalities and local governments that were actively using capital markets for their financing were the USA ones.[279] The issuance of municipal bonds to cover their needs, predated corporate bonds by centuries, since it dates back to the seventeenth century, even though the first official recorded bond is recorded in 1812 (Wesalo, 2001: 49). The urban development of the country and the building of railroads contributed to a rapid expansion of municipal bonds which continued ever since with two breaks, one around the depression of 1873 and the other around the Great Depression of 1930 (ibid).

Thus ratings on municipal bonds started early on too: the first was in 1909 from John Moody's (Moody's, 2002). In the last two decades though ratings of subnationals –in particular regional and local governments- spread outside USA and have since grown exponentially, showing that other municipalities and local governments too became interested to acquire funding though financial markets. Indicatively, Moodys, which is traditionally the rating agency with a wide range of subsovereign ratings, rated 56 subsovereigns in 1993, 95 in 1998, and 306 in 2008 (Gaillard, 2006: 194).

According to Gaillard (2006) the rise was due to six major factors: 1) decentralisation, 2) the development of market-based borrowing policies, 3) the willingness to improve credibility, 4) the search for better borrowing conditions, 5) the strengthening of regulatory frameworks and 6) the competition between agencies. Sinclair would probably

[279] Italian cities during the Renaissance were probably the first to borrow money from major merchant banking families (Wesalo, 2001: 49)

add a "supply side factor", the fact that both Moodys and S&P targeted to have their revenues come by 30% from entities outside the USA. Even though this is not focused on subsovereigns alone, it is an indication of the search of new revenue sources outside the USA, probably in the context of competition which is the last factor of Gaillard's list.

It should be stressed that decentralisation processes has been an EU mandate not so for the benefits of decentralisation per se as it was presented, but in the process of achieving more sound budgets from central governments. This could be viewed as part of the neoliberal policy orientation of EU (Sinclair, 2008), rather its alleged social one. Whatever the underlying reason though, decentralisation proceeded and subsequently transfers from central governments diminished. And while regulations in the context of EU enabled this pathway, a discourse on modernisation and autonomy legalised it in the eyes of constituency and local politicians. So from early 1990s municipalities in Europe were increasingly left alone and responsible for a series of service provisions and infrastructure projects in the name of decentralisation, in other words in the name of freedom and independence.

In due course in January 2006, Moody's, the leading agency in regional and local governments' rating, was rating a considerable number of subnational governments in Europe:[280] 9 municipalities in Germany, 2 in Austria, 17 in France, 3 in Belgium, 1 in Norway, 2 in Sweden, 1 in Denmark, 1 in Hungary, 2 in Bulgaria, 4 in Czech Republic, 1 in Poland, 1 in Croatia, 1 in Switzerland, 9 in Russia, 41 in Italy (of which 13 cities and the others regions and provinces), 13 in Spain, 4 in Portugal (of which 2 are the two autonomous regions of Azores and Madeira, and the other two Lisbon and Sintra). These numbers are in some cases counterintuitive since Germany's sub-na-

[280] It should be noted that despite the fact that all three main rating agencies have removed the sovereign ceiling from subnational and regional governments, meaning that they rate them independently from their sovereign, only 2 have been rated above their sovereign in Europe, both of which are in Italy: Lombardia and the City of Trento; so usually these ratings follow their sovereign (Liu Lili and Tan Kim Song, 2009, Subnational Credit Ratings, A Comparative Review, Policy Research Working Paper 5013: 22)

tionals for example which are long established issuers of bonds with sound and reliable finances (Moody's 2014b, 2014c) are far less than the outlier, Italy. This is probably because Italian municipalities not only issued bonds in order to substitute and thus restructure their old debt, but also made an extensive use of swaps to the point that in December 2007 619 municipalities had a negative market value from swap contracts of 686 million, and if one factors in local authorities too the number went up to 1 billion euros in March 2009 (Lagna, 2013: 186).

As a general comment it is worth noting two things on sub-sovereign ratings. First that their ratings followed the trend of the sovereign ones. There were only some exceptional cases when sub-sovereigns got a higher rating than their sovereign: for example in 2011 Fitch rated nine sub-sovereigns, one in Spain and eight in Italy more than their sovereign (Unicredit, 2011). Furthermore as Moody's reports, its ratings of long-term municipal ratings, do not measure "expected loss" (that is default probability times loss given default) but rather "the intrinsic ability and willingness of an entity to pay its debt service". Investment grade categories measure the "distance to distress -how likely an entity is to reach such a weakened financial condition that extraordinary support is needed in order to avert default" (Moody's, 2007b).

In Greece, only two local governments, and in particular two municipalities had ratings in Moodys. The City of Athens and The City of Amaroussion. The first, which is Greece's capital acquired rating in 2005, while the latter, acquired rating one year earlier in 2004, probably due to the Olympics Games of that year whose main stadiums were in the region of the City of Amaroussion. Yet, the City of Amaroussion was withdrawn from Moody's ratings in 16 December of 2008 "due to a lack of sufficient information" since the agency "has been unable to obtain any new information from the issuer" in the last two moths before the withdrawal (Moody's, 2008). The rating agency mentioned in its rating action analytics that prior downgrades of the city reflected "ongoing uncertainties of the plan to refinance existing direct obligations" as well of its ability to reach its budgetary recovery (ibid).

The City of Athens (CoA) on the other hand had usually favourable outlooks from Moody's due to its transparent finances, a comparatively moderate level of indebtedness, and its revenue flexibility, or those are the reasons that Moody's mentioned in its reports. Specifically its revenue flexibility was based on its growing source revenue - since almost 50% of its operating revenue came from locally set taxes such as street lighting and cleaning, its fast growing economy pre crisis and its above average wealth levels (Moody's 2005, 2006, 2007a). Its rating was downgraded mainly due to downgrades of the sovereign after the crisis erupted at the end of 2009, because as Moody's reported the City has strong financial and operational linkages to the sovereign (Moody's 2011c). In general even within the crisis, Moody's recognised that the CoA retained a stable debt-service capacity and liquidity position reflecting its "modest, albeit growing debt burden and conservative capital investments" (Moody's 2011b).

Only once in 2013 was the CoA downgraded due to its own performance, more particularly due to evidence of default, because it missed one payment amounting to 29,5 million. The City Council soon managed to refinance its loan, through a 10-year amortising loan of 31,2 million from a state-owned bank, the Fund of Deposits and Loans which covered its principal and its 1,7 million interest position. So the agency recognised that this was an isolated incident, in other words recognised that the CoA has in general made regular interest and principal payments on its loans (Moody's, 2014a). With the 2013 downgrade the City's rating aligned with Greek sovereign one which was lower, since for a while had higher ratings from its sovereign: the CoA had Caa3 and Greece, as a sovereign had C (Moodys, 2013a, 2013b). If we are to follow Gaillard's reasons, the CoA used the rating agencies for credibility and in order to improve its borrowing conditions, both domestically and abroad.

Debt: how decentralisation, a political process, resulted to financialisation

As with other municipalities in continental Europe municipalities in Greece relied on governmental subsidies and taxes collected by the government and then transferred to them. Governmental subsidies covered the biggest part of their revenues ranging from

55-60% from 1995-2009 (KEDKE, 2013: 16). As far as taxes were concerned, the most important is one on the property citizens' owned in the region named TAP (tax on real estate property). The tax is collected though the bills of the public electricity company, DEH and then transferred to municipalities. This means that using the executive power of central government, municipalities could get their revenue without directly showing that they were burdening the citizens, thus avoiding political cost. There are also some other small charges depending on the municipalities, concerning taxes on cleaning and lighting streets etc. Moreover, they received various transfers from EU programmes depending on the region they were. After 1990s though when liberalisation and deregulation started in Greece and when decentralisation became a mantra mainly of the socialistic governments of Pasok,[281] municipalities funding from central government diminished gradually and reaching at times a 60% decrease (KEDKE, 2013: 50). Inevitably then they "had to discover" another source of funding: debt, as did other subnational governments globally due to the same decentralisation and neoliberal policies.

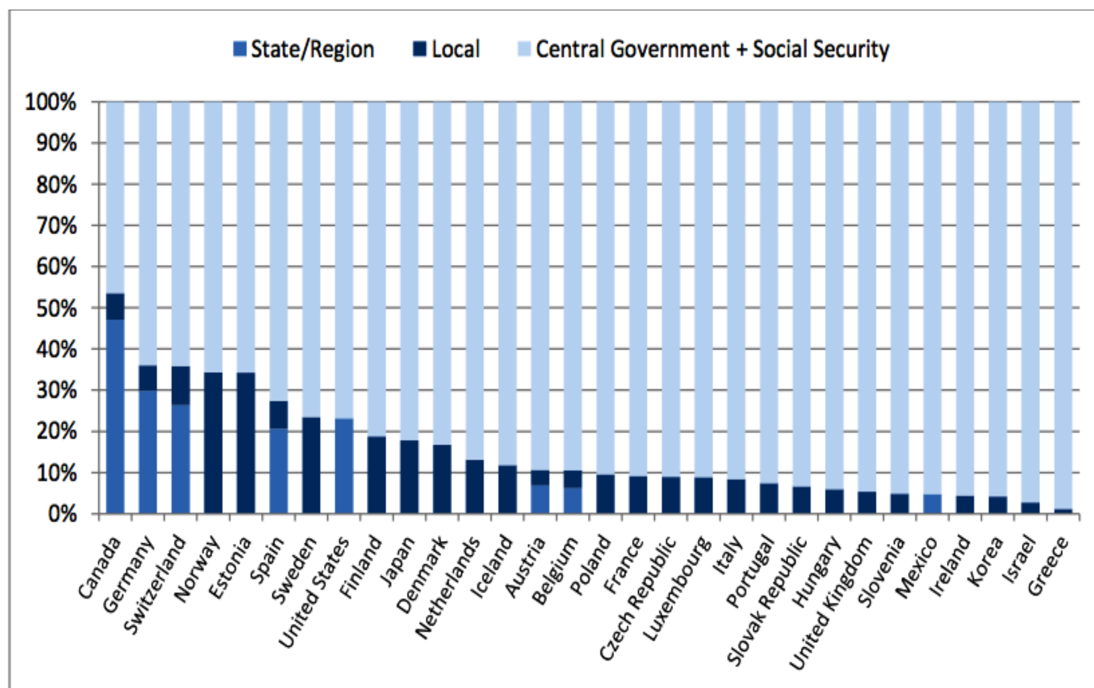
Compared with other countries Greek municipalities debt stock is definitely small. Chart 102 clearly shows that in 2010 Greece had a minimum regional debt in relation to its central government one. In the chart we see that it ranks last in a sample of OECD countries with a sub sovereigns' debt to total public debt of 1% while the average is 16% in 2010. In the context of EU Greece has at the lowest level in municipalities debt in relation to public debt -right above Malta which seems not to have any municipalities debt (MIA, 2011). Also as chart 103 illustrates the debt reached 50% of municipalities revenues in 2010, when the crisis started appearing in the country, being mediocre in comparative perspective too. The former indicator (municipalities debt / public debt) could be due to the extremely high central government debt levels by 2010. Moreover, both indicators could show such low levels of debt because Greek municipalities, despite decentralisation, still have limited responsibilities comparing to other OECD counties. For example they are responsible of only 20% of pub-

[281] It is indeed a paradox how a socialistic government who adopt such a neoliberal regime of truth!

lic investment[282] -lower than all other PIGS states- while OECD average is at 62% and they have no responsibility for education, which is totally centralised in contrast to countries such as Germany, Canada, Switzerland or United States who are at the other end of the spectrum and are responsible for 90% of public education, probably due to their federal state organisation. (Vammalle and Hulbert, 2013: 7-9). Consequently, the range of issues they have to take care of are limited comparatively to other countries, and so are their revenues, and this could be why they have assumed less debt comparatively. However, one has to appreciate the transformation exactly from the low starting point, viewing developments comparatively not only by international and/or european standards but also comparatively to what was the situation before the rise of debt.

[282] In the particular OECD report public investment is measured by gross fixed capital formation, which is a narrower definition, than what can be accounted for as investment, but it is a more reliable measure, because the borderline between what is and what is not public investment is more easily set (OECD: 8)

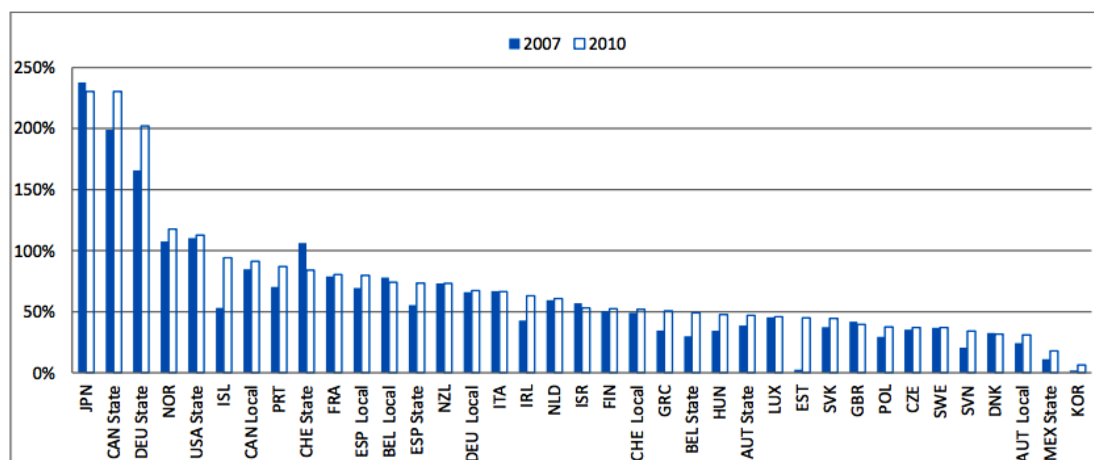
Chart (102) Composition of public debt by sector of government



Source: OECD National Accounts

Source, Vammale and Hulbert (2013)

Chart (103) Evolution of sub- sovereign debt as a share of revenues



Notes: Data for Australia, Israel and New Zealand are consolidated. Data for Australia, Austria, Czech Republic, Estonia, France, Germany, Ireland, Israel, Italy, Japan, Luxembourg, Mexico, Netherlands, Poland, Slovak Republic, Spain and the United States correspond to 2009 instead of 2010. For Switzerland data correspond to 2008 and for New Zealand to 2007.

Source: OECD National Accounts

Source, Vammale and Hulbert (2013)

Greek municipalities started borrowing heavily in the 2000s, and from 2003 a small portion of their debt was debt from abroad as seen in chart 104. Their domestic loans

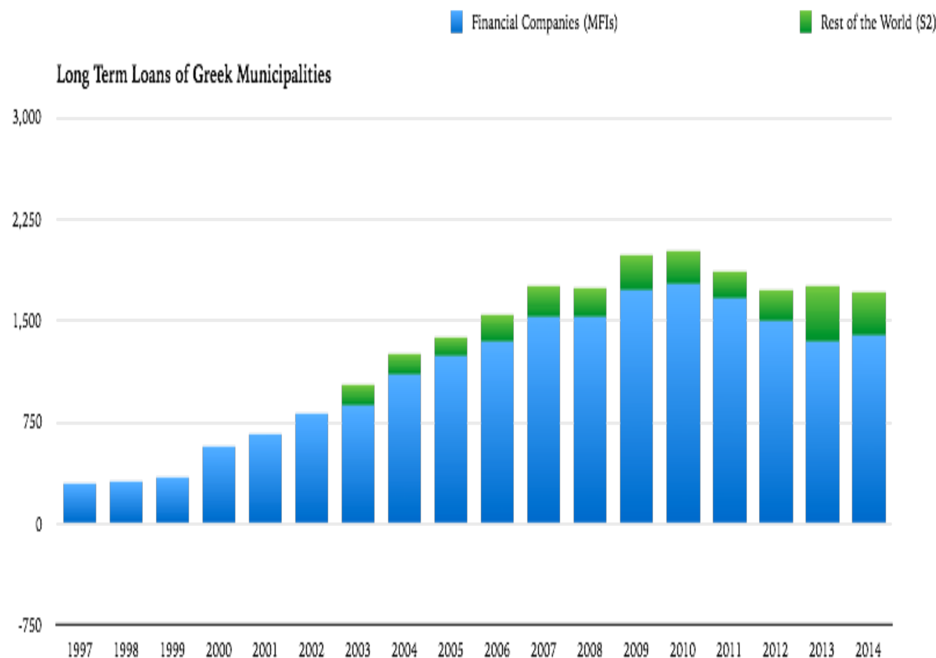
where exclusively from banks. As seen in chart 104 long term loans of Greek municipalities grew from almost 290 million euros in 1997, to almost 2000 million euros in 2010. According to the same table one can see that foreign debt in that period started rising in 2003 and in 2013 and 2014 it increased considerably in relation to domestic debt. To get a comparative perspective, one can see Portugal's municipalities debt, since it is a similar in size country, even though rather poorer pre-crisis. The trend seems analogous with that of Greece: debt rose about 5 times, since in 2010 the local government debt (municipalities) was 8.422,6 million euros (Paixao and Baleiras, 2013), and if one accounts the regional governments too,[283] the debt rises to 10.691 from 2676 million euros in 2000 (NBP).

But even though the development was not unique, it is still impressive how regional governments that are not supposed to be sophisticated in their finances or management, learned how to use the channel of debt for financing, which is essentially a sophisticated tool. In other words we encounter again the paradoxical coupling of sophistication of finance with backwardness and obscureness of local political economy: as if they are a matching pair. Furthermore, even more impressive (for the same paradoxical reason) is how local governments contracted loan agreements with foreign banks -even though this happened to a limited degree. The final impressive characteristic in municipalities rise of debt is the pace of change: as in the private sector, the size of the debt was small in comparative scale, but what was remarkable was that in less than a decade it has grown exponentially.

[283] In regional government debt the debt of the two autonomous regions of Madeira and Azores is added. Even though adding these regions in the equitation might not be fair, it still does not change the dynamics of debt, which is bigger in absolute numbers, but still raised in far more impressive pace in Greece rather than in Portugal. Portugal was chosen as a small southern European nation, and besides the two autonomous regions it has no federal structure, as is Greece.

Chart (104) Long term loans of Greek municipalities

(in million euros)



Source: Bank of Greece (Greek Municipalities Debt in million euros)

To get a flavour of the exuberance we will refer to three indicative examples that made headlines especially on Troika's pressures, since the non-payment of their instalments was to be considered a credit event for the sovereign, and thus the 5th instalment to the Greek state could not be paid. So even though as we have seen municipalities debt in relation to public debt ranks the lowest in EU and at low ranks in comparison with other OECD countries, still the debt of some municipalities could impact the debt arrangements of sovereign debt. A development that is due to financialisation of the economies and the interconnections that it has resulted to.

The first example are the loans of Municipality of Acharnon. The Municipality is among those that have the biggest territory under their administration, it is located at the North-West of the Greater Athens Area, and has a population ranging from lower class to upper middle ones. Yet it is not one of the supposedly privileged or sophisticated municipalities. In 2005 it contracted a 35 million loan with Goldman Sachs on

state guarantee.[284] In other words the Bank did not ask for a proprietary collateral -as is the usual case of bank loans- not another collateral from the Municipality itself, but it was the state that guaranteed the loan, thus making the deal a paradoxical entanglement of global financial markets, central and local governments with implications of corruption and political favouritism. Moreover instead of receiving the whole amount, the Municipality received 31,5 million from which another 1,5 million was subtracted for “commissions of third parties”. The 3,5 million never appeared in any books of the municipality’s, nor the books of Bank of Piraeus who is the Banks’s agent in Greece. When Goldman Sachs realised that the Municipality would not be able to make the payments, the loan was sold to Dexia Bank and Communal Credit Bank of Austria (Otypos tis Attikis, 2011). The Mayor who contracted the loan was charged that he used the money to pay 2000 employees when the Municipality only had 367 (Delvenioti and Kadda, 2011)! That is he was charged that he took the loan for the sole purpose of extending political favours and not for infrastructure or other “productive” purposes. It was easy for him to do something like that because he was not to pay instalments for the first two years, meaning that he contracted a loan that the next local government would start paying off! So finance was to become a convenient tool for local politicians, at least for a limited time frame.

Another example is the Municipality of Zografou, which received a 25 million euro loan from the Austrian Bank, Communal Credit International Bank LTD, through its Cyprus branch. Interestingly the Mayor did not ask permission from the Court of Audit (as he was obliged to do) and the bank (again) did not ask for any proprietary collateral. The biggest part of the loan -19, 400 million euros- was used to buy Villa Zofrafou from the family of Zografou. The Municipality did not pay the first instalment of the loan because accounting officers of the Municipality refused to deposit the amount due to the lack of approval from the Court of Audit. This vicious cycle went on with various court decisions, which essentially ruled that the loan agreement

[284] This is not the only loan that the Municipality of Aharnon for: between 2003-2006 the Municipality got an extra loan of 12,8 million euros from the Loan and Deposit Bureau, a total then of 47,8 million in just 3 years (Municipality of Aharnon, 2016; Aftodioikisi, 2011).

was not legal, and as a consequence, the Municipality refused to pay the Austrian Bank (Delvenioti and Kadda, 2011)!

A third example of the integration of local municipalities with global financial markets through their foreign banks loans -one that is not linked though to the 5th installment of the Greek state is the Municipality of Melissia. A northern suburb of rather middle and upper middle class residents, it took in 2006 a loan of 4.5 million euros from Kommunalkredit Bank in order to refinance their loans and with 1 million of them to buy a square (Plateia Poga), a sale though that never went through (Kapsalis, 2012).

All these examples show how un-sophisticated municipalities whose accounting practises leave a lot to be demanded interacted with sophisticated foreign banks or big international ones. A question then arises: on what grounds -in other words rationally appreciated economic fundamentals- did foreign and international banks borrow to local governments? They are supposed to be rational players favouring transparency, but municipalities finances is something obscure even for Greeks who are used in such schemes. They did not even get proprietary or other collateral for their loans. Moreover, it is known that Greek Municipalities have the least revenues in relation to GDP in Europe. Where did they think they will get their money from? It is fairly obvious, that they were counting on the implicit guarantee of the sovereign. Furthermore, these interlinkages do not only show the integration of the local to the international, but also the diffusion of finance. This time through obscure local structures which nevertheless reach the everyday citizen. Thus the web of relations and interconnections with finance as its source became more spread and intertwined.

Table (12) Municipalities total debt to revenues

Municipalitities debt (total) / revenues	Number of municipalities
Over 150%	24
Over 120%-150%	12
Over 100%-120%	22
Over 80-100%	45
Over 50%-80%	82
Till 50%	145
	325

Source: Ministry of Internal Affairs (MIA) - Census of 01.01.2011

The final result of these developments in the domestic level were almost 2 billion euros of total debt (1.891.098.604) and as seen in table 12, there were a number of over indebted municipalities, 24 of which had over 150% of their revenues in debt, 12 a debt over 120-150%, 22 a debt over 100-120% (MIA, 2011, census).[285] This was probably what urged the government to pass a law in 2010 with some strict stipulations under which municipalities were allowed to borrow from "recognised MFIs or financial companies of Greece and abroad". According to Law No 3852/2010, article 264 par. 1, municipalities can borrow only if: (a) the yearly debt service does not exceed 20% of their regular revenues and (b) the total debt of the municipality (long-term and short-term obligations) cannot exceed its total revenues. As it is usually the case with Greek laws, there were also two convenient exceptions to this rule, since the above stipulations do not apply: (a) when a municipality wants to refinance its debt, and (b) to any debt contracted till 31.12.2011. With these exceptions past sins were condoned. More importantly, for the financialisation debate, the law came to for-

[285] The most over indebted municipality (debt/revenues) was the island of Tilos, followed by municipality of Filis, an impoverished suburb of Athens, with third being City of Amaroussion (Keynote report of Ministry of Internal Affair). The list of indebted municipalities was given to the Parliament in June-July 2011 on a question from LAOS.

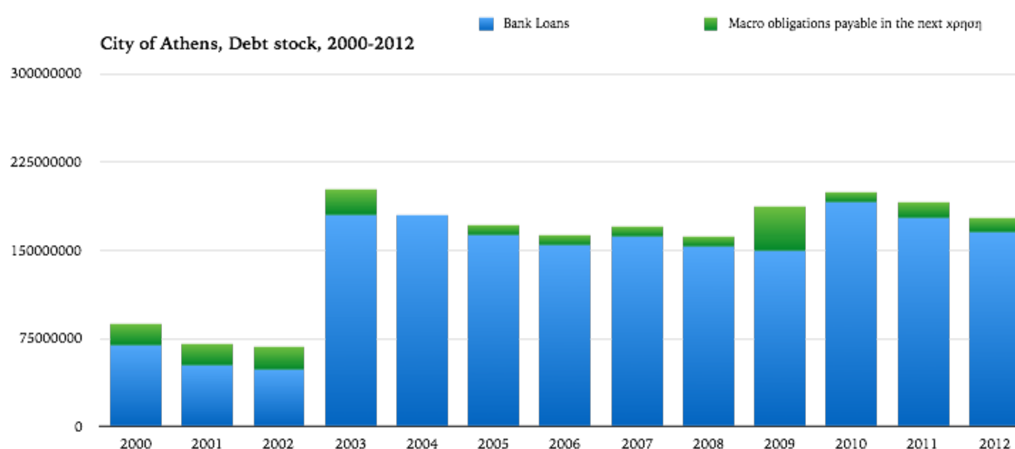
malise and thus normalise the entanglement of financial circuits and local governments.

City of Athens' Debt as an illustrative example

Yet it is only by focusing in detail on a case study, that we can capture the particular ways in which financialisation permeated in domestic political economy. That is why we choose to the City of Athens (CoA) as a case of reference so we can follow its transformation towards financialisation more closely. The reason we chose CoA is first of all because it is the only one having accessible data even though they refer only to post-2000 period. Lack of accessible data is the reason of obscureness of the sector in general. Then it is the capital, which according to Moody's accounts for almost 50% of national GDP and has a population of 745.000 (Moody, 2011a), out of 10.815.197 of total population and of 3.089.698 living in what has been called greater Athens area (HELSTAT, 2011). Even though this contribution to GDP is rather overestimated since according to a more recent study of the Cologne Institute for Economic Research (IW, 2016) it ranges at 20%, it still is significant quantitatively speaking. Also as a capital it could be a "pathfinder", an example to be followed by other smaller municipalities. We will be using Moody's ratings as a reference, because it is the only rating agency that has included Greek municipalities and CoA in its ratings.

Moody's reports that Athens debt consists of bank loans with an amortising schedule (Moody's, 2013b). Its debt stock at the end of 2012 was 182 million euro, equivalent to a moderate 41% of the city's operating revenue for the year (Moody's, 2013a), which declined, according to Moody's to 167 million euro in the end of 2013 equivalent to a 38% of operating revenue (Moody's, 2013b).

Chart (105) City of Athens debt stock



Source: City of Athens accounts[286]

The source of CoA 's debt were mainly bank loans from domestic banks and financial institutions such as Fund of Deposits and Loans, a state owned bank. If one looks at the available data -which start from 2000 (chart 105)- one can see that its debt sky-rocketed in 2003 climbing from almost 75 million euros to almost 200 million euros. Since then it was moderated at a level of more or less 180 million euro. In 2003, the period when Bakogianni -from the right wing party of Nea Democratia- was Mayor, the debt skyrocketed due to a loan taken from UBS Luxembourg which was later sold to Dexia (D. Fanakidis, personal communication 13.03.2015), and to a lesser degree to the 29 million loan it took from Agricultural bank. The reason that the loans were assumed was the Olympic games to be hosted the following year in 2004. Actually it is been reported that the loan from UBS was the reason why City of Athens requested ratings (ibid). Besides this foreign bank loan, only one or two loans from abroad were

[286] For the calculations of loans we took the following two amounts from the yearly accounts: Bank Loans and Macro obligations payable in the next year (χρηση), which according to Konstantinou, an accountant at the City of Athens (personal communication, 13.03.2015) are the amounts representing the debt stock of the City. The amount under the name residual macro obligations is not accounted for the calculation of debt obligations because it does not refer to loans but money owned for a purchase of property from National Bank of Greece in Votaniko are (ibid). We should note that going through the accounts we noticed that there was a difference in the 2002 accounts when it reported the amounts of previous year, with the amounts referred in the 2001 accounts. We preferred to enter in the chart the amounts as depicted in the 2002 because it was the latest, and we assumed it has reviewed towards something correct. Moreover, we should note that it is quite evident from the accounts that as years went by, accounting and thus probably finances became more orderly.

taken in the Evert period of 1986-1990 (ibid). All loan obligations of the City of Athens have been regularly serviced, except once with the instalment of the Agricultural bank loan, which we referred to above.

In essence what available data from City of Athens shows is that the City has sailed into financialisation period as a fine sailor. Despite regulatory and fiscal constraints - wage setting from central government and lack of ability to create its own revenues resources- it managed to present itself as a reliable borrower both domestically and to a certain extent abroad and gain credibility from rating agencies. Moreover, its debt levels comparing to its european peers remain moderate. Its financialisation coincided with the organisation of 2004 Olympic games, which created some imperative and extra-ordinary financial needs, so one cannot be sure if the City would have opted for increase in its debt levels, and more particularly its foreign debt levels, if it was not for that.

Conclusion

A general conclusion on municipalities would be that a european (and international) inspired political project, decentralisation, in conjunction with the liberalisation of capital flows, another political project, opened up the space for financialisation to reach deep into the institutional structure of a peripheral country of the EU. Politics opened a regulatory space and finance came to fill it up. The way financialisation of municipalities occurred was rather conservative as far as tools were concerned, since it happened mainly through the rise of debt, most of which came from domestic banks. Foreign debt started rising from 2003 but in the aggregate and in comparative european and international perspective the amount was rather small. However, it was considerable comparatively prior domestic practises. Dexia Bank and Austrian Kommunalkredit Bank seem to have contracted a considerable amount of loans with Greek municipalities, which calls for further research once data can be retrieved. Especially noteworthy is that Dexia in at least two cases has bought loans already contracted from other banks: in the case of Athens it bought an almost 200 million loan from UBS Luxembourg, and in the case of Municipality of Acharnon it bought a 35 million

loan from Goldman Sachs. This could be because Dexia had a specialisation in municipal lending in France and Belgium were it originated from, but this does not explain why it chose Greek municipalities which could be said to have a questionable financial reliability. What one can say with the data available so far is that municipal lending from foreign banks which was non-existence till 2003 (except the loans during the Evert period in Athens), started to become a market to the point of having loans resold between international banks: it was a way from finance to permeate almost everything in Greece. It is really an impressive development for the backward, non-sophisticated and peripheral municipality sector of a peripheral country of EU. And it is financialisation that allowed the space, the structures and the mentalities for it to happen. Finally, another clear sign of financialisation and this interconnection of paradoxical entities it results to, is that Dexia was the first european bank to be partly nationalised due to its financial difficulties a major contribution to which was its exposure to Greece. Finance seems to be the web of connections of diverse and formerly incompatible institutional entities.

Besides debt, other more "sophisticated" tools were hardly used from Greek Municipalities. They did not use bonds. Only lately, one municipality, the City of Thessaloniki is considering issuing of municipal bonds and is cooperating with World Bank and NBG for that purpose (Aftodioikisi, 2016). Municipalities did not use derivatives neither, as Italian ones. The reason for that is probably that municipal debt is a phenomenon which started lately in Greece, and before it got momentum it was caught up by the crisis. Furthermore, swaps were not a common practise of domestic banks which were the main borrowers. Ratings from agencies were mainly used from the capital, City of Athens. The only other municipality that it did, City of Amaroussion, which was hosting the 2004 Olympic games, could not keep up with the agency standards. So overall, the most impressive feature of financialisation that we derive from a quantitative appreciation of data is again the pace of change. Municipalities seems to have been "rushing" to borrow after 2003. Indicators that were negligible in late 1990s, started increasing at a pace which from 2003 till 2009 rose exponentially, it stabilised in 2010 and slightly decreased since then. A similar boom route was ob-

served in the household sector, albeit there the scale of change was larger in comparative perspective.

Taking the analysis some steps further though, one can also observe even more interesting developments. The financialisation of Greek municipalities highlighted the presence of foreign banks in a rather obscure segment of the wider public sector where data are hardly available and/or accessible. And while the Council of CoA sought to acquire ratings especially when seeking foreign loans in order to prove its transparent and discipline finances, smaller municipalities with less revenues and not so-disciplined and transparent finances managed also to contract loans, even with Goldman Sachs, under no collateral guarantee and with no considerable autonomous revenues. Of course it was a matter of scale: loans of CoA reached 200 million especially at the times of Olympic games, when the biggest foreign loan of other municipalities was the one of Municipality of Acharnon that reached 35 million. But no loan is given without a collateral. So obviously banks were having central government in mind as the "last-resort guarantor" of these loans. And they felt secure for that. Meaning that financialisation relied on local "structures" for its expansion: in a metaphorical sense it relied to "everyday" life of the public sector, since that what municipalities could be considered to be. To see this point from another perspective, one can observe that the same pattern as in central government debt: while governments, local or central, are supposed to comport themselves in financial circuits as rational entrepreneurs, and be treated as such, their liability remains unlimited in contrast to companies, and financial companies that are lending to them, actually they rely on that unlimited liability, in essence on the very state power that they oppose to. This is probably the reason why banks, domestic and foreign, "trusted" municipalities and borrowed them. While the neoliberal discourse, that banks fully adhere to, claims that governments should be treated like enterprises, this goes only so far as to "denounce" their social responsibilities till they settle their financial obligations. Their liability is not conformed though to their newly "financialised" status as enterprises. Another paradox indeed!

From the part of City Councils now, bank borrowing was a substitute for reduced state subsidies as a result of decentralisation, but they were also some times a product of local corrupted political culture which was interested more in granting political favours. Lagna would argue that local actors manipulated structures and dynamics for their strategic interests. But for us is more a case of two short-sightnesses that met: one from the financial side, and another from the political side, in order to result to adverse social outcomes and a temporary instead of a permanent economic and political gain. In this context, thought, the CoA seems to be an exception: its finances and debt obligations are the biggest in the country but it has managed to serve its debt and at times get a rating over its sovereign which is an exception to the general rule of rating agencies. Here ratings and debt might have been a way of modernisation, but nevertheless it has introduced the capital into the international web of finance.

Finally, financialisation of Greek municipalities shows how deep in the socio-political structures the diffusion of finance has gone. If it reached an un-sophisticated, backward functioning segment of a peripheral, allegedly backward country, then it is a telling example of its permeating power. Furthermore in the case of Greece we see that financialisation has entangled local and central governments, european and international bodies such as the so called Troika members, local and international borrowers, rating agencies and international events like the Olympic games. It took a thread -or several- and intertwined them all into complex and overlapping relations and dynamics, where finance is the one who is pulling the threads. And regulation came to formalise and normalise this entanglement. Interesting indeed! Interesting because it managed to pull through such an accomplishment. Interesting because the power dynamics that finance dictated, changed the political priorities of elected bodies, without modernising or making their workings more transparent, as they are supposed to do. Interesting because it introduces a new element in the discussion of financialisation: the intricate relationship between global events such as Olympic games and financialisation.

So some questions arise. Has any other social or economic or other power managed such a dense amalgam? Not really, we would answer. At the end, has it been social beneficial? Reality does not indicate any social benefit. On the contrary, chronic pathologies remained intact, if not reinforced from the amalgam, and new ones were added, like vulnerability to international dynamics, which in essence is the realisation of a power at a distance. Finally, has this power of finance shaped new mentalities, or have local mentalities and interests manipulated financial channels to advance their interests as Lagna and Kanfo would assert? Or have financial companies taken advantage of the local pathologies to advance their short-term and predatory profits? We would assert the latter which implies a biopolitical power blueprint. It seems that here we have two 'short-terminisms' and self-serving dynamics which met in a mutual beneficial relationship in detriment to more lasting economic and socio-political gain for societies.

As a final remark to this section we should mention this: a pattern starts to appear. Even though quantity wise the indicators of financialisation in Greece seem to range on or below european average, even though the country and its agents did not use very sophisticated mechanisms of financialisation -with the exception of central government and its Goldman Sach's cooperation- or they did not use them extensively, financialisation nevertheless pervaded local political economy integrating it in various ways in its logics and dynamics. It is worth examining the fast-moving pace of this pervasion, but at this point we only want to highlight the fact, that small size probably does not matter so much as the engulfment to financial networks and the pace that this is realised. Because small size does not matter in a network. The network enables the power at a distance, and small size becomes crucial because of the interconnections.

9.3. State Owned Enterprises (SOE): the largely ignored financialisation of Greece's public sector.

Introduction

State Owned Enterprises (SOEs) debt is what is called the "secret debt" of the Greek state. After the Law 2414/1996 these enterprises are obliged to take the legal form of Societe Anonyme (SA). Even though most of these enterprises are legal entities separate from the state, it is the state who guarantees their loans. As a matter of fact in 31.12.2011 the guarantees of SOEs amounted to almost 20 billion euros an equivalent of 10,3 per cent of GDP (Court of Audit, 2011: 47).[287] Since the majority of SOEs are neither efficient nor profitable, the state usually ends up paying their debt, meaning that guaranteed debt of SOEs is added to state's debt. Even in 2013, after a series of privatisation and restructuring, the state still had to pay almost 2 billion euros (1.957.958.320,57 euros) for the forfeiture of financial obligations that it had guaranteed, the largest part of which (1.401,1 billion euros) concerned the train company OSE (Introductory Report of the Budget, 2013: 24, 32). State budget, and subsequent debt, were also burdened because every year the state subsidised them either directly from the budget, or through structural EU funds, or through depreciations or even some times debt-write offs. Part of this debt burden is shown in SFA indicators that we referred to in 8.2., however due to obscurity of accounting and various ways in which the budget is burdened SFA do not adequately depict reality. So financialisation pervaded the state through another channel, that of SOEs, a channel which was both hidden and nurtured under the pathologies of the sector, namely political patronage, corruption, inefficiency and lack of transparency.

[287] Besides the guarantees to SOEs, another 65 billion euros were guarantees to banks, amounting to a total of 85.043.178,00 euros equivalent to 40,78% of GDP (Court of Audit, Annual report 2011: 46). Just in 2011, 18 billion euros were given in the form of guarantees, something that equals 27,8% of GDP. Besides the scandalously high amount of guarantees in a time of crisis, it was also a bridge of law: Law 2322/1995 art. 1 par 3 …. that in a year's time state guarantees cannot surpass 3% of that year's ordinary budget, something that in 2011 was the amount of 1 billion euros (Court of Audit, 2011: 46-47)

In this section, we will focus on how SOEs have functioned as agents and channels of financialisation. On one hand we will be interested in the “contribution” of SOEs to state debt and thus to financialisation of the state, and on the other, to their own “financialisation”: their growing reliance to borrowing from banks and the entrance of some of them to the stock markets. We start with a brief overview on the economic profile and performance of SOEs and then proceed to the evolution of their debt, and its impacted on state budgets. Lastly we will take one of the biggest, and most profitable SOEs, The Public Electricity Company - Public Power Company (PPC), as a case in point and follow its budgets in the period between 1998-2013 when data is available.[288] This will help us see the “financialisation” of a SOE per se, and not only as a channel public sector financialisation. Moreover it will help us see if finance was a source of modernisation or if it led to financialisation of the electricity company. It should be noted though from the start that data on SOEs are not complete and sometimes non-accessible even from central government, due to poor bookkeeping.

Brief Overview

In Greece SOEs started appearing post WWII, mainly as utility enterprises and as enterprises meant to enhance the country’s growth, something that the private sector could not do -or so it was thought of (Rapanos, 2009: 29). In due course many other enterprises were nationalised in order to be saved from bankruptcy. Yet the effort most of the times did not succeed, and public funds that have been used for this purpose were essentially wasted (ibid).

Eventually there were so many SOEs that not even the government or anyone did not know their exact number. After the privatisations that started in the beginning of the 1990s and the subsequent attempt to rationalise the sector,[289] their number gradually became more clear. But still, even in 2008 reports on their number were controversial. For example OECD reported that in 2008, besides the privatisations, there were still

[288] Data on SOEs are hardly retrievable. This is the chronic problem of SOEs. Only lately have some of them made an effort to make their bookkeeping accounts more organised and accessible. DEH is one of the best examples. The data in this thesis was retrieved through its web site.

[289] For a list and chronology of the privatisation of SOEs, see Rapanos, 2009: 29-32.

74 SOEs at a value estimated around EUR 44 billion (OECD, 2010a : 7). The same year Rapanos reports that there were 47 SOEs, half of which were profitable and the other half had losses in the aggregate of around 1,6 billion euros (Rapanos, 2009). In 2009 the Ministry of Finance reports the number of SOEs at 52 (Ministry of Finance, 2010). Yet this includes only the SOEs that the Ministry is monitoring, meaning that it excludes 19 of them that entered the stock market and which according to Law 3429/2005 were excluded from the definition of SOEs and from the monitor of the Ministry even though they concern provision of essential facilities, such as electricity, water and telecommunications.[290] In 2011 the state includes in the introductory report of its budget a detailed list of the enterprises owned by the state either totally or by a percentage (Introductory Report of the budget: 151-153).

After the 1990s and under the pressure to abide with EU mandates in either competition law or state finances, there was a politically heated effort to privatise and/or modernise SOEs function. Important SOEs were privatised or entered the stock market like Olympic Airways, telecommunications' company (OTE), OPAP, a series of banks etc. Overall, during the period of 1992-2007, the State received an estimated amount of 23.075,61 million dollars from the privatisations (Rapanos, ibid: 32). The biggest and most profitable entered the stock market as we saw, even if the state remained either the majority or at least a significant shareholder.[291] Most of the remaining survived with state subsidies or bank loans which were though guaranteed by the state.

[290] In this section we use the term SOEs even for the ones that entered the stock market with the criterion of them being public utility or public infrastructure companies, According to Law 3429/2005 the definition of SOEs is not including the ones in the stock market.

[291] For a detailed account of state ownership in SOEs both in the ones in stock market, as the ones outside of it see Introductory Report of 2011 Budget 2011: 151-153. In summary, in non-stock market SOEs the state has almost 100% most of the time with the notable exceptions of the Spata Airport (55%), DEPA (GAS- 65%), lark (55%). In stock market ones, the state remained usually with a percentage that gave it control, see for example the Electricity Company where the state had the majority of 51% of shares.

Besides these efforts chronic problems remained, wages being one the most important one. In both categories -the one in the stock market and the ones that are not- wages remain high relative to the ones in the private and the public sector. This is accentuated if one considers that the number of employees in public owned enterprises was roughly double than the one in the general government sector from 1997 till 2006; and even in 2008, when the gap between these number was closing, there were still 629,8 thousand employees in public owned enterprises and 392,3 thousand in the general government sector, total 1.022 thousand public servants (Labostra).[292] Actually Greece is quite distinctive case in OECD countries in having so many more employees in SOEs than in public sector (OECD, 2011b, Labostra).

From a census that the Ministry of Finance (2010a) conducted in 2010, one can easily see that in some cases SOEs wages are scandalously high. The average gross wage in SOEs is 28.545 euros, but average gross wage in high wage SOEs reaches 99.745 euros in DEPA (Public Enterprise of Gas), and 71.953 euros in Greek Petroleum S.A. Furthermore, in 11 of them, the ones that have incurred the most losses, their average wage still in 2009 was almost double the one in the private sector and by 44,1% more than the one in the public sector (Ministry of Finance, 2010b). In 5 of these 11 companies their expenses on wages are more than their total revenues; and while the number of their employees was diminishing, their wages were increasing even by 8% (Introductory Report of the 2011 budget: 131-132; Ministry of Finance, 2010b). We are mentioning wages, because they are a big part of the expenses of these enterprises that usually end up to a deficit and subsequent to need of financial aid and debt. And let us not forget these numbers are in a year which precedes at least 10 years of reforms, so one can assume what happened before when finances were obscure and disorganised.

The fact of the matter is that SOEs own and/or manage important public service sectors, such as provision of water, electricity, transportation and education, and that is

[292] It should be noted that in a census conducted in 2010 and later supplemented in 2013, the Ministry of Internal Affairs found that the number of total public employees was around 700,0 thousand but this did not include the military personnel and employees in public owned enterprises.

one reason why the government has always been very accommodative with their finances. The other equally important reason was that they became the medium to extend political favours to electorate. Their separate legal entity and finances helped avoid public scrutiny and monitoring. Eventually, SOEs became a toxic mix of political patronage, overstaffing, low productivity, high wages -scandalously high at cases such as DEPA-, strong employee unions and a given-in-the-public-sector technological gap (Mylonas and Joumard,1999). This toxic mix led to the reproduction of a corrupt status quo, since there was no political will and no societal demand for it to change. So many citizens were working in them as civil servants -meaning permanent jobs- with high wages and pensions, and the politicians of course had no incentive to alter such a convenient locus of political favours. As a result the fact that they were usually not profitable enterprises, only led to a situation where the state "had" to step in and help.

SOEs: The secret debt of the State

In end of 1997, for example, state financial assistance to SOEs amounted to half of Greece's debt burden, and that from the period of 1984-1997 an equivalent of 30 per cent of GDP have been given as financial assistance in the form of capital transfers to SOEs (Mylonas and Joumard, 1999). Even though this was done mainly through EU structural funds, according to the report the opportunity cost that incurred in the economy as a whole -from the loss of such funds from the economy- is significant. Especially if one takes into account the structural orientation of such funds, meaning that they were supposed to create the structures in order to produce wealth for the economy. Moreover, the Government proceeded in the 1990s first to debt write-offs which cumulatively amounted to 7,5 per cent of GDP at the end of 1997 and then after 1996 to equity injections which supplemented financial assistance and "which added an estimated 4 per cent of GDP to the stock of government gross debt over 1996 to 1998" (ibid: 6).

The above are not the only ways that the state came to the rescue of SOEs. In the 1980s enterprises in financial difficulties were sustained, through capital injections of

state-controlled banks, in order to maintain jobs and their importance in the economy; the enterprises proved effectively bankrupt so eventually their debt burdened the state budget (ibid: 7). Additionally, a lot of important companies, such as Larko -a nickel producing company-, Softex, or Hellenic Shipyards, were controlled by state owned banks, and were heavily indebted. Moreover, their ineffectiveness deprived the state of tax and dividend revenue, even though a considerable number of them were functioning in monopolistic or oligopolitizstic markets. Further more SOEs had very large arrears first to banks, then to each other as well as to public pension funds; only arrears to banks amounted to an equivalent of 2% of GDP in 1997. We should note that if the debt is among SOEs or to pension funds or to the state it is considered intergovernmental and is not accounted for in the deficit and the debt. OECD estimated that in 1994 these arrears to the state or inter-enteprises accounted for 3 per cent of GDP.[293] Lastly an indirect cost that OECD highlights is the very large unfunded pension liabilities from very generous pension benefits to the employees, estimated at about 7 per cent of GDP in 1994.

After the 1990s, and in compliance with Law 1914/21990,[294] 2000/1991,[295] 3049/2002[296] a series of privatisations, restructuring, and an effort to downsize the number of employees started. Most of the privatisations concerned financial companies (such as banks and the Greek Stock Market), as well as telecommunications (Rapanos: 33). Nevertheless, despite this effort during the period of 1990-2000 though a total amount of 74,093 million euros (2.524,8 billion drachmas) was extracted from the budget in order to cover forfeitures of loans guaranteed by the state and loans guaranteed by the

[293] An example of inter-enterprise arrears could be unpaid water or electricity bills from public controlled companies, which might consume large quantities from these resources in agreed lower prices, which besides the favourable pricing are not being paid.

[294] Which permitted companies to enter the stock market as long as the state retains at least 51% of ownership in shares.

[295] This is the law known as “privatisation law” and has introduced the definition and thus the ways with which the SOEs could be privatised.

[296] Law for privatisation of SOEs

state during this period amounted to almost 1 billion euros (Introductory 2001 budget: 179).

Despite the restructuring in 2001 the outstanding amount of loans guaranteed by the State amounted to 6,833 billion euros or 5,2 per cent of GDP, rising from 5,955 billion euros in 2000, equivalent to 4,9% of GDP (BoG, 2002, annual: 231-232). Then, net borrowing in 2002 increased by 275,7% relative to 2001 from 136 to 511 million euros (BoG, 2002, annual: 231-232). Just two years later, in 2003, and besides a series of privatisations, and subsequent exclusion from SOEs of large companies such as Olympic Airways, the outstanding balance of government guaranteed loans has almost doubled and risen to 11,1 billion, an equivalent of 7,3% of GDP (BoG, 2003, annual: 220, 221). Three years later, in 2006, outstanding balance of state-guaranteed loans has risen even further to 17.300 million euros or 8,9 per cent of GDP (BoG, 2006, annual: 225).

This rise is even more paradoxical because that year, 19 large public enterprises were removed from SOEs' aggregates because in compliance to Law 3429/2005 companies listed in the Stock Market and their subsidiaries were not to be included in the definition of "public enterprises" since they were no longer to be monitored by the Ministry of Economy and Finance.[297] And while the total turnover from 2005 was about 1/10 of the respective amount of 2004 -essentially signalling a break between two periods when results would not be comparable- debt rose. Why? BoG explains that 89,1 per cent of SOEs deficit derived from public transport enterprises which were not listed and thus were not excluded from the calculations (BoG, 2006, annual, 223-225).

The guarantees continued to rise in the subsequent years and at the end of 2007 they amounted to 17.120 million euros, equivalent of 7,5 per cent of GDP and 7,1 per cent of pubic debt (Introductory report of budget of 2009: 133). Then, as we saw in the beginning of the section, they reached almost 20 billion euros two years later. In other words, state guaranteed loans alone more than tripled in less than a decade, despite

[297] Another 20 public enterprises have been added though for the first time in the calculation.

the modernisation, restructuring and exclusion of SOEs debt of the ones that were privatised and the ones entering the stock market. Their number decreased and their debt tripled!

Actually in 2009 the Ministry of Finance gives an illuminating report for just 11 out of 52 SOEs, the ones with the most damages. More specifically: (a) net borrowing reached 12 billion euros -of which more than 8 billion were of the Train Company- 8 times their revenues, (b) only the interest amounted to 574 million euros in 2009 equivalent to 38,2 per cent of their revenues, (c) to total amount of loans guaranteed by the state were in 2009 1,3 billion euros and (d) forfeitures beyond grants were 758 million euros which is more than 50% of their revenues (Ministry of Finance, 2010b; Introductory Report of the Budget 2011: 131-132).

But it was not only state guaranteed debt. It was also grants from the budget, from EU structural funds as well as depreciation allowances. From 1996 to 2011 subsidies from the budget amounted to a total of 7,5 billion euros and depreciation allowances to 11,4 billion, which in other words added another 20 billion burden in state finances. To have perspective net lending during that period reached 9,076 billion euros while gross borrowing during the same period reached 19,477 billion euros. As we see net borrowing rises while grants from the state in any form are diminishing.

Thus besides the privatisations and the modernisation of SOEs through restructuring of number of employees and wages, as well as the acquisition of ISAs in some cases, still the state guaranteed debt was rising -in time substituting a large part of state subsidies- and remained high as a percentage of both GDP and public debt. Actually even in 2014, S&Ps considered the biggest former SOE, Public Power Company (PPC), which has entered the stock market years before, as a government related entity where there is a “moderate” likelihood that the Greek government would provide timely and sufficient support. Consequently, SOEs burdened the state budget in different ways. The paradox was that their debt did not appear in national accounting as public debt, even though that it what it essentially was, since state always stepped in and repaid it

in case of default. Thus by burdening the state budget through various ways as we have seen so far, SOEs became the secret channel of state's financialisation. A channel not easily discerned since "state's help" did not appear as debt in national accounting.

This paradox was highlighted in 2009 and became an issue of heated political debate. After the election of George Papandreou's government in October 2009, the debt of 13 SOEs was included in General Government Debt from the Greek Statistical Office (ELSTAT), something that by itself increased public debt that year by 19.661 billion euros of the total increase of 24.991 billion euros that year (Introduction Report of 2011 budget: 161). A impressive rise indeed. Consequently, this inclusion led to accusations of political incentives that wanted to show a blink picture of Greece in already preoccupied and distressed international financial markets. ELSTAT defended the inclusion of 17 SOEs in government debt of years 2009 and 2010, on the grounds of ESA95, which dictates inclusion in the gross debt of general government, the flows (deficit being a flow) of companies of non-tradable production companies, which are the companies that for 3 consecutive years the relation between sales and cost is lower than 50% (ELSTAT, 2012).[298] The truth of the matter is that before 2009, SOEs were not included, even though the relation between sales and cost was lower than 50%. So the decision was indeed a break from past practises, but was definitely in accordance to ESA95 and in accordance to reality, since as we saw SOEs' debt burdened public finances in one way or another.

Conclusively, one could legitimately argue that debt of SOEs is indeed a secret debt of the state, and its non-inclusion in the general government one distorted its real state for decades. This accounting practise permitted politicians to burden SOEs with unnecessary or under qualified personnel earning high wages as a way of pampering their political clientele without seemingly burdening state finances. As a result the en-

[298] ELSTAT, 2012, Announcement - Comment of ELSTAT for the publication of Alpha Bank in relation to the debt and the deficit of general government

terprises functioned inefficiently, with low or even zero productivity augmenting at the same time their need for subsidies, their debt and eventually the state one.

Both enterprises and governments were thus making use of financial channels to "window-dress" a debt which essentially belonged to the state and which nurtured unproductive activities, at least to a considerable degree. Actually in the course of the years direct subsides from the budget or indirect ones from EU structural funds were substituted by bank loans, but bank loans guaranteed by the state. This practise contributed to financialisation of the state, since financial tools were increasingly used to reproduce a chronic pathology, instead of being used as a way to cure it. Furthermore financialisation of the state through SOEs occurred through another channel too: by holding shares to publicly traded companies the state became sensitive to market volatility (Argitis et al, 2011: 40-41). Argitis et al are also right to suggest that this volatility is not counterbalanced with liquidity of the assets traded, since infrastructure and essential facilities are inherently not liquid.

As far as SOEs themselves are concerned, their financialisation could be debatable, because on one hand, by making increased use of financial circuits either though stock market or bank loans they were being engulfed in the web of finance. This means that they are sensitive to its volatility, thus they are subject to a power at a distance, and that they contribute to the expansion of the web, thus an increase of its power, and of the intensity of this power. On the other hand though, in the case of SOEs, finance played the role as an intermediator, making their function more organised and transparent. Adding to that, one can say that SOEs themselves did not indeed become sensitive to market dynamics, thus they were not indeed financialised per se, because the state always was there as a "lender-of-last-resort", helping them survive whatever market dynamics. In other words, SOEs at the end did not depend to finance for their survival or expansion. Their survivor was dependent to the state, not the market. Even entering the stock market did not alter SOEs logics to the logics of finance. It did not alter their sense-making frameworks (Fastenrath et al 2016). Their managers were not thinking of ways to enhance "their products" to make them more

attractive to investors. They just had to modernise and become more transparent, otherwise they were not able to participate in the stock market trading. And they had to do that because the state could no longer provide the funds in order to sustain them. In other words, the facade changed but the underlining intellectual and cultural frameworks remained the same, rendering the implementation of any modernisation a challenging venture. To check this assumption and probably resolve this tension we will present PPC, the public power company, and the largest of SOEs which entered the stock market in 2001.

Public Power Corporation (Δημόσια Επιχείρηση Ηλεκτρισμού - ΔΕΗ), an illustrative example?

The Public Power Corporation (PPC),[299] is a vertically-intergraded public company, which till lately had the monopoly of electricity production and distribution. Following the Law 2773/1999[300] which incorporated EU directive No 96/92/EC liberalising the public utilities market, PPC became a societe anonyme under the name "DEH S.A." in 1 January 2001 (BOG, 2000). Even after the liberalisation of the sector though and the entrance of new providers, it still holds a privileged position in the market due to favourable regulatory provisions. It is also the largest employer in the country with 31.336 employees in 2010 (Ministry of Finance, 2010a) - the telephone company (OTE) that year ranked second with 19.849 employees- with a strong employees' union, which had a strong political blueprint. Besides that PPC has its own security fund for its employees, the generous benefits of which were usually passed on to the consumer (Borsch-Supan A and Tinios, 2001: 403-404) at least till mid 2000s when its "financialisation" started. A financialisation that meant it started raising capital from stock market, using financial tools such as corporate bonds and swaps, increasing leverage, using International Accounting Standards (IAS-90) and being rated from both S&P and Moodys.

[299] Unless stated otherwise, data in this section is gathered from yearly economic reports as well as balance sheets of DEH which are on the official site of the company.

[300] This Law is known as "the liberation law" and it was supplemented with Laws No. 3175/2003, 3426/2005 and 3587/2007

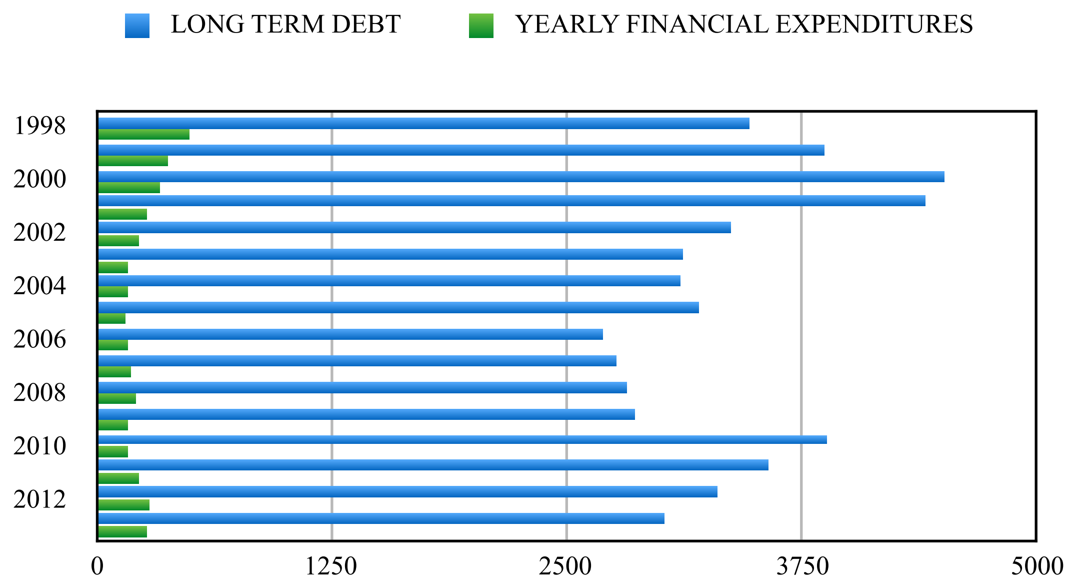
Actually one can safely argue that mechanisms of financialisation resulted to PPC being one of the few SOEs that synchronised its function and bookkeeping, especially after entering the stock market and being subsequently obliged to adhere with International Accounting Standards (IAS-90). For example, due to the adoption of IAS, it had to separate its social security fund for its employees, because otherwise pension obligations would be considered as a form of loan to the company from its labour force, thus increasing its costs and impairing its financial/stock-market profile (Borch-Supan and Tinios, 2001:404). So its "financialisation" meant that the generous health and mainly pension benefits of employees would not be financed by the consumer (or the investor), but it would be a sole responsibility of the company. Thus finance here helped towards elevation of injustices in relation to Greek society at large, even though employees and their union were strongly opposed to these developments. In other words it seemed indeed to be a force of modernisation.

Moreover, finance and PPC met also as partners in debt relations. PPC had to resort to debt because it faced a series of financial difficulties. It is a paradox indeed how such a company would find itself in such a predicament since prices of electricity are above OECD average and the company pays no depletion costs to the state for the extraction of lignite which is its main source of electricity generation, meaning that its operating costs are significantly subsidised. However, the reasons were various and relate mainly to do with the regulatory obligations that the company had, as well as the efficiency of the firm itself. First of all, it is obliged by law to provide large amounts of electricity at almost half price to the aluminium and nickel firms. The Aluminium firm of Mitilinaios alone consumed roughly one quarter of all industrial demand, before it created its gas electricity company. Secondly, it is again required by law to meet water and irrigation needs through its hydro-electric plants despite their proved inefficiency. Thirdly, it is was obliged to have uniform pricing in the totality of the territory, including for example islands whose provision is indeed costly. Lastly, the company has high labor costs, which arise from low productivity, poor strategic choices in the construction of generation plants and procurement procedures (eg lignite investments when the market is turning to more environmental friendly energy

sources) and poor skill mix (eg more employees in administrative positions) (Mylonas and Joumard, 1999:16-18). Adding to the regulatory obligations and mismanagement, PPC is providing electricity to both its workers and pensioners at reduced rate (PPC annual economic reports), meaning that the "achievements' of its strong workers union still linger on burdening company's finances.

Chart (106) Long term debt / yearly financial expenditures (1998-2013)

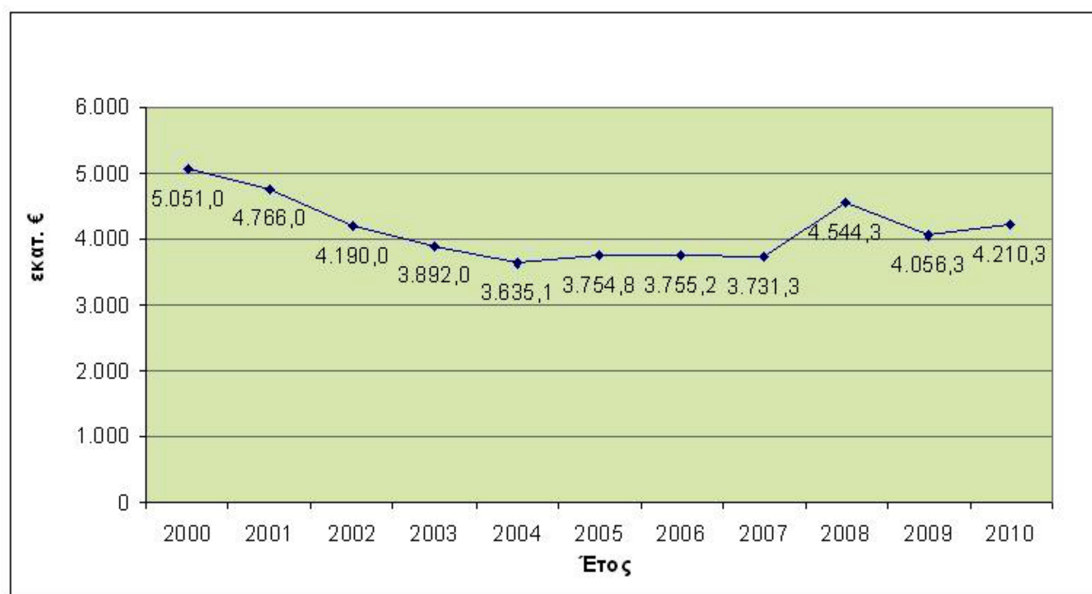
(net borrowing)



Source: PPC site.

Chart (107) Evolution of net borrowing (2000-2014)

(million euros)



Source: PPC site

Consequently, even though PPC was covering its operating costs, including interest payments equivalent to almost 15 per cent of operating revenues, its return on assets has been low (ibid: 18). As a result, investment was mostly financed through debt, and to a lesser extend from public or EU funds as other SOEs, resulting to high leverage. For example, in the end of 1997 it had a debt of 1,2 million equivalent to 3,1/2 per cent of GDP and 1 and 1/2 its revenue (Mylonas and Joumard, 1999: 18). As seen in chart 106 its long term debt really peaked up between 1998 and 2001. Then from 2001 is was decreasing as did its net borrowing (chart 107), both of which started rising from 2007 onwards. The decrease between 2001 and 2007 might have been due to the fact that PPC started using corporate bonds and financial tools such as swaps. In 2010 its debt hoovered around 4,5 billion euros, which amounts to 1/4 of the debt of SOEs.

PPC loan portfolio was rather conservative. It consisted of bank loans, loans from European Investment Bank,[301] bonds, and open bank overdrafts. These loans were predominately denominated in euros and only a negligible percentage denominate in swiss francs and an even more negligible in yen and US dollars (PPC, 2008: 56). What is really worth stressing is that many of these loans were taken with the guarantee of the state even after it entered the stock market. For example in 2011 PPC borrowed a total of 660 million euro from National Bank of Greece on state's guarantee (PPC, 2012: 99). It should be noted that some its loan agreements had a specific clause that the ownership of the state will at no case drop below 51 %, a percentage that was to fall to 34% after the Memorandum (ibid: 98). So, despite its financialisation, the company continued to operate with non-financial criteria, or at least that is how its yearly reports view this participation of the state in the shareholding portfolio.

The non-conservative financial character of the company was manifested in two cases. Firstly, PPC used, what it called in its yearly financial reports, "flexible financial instruments" to substitute for costly borrowing meaning mainly the use of interest rate derivatives (swaps) in order to hedge its position against changes in interest rates as part of its risk management strategy. That is probably why its yearly financial expenditures followed a decreasing trend -at least according to the yearly economic reports of the company- even thought the rise of its debt did not. Secondly, especially after 2003 and the Law 3156/2003, it started issuing corporate bonds -following a trend seen in private enterprises as we saw. Actually it made an extensive use of corporate bonds, some of which were with foreign banks. The total issuance of corporate loans between 2005-2012 were 9,7 billion euros, starting from 585 million in 2004 and peaking pre-crisis in 2010 at 1,7 billion euros. In March 2014, the company went even further with corporate loans and agreed on one of 2.228 million ending in 2019 with a consortium of Greek banks essentially refinancing the total of the existing loans of the company, excluding subsidiaries (PPC, 2013, annual report: 84). This was one of the two reasons that S&P upgraded its corporate credit ratings irrespective of the ratings

[301] The first loan of PPC from European Investment Bank was contracted in 2005. It amounted to 260 million euros, and was not guaranteed by the state (PPC Board of Directors, Annual report, 2005)

of the sovereign (S&P, 2014). In general though, as with other indicators in the Greek case, corporate loans of PPC had an exponential rise indeed in a rather short term.

So overall, PPC transformed itself in less than a decade, if not in just 2 or 3 years. From a highly syndicalised state company and a milieu of exchanging political favours with obscure finances and bookkeeping, its finances became more transparent due to the adoption of international accounting standards, its entrance in the stock market, its adoption of risk and portfolio management strategies and in general its financialisation. Moreover, at least two rating agencies were following its performance. The crisis caught up with its "modernisation" and this is probably what prevented it a more expansive use of financial tools and mechanisms. Nevertheless, and despite the fact that it retained the incumbencies of a state owned company, the most important of which were its state guaranteed loans, PPC's increasingly expanding entanglement with financial circuits contributes to the argument towards its financialisation. Either through its marketable debt which amassed or through its use of financial market tools, it became prone to this "power at a distance" that we have been talking about in this thesis.

Besides its own financialisation, PPC's debt was state guaranteed, explicitly or implicitly. The implicit part refers to the fact that state would not let the company go bankrupt on its loans, due to its vital importance to the country and its strong political ties to subsequent governments. If PPC would not be able to pay its loans, the state will most probably do it on PPC's behalf, thus rendering SOEs a channel of financialisation of the state. Actually in the case of financialisation of SOE's this is probably their most crucial aspect: that, besides PPC, they were not financialised as such, but rather contributed in enhancing the financialisation of the state. Conclusively, as seen in general in the public sector, the pathologies of the state or state related entities remained, while finance added more. Finance was not the transformative force towards transparency, or at least in the case of PPC, its transformative power did not counterbalance the pathologies of the wider public sector which lingered, thus resulting to an even more precarious economic situation.

Conclusions

CHAPTER 10: Conclusions

"Welcome to the flat world. Greece is the AIG of countries …
Small size does not matter in a world that is so interdependent"
(Ellis, 2010)

In this section we will summarise the findings of our case study and then, reflect back to our analytical framework. Our goal is to attempt an interpretation and explanation of the transformation that financialisation incurred and what it meant for the socio-political reality of the country. In other words we will try to understand how financialisation, a global dynamic, changed the workings of a peripheral economy in Europe, such as Greece.[302] Then we will try to see how these findings relate with financialisation in Anglo-Saxon countries on which the literature has been based upon. Can Greece inform the debate and in what way? Can it help our understanding on the ways that the phenomenon developed and on its final power dynamics as conceptualised in chapter 4? What are the structural, post-structural or other features of the genealogy of the power of finance in Greece? In the last part of the conclusions we will see how our findings relate and/or contribute to other academic debates beyond financialisation.

[302] This is obviously one of many perspectives with which one can see and compare financialisation in Greece. For example a formidable example of comparison and analysis could have been the development of the Asian crisis in 1997 which has been considered a crisis of financial globalisation and moreover with which one can find some structural institutional similarities that existed in these countries prior to the crisis, such as high savings, robust growth, a large inflow of foreign funds with low interests rates yet in the form of short term borrowing, a subsequent rise in stock and real estate prices which attracted even more foreign capital inflows, weak exports and corporate sectors, swallow domestic banking and financial systems, poor allocation of capital inflows in a macroeconomic local environment of presumed stability due to their fixed exchange rate regimes (Aghevi B., 1999; Moreno R., 1998). The pressure on the Thai baht spread financial panic in the region, resulting to withdrawing of funds, a sort of financial runs. Even though the pace of these countries "financialisation" was rapid - such as Greece's- these countries had only current account deficits and not fiscal ones as in Greece, plus they they had low inflation and low overall debt, even though their external debt was high (for a review see Wade, 2000 and Roumeliotis, 2016: 155-168).

10.1. Introduction

In the second part of the thesis, we followed the transformation in Greece's political economy for the last three decades, a period when the country interacted with the globalised dynamics of financialisation. The changes we reviewed were fundamental in terms of transformation of the workings and features of domestic political economy. Firstly, a series of empirical facts and data were presented which were viewed though in their social and historical context as well as in comparison with other political economies. Secondly, we referred to some case studies which allowed us to zoom in and observe the particular ways of the transformation. Both were analysed and interpreted in view of their impact in society and everyday life. Even the structural, institutional and ontological transformations that we highlighted were viewed through the same perspective.

This is because, numbers do not represent empty structures but a social reality that evolves. They eventually refer to the lives of individuals, of "everyday people". Behind the 1999 stock market boom for example was a fisherman in a Greek island who invested his life savings in the stock market whose existence they did not even know a year before. Behind the exponential rise of private debt, was a political economy which tried to modernise and keep up with the Joneses, its EU partners, as well as a civil servant who never expected their salary to decrease, and never really understood the risks they assumed when taking a loan (as did most of private sector workers or other citizens). Behind the rise of public debt there was a private sector employee, who barely ever made ends meet and could not understand why she has to pay so high taxes and endure such austerity "in order to repay state's debt" when she never took a loan, and never deceived either the state or anyone.

Therefore, what we essentially saw was a new social technology that emerged through the mechanisms of financialisation. This new social technology reached the citizen and everyday life through various channels like private and public debt, stock market participation, use of financial engineering to window dress deficits, just to mention but a few. Economy transformed and this was mirrored in society, where dominant

rationalities and practises were also transformed and new ones emerged. Speculation and debt spread all through the petit bourgeoisie to whom banks seemed to promise big and easy profits. A dream was sold to them, namely that they could gain through speculation and debt-fed investments without needing to work (Gidelier, 2013: 127). Actually it was not only banks that "promised". Political discourse prompted towards the same direction. And regulations structured a terrain that allowed the "delirium of the unlimited" (Lordon, 2014) to unleash itself. To phrase it in the terms of our analytical perspective (chapter 4), it is interesting how Greece became an excellent example of new financialised governmentally that made the population governable at a distance.

A key issue then is highlighted: is such a fundamental transformation in the economy able to explain something deeper, like a transformation in society, social subjects and subjectivities? Does economy have the capacity to transform societies and individuals? And how so? Moreover and connected to this line of thinking, is a globalised new reality, like finance, path dependent or path breaking? Does the power of finance eliminate local and individual particularities? Does it subject domestic actors to its logics and eventually to its power? Or are domestic actors using finance to window dress and reproduce local pathologies? Did anything actually change in societies and individuals with the permeation of globalised finance in domestic level? Have Greeks for example really transformed into neoliberal subjects? Even if its transformative power reached everyday life and the social fabric, has financialisation actually changed something else than the workings of the economy? Our discussion will, in the first part, refer to the Greek case and then, in the second part, we will try to theorise and see if the Greek case can contribute to the discussion of financialisation. Essentially in this second part we will refer to some of the writers whose work was presented in chapter 4, as well as occasionally extend our reference to new ones, since in the course of our research we were led from the paradoxes of our empirical findings to explore Greek mentalite in a deeper level and reflect on less apparent trends and dynamics.

10.2. The transformative power of finance in Greece

Banks

Banks dominated Greece's economy since the creation of the Greek state. Operating in a highly regulated environment, with barely any competition, the sector remained concentrated, and acquired the features of oligopoly, something though quite common in other bank based European political economies. High fees and close ties to political and business elites became its distinctive feature. Households were almost excluded from banks' portfolio, or they paid high interest rates and fees to be part of it. Government used banks for its borrowing, industrial policy and political favours and in exchange banks were enjoying an accommodative political stance for their business practises. Banking was relational not only in the sense of knowledge and closeness to the local market, but also in the sense of favouritism.

From the early 1990s banks have increasingly tried to find their pace in a liberalised financial market. Deregulation and liberalisation of the sector opened up a space full of possibilities. In a rather short period of time they expanded their activities both domestically and abroad. They provided new banking products to an increasingly larger part of the population. They expanded their business in Balkans and Turkey; in the former they even managed to acquire a significant part of the local market. Moreover, they modernised their functions, albeit not away from intermediation, but towards it, contrary to what financialisation literature would assume. They partially transformed themselves from a fee generating business to an interest-differential-profiting one, contrary again to what financialisation literature highlighted in Anglo-saxon countries. Banks before the liberalisation of the 1990s were earning the largest part of their profits from fees. However, as competition and financialisation marched into the economy, their fees diminished as well as the high interest rates they were charging. Eventually, the latter surpassed the former as a profit source for banks.

All through the period we have been researching, their balance sheet was well capitalised and did not acquire toxic products, either because crisis caught up with their "evolution" towards "originate and distribute" model or simply because they did not

need to. Their traditional funding sources, seemed to suffice. They retained a large savings' base consisting mainly of small and medium size depositors who are usually stable and conservative clients, something that allowed them the luxury not to be anxious of losing clients and profits towards capital markets. After all, they were the ones "managing" the participation of individual investors and NFCs in capital markets. Accordingly, they continued to profit from predatory fees, and higher than EZ averages interest rates. Moreover, they had considerable gains from the stock market boom, either through their shares -a large part of which they buying back using the money of their depositors or their gains from selling government paper in the secondary market, or though intermediation services that they provided to their clients.

From late 1990s and as a consequence of liberalisation, banks started targeting households too. Yet in contrast again to Anglo-Saxon countries, they did not do so in detriment to their business portfolio. On the contrary, business investments continued to be funded via banking loans or if enterprises opted for capital market financing, such as through corporate bonds, it was usually banks that intermediated and managed them. It should be noted that this occurred despite the fact that during the same period the stock market opened and many enterprises entered there in quest for finance. So overall orientation of banks towards households did not happen due to a falling enterprise borrowing. What households debt came to "substitute" in banks' portfolio was government borrowing, since some years after liberalisation of the sector, in late 1990s, the state started borrowing in capital markets and released banks from the obligatory holding of government bonds. Nevertheless though the orientation of banks towards households was indeed a transformation of retail banking covering a long awaiting need for household finance (which despite its sharp rise remained mediocre in comparison to EZ averages) and fuelling the rise of residential construction.

We will come bank to these points on household debt later, but for the time being, we can conclude that the transformation of banking, meant rather its modernisation from previous crony capitalism relationships. Or at least it accommodated more everyday people along with its crony relationships since financing through banking was "de-

mocratised" and became more transparent and competitive as the mainstream orthodox mantra would expect it to. Rather provocatively one can argue that disintermediation in market terms was rather a pre-financialisation era feature of Greek banking which was limited in the course of the 1990s and more so in the 2000s giving its way to a real intermediating character. Since then, banks rather than exchanging favours with the government or elites in general over who is to get a loan, depended more to standardised criteria for extending it. Relational banking continued, but in more transparent terms, or at least to more democratised ones. The feature that alienated banking from reality in Anglo-Saxon countries -standardisation and distancing from relational banking- became a way of modernisation in the Greek case, exactly according to neoliberal mantra.

However, despite appearances, some features of the past yet remained and some of them were even evident in aggregate numbers, namely the predatory character of fees and interest rates. Both were higher than the services rendered and despite their decrease after liberalisation they remained the highest by far in EZ, at least in the case of interest rates. Furthermore, besides the liberalisation and the entrance of new players, the market remained concentrated and thus more self serving than genuinely competitive.[303] A proof of that are the contractual clauses which asymmetrically favour the lender over the borrower. A second proof is the use of depositors' money -essentially of everyday life since the vast majority of deposits some from low and middle class- to buy out their shares in the stock market and thus inflate their prices along with the bonuses of their CEO. Effectively then, these rentier incomes were crowded out of potential productive and long-term investments which would benefit Greek society as a whole into non-productive and short-term financial ones, which benefited the insiders, actually a small fraction of them. So a more profound reading of numbers and the reality they depict revealed a variegated pathway of financialisation; one that stepped on everyday life in order to unfold.

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[303] A lot of new data is coming up with the audit controls in banks in the last couple of years. Yet these data are still confidential and can only be accessed through newspaper articles and potentially personal interviews -if anyone will be willing to publish the findings of these controls. So one should not exclude other processes to be revealed in the future.

Conclusively, at first glance it seems that financial sector modernised rather than financialised: banks did not experiment with toxic products and they started to depend more on market generating profits rather than government and regulatory favouritism. Profits increasingly were generated from interest-differential, savings were its main funding source and they did not diminish their financing to enterprises. So the core feature of financialisation of financial sector according to the literature, disintermediation, did not seem to occur in the Greek case at least in the way that it occurred in Anglo-saxonian countries (and we mentioned the variegated pathways above). But this lack of disintemediation has so far been viewed from banks' perspective. A more comprehensive analysis of disintermediation though requires that one looks to the "counterparty", the other side of financing, the borrower. Were banks really covering a real social need with their interest-differential profit making? Their funds were more real than financialised indeed, but were they really addressing a real need in intermediating or was it a need artificially constructed? If that is the case then disintermediation occurs from less obvious channels that requires a more sophisticated processing of empirical facts. So we will proceed by looking to these counterparties: households and businesses, checking their debt levels, the use of the debt they assumed as well as their general entanglement with financial markets.

Private Sector

The first place to look for a potential disintermediation of banks, but also financialisation of private sector per se is NFCs. In Anglo-Saxon world as we saw businesses started increasingly to be financed through capital markets and a share holder orientation of management came to replace the growth orientated one of the first post war decades. Investment in real, productive economy declined. In time many NFCs became small financial companies of their own right, since their financial gains exceeded at times their productive ones. Thus on one side disintermediation and on the other capital market finance, both financialisation trends, did not come to address real productive needs of enterprises, but mostly contribute to shareholder gains.

However, in the bank based system of Greece nothing of the sort was observed. Investment continued -even though it was diminishing along with savings- and NFCs continued to be financed through banking loans. Even though enterprises experimented with new financial products, such as corporate bonds, these were not in essence capital market funding, but another form of bank loans, since banks absorbed and managed those bonds. Some NFCs, especially construction companies, did in fact enter the stock market, starting with in the 1999-boom period. There they managed to rise considerable capital, which if seen in relation to the rise of construction investment -residential and other, then one can assume that capital raised went indeed to productive activities. Of course details and particular cases tell stories of speculative, thus non-production related gains, but this is something not easily discerned from arithmetics or any other reliable data, so one cannot easily appreciate if this is systemically or otherwise important for our analysis. Leaving this aside, there have been particular cases when financial markets were used not to rise capital, but to counterbalance loses, such as Mytilinaios did lately with the Aluminium company.[304] But these are isolated cases that do not show a financialisation trend in NFCs. Another feature points towards the same end: NFCs were moderately leveraged comparing to EZ ones. Even if one objects to such a claim by arguing that they were moderately leveraged because a lot of them entered the stock market, still comparatively to other European countries, which have more inclusive stock-market (as far as companies are concerned), Greek NFCs were leveraged less than EZ averages.

The other counterparty of banks' intermediation is households. And as we saw there was a strong reorientation of banks towards households, which is a sign of financialisation according to the literature, since this way they became increasingly entangled with financial markets. In fact, the rise of household finance, both for residential and consumer loans, skyrocketed in a short period of time, and this fast pace was unique in EZ countries. House loans and consumer ones raised from almost nothing -or better phrased from something statistically insignificant- to almost half of GDP in nearly 10 years. From a point where Greeks were particularly conservative to take up a loan or

[304] Mytilineos Holdings s.a. Annual Report 2005: 87-88, 51

use credit cards (the latter were not even an option for the largest part of the population before late 1990s), they reached a point where almost half of the population had some kind of loan, and if one factors into the calculation small business and professionals' loans then this percentage is much higher indeed (Blackrock report, 2012).

Society learned how to acquire a house on credit, how to get a loan to pass a holiday in exotic places, and how to buy products through its credit cards in less than a decade. What was an exception even at late 1990s, it was a rule by the beginning of the 2000s. A lawyer for example could advise a client who was selling a house in late 1990s not to prefer a buyer who was to take a loan for the purchase, because it would be insecure, and time consuming to reverse the ownership back to him in case something went wrong with the loan. Less than five years afterwards, no lawyer could even think to give such an advice since in the majority of sale contracts the buyer was acquiring a loan in order to get a house, regardless from his ability to buy this very house in cash. Loans were the rule in sale contracts and only immigrants were buying paying cash. The fierce competition for the new market segment, made loans so attractive that everybody was opting for a larger house, a bigger investment. The most knowledgable would say that money was cheap back then, without fully understanding what they were talking about. The less knowledgable ones would just follow the tide: if bank managers were pleading them to get a loan, if everybody was getting one, why should't they?[305]

Regulation was the first condition that allowed this spectacular change to occur. Firstly, through liberalisation of the banking sector, which did not require -among other things- banks to hold a considerable amount of government paper in their balance sheets, thus liberating significant assets to be invested. Secondly, through all kinds of tax exemptions for the repayments of loans, or for first time buyers. Thirdly, through the liberalisation and modernisation of the stock market, tax exemptions for stock

[305] Most info in this paragraph is based on personal professional experience, working as a lawyer and a notary those years.

market earnings and lax monitoring of the source of the funds invested. Regulation was paving the way of financialisation.

Besides regulation which opened a new space and incentivised all sides to enter the new financialisation terrain, there was the aggressive campaign of banks providing loans and credit cards to everybody. This aggressive campaign had no precedent in the country. Persistent telephone calls from banks saying that "you have been granted a credit card" sounded as if somebody was giving away free money. Why not buy something you do not actually need? Why not go to vacations in Majorca -after all Santorini is too close, too common a place to go to? Why not buy a car on your first job as a waiter? Money seemed to be pouring from everywhere. Actually, it looked as if money was pleading to be consumed by the regular folk. And us, everyday persons, did not understand much about finance. There was no "social experience" as far as finance was concerned. No culture to make the regular folk, realise that a loan is something that must be eventually returned, and nobody can ever promise that you will always have the same wage earnings as today or that the interest rates will remain as in the first year of the loan agreement, so better not calculate your instalment to be more than half of your current earnings.

Along with the rise of household debt, there was a rise of household financial investments, either through mutual funds or other new financial products (new at least for the domestic political economy), or through the stock market. As liberalisation and democratisation of finance proceeded, it was firstly mutual funds that rose, and their rise was the most pronounced in EZ. As their demand stabilised around late 1990s to early 2000s, it was the time for stock market investments to start rising. Individual investors in ASE had one of the highest rates in Europe, indicating that everyday life participated in the stock market boom leading to a market capitalisation that at its peak surpassed EZ averages, and engaged more than one quarter of the active population, most of which was eventually trapped in it, during its steep fall. Again here it was a financially ignorant population which was prompted to join financial circuits for easy gains from an aggressive advertisement and promotion spree from the part of

the banks and an encouraging public discourse coming even from the highest rank of politicians.

Can this change be explained only by the supply side? Can we only say that regulation, discourse and aggressive marketing by banks were to blame for this rather sudden social transformation in such a short period of time. All three need an "accomplice" in order to realise their pursuits. Maybe then a biopolitcal perspective with the relational type of power better explains why the new trend had caught up so easily in Greek society or at least illuminates the mechanisms that it did so. Greeks are Mediterraneans; they enjoy "dolce vita", even if they do not have money. One can imagine then, how a Mediterranean would react if money seemed to be so easily provided to them and a persistent discourse from politicians, media and banks' actively encouraged the acquisition of debt and credit cards. Optimism, short-sightness, an indulgence of everyday day pleasures, reactions that are intense and not moderate like the ones of north-europeans, lack of responsible economic planning, because "ehei o theos" (God will provide) -all cultural characteristics of Greek society- were coupled with an other cultural characteristic: the absence of commitment to financial obligations to someone so far away from one's family as a bank. A bank is not a relative to make a Greek feel a sense of moral obligation to return back something that was given to them. There is a legal obligation, but this legal obligation is not being internalised into the culture. After all Greeks were as Kostas Kostis so rightfully said the "enfants gates de l' histoire" (2013):[306] somebody always was spoiling them around with "gifts" which they were allowed not to return. Certainly not out of charity reasons of course, but for reasons that benefited more the giver and eventually stranded the receiver without him realising. Nonetheless, a culture has been structured that somebody always will help out in financial distress. Let us remember the history of the last, post war decades. As we saw money were pouring into Greece for reasons that did not derive from the productive capacity of the country and its residents: Marshal plan, funds from Greek immigrants abroad, EU funds. All these created a cultural

[306] This is the Greek title of the book of Kostis, yet the term has been attributed to Greeks from other writers who Kostis cites before his prologue (2013)

trait which entailed an expectation to be financially assisted without a need to pay back anything. Hence the easiness and thoughtlessness in the acquisition of loans and the extensive use of credit cards (which functioned essentially as short term loans).

With all that being said, let us sum up: a financially illiterate society, deprived from options in financing, had its regulation liberalised, making loans and credit cards easily accessible to the public at a period when: (i) EZ membership was on the way, (ii) the stock market boomed almost out of nowhere and (iii) banks were aggressively "granting" all kinds of loans and banking products such as credit cards through persistent campaigning and mediatised discourse. How would a "rational actor" of the mainstream orthodox theory react to that? What would they rationally do? An answer consistent to that theory would be that the rational thing to do, would be to take up a loan or invest in the booming stock market. Or get a loan, now that the money are cheap. Or use a credit cards, when even bank managers encouraged not paying monthly instalments. Therefore, neoliberal rationale found accommodative cultural traits and both started pointing towards financialisation. Trends changed and transformed the practices and orientations of banks and households (and to a lesser degree NFCs).

But to come to our starting point of intermediation and financialisation, we need to see if the provision of loans to households were actually covering a real societal need, or something else. If numbers "in the aggregate" were to give the answer, they would say that there was no need for a Greek to get a loan to buy a house because there was a 80% homeownership rate; one of the forerunners in Europe. Rationally and on the aggregate there was no real need to be covered. On the other hand, there was a strong construction boom in residential investments something that is by itself a productive activity, and which as we saw had a considerable value added in the economy. So on mortgage loans the signs of intermediation towards productive investments are mixed.

Then there were consumer loans and credit cards -which in the Greek case functioned like some kind of consumer loans. Consumption is by definition an artificial need, if it

is to exceed the everyday needs. And Greeks did exactly that as we saw. They borrowed through consumer loans to acquire either luxury or imported goods. Local goods and conservative living somehow seemed quaint for the 2000s. To see the same thing from another perspective, Greeks -on their vast majority- did not acquire debt, because of life misfortunes and as a form of safety net, or to be more exact as a form of substituting public provided social security, as was the case in Anglo-Saxon countries (Davies, Montgomerie, Wallin 2015, Soedenberg, 2014). For one, the state for all its deficiencies continued to provide health, pensions and education. Moreover, strong family ties spread another layer of social safety net. Debt in the Greek society was raised for consumption reasons, as well as for covering a lack 'when there was not any', to remember Deleuze and Guattari, something that happened in the case of consumer and partly in the case of mortgage debt. Even though the statement is too absolute, it still reveals to a great extent what has happened in the case of Greece.

Consequently, the provision of easy credit in any form unleashed "a delirium of the unlimited" (Lordon, 2014). This delirium seemed to fit so good with the local mentalite and at the same time to be a "rational reaction" expected from the rationale of the dominant economic theory. It fitted in the local mentality because it did not seem strange to practically nobody, since if it did, there would be some caution. And it was rational because all the incentives and promises for a modernised economic system were present. And this is a paradoxical amalgam of less sophisticated cultural traits with sophisticated theories on finance.

So one would wonder: does all this social transformation, which is essentially the result of a new social technology, transformed Greeks into neoliberal subjects? Can such a transformation occur in less than ten years? Paraphrasing Kavafis one can wonder, why did Greeks so readily responded to the "calls" of liberalised finance as if they were ready long ago to do so? The numbers, on one hand, say that nothing really major has occurred at least in the private sector: private debt just reached EZ averages around 2010, enterprises were not considerably leveraged and banks did not seem to lose their intermediation function, since they continued to finance investments and

enterprises. In other words, a neoliberal economist would argue that numbers reveal that in its private sector, Greek political economy just modernised; it just gave a new opportunity to a financially deprived population to expand its financing opportunities and acquire today what it would have acquired some time in the future, if it were not for finance. But why modernisation should pass through finance? This is exactly what financialisation did worldwide: it equated modernisation with the adoption of financial liberalisation and in general financial instruments. So even though numbers in the private sector do not reveal excess comparatively to other countries, they nevertheless reveal an almost "sudden" and substantial in size permeation of this domain of political economy by the logics and thus "imperatives" of finance. For this remarkable change to have occurred then in such a short period of time, it had to have "the cooperation" of Greeks, that found something appealing, or at least familiar, to these new logics. In other words, the fast pace of expansion, even if it were not to reach european averages, it can only be explained by a relational, biopolitical reading of the power of finance.

In this line of thinking one can also wonder if this process created a debt culture in the Greek population? To get a comparative perspective so as to answer this question, it should be noted that in societies, quite different from Greece's, like Sweden for example, there was also a "financial exuberance" and an engagement of everyday life with finance once liberalisation started in the 1980s and this was followed by the banking crisis of 1992. Should one assume that the same happened in Greece, only here the country did not have time for its own crisis, but was taken by the wave of the global one? To phrase it differently, should we talk about a transformation in the society when it can only be viewed as a temporary or short-term mania common to every liberalisation which eventually subsides -usually after a crisis- and the society remains more or less the same? That is the question we will try to answer, once we review the conclusions of the financialisation of public sector too.

Provisionally, and for the private sector, one can say that for almost half of the population debt became an integral part of their reality in the course of a decade. This is a

great transformation of its own right. The counterargument to that is that since this percentage remains within EZ averages, what this transformation indicates is not the financialisation of society but its modernisation: Greeks learned that there was another way to finance their investments and consumption, other than cash and family endowments, something that brought them in line with 'modern realities'. In any case, besides the stock market boom and eventual crash, no sign of living beyond one's means, no sign of exuberance can be found in the debt and in general in the financialisation of the private sector. At least not if things are viewed in the aggregate level. Banking sector, on the other hand, continued to intermediate. Actually, it intermediated more on market based criteria something that modernised it too. What has no counterargument though is the pace of change. Households learned to use debt in less that a decade. This is unique in EZ. And it has occurred in a financially illiterate public. Can the pace of change in the spread of private debt, trigger deeper transformations in societies? Can it create new culture trends and rationalities? Let us not forget that in this decade, there was the stock market boom and crash, that engulfed more than a quarter of the active population and the biggest percentage of individual investors in european level. So even though european averages in debt were barely reached, private sector was financialised comparatively to what was before regulation allowed finance to expand in domestic political economy.

Public debt: a hidden channel for the financialisation of society

From the above, it became fairly obvious that both private and banking sector started their financialisation trend timidly in the beginning of the 1990s and more intensively in the 2000s. In other words, it is quite a recent story whose development was caught up on the current crisis and therefore we were not allowed to see how it would evolve in and of itself. Public sector, on the other hand, had started its entanglement with high finance long before, as far back as Independence loans from UK banks in early 1820s which were essentially loan agreements between the epicentre of the then global finance and a sovereign-to-be. Greek politicians then had a long tradition of getting loans from abroad in order to "arrange" their local affairs.

But to focus in the financialisation period, Greek public debt, and in particular Greek foreign public debt started to rise at a strong pace after the election of Andreas Papandreou in 1981; a decade or probably two before the private sector. However, the ground was set from the post-dictatorship governments of Konstantinos Karamanlis who nationalised many companies, expanded the public sector and hired more public servants.

The socialistic government of Papandreou then encountered this extended public sector that needed serious funding to be sustained, and in turn claimed its share in clientistic politics; it actually went one step further and excelled in populism. Subsequently, debt raised from 28% of GDP to 69% in just 8 years. From that moment onwards the "delirium of the unlimited" (Lordon, 2014) proved the irresponsibility of successive Greek governments of all major parties. There was no provision on how to repay the loans they were getting. Somebody else, a government some time in the future, would have to do it. The ground was laid by a combination of regulation and global trends. Since 1994, regulation, conforming with EU directives, permitted governments to enter international capital markets as an entrepreneur seeking finance, while forbidding any sort of financing from central bank. Relations of state and central bank were financialised too and did so by law, since all financial obligations of the state to BoG were transformed into loans (p. 426). As a result, in those galloping days of global finance, a small peripheral state of EU could not but use -and in due course inevitably abuse-, the pathways that law and dominant discourse opened for it. Regardless its true motives, it had the appearance of a rational choice according to dominant economic theories and discourses: it responded to incentives that international political economy and the macroeconomic milieu were cultivating. Albeit this occurred at a considerable cost: from mid 1980s till entering the Eurozone in 2001, the amounts used to service the debt increased from 163,6 to 3.253,3 billion drachmas; an exorbitant rise in just 15 years, ranking Greece's debt the most expensive in EU the years preceding EZ (see p. 417-419 and table 9 and 10).

Looking for the reasons that contributed to such huge indebtedness, we examined the expenses of the public sector, and found that they were mainly public sector wages, military expenses, SOEs subsidies and guaranteed debt and of course interest payments. All of these did not foster productive investments, but unproductive activities. According to our findings, this non-productiveness was established in all the above domains.

Public sector wages were not only feeding an ineffective sector, but were also extravagant as a percentage of total expenditures at least in comparison with other European countries, and as a matter of fact with other similar countries. Military expenses were also documented as excessive both from an economic as well as from a geopolitical point of view, since in relation to the size of the country, as depicted from its GDP, Greece's military expenses were analogous with USA's, the world's hegemon and the biggest military industrial power in the globe, and moreover, expenses were disproportionate to the actual threat of Turkey. SOEs expenses were also an unproductive and a hidden channel of financialisation of the state and the wider public sector, because they were non-profitable, ineffective enterprises which served extensively as a locus of political favouritism, and their loans were guaranteed by the state, even in those cases in which they were supposed to be pure market players, as the ones who entered the stock market. PPC was a case in point. Lastly, interest payments which are by definition a non-productive expense, rose, as we mentioned above, from 163,6 billion drachmas in 1984, to 3.253,3 billion in 2000, and in relation to GDP were the highest in EU. After 2000s, financialisation found and other more sophisticated -and as far as accounting was concerned, interest-free- pathways to access local political economy. Swaps and OTC contractual deals with large investment banks outgrew mere loan deals in a frenzy that soon proved disastrous for the country, since it eventually rendered it an asset class to be traded and speculated upon in international markets. From a sovereign, then Greece followed the international tide and transformed into what resembled an enterprise seeking finance in international capital markets, and then into an asset class. A true conceptual break indeed, from what a sovereign is

defined to be in international political economy and in post-Westphalian political mentalities.

To turn back to the economic side of financialisation, debt was feeding a machine which did not provide back to society as it is supposed to be, neither in effective and productive services, nor in income from investments that would help service the debts assumed. Applying the words of Toporowski in public sector, credit was just debt for Greece. Inevitably, the "delirium of the unlimited" (Lordon, 2014) that is was unleashed and the mysterious ways in which finance managed to window dress immediate fiscal problems created an illusion that pathologies did not have to be fixed, but perpetually postponed to the future. Reality was smoked away either by sophisticated financial tools or simply by debt. Amidst this bezzle, the ones who gained more were financial intermediaries and as we saw more often than not global financial intermediaries. So Greece was no exception to the global trend after all. On the contrary, it joined the bezzle and excelled in it, in detriment to its long term profits and gains, in other words in detriment of its society; as did the most advanced nations globally.

Something analogous occurred in the wider public sector. Following the scandal of structured bonds we saw how conservative public insurance funds were lured into sophisticated financial channels, effectively losing a lot of money from their investments in Greek bonds. The investments in other words did not generate the favourable income streams they were supposed, but rather incurred loses for the funds. Financial intermediaries involved in the deals though (who were the ones who seemingly precipitated them), accrued considerable gains from fees. There we also saw a paradox which was both a manifestation and an enhancement of financialisation in the public sector: Greek central government borrowed from its wider pubic sector with the intermediation of global finance. An intermediation not really needed for anything else than profit making of financial intermediaries.

Likewise, in municipalities there were a series of scandals that established a pattern: local politicians learned that finance is their new tool to political favours and grabbed

the opportunities offered without considering the consequences. Short-sightedness of financial investments came to meet short sightedness of politicians denoting a biopolitical character of the power of finance. Financialisation of municipalities occurred mainly through debt which was extended from domestic banks and to a lesser degree from foreign ones. A second channel of financialisation of municipalities in the country was ratings, however till the beginning of the crisis, it was only City of Athens (CoA) and, for some years, the City of Amaroussion that used ratings. Greece was not a sole navigator in this sub-sovereign race of debt and/or ratings. European wide trends of decentralisation informed and based on neoliberal rationales, prompted states to withdraw financing of local governments, and deregulation -or lack of regulation- opened the pathways for local politicians to seek finance beyond the state and at times beyond their country of origin. Seeking finance this way then, required ratings: getting good ratings proved that you were legitimatised to ask for a loan. Yet even in this sector, the problem was not only, or at least not predominately, the presence of debt per se, but the fact that it was not used for productive investments and it occurred in a remarkably fast pace. What this essentially means is that it did not eventually provide the income streams for its future servicing, nor did it offer enhanced public services. Furthermore, its fast pace might have caused unmanageable dynamics in local governments with no experience in this type of dealing and financing.

Besides that, the mere increasing use of debt as a source of financing sub sovereigns needs -real or ones of political favouritism- meant that the net of finance was expanding and engulfing ever more entities of domestic political economy. Actually the case of Greece in this sector, showed how finance can connect central and local governments, as well as international events, as Olympic games. Through this expansion of its presence, finance was enhancing its power, and more particularly its power at a distance. Even City of Athens (CoA), the capital, who seemed to have exhibited a reasonable stance towards its finances, and properly serviced its debt, relied increasingly more to debt financing, and partly to foreign debt financing, thus participating in this global net of relations. Therefore, decentralisation, a political decision, opened the space for finance to enter one of the most obscure and unsophisticated -at least ac-

counting-wise- parts of the wider public sector and instead of modernising them, as it was supposed to do, it more often than not enhanced local pathologies. Moreover, it spread its net further down the structures of society.

Similar findings were also presented in the case of SOEs. However here there is an added feature: their debt is one of the hidden channels of financialisation of the state because the latter guarantees SOEs' debt, as well as subsidises them in various ways which eventually augment the budget.[307] Accounting rules in this case play a major role. For one, SOEs employees and their debt were not accounted in the respective indicators of central government, thus distorting the real magnitude of public sector wages and subsequently, the appreciation of the productive use of debt money. Even though SOEs finances are still rather obscure and hard to retrieve, it has become evident that they burden state's finances, even when they were supposed to become pure market players, as was the case of SOEs entering the stock market. Moreover, financialisation's permeation in SOEs, meant that the net of finance spread even to these unchartered waters, unchartered in the sense of lack of adequate financial reporting. And as any net in unchartered waters, it runs the risk of it being tangled, thus making it harder to break free from it and from the convulsions it transmits. Therefore, in less visible ways, domestic political economy was further entrenched into the web of finance.

Yet to be fair, financialisation had also a bright side in the case of sub-sovereign debt. There were cases where it helped make things more transparent. This was the case of CoA and SOEs entering the stock market or at least PPC which was the one that we have examined as a case in point. There, rating agencies and international accounting standards obliged CoA and technologically-lagging-behind enterprises to modernise and make their finances more transparent. This even gave the opportunity for the state itself to have a better view of how its SOEs were functioning, something it was unable to do before. But besides these two exemptions, the state and wider public sector

[307] Of course as we saw in the case examples of Municipality of Acharnon, Zografou and Melissia, there too international banks did not ask for collateral, relying thus on an implicit guarantee from the stat.

have not been modernised in their workings due to their “affiliation” with financial markets, as was the case probably in the private and the financial sector. In the case of the public and wider public sector one can see a pure case of financialisation: excessive borrowing feeding unproductive activities that favoured more financial intermediaries than society at large. Furthermore, and what is probably the contribution of the Greek case, it not only window-dressed but also stepped on and thus enhanced local pathologies. And in a way, local pathologies persisted even in the aforementioned case of CoA and SOEs entering the stock market: they persisted alongside their financialisation, meaning that despite some level of transparency and modernisation, the power of finance did not effectively prove as modernising as it was proclaimed to be.

Is it just the power of finance as an agential force moving globally the only culprit for this result? This would not explain neither the easiness in the “cooperation”of politicians, nor the incredibly fast pace of rise of household debt and in general the entanglement of everyday life with finance. This impressive adaptation of both is probably best explained not only through the structural, diffused and top-down power of finance (as analysed by Strange), but also through the biopolitical and bottom-up one. Because a biopolitical power is by definition a relational type of power, a bidirectional one, meaning that finance is not the only one exerting power. The “counterparty” is also a generator of the power that is imposed to them.

Politicians for example did not need to decide to borrow so excessively and recklessly. No law obliged them to do that. They could have used carefully planned borrowing in order to restructure the country and its functions and make it more productive. Exactly as mainstream neoliberal-inspired economic theory proclaimed. Instead they used the rather obscure ways like the ones which finance provided in order to window dress deficits, postponing immediate problems in order to serve their populistic and irresponsible political stance. Everyday life on the other hand caught up with debt and stock market investment in a pace which was unique comparatively to other European countries. And let us highlight that Greeks were a financially ignorant society.

So the “march” of finance in the local political economy ought to be stepping on “co-operative” domestic trends, that is why it caught up so easily and in such a short period of time. Moreover one could dare conclude from our findings that finance was not only stepping on “cooperative” domestic trends, but furthermore, intentionally or not, was stepping on the lack of familiarisation of local political and economic elites with the workings of finance; in other words it was stepping on ignorance, lack of knowledge. This argument brings to mind the assertions of agnotologists on purposeful cultivation of ignorance, albeit one can just suppose that such a development was not the result of carefully planned and/or intended strategy from anyone. It could be argued that is was rather one of these unintended consequences of an institutionally imposed ignorance that we referred to in chapter 4, and which is informed by the “upgraded” version of the dominant neoliberal thinking. An ignorance which derives both from the workings as well as the rationale of modern financial structures, in other words, both from the realities they created and the regimes of truth that they were based upon.

Overall, though, what is worth noticing is the way a society is financialised through its public sector. While financialisation of private or financial sector is decision of the principal, in financialisation of public sector it is some agents who are deciding on behalf of the principals. And these principals are not shareholders of a company with limited liability, nor informed players of financial markets. They are citizens assuming responsibility with unlimited liability on debts decided from politicians. And politicians usually are not prudent in their decisions and make hardly any provisions for the future, since in the future they would not govern. They could have taken advantage of the situation when Greece’s credibility almost equaled Germany’s and credit was cheap in order to make the public sector more efficient, or in order to promote activities that in the future would produce the income at first to repay the debt and later the income to boost the economy. In other words, in order to make productive investments that would create growth and jobs. But instead their short-sightness prevailed and used debt only for consumption and anti-production reasons, which at times nurtured corruption and money laundering. The short-sightness of Greek politi-

cians then joined the one of financial markets in a perfect match for their mutual advantage, but with severe repercussions for the society as a whole. For all its sophistication and proclaimed transparency then, finance enhanced rather than diminished phenomena of corruption or in general local pathologies, something that may reveal qualities of the phenomenon itself.

Furthermore, a deeper analysis would highlight another aspect of financialisation of societies through financialisation of the state: that of rendering a state into an enterprise seeking finance in global markets or even an asset class to be traded. In the former case citizens are considered something analogous of shareholders in an enterprise, but as we already said they have unlimited liability for their state obligations, something that does not apply to actual enterprises. Plus a sovereign cannot default and "reconstitute" itself under another name and continue "its business". So capitalism showed in this crisis that while it does not choose to withstand the bankruptcy of some of its enterprises (the big financial conglomerates, and/or banks), it can nevertheless tolerate the effective bankruptcy of sovereigns! Something unthinkable some decades ago both in terms of theory, as well as in terms of the social repercussions it results to.

In the latter case, a sovereign becomes effectively a res, a thing, because that is how something can become the object of a commercial transaction. When then a sovereign is being traded, speculated and gambled upon, it is the societies that are being traded, it is the very people in them that are rendered into a res. However extreme this may sound, what is indisputable is that, in both cases, there is an ontological and thus conceptual change of what a state really is. And because a state represents people, there could be an ontological change of what is a citizen, and even probably what means to be human in financialised times. Could it be that "capitalisation of almost everything" involves that of societies and individuals too? Could "Homo Financialis" be realised in the Greek case more though public debt, and less so through private one as was the case in Anglo-saxon context? The answer to these questions seems to be affirmative.

So, here is another contribution of the Greek case study in the analytical and theoretical debate on financialisation.

Conclusively, we would comment that the end result of financialisation of Greece was a "diathlasis"[308] of the economy through lingering pathologies, excessive public debt, substantial rise of private debt and use of financial tools at the level of everyday life, 'anti-productive' investments -in their actual sense and their Deleuzian and Guattarian one. This effectively anti-social "diathlasis" of the economy was coupled by an interconnection of domestic political economy with global high finance, either through the rise of debt, or limited use of structured finance from some public health and pension funds or the interlinking of some municipalities and SOEs with financial circuits.

Once an entity is engulfed in a web of relations, it is subject to a "power at a distance" (Rose and Miller, 1992), and contributes to the expansion and intensification of this power, because the network becomes almost omnipresent and its dynamics are felt in an expansive scope, thus escalating its intensity. Whoever sets the pace of this web, can have a power over all its parts. For example somebody in USA, in these big centres from where algorithmic trading originates from, can sit in their office and manage a small peripheral country somewhere far away through flashes in a computer screen. Financialised SDM was a mechanism that helped enhance this entanglement and thus finance's "power at a distance" and it did so under the illusion of a transformation of a state from a passive to an active player. It is the same illusion of freedom that neoliberal capitalism proclaimed for the individual, only to make the dominance of its power more entrenched, less visible and therefore harder to resist.

These developments shifted the locus of the power away from domestic political scene into closed doors of sophisticated financial centres. Something that happened in variegated ways in the whole of the so called advanced western world. In more technical terms, governance mechanisms of public debt relied more to financial markets

[308] I should thank Ioannis Tsatsaris, a greek philosopher and gnosiologist, who proposed that term to me in order to describe the current situation of Greece's economy.

and less in domestic political and bureaucratic choices (Fastenrath et al 2016). Moreover, power came not to be determined by formal institutional settings, either domestic or international, but from private companies such as rating agencies (whose role and judgement is not as objective and technical as it is proclaimed and/or supposed) or by big investment banks, whose goal -and rightfully so- is not the wellbeing of societies. All this global web, which can be envisaged as the power of finance, through all these diffused mechanisms and biopolitical effect, enhanced its "conatus" (Lordon, 2006; 2014): finance was strengthened enough to persevere even in the face of a most destructive economic crisis.

Lastly and most crucially we saw even in our case study that this new dominant power of finance was not imposed by force to anyone, yet everybody conformed to its "imperatives" and logics, as if obeying to a law. And did so in a rather fast pace. This means that the subjects ought to be obeying to something that came from within. What "conducted the conduct of men" then seemed to be their own willing subjection or cooperation with -essentially- discursive imperatives. This kind of Foucaultian governmentality managed to govern mentalities, through the rationalities it was based upon, or the ones it was enhancing or stepping upon. Subsequently, the subjects themselves became the agents of finance's power at a distance, enhancing its "conatus", and therefore rendering resistance and alternative thinking effectively impossible.

10.3. Financialisation seen through the Greek case and beyond

In this last section we will try to further highlight the features of this governmentality in Greece and the biopolitcal traits of the power of finance in domestic political economy, by further elaborating and interpreting our findings. In other words, we will integrate analytical insights from the first part of the thesis and in particular from chapter 4 with empirics of the second part. Thus, we will try to examine if the findings of the first part of the thesis, can explain the developments in Greece that we presented in the second part, and if in turn the study of Greece can inform and/or enrich the theoretical debate on financialisation. Moreover, we will see how the findings of this thesis and of financialisation debate more generally are linked to other academic discussions, concerning the conceptualisations of democracy, the state and fundamental institutions of western world.

Firstly, Greece proved how the interconnection that finance weaved globally, moved in mysterious ways that could not be easily grasped. Finance engulfed in its circuits an increasing number of domains and entities that were previously out of its scope and interconnected the dynamics of them all. The Greek case study then highlighted this strange co-existence of omnipresence and mystery that financialisation resulted to.

Moreover, it proved the paradoxical character of financialiation: spreading of risk that was supposed to make the system safer, was the very cause of a panic in the Greek case, and this panic was not based in a "too-big-to-fail" logic.[309] Greece was "too-small-to-fail" for the panic its fiscal troubles billowed across Europe and the world. If political leaders were to adhere to the "too-big -to-fail" doctrine then, the country could have been left to fail; since probably everybody would agree that whatever the help finally offered was not out of compassion for its citizens. The concern was rather of a systemic nature. To put it in other words, the country's total debt was rather small in comparative terms, so it be either left to fail, or its debt could have been repaid

[309] Strangely nobody could trust the "invisible hand" to take care of the situation, so economists along with politicians tried to acquire a systemic view in the global economy, and they did so in a state of emergency. But to learn how a system works in a state of emergency is practically impossible

from EZ partners, with less financial damage for the country and the Eurozone than the one caused from the delay and the "solutions" that were finally implemented. Even the proclaimed moral hazard cannot be a satisfactory explanation for the panic reactions of European politicians, since it seemed to concern just a sovereign, and not to apply to repeated bank rescues world wide. If moral hazard was to apply as an argument against a rescue, why hasn't it applied to private companies too?[310] It seems rather that Greece was systemically important, and it was systemically important both because of the structure of EZ, as well as the web that financialisation has knitted in Europe and worldwide. Systemic nature acquired the same economic blueprint as size, and it did so in an international political economy landscape which did not have the theoretical lens to have a systemic view.

We can then conclude that the interlinkage of the economies caused by financialisation meant that nobody could really calculate what a default of a small part of global web and/or EZ would cause. So by becoming the epicentre of the European crisis as if it was a financial giant, when it was only a financial ant, Greece provided one of the brightest examples of structural power of finance. Its financial troubles were not the ones of an isolated peripheral sovereign, they were part of a web of interconnections that financialisation has interwoven in mysterious, yet powerful ways. Mysterious in the sense that nobody could understand the diffused ways that the system was functioning. Hence the panic: since whatever is mysterious, causes fear. This is admittedly quite paradoxical a result for the transparency that finance proclaimed to bestow in political economies.

Another aspect of Strange's structural power of finance that the case of Greece highlighted was the power of credit creation. It showed that, when credit is provided to the sovereign in conventional and un-conventional ways through sophisticated financial tools, it eventually results to a control of the domestic political economy by un-defined financial actors abroad which were the ones who "created" this credit.

[310] There are various political aspects that could be highlighted in this context, albeit we will be focusing on the systemic ones, which are closer to the preoccupation of this thesis.

Moreover, Greece proved a par excellence case study of the power at a distance of Rose and Miller, which adds a post-structural element in the aforementioned Strange's structural power. It became evident with the breakout of the crisis in 2010, when Greece exemplified how financial centres, rating agencies, speculators and other personified or not agents of the power of finance could administer domestic realities through a web of sophisticated technical apparatus. But even before the crisis, the case of Greece proved that the biopolitical power of finance could administer local realities through the incitement of desire for things that were presented as "modern", "sophisticated", away from the backwardness of a sluggish economy, and more often than not as we saw, unnecessary.

One can observe something else: that Greece, being a small part of the biz puzzle of the world, reproduced the power of finance.[311] The relational character of post-structural perspective on the power of finance then applies to the country as a whole too: Greece as a country became an agent of the transformative power of finance. This perspective is different from the subordinate type of financialisation shaped by imperial relationships in world scale that Powell theorised for peripheral countries (2013: 144).[312] We do not see financialisation as one of the forms of modern imperialism, as Powell does (2013: 107). On the contrary, its power is more diffused, less hierarchical and far less a privilege of western advanced states, since they have not escaped the vigilance of the phenomenon either.[313] A more comprehensive perspective is probably

[311] We try to phrase a metaphor seeing the world as a society and Greece as an "individual" part of it. Greece as a country then was being part of the democratisation of finance in world scale.

[312] Powell, (2013) following the work of Lapavitsas and in general a marxist class perspective, formulated a middle-range theory of subordinate financialisation, using Mexico as a case study. Furthermore, concluded that financialisation is a "diversity within convergence" process in world scale, thus arguing against the divergence, path-dependent stance of VoC and in general comparative economy literature (107).

[313] Of course one can argue that the beneficiaries are to be found not to particular states which exert an imperial power but to this elite transnational elite class, as theorised by marxist scholars. But this view sees the world in confined ways which frame the phenomenon in just a class conflict, something which is only a small part of the phenomenon according to our view.

more relational and biopolitical in nature. Because Greece followed the tide; it incorporated and was incorporated in the dynamics of global finance by freeing capital flows, modernising its banking and financial sector, democratising credit by including households and by seeking finance to global financial markets as if the sovereign was an enterprise. Nobody obliged it to do that: no law, no visible power dynamics. The path was opened through deregulation of the 1990s which was done under EU imperatives, coupled with political and media rhetoric about modernisation of the economy as well as fierce competitive marketing strategies by banks. These "supply side" conditions appeared in a favourable global macroeconomic environment of what has been called "The Great Moderation" as well as in a favourable european one of decreasing interest rates and the introduction of the euro. So regulation just opened a space, and contextual dynamics that developed, found a surprisingly willing public domestically (be it the general public and/or politicians), it found the plural subjects that Angueli talked about (2015: 19-20), willing to take on debt and financial investments and thus spread and cement the power of finance in a lightening pace.

Why were Greeks so "willing"? It could be attributed to different reasons, some of which we mentioned in passing above. A Mediterranean society used to getting financial help from abroad either in the form of loans, or grants or remittances, started having money pouring in, or so it seemed. The "delirium of the unlimited" (Lordon, 2014), that characteristically shaped global financialisation trends, found no moral or other restraint in the local culture. Once the gates of liberalisation and deregulation permitted the democratisation of finance to the general public, and the ample supply of liquidity to governments in a seemingly homogenous environment of EZ, there was the impression of a free lunch. And everybody rushed to take part of it; with no sense of limit. This eventually changed rationalities and practises.

In financialisation of the public sector this willingness and receptiveness was manifested in the practises of politicians. They were always keen to postpone problems in the future in order to please their electorate clientele, more often than not in detriment of the state's and society's interests at large. Their short-sightedness found its match

to the short-sightedness of markets, and profitable deals for financial and political elites were made. And since credit was so "cheaply" and amply available that borrowing seemed a rational choice, their actions had a theoretical legitimation too. From another perspective though, one can argue that local irrationalities found a perfect veil under a discourse of neoliberal rationalities making everybody content at least for a short period of time. After all, provision for a more medium to long term future is not a task undertaken neither by financial markets, nor by Greek politicians; even though the latter ought to have had the permanent instead of the temporary gain of the society in mind.

In financialisation of private sector, from one hand there was no financial literacy to everyday people, because bank loans and stock market, and in general financial tools were unknown to them, since they did not have easy access prior to financialisation period. From the other, everyday people in Greece had no sense of obligation towards the state or institutions, including banks. Or that is what has been argued from the literature referring to the character of Greeks. A debt was considered a debt only if obtained from relatives and friends, not from anonymous institutions. Culturally, Greek society viewed the state or any institutions in a rather hostile, or at least detached manner. Moreover, Greeks were used to get help from abroad in all kinds of ways, as we explained in chapter 5.4. So borrowing seemed more like a help from 'someone' than a long-term contractual obligation. This attitude has been enhanced also from a deeper characteristic of the society, their religion. Orthodox religion cultivates a sense that God will save us some day, without us necessarily having to do something about it. Orthodox religion then has something similar to orthodox economic theories: an "invisible hand" comes to rescue in both cases. Which is exactly what Greeks -everyday Greeks and politicians too- did. They borrowed and "ehei o theos" (God will provide). Two orthodoxies met: an internationally-spread neoliberal norm found its match in a local orthodox religion one! And even though the mentality behind these norms was different, their "functional" result was the same.

Along this line of thinking, it can be argued that Greeks "complied" to the liturgical kind of power of financialisation that Engelen et al (2011) analysed, exactly because they were keen to liturgical reasoning due to their religion and subsequently their culture: since they were receptive to liturgical discourses, that could be a reason why financialisation caught up with such an ease. And there were indeed repetitive discourses prompting towards engaging in the circuits of finance: either through politicians and media, or persistent advertisements, telephone calls and banks' encouragement for taking on debt and engaging in financial investments. Moreover, a general reproach of conservative investment rationality, tried to convince a financial illiterate public that they would be backward and not-clever if they were not to grab the chance to acquire the new financial tools available. And they managed to convince it fairly quickly. The reason for this then could lie exactly to the religious and cultural mentality of Greeks, as well as to the contextual parameters of domestic political economy, which made them a fertile ground for such new discourses of truth to take roots in such fast pace.

Effectively these new discourses of truth constituted, legitimised and normalised a new reality. They did not allow neither critical thinking, nor incentives to inform oneself of the risks involved in a debt relation, or a financial investment. Immediate and temporary profits, acquiring a house, or going to a vacation, were the only things considered. Ignorance of the risks might not have deliberately been produced -or in this case sustained- as 'agnotologists' would assert, but it was certainly a case of institutionalised ignorance as analysed in our analytical framework section. Only in the case of Greece this institutional ignorance did not only originate from the neoliberal theoretical underpinnings, but also from the local culture and mentality. As a result everybody operated in a system of unintended consequences based on this paradoxical amalgam of a neoliberal rationale that the system will take care of itself through its invisible hand, as long as one takes care of ones interest, coupled with domestic mentalities that had more or less the same functional effect. Thus, the powerful pace of financialisation in domestic political economy was interlinked with knowledge, or rather lack of it, exemplifying another foucaultian-like facet of power of finance.

But these are not the only traits of the biopolitical character of the power of finance that explain the lightening dispersion of debt and financial investments in Greek population. There were also new norms that "conducted the conduct" of Greeks creating in time and in tandem a new reality. Greeks were told that they were laggard and conservative in their financial investments. They had to learn to live and invest like 'Europeans', they had the right to do so. They had to have the opportunity to borrow like Europeans, use credit cards like them and invest in financial markets where the profits seemed easy and limitless. A combination of a discourse of a rights to a better life, of opportunities provided by finance and a reproach of past supposedly backward practises that inhibit modernisation of the state and individuals, changed the prevailing social practises and norms. Debt and stock market investments became the social technologies that were to shape new "financialised" realities and mentalities in the country, that were to conduct the conduct of men in manifestation of a financialised governmentality. The power of finance was then indeed productive in the foucaultian sense. And regulatory settings that were changing in order to conform with EU imperatives, provided the terrain that fostered these financialisation dynamics: they lifted the limits and opened up the space, for them to realise.

This effectively productive -in the foucaultian sense- power of finance started governing the mentality of Greeks, a mentality that in turn reinforced the strength and legitimised the omni-presence of finance. However, while this power was productive of new realities, social practises and mentalities according to its logics, it did not cover productive needs of Greeks. We saw how residential related debt rose in a society with 80% homeownership rate, how consumer debt skyrocketed and how one quarter of the active population was lured into the stock market only to end up losing their savings in a bubble that did not provide capital to enterprises, but rents to insiders and speculators. In the public sector we established how debt growth was channelled in consumption and anti productive activities, and how rents persisted in banking sector despite its modernisation. So, the concept of anti production of Deleuze and Guattari found a characteristic example in the case of Greece since in many cases a lack was created when there wasn't any. Moreover, these non-productive effects of financialisa-

tion in local political economy verified Toporowski's moto that finance was financing finance, since till the crisis domestic banks were highly profitable through explicit or implicit rent-seeking activities and predatory practises and international financial players gained both before, during and after the burst of the crisis.

Therefore, if Greeks joined a global trend, and caught up with it in a short period of time, if what happened in the country were the variegated effects of the structural and post-structural power of finance, what makes them special or exceptional? Seeing Greece in comparative perspective and in the context of european and global dynamics one could simply answer: not much! Going one step further one could consider that Tsoukalas (2013: 220-221) was right when he argued -rather provocatively- that "Greeks survived as super adjusted and super rational economic individuals", because not only they "did not diverge from individualistic, utilitarian ethos, but on the contrary they appeared as the most excellent, obedient, willing and adjustable pupils". Even though this stance contrasts the stereotyped view of "bad pupil to be scolded" (Adler-Nilsen, 2016), it seems to be true, at least to an extent. After all it is probably true that in Greece there is no society as Thatcher would say; just individuals and families (Tsoukalas, 2013: 218).

Interpreting Tsoukalas argument and applying in specifically in the case of financialisation, we could say that Greek modern society did not differ in practise and in its mentality from the neoliberal doctrine which was excelled by financialisation, but on the contrary neoliberalism found a most fertile cultural ground in Greece, with just one caveat: Greeks adopted the neoliberal financialised doctrine with divergent methods creating a hybrid social system which eventually crashed (Tsoukalas, 2013: 218-220).[314] They -unconsciously- followed the idea, but not the methods, that called for efficiency, productivity, waged-work instead of micro enterprises, and a limited state sector (ibid). Nonetheless, despite those laggard characterises Greeks were really prone to neoliberalism. Stasinopoulos's argument on the neoliberal orientation of

[314] It is a matter of debate if the system crashed because of its hybridity. Probably not, since less hybrid and supposedly advance systems crashed too.

Greece's economic policies during 1991-2010 (2011), that is of both right-wing and socialistic governments, strengthens this line of thinking, that Greeks had a strong tendency towards neoliberalism, besides their backward political economy, something that probably tells us something about neoliberalism.

In an attempt to understand in depth these dynamics one can wonder if Greeks became individualistic actors in the sense of the neoliberal doctrine? Or were they dividuals in the sense of Deleuze and as elaborated in chapter 4? In other words, could it be that they were indeed in the "frontier" of Deleuzian societies of control of modern financialised political economies, being a typical rather than exceptional representative of Homo Financialis? Lipovats (1993/1996: 190-192) would assert that in Greece individualism in the modern sense of the word never prevailed, because in Greek society one cannot be an individual, due to communitism which is its prevailing feature. He states that there is rather a "traditional individualism", originating from the merchant spirit that characterised Greeks since antiquity, yet in this individualism, it is not the person (individual), but family that is essentially the "real" subject (ibid). But even so, one cannot but associate these remarks with the Thacherite no-society assertion (as Tsoukalas did) strengthening a developing hypothesis that Greeks were more neoliberal in their way of acting than it is actually thought of. Secondly, we wonder if this lack of individual(ism) might relate -at least functionally- to the "dividual" of modern societies, Homo Financialis which is the eventual -albeit not intended- result of neoliberalism? To answer that we need to make some connections with our theoretical chapter.

A dividual as we argued in chapter 4 is a being divided within (Deleuze, 1992), a fragmented assortment of characteristics (Appadurai, 2016), and not an individualised whole. This elementary form of a human being is predominately preoccupied with their "aesthsiogonies" which even though they appear at first as a dole, they eventually constrain and entrap them "voluntarily" (Tsatsaris, 2006). A person then incarnates a non-thinking being, subjected to a productive (in the foucaultian sense) power of their own aesthesiogonic aspect, meaning that they can effectively be easily directed

(ibid) by any power, even one at a distance (Rose and Miller, 1992). They transform into beings with no noetic soul (Stiegler: 2009/2015), impulsively reacting in a world that they are not supposed, and effectively cannot grasp in its systemic character and function (Foucault, 2010). Moreover, an “aesthesiogonic” preoccupation is intrinsically one that both pre-supposes and results to temporary and not permanent and long term gains which is the quintessence of financialisation. That is probably why for financialisation to spread, it was essential that it “stepped on” this type of being (that it helped create also), “the dividual”, as conceptualised here in its “aesthesiogonic” orientation.

Applying these concepts to the case of Greece, it could be argued that “aesthesio-gonies” (Tsatsaris, 2006) that financialisation exploited so it can spread in the domestic political economy, were on one hand some deeply rooted traits of Greeks and on the other, a drive based mania that is unleashed once regulation abolishes a limit and thus leaves a space open - something that is true for almost every country. From that moment onwards the citizen and the system as a whole function under other frameworks whose result is an entrapment of the (in)dividual into aesthesiogonic-type of constraints which firstly resemble as a help and liberation and in due course they prove to be a (senti)mental and voluntary subjection to a power that can direct and manipulate them, even at a distance. Power becomes deeply entrenched, thus harder to locate and therefore harder to resist. This is what financialisation came down to.

Furthermore, there were some other local traits that matched the ones that financialisation promoted and/or resulted to. The sense of time for example, as analysed by critical and non-critical scholars in the case of financialisation of modern capitalism, found another matching feature in the Greek case. For their own cultural reasons, Greeks are short sighted, impulsive and rather expeditious in their reactions, something that came to couple with the sense of time that financialisation promoted as well as the pace of the ‘movement of the power’ (Antoniades, 2008b) of finance. Ramfos (2012b), for example, argued that Greeks are confined into an “immovable present”, that they do not engage in historical time, in the sense that they can create and/or alter

their livelihoods during their lifetimes, because of religious-like attitudes that have pervaded the disposition of citizens. This "immovable present" seems effectively the same as the one of the man-debtor of post modern, financialised capitalism. Historical time as a time provided to change one's own future seems extinct, even in more advanced societies, because of the realities that financialisation has imposed on citizens. Both anthropological types of citizen then, the Greek one, and the man-debtor, or Homo Financialis, work with no sense that they can shape their future through their own actions. Actually, for both it is not only that they cannot shape their future, it seems that a desire is not being born within them to do so.

Citizens in these societies seem to be confined into a seemingly never ending present of either imperative jouissance (pre-crisis), or imperative austerity (post-crisis). In the former, the future does not matter because of the present indulgence, which promotes an inertia, since pleasure does not allow time and desire to strive for something else that the present moment. In the latter case of imperative austerity, the deprivation of hope, perspective and future is a catalyst both psychologically for the individual as well as politically for the citizen, since it gives rise to either extremism or numbness. It is evident nowadays and in global scale, because debt burden, either private, or pubic (reaching ordinary people through taxes and austerity measures), immobilises future into present, and "one found oneself in a situation where one had the impression of being left without a future –to have no available future to shape any more" (Esposito, 2011: 16). It is interesting though to observe that in both cases what this sense of time results to, is an apathy for general socio-political issues and an indifference towards individual and societal interests in the long run.

Nonetheless, even if one does not take the extremes arguing on imperative jouissance and imperative austerity, it is undeniable that through its proclamations on the responsibilisation of citizens, financialisation shaped a new kind of citizenship, that it came to be named "financial citizenship" (Leyson, 2009; Berry, 2014). Yet being a citizen automatically entails some democratic processes which according to Berry (2014) cannot be realistically compatible with financialisation -which is the central compo-

nent of today’s economic growth- because it fundamentally contradicts it since democracy would require financialisation processes to be subjected to non-financial criteria. And there seem not to be such counterbalancing criteria in the era of financialisation. Thus in various ways Greeks, as other financialised subjects, seem to have become “dividuals”.

In order to comprehend if the power of finance was transformative though, we should note that Greeks were not always “dividuals”. Before liberalisation and financialisation, the regulatory context -however confining and backward- kept the above mentioned cultural traits within some limits, thus promoting alongside them, other attitudes like that of hard work in order to provide for the family. These had some wider and permanent societal benefits, since the economic indicators showed that the economy was growing. After all as we saw in chapter 5, Greece managed to enlarge its middle class and form a society of micro-entrepreneurs with more equitable distribution of wealth, than countries like Germany for example. Once the regulatory limit was lifted, the cultural traits that we mentioned above were unleashed, if not promoted by the systemic and discursive dynamics that developed. Of course, it was not only the cultural traits since the same trends were observed in other countries when deregulation started, like for example in Sweden which is definitely not a Mediterranean country. Albeit here the trajectories were more intense exactly due to this cultural traits that seem receptive and compatible with the new regimes of truth.

Conclusively, following the ‘movement of power’ (Antoniades, 2008b) of finance in Greece revealed that financialisation triggered some of the inner desires of Greeks which were already nurtured by local cultural traits. However, this fertile ground does not mean that nothing or little has changed in Greek society. Because trends and practises did indeed change. New social technologies emerged, such as private debt and financial investments (new banking products and the stock market shares), legitimised by new norms and rationalities, leading to new realities, thus inevitably leading to a social transformation. Moreover, it linked all the sectors of domestic political economy with the workings of global financial market, which alone is a prominent feature

of financialisation. Our point on comparabilities and similarities just highlights the specific characteristics of forces from the bottom that came to reinforce the global spread of dynamics of finance coming from the top. It is a manifestation of biopolitical power of finance that helps explain the deeper conditions that made the specific social transformation possible in such a short period of time.[315]

This analysis inevitably then raises a question: if the neoliberal, financialised subject, state, institutions and economy seem to have analogous features as Greece's subject, state, institutions and economy, why is only the latter blamed for corruption, irresponsibility and diffusion of political and economic power, elite rents in an unproductive economy? Are not those the same functional results of financialisation in global scale? Could it be that then everybody is blaming Greece because it reflects their eventual -albeit probably unintended- reality that concerns even so called advanced western democracies and not because it is a deplorable exemption? Could Greece, as portrayed by media and western European scholars, be the mirror of our future as modern societies? Could it be that for all the sophistication and the progress we are essentially going backwards as societies?

Castoriades (1998a: 41-42) as early on as in 1998 noticed that "… modern society does not at all differ from the most …… types of archaic societies". He based this conclusion firstly in his observation that modern societies treat a man, an individual as an object, as human capital, as part of a capitalistic machine. Secondly, and more importantly he based it in his sense that imaginary, myths, and not reality sustain the system. In the particular case we are examining now, one can say that imaginary consists of all the proclamations and theories that promoted finance as nothing but beneficial for societies and economies, only to be proven utterly wrong; and even then, they still informed policies worldwide. That is not only paradoxical and non-rational

[315] What is the paradox though is that while financialisation worked its way through the Greek society by igniting desire, it was this very desire that became exhausted with the crisis to the point of numbness. Stiegler as we saw highlighted this contradiction of the non-negotiable of desire and its exhaustion in the libidinal economy of capitalism. Again Greeks are a par excellence example of this process of psychopower of finance (Stiegler).

but also rather archaic at least if we are to share Castoriades' view. Sassen (2014) would add that for all the sophistication and wealth -financial in its most part- the world created simple brutalities and extreme poverty, to the point that it seems that the system does not seem to need people no more! Furthermore, Crouch (2015) commenting on Picketty's inequality findings said that while inequality was always a matter, it has been expanding nowadays. Hence Greece could have been blamed because it was a startling example of an emerging dystopian reality for all the so called advanced western world.

These reflections inevitably bring to mind the debates on post-democracy and even anti-democracy. Finance being omnipresent and the driver of the economy, having embedded almost everything is one of the main forces of these transformations, which can hardly be called advancements. Instead they are pointing to a humanity who is taking backward steps from what is has achieved. Financialisation has left the citizen of modern so called democracies to be responsible of its own actions, a stance which effectively hollows up some basic, ontological characteristics of social citizenship which is in essence an insurance against risk (Berry, 2014). Now if this is coupled with the politico-economic realities that financialisation has resulted to -and which we highlighted all through this thesis - one can observe that the socio-political landscape has been rendered into a jungle-like one. This remark is also linked to the ontological changes of sovereigns, societies and individuals that we talked about in the chapter of financialisation of the state. These are ontological changes which constitute an extreme manifestation of the ontological changes of basic institutions of advanced democracies and the "capitalisation of almost everything" that financialisation resulted to.

Why western world took a loop back in archaic type of societies, where the citizen is left alone to manage their own affairs, and moreover it did that in the name of freedom and responsibility? Why governments around the world choose on the face of a global crisis to generously help a part of the economy, the financial sector, in detriment of the large part of societies? Why have we lost sight of the original drive of

humanity towards the construction of a state, which was to protect the ascending bourgeoisie against the authoritarianism of elites, that is the majority versus the oligarchy? Why the majority of ordinary people or peripheral countries such as Greece was blamed for non-responsibility and consequently punished with austerity, while equally (and probably more so, due to information asymmetries) non-responsible financial institutions are being "saved"? Why social welfare systems have to be reconstructed and downsized worldwide in order to survive, while financial conglomerates are left to survive with minor extra regulation and no substantial reconstruction? Why for all the sophistication and proclamations, there was a "diathlasis" in the economy and its institutional role in a polity, but also a degenerating ontological change to what is a sovereign, a citizen and a human?

If one is to phrase these reflections in more technical -and thus less provocative albeit confining- terms, one can wonder whether and how a globalised dynamic such as financialisation is a force of modernisation. And this is where our case study makes another contribution. It showed that besides proclamations and theoretical expectations, it only enhanced and rendered more sophisticated chronic pathologies of the domestic economy, which are admittedly backward. Something that was proposed as modernising for a domestic economy and society, the only thing that it ended up modernising is the means that realised the same pathogenies, which were in turn intensified and stabilised further. Moreover, it added new ones by financialising households and engulfing them into financialisation's web of interconnections.

Furthermore, and within the same line of thinking of lingering pathologies, it can be argued that while financialisation in the Anglo-Saxon world introduced financial citizenship and privatisation of risks, this did not happen in the Greek case. The state, continued to be "the parental figure" and provided social welfare, education, health, pensions, wages sustaining the status quo albeit at a high cost, since it was based on debt. Finance came to serve exactly this pattern, if not exacerbate it. Because besides high debt, citizens became even more "childish" and less responsible with their finances, since they borrowed more in order to obtain a more luxurious lifestyle. In

other words, they sought for a beyond-their-needs lifestyle that they did not have prior to financialisation, rather than substitute falling incomes as for example in USA. Actually, they wanted more of what they thought it was rightfully theirs to indulge. As if they deserved it. Or at least they wanted more of what seemed to be the smart, the rational thing to do. But seeking a lifestyle beyond their needs, means that they were seeking one beyond their means, since this way debt did not have the productive result to generate income in order to repay one's debts. Anti-production forces of financialisation found in "les infants gates de l' histoire" a "competent" agent! Overall then finance stepped on and enhanced domestic pathologies, rather than introducing the role model of a responsible citizen who is taking up the risks of modern life, as in Anglo-Saxon world.

Finally, let us clarify a specific point that would crystallise our theoretical perspective. The above analysis and findings might seem as a VoC thesis of path dependent financialisation. Or it might resemble to Powell's (2013: 301) financialisation varied as opposed to varieties of financialisation, in the sense of diverging within converging. Or it finally might appear similar to Lagna's view of local elites using financialisation for serving their domestic interests (2013). Yet we believe that our perspective goes beyond all of these stances. It is a qualitatively different approach. It highlights the discrepancy between proclamations and actual results. It denotes the conceptual myths we are confronted with, the hollowing up and/or transformation of basic institutions of democratic political economies as well as the societal blueprint of a globalised process in domestic dynamics. This view is not interested in hierarchical relations, like imperial ones and the subsequent subordination of a peripheral country (Powell, 2013: 301), which essentially lead to a conflictual critique. It does not linger on the debate over divergence or convergence -even though our stance links to the latter in the sense of homogenisation. Converging or diverging are unimportant comparing to the results of a politico-economic process to citizens and societies where our focus of analysis ought to be. Lastly, our approach does not focus on discretion of elites as political agents, but rather on the structural constraints and incentives they are faced

with, both in the context of their domestic political economies as well as in the global one.

Overall, then we saw Greece in context, and concluded that the country was not the exemplary profligate to blame for its financial problems. Greece became part of a global trend, and in many respects “excelled” in it, at least according to the regimes of truth that legitimised it. This is not to exempt Greece, its politicians and partly its people from their responsibilities. It is only to view things in context, and try to reflect on what consequences our dominant paradigms which inform our policies might have, as well as view responsibilities in their bidirectional or multi-directonal and certainly contextual character. So Greece served not only as a case study per se (for all the merits it rightfully has), but also as a motivation to question the unshaken part of our politico-economic beliefs and wonder on their daunting repercussions.

10.4. Concluding thoughts: Quo vadis Homo Financialis?

"Agora" in Ancient Greece, was the place where Athenians gathered to democratically deliberate on political and economic issues of their city. A place of transparency, dialogue, where accountability was a prominent political virtue. "Agores" (the markets) on the other hand, of today are the complete opposite, proving that their theoretical underpinnings based on mainstream paradigms cannot stand the test of reality. The theoretical underpinnings and in general the ideas that the economy began to be based since 1970s (and even before that as we saw in 3.4.) did not create solid conditions of economic growth, resulting to an economy defaulting on itself. So research into the workings of these "agores" and their systemic/structural power is of a vital and deep political nature. That is what we tried to do in this thesis.

We described what financialisation is and tried to cover the different routes that it pervaded Greece's political economy. Choosing power, and more particularly post-structural views of power in conjunction with the structural one of Strange's as well as some views emanating from Luckes' third face of power, we attempted to analyse the deeper "movement of power" of finance (Antoniades, 2008b) which created new structures and mentalities. Economic data described the dense and expanded structure that finance acquired in the last three decades both globally and in our case study, Greece. They made evident the scope and spread of finance which resulted to excess of unprecedented scale. Size and scope then is the first sign of the systemic nature that finance acquired. But this alone is not probably the sole condition that can explain its inconspicuous pace, the intensity and width of its permeation and its crisis - resistant character. For this blindness and monolithical orientation something else ought to have contributed. We argued that financialisation managed to govern mentalities through the dense politico-economic structure it created, through the ontological transformation of basic institutions of advance political economies and the elementary human being to whom it addressed its proclamations and who it eventually "created".

Hence the incomprehensibility and obscureness of the system as well as its inertia to change even in the face of extreme social repercussions.[316]

Someone could assert that all this is too theoretical for international political economy. Yet we firmly believe that international political economy is exactly the field where one should ask such fundamental and overarching questions, because these are the basis of political decisions since they give answers to the questions of who benefits at the end. In a more substantive level we could say that these essentially align the economy towards social oriented targets and away from dangerous detours that benefit neither the economy per se, nor society at large. If a state is acting as an enterprise and a bank is not intermediating between savers and investors, if an individual is left alone to fight their own battles in a far more complex and imposing world, if welfare is debt-provided through private channels, then political economy, and societies as a whole, should stop and wonder, if this is the orientation they deliberately want to take as societies of the advanced western world. Moreover, if more wealth -generated mainly through financial channels- resulted to more poverty and inequality, to less democracy and social welfare, what is then the purpose of a modern state? What is the purpose of organised societies?

This problématique can lead to even deeper questions. One of which is conceptualisations and meanings in relation to the reality that are depicting. It might sound as a linguistic or philologic issue, but it is deeply political. And we will give some examples. It was proclaimed that deregulation should occur in order for neoliberal vision to be realised, yet re-regulation is what happened. Economists and politicians promised simplicity through the so called deregulation, but complexity and byzantine type of regulation (Haldane, 2013) is what it finally resulted to. The same with transparency; instead of the proclaimed transparency, more obscurity occurred. Democratisation (of finance) was supposed to be only beneficial, but an insidiously authoritative type of power is what it actually realised. Prosperity is what was promised, but a most cruel

[316] Going in a deeper level of analysis one can wonder if finance is actually the driver or the end result of these transformations, or furthermore the symbol of other more longiditual dynamics, but these are questions for another thesis.

and still ongoing crisis is what arrived. Proclaimed neutrality of finance then, proved highly political and highly biased. Moreover, the institutional role as well as the very definition of what is money, banks or a state changed in profound ways. Institutions which are supposed to be the pillars of modern political economies and political thought function in a totally different way, while terms and co-notations remained the same. We still use the same concepts, to refer to almost totally different institutions. The detailed description of reality that we have attempted then, helped us locate and highlight these tensions. Something that we aspire will contribute towards our understanding of "living history" (Kondylis, 1998) and our policies.

Yet both understanding and policy drafting may encounter another hindrance. There seems to be no agent to proceed with both. The non-thinking citizen that financialisation helped "construct" is an impoverished human being both mentally and sentimentally, since they are monolithically oriented towards economic goals. And even them are not the ones which bring permanent and long-lasting benefits, but ones that only bestow temporary gains, which eventually come to haunt everyday reality and mentality of citizens. So from one part a confined and utterly disciplinary reality of debt and financial relations that have interweaved the globe, from the other the capitalisation of almost everything rendering among other things concepts void of meaning, and in the middle a bewildered non-thinking citizen, create a dense socio-political structure with no escape routes.

How can such a seemingly dense structure "allow" the birth of a critique that can be realisable? Can there be resistance -as political scientists would phrase it- to a dynamic and a structure that has proven unshakable even in the face of the most devastating economic crisis in history? In a foucauldian spirit, one can suggest that despite the present tightly and complex interwoven system of power and/or social order, there could nevertheless be "myriad small ruptures that can create new openings, new political spaces and dynamics that have the power to act upon and influence the social becoming" (Antoniades, 2008a). That is probably how the "edifice" will start cracking, making the structure less dense and more breathable, thus more able to accommodate

socially desirable solutions. In other words, the only place that resistance and change is likely to occur is from within the subject in the small everyday ruptures of normalisations that have been institutionalised in such a way that seem to be the only natural way of things. A process though that requires a thinking and reflective human being. But this is a debate for another thesis. Or is it not?…

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