Center for the Politics of Emancipation (CPE), Belgrade.
Interview with Professor John Milios, November 2013.

1. As we know, you are one of the figures on the contemporary left whose interests cross the boundaries between the more economic problems like those of Marxian theory of crisis and the ones of social movements and their significance for the left. That is why we wanted to start by asking about your perspective and personal experience of the relation of these two fields. First, maybe you could explain us how these two were present and connected in your own carrier.

   My personal experience is determined by the relation between theoretical work and the evolution of class struggle. The development of Marxism is always determined by the evolution of class struggle and the turning points of the social, political and ideological conjuncture. For example, the hegemony of Soviet Marxism after World War II, as well as the emergence of critical versions of Marxism after May 1968, cannot be interpreted unless in conjunction with the specific conjuncture of class struggle. When one says that the evolution of class struggle determines his own trajectory in Marxist theories, one has also to be clear on a very important issue: Marxism is not a theory that can be developed inside the walls of university, inside the walls of a clean environment of a laboratory: Marxism does not constitute a theory of more-or-less academic character, which, moreover, "receives stimuli" from the social and political circumstances or social struggles. Even further, Marxism is constructed not simply as a theoretical system, but also as an ideology of the masses, as an ideology which determines the political action of organizations and movements of the working classes. As Gerard Bensussan correctly noted, "Marxism cannot be deduced only to Marxist theory, even if it is the theory of Marx himself. 'It meets' the masses, it intertwines with a history, it participates in social practices: It is then, simultaneously, also an ideology (perhaps more than one). Its crises are crises of this problematic condition".[i] The "internality" of Marxism in the workers' movement indicates precisely that the conflict (the opposition to the dominant ideology), never ceases. Furthermore, this "internality" also means something else: For the Marxist intellectual to function really as a Marxist, he/she must first have adopted a revolutionary-proletarian stance within the context of the class struggle. What Louis Althusser (1990, p. 144) noted for philosophy, applies for ideology in general: "In philosophy every space is always already occupied. Within it we can only hold a position against the adversary who already holds that position".[ii] My personal experience is a political battle given in a variety of conditions the last forty years. My theoretical writings and my political participation in parties and groups are aspects of my participation in this ongoing battle.

   ----

2. Now, also on a more abstract level, what would you say to young students interested in left politics and in political economy? How should they conceive their own efforts, while working in these two fields that don't seem so directly related all the time?

   I would say to them that it is important to go on with both fields. Like every theoretical system of thought, Political Economy is constituted in relation to a *theoretical object of analysis*, which is different from the corresponding non-theoretical terms or notions, by means of which the empirically specific objects of investigation may be approached. The *theoretical* object of analysis is either a *complex notion*, as is the case in mathematical and physical sciences, or an *abstraction* that isolates what is considered to be the significant element of reality. The theoretical object is always different from the real object of tangible-empirical reality, but it is the notion that (supposedly) deciphers the structural elements of reality. The theoretical object of Political Economy is not (and cannot be) "the economy in general", but that specific notion which is considered to build the *specific difference* of (capitalist) economic relations. In this sense, the object of analysis is also a *theoretical tool* for the interpretation of all further aspects of economic reality. The formation of a theoretical object of analysis is thus the constitutive act of the formulation of (each) theory.

It is clear then from the schismatic character of social sciences in general and of Political Economy in particular, that each different theoretical stream of thought must formulate its own theoretical object of analysis: In the case of the Classical School of Political Economy the theoretical object of analysis is *labour value*, which for Ricardo is identified with "labour expended". The contestation of the tenets of Classical (Ricardian) Political Economy by Neoclassical economics led to a change in the object of theoretical analysis: *marginal utility* (as the determinant factor in the formation of prices and the "market economy") emerged as the "new" theoretical object of analysis.

The Neoclassical constitutive notion of *marginal utility* does not derive from any form of social theory, either economic or sociological. It only constructs a (supposed) relationship between the individual and useful objects (i.e. use-values). In this sense, the isolated individual is supposed to represent the whole society. Society, as a theoretical notion, is absorbed by *the* individual, whose "nature" is considered to be nothing more than the "principle of utility".

On the other hand, Marx's *Critique* of Political Economy did not as well preserve the tenets and the theoretical object of Ricardian value theory, despite the contrary belief of many economists, or the ambiguities of Marx himself. However, the crashing modifications introduced by Marx in the theoretical object of Classical Political Economy were in an opposite direction as compared to those introduced by Neoclassical economics: The Marxian notion of value is a new *complex theoretical concept*, which replaces the Ricardian semi-empirical category of "labour expended" and introduces a theory of *social homogenisation of labour under capitalism* (whose manifestation is the general exchangeability, through money, of commodities on the market). This approach can explain why it is not only the products of labour ("labour expended"), but also all forms of claims on (future) production that acquire a price; it also comprehends the non-neutrality of money. Unlike the Ricardian (and the Neoclassical), the Marxian theory of value is a *monetary theory*.

See also Marxian Economics, John Milios & G. E. Economakis, *Encyclopaedia of International Economics*, Vol. 2, Routledge Publishers, 2001, pp. 995-1004.

3. Maybe we could now come to the case of Greece as this case is not only important for us because it is a brightest example of a successful left politics but because it is an example of left politics in a peripheral situation not so different from our own. There are three questions here that we wanted to pose. First, how do you look at the past decade in the development of Greek situation economically? And especially how do you look at the political decisions made by the Greek elites after the crisis broke out?

> We ask this as this is more or less the situation that is staring to develop in Serbia at present – our Government is trying to implement austerity measures with argument that one year after these measures our economic situation will be more stable and our living standard will start rising.

This is a very important question because on the one hand the crisis is structural, while on the other the elites construct a discourse in order to put the blame on the workers of every country for this crisis. The Greek government-debt crisis is one of a number of current European sovereign debt crises. The official explanation for the current economic predicament of the Euro Area (EA) is heavily based on the supposed existence of two interlinked conditions in the deficit countries: reckless borrowing and low competitiveness due to relatively high wages. Of course, this is an interpretation that favors austerity type policies; and austerity stabilizes neoliberalism and benefits capital interests by putting the whole burden of the crisis on the shoulders of the laboring classes and small entrepreneurs. So it is a convenient interpretation for a particular configuration of power.

Besides, it takes two to tango: for reckless borrowing to happen, reckless lending is required; therefore, reckless finance. However, finance cannot be reckless for such a long period (covering the first phase of euro). Finance may aggravate existing contradictions making contemporary economies vulnerable. But finance is also a particular technology of power that provides a setting for the organization of capitalist economies. On the other hand, competitiveness is a condition attached to the very existence and functioning of capital. It is not easily to be grasped and measured. The mainstream argument about the lack of competiveness of deficit countries refers to their negative current account balance. Let's elaborate a little bit more on this issue.

There is a basic theoretical rule in the practice of psychoanalysis (at least in its Lacanian version): it is in the discontinuity of a discourse that the latent "cause" must be hidden. This principle suitably applies to the shift in the official interpretation of the development in the EA. Persistent current account imbalances and differentials between countries in growth and inflation were developments which were being monitored and emphasized before the start of the financial crisis in 2008. What changed strikingly was the attitude in the mainstream and official narrative. Before 2008, current account imbalances were celebrated as the basic mechanism for accommodating growth differentials in the environment of the common currency. In other words, imbalances were viewed as evidence that the economic experiment of the common currency was actually delivering. They were "good" imbalances. Suddenly, this interpretation was replaced by another one, which placed the roots of the crisis in the "imprudent" and "reckless" domestic behavior and policies both in the private (firms and households) and public sectors. Post crisis official explanation relies on the idea of "bad" imbalances.

It may sound strange but underneath the apparent discontinuity lies an implicit continuity. Both pre- and post-crisis explanations were developed to serve the long-term interests underlying the dominant neoliberal policies across the EA. The root of the change must be sought in the change of the economic conjuncture. New political agendas created the demand for new theoretical developments.

In the pre-crisis period, Blanchard and Giavazzi (2002)[iii] established the groundwork for the discussion. In the context of neoclassical general equilibrium theory, current account imbalances mirror net saving positions (net financial flows) originated by the catching-up process. They are "good" and welcomed. Their persistent character is explained by the reallocation of capital flows in such a way as to accommodate different growth prospects between member states with different GDP per capita levels. The fast growing European economies (in the so called EU "periphery") can rely on external savings to undertake additional domestic investment projects while they increase their own consumption. This is not a big problem since the resulting deterioration in the current account positions would be gradually offset by higher future income levels (the outcome of the catching-up process). Using panel data for several groupings of OECD and EU countries since 1975, Blanchard and Giavazzi showed that current account positions have become increasingly related to the level of output per capita of the countries both within OECD as a whole and EU (although this tendency is stronger within the EU). They concluded: "the channel appears to be primarily through a decrease in saving (typically private saving) rather than through an increase in investment".[iv] This line of reasoning was the benchmark in the relevant discussions. Current account imbalances were grasped as signs of efficient capital allocation within EA that promotes economic convergence.[v]

In post-crisis mainstream writings there is a tendency to gradually decompose the above argument. Eichengreen[vi] summarized the alternative explanation as to how these imbalances finally proved to be "bad." In his account, economic convergence is conditional not only on the gap in per capital incomes but also on the *quality* of domestic institutions. This idea expresses the theoretical problematic that governs the post-crisis official discourse. Imbalances were driven mostly by "domestic distortions" such as irrational asset booms, reckless borrowing and lending, and lack of fiscal discipline. Eichengreen in particular attempts to justify the point that the level of corruption is more significant for the explanation of intra-European imbalances than the growth differentials. For him the whole process of imbalances was based on a disguised institutional malfunctioning. This type of interpretation is also very close to the dependency idea to be found in many heterodox approaches, namely that the euro damaged less-competitive economies of the "periphery" causing "underdevelopment" and "destruction" of their "productive base."

However, this argument is not convincing. The global market is not just the area for international transactions, but also the economic and social framework for international capitalist competition, by means of which international market prices are formed. If we assume that tradable goods are close substitutes (in reality this is not true but at this level of analysis it is a reasonable assumption), prices cannot diverge beyond certain narrow limits. In addition to this, small economies like Greece, Ireland or Portugal are by definition "price takers". When economic borders are open and firms are exposed to international competition, a general loss in competitiveness would be expressed in a reduced corporate profitability, declining productivity, lower growth rates and higher unemployment growth in relation to inflation. In plain terms, it would be a disease with obvious symptoms.

None of these symptoms can be observed for the countries of the European "periphery" during the first phase of EA. In the period 1995-2008 Greece experienced a *real* increase of the GDP amounting to 61.0 per cent, Spain 56.0 per cent and Ireland 124.1 per cent. In contrast, growth was much lower in he more developed European economies; 19.5 per cent for Germany, 17.8 per cent for Italy and 30.8 per cent for France.[vii] Moreover, statistical evidence shows that higher growth in the "periphery" was associated with both higher profitability and the deterioration in current account positions as general tendency.[viii] If current account deficits are taken as indication of loss in competiveness, then how can their positive correlation with growth and profitability be explained? It is obvious that another interpretation must be offered.

It can be safely argued, therefore, that the exposure to international competition that was effected through integration into the single currency secured for the (less developed) countries of the "periphery" satisfactory rates of growth and profitability. We will not attempt to go into a detailed description of the economic data, but must highlight one major consequence of all of these: *the convergence in country specific risk assessment between different social formations in the EA*.

We shall further accept (bearing in mind the restrictions of such a simplification) that the valuation of sovereign debt is closely related to the overall country specific risk assessment. In plain terms, this means that falling long-term yields or rising secondary market asset prices reflect the expected returns on existing and new investment in the debtor country relative to the corresponding expected returns on alternative investments abroad. The improvement in the country specific risk is therefore the result of *both* a country's idiosyncratic growth and profitability prospects and their relation to the growth and profitability prospects of other countries - mostly those that are part of the monetary union (since we are talking about a monetary union, where exchange rate risk has been practically eliminated). Consequently, the country specific risk was not mispriced by the financial markets, as suggested by the official explanations. The more advanced capitalist economies of the EA have experienced economic slack in contrast to the higher rates of growth and profitability in the less advanced EA economies. By and large, these differential growth and profitability prospects in the context of the EMU were the driving force behind the convergence in the country specific risk assessment.

The EA is *a monetary union which has been proceeding at a dual speed*. In other words, it is an economic region with the same currency which comprises social formations with different growth prospects. It is thus not unreasonable to argue that this reduction in interest rate spreads (on the back of different growth patterns in the context of the EMU) attracted large capital inflows and supported large increases in credit and asset prices. It goes without saying that this process boosted domestic demand in the "periphery" through various channels (e.g. access to cheap loans contributed to a revival in the housing market).

At the same time, EA economies with their different growth prospects were without exception incorporated into the same monetary policy regime, that is to say the regime of uniform nominal interest rate imposed by the European Central Bank against the collateral of sovereign debt. If the ECB did not distinguish between the country specific risks of different member states, why would the markets bother to do so? These interest rates were considerably lower for the countries of the "periphery" than they had been prior to the introduction of the single currency. This fact, in conjunction with the higher rates of inflation prevailing in these countries, was translated into even lower *real* interest borrowing rates for the local banking sector. These are the conditions that laid the groundwork for the explosion of (private and public) domestic borrowing.[ix]

In the light of the above comments, the difference between growth rates and the long-term interest rates captures to some extent the way markets perceive, in terms of risk (improvement in country creditworthiness), the growth prospects in the EA. This difference was constantly increasing for Greece and Spain during the first phase of EA (1994-2007) while it remained at negative levels for Germany despite a low interest rate in absolute terms. On this basis, *current account deficits are neither the result of imprudent borrowing nor the outcome of economic weaknesses. They reflect the significant capital inflows and the domestic credit surge in the countries with better relative growth prospects*. Both these factors boosted domestic demand, resulting in a deteriorating trade balance and upward pressure on the real exchange rate. In the case of Spain and Greece, the increasing real effective exchange rate (REER) reflected the persistent deficits in the current account or surpluses in financial account (net capital inflow). Germany experienced quite the opposite effect. This line of argument places current account imbalances in the context of the EA as a result of a particular mode of symbiosis, one that pertains to a sui generis monetary union. The current account deficit, in other words, *cannot be seen* as the immediate outcome of a corresponding deficit in competitiveness, if the latter is to be understood as a social relationship. Nor can it be approached as the outcome of reckless borrowing in the context of "unreasonable" low interest rates (market mispricing). From this point of view, current account imbalances are not "good" or "bad:" *Current account imbalances must be primarily understood as financial account imbalances*.

The long-term dilemma of the euro is more strategic than appears at a first sight. The neoliberal "remedy" deals with imbalances by means of economic recession and income deflation. This is a very aggressive strategy on the part of the European ruling classes, as it attempts to reinforce the dynamics of capital by taming labor rights and curtailing popular incomes. In brief, this ultra conservative strategy has as its main objective the further embedding of the neoliberal agenda. It will always stay one step back from the "real" needs of the time so as to lead states into the path of conservative transformation by "exposing" them to the pressure of markets. This strategy has its own rationality, which is not obvious at a first glance. It sees the crisis as an opportunity for a historical shift of the correlations of forces to the benefit of the capitalist power, subjecting European societies to the conditions of the unfettered functioning of markets.

In fact, the EMU setting provided a strong basis for the materialization of an offensive neoliberal agenda. *If there was any profligacy at all, this was due to the tax relief enjoyed by the top social strata*. From this point of view, those who analyze the recent fiscal crisis in the EA as the result of irrational binge are right, indeed, but for a different reason. There was a binge but the working class was not invited. In that case the rules of savoir vivre were broken...

The Case of Greece

Before the crisis, *given the level of growth and the increasingly favorable milieu for interest payments, the Greek sovereign debt did not decrease to the Maastricht levels because of neoliberal tax relief to capital and wealthy individuals*. Strong growth, combined with the reduction in the borrowing costs, left the sovereign debt ratio intact at the level of 100 per cent for the whole period before the crisis. The major reason was the shortfall of revenues in relation to the expenditures, regardless of inefficiencies in the state apparatus (which of course are not unique to Greece).

For a period of more than a decade, since the late nineties, direct taxes in Greece are more than 4 per cent of GDP lower than the EU27 average and 3 per cent lower than the EU12 average. The reason for this difference is quite obvious; the state was neither able nor willing to collect taxes from a particular part of the society: capitalist firms and wealthy families. We shall make just three comments to complete our argument. First, the head of the IMF, Strauss-Kahn, has acknowledged in an interview in 2010 that an unexplained tax immunity held for rich people.[x] Second, since 2007 OECD reports have made it clear that it was the reduction of effective tax rates that undermined fiscal conditions. Third, comparative studies of different European tax systems suggest that the problem with revenues is in fact a question of secondary income redistribution to the benefit of corporations and income individuals. The tax rates for firms had fallen to 25 per cent in 2007 from their prior value of 40 per cent. The implicit tax rate on capital is by far the lowest in Europe; it moves around 15 per cent while the European average exceeds 25 per cent. The reduction of capital taxes after 2000 is extraordinary, turning the Greek economy into a sort of tax haven.

4. In the context of this development of crisis politics, could you briefly explain to us your view on the stance taken by Syriza and what would be the main lesson that should be drawn by the left in the Balkan region?

   Greece was actually the first Euro-area country where the neoliberal "shock doctrine", attempting to place all consequences of the systemic capitalist crisis on the shoulders of the working people, was implemented. Of course, as we said before, neoliberal restructuring was going on in Greece during the two decades preceding the financial meltdown of 2008, but the response of the ruling political and financial elites to the crisis was to accelerate the process.
   Economic decline and austerity policies were accompanied by a series of mass demonstrations and strikes. Even if it seems paradoxical, most of the massive events were spontaneous, grass root movements. The Left embraced them but did not create them. The participants were mostly the working and unemployed majority of the society. Young people naturally participated more than the elderly and they were more dynamic. Women's participation is also impressive in the street demos.
   The most important result of these mass movements was the creeping disintegration of the political system as we used to know it. The Papandreou government of the Socialist Party (PASOK) transferred power to a bourgeois coalition government under the leadership of a former banker, Loukas Papademos. However, people overthrew the Papademos' "technocratic" government forcing the national elections of May 2012. Through these national elections the Coalition of the Radical Left (SYRIZA) - United Social Front (USF) became the major opposition in the Parliament. Recent polls show that SYRIZA-USF has taken the lead in popular support over the governing Conservative Party of "New Democracy" (ND). People have started to understand that their only alternative is to struggle (and to vote) in order to stop the neoliberal restructuring. So if there is a "lesson" to be drawn, is to participate with all means in the massive spontaneous movements, to be open to the people, to not be afraid to accept the masses with in your political organisations. This is the only way a down to the top approach, to express today the radicalized masses in the political scene.

5. One of major topics in the Serbian public is EU integrations. From your point of view, what is the future of EU? Is EU sustainable or it needs to be changed? If it needs to be changed, can it be changed from inside or Europe needs a different union, built on a completely new basis?

   The ongoing recession is used by European states to further reduce total expenditures and increase the relative fiscal burden on labor. This is the type of governance where official responses complement the working of markets. In other words, austerity is the major economic policy for developed European capitalist formations. Of course, all these observations describe the general trends that vary according to the social antagonisms and historical evolution in each country.

   The main objective of the European strategy for dealing with the crisis has been the further embedding of the neoliberal agenda. It has always stayed one step back from the "real" needs of the time so as to lead states onto the path of conservative transformation by exposing them to the pressure of markets. This strategy has its own rationality which is not completely obvious at a first glance. It perceives the crisis as an opportunity for a historic shift in the correlations of forces to the benefit of the capitalist power, subjecting European societies to the conditions of the unfettered functioning of markets.

> The decisions of European officials advance the neoliberal agenda without violating the functioning of the markets. Otherwise the crisis cannot be exploited as opportunity for capital. In simple terms, aggressive neoliberal measures and reforms would not be implemented in the participating countries if the ECB had worked as a lender in the last resort or as a fiscal agent from the beginning, if its intervention in the secondary sovereign debt markets had been deeper and more persistent, if the fire power of EFSF or ESM had been sufficient to deal with the core needs of the nation states, if the plan for Spain had been imposed on Ireland, if... The *grave character* of the crisis might have been avoided but in a totally different direction: one ensuring some protection to the living standards and the labor rights of the working classes. This would have been a different Europe, though: a Europe less devoted to subverting the rights of the working classes to the interests of capital.

6. Now, when the possibility of the left party to get into government opens up, what are the possibilities and the limitations that come along with it? How left, do you believe, will the politics of SYRIZA really be?

A left government would build on the aforementioned struggles in order to pursue a different policy. This policy is different not only in terms of management of the debt, but also in terms of social strategy. SYRIZA, as part of the European Left, aims to reverse the policy priorities, i.e. to replace the neoliberal agenda with a program of social and economic reconstruction; to let the financial and economic elites pay for the crisis, in the perspective of a more cohesive and more just society, in which the social needs and the interests of the working majority will function as a policy prerequisite. A Government of the Left has a specific expectation horizon: it carries out radical reforms, takes on development initiatives and other initiatives of a clear environmental and class orientation, in order to open up new potentials and opportunities for popular intervention, to help the creation of new forms of popular expression, movements and claims. However, it cannot realize the great changes the working classes of this country urgently need all by itself. A Government of the Left alone, a parliamentary majority – whatever its size –, is not enough. It cannot proceed as if it were just another (systemic) government. Taking into account these facts, SYRIZA has shouldered the responsibility to contribute decisively to the shaping of the great *movement of democratic mobilization of the people* that will lead the country to a new popular, democratic, and radical changeover.

[i] Bensussan, G. (1986): „Krisen des Marxismus“, p. 729. In: *Kritisches Wörterbuch des Marxismus*, Labica/Bensussan (Ed.), Bd. 4, pp. 719-734, Berlin/W.

[ii] Althusser, L. (1990): *Philosophy and the Spontaneous Philosophy of the Scientists and other Essays, Verso*, London/New York.

[iii] Blanchard, O. and Giavazzi, F. “Current Account Deficits in the Euro Area: The End of the Feldstein-Horioka Puzzle,” *Brookings Papers on Economic Activity*, (2002) 2: pp. 148-186.

[iv] Blanchard and Giavazzi 2002, p. 148.

[v] For an analytical account of the econometric evidence with regard to intra-European current account imbalances see E. Stockhammer and Sotiropoulos, D. “The costs of rebalancing the Euro area,” Working Paper, Post-Keynesian Economics Study Group. (2012): http://www.postkeynesian.net/downloads/wpaper/PKWP1206.pdf (accessed November 2012).

[vi] B. Eichengreen “Imbalances in the Euro Area”, <http://elsa.berkeley.edu/~eichengr/Imbalances_Euro_Area_5-23-11.pdf>, November 2010 (accessed March 2013).

[vii] See J. Milios and Sotiropoulos, D. P. “Crisis of Greece or crisis of Euro? A view from the European ‘periphery’,” *Journal of Balkan and Near Eastern Studies*, 12(3), (2010), pp. 223-240. J. Milios and D. P. Sotiropoulos, *Rethinking Imperialism: A Study of Capitalist Rule*, (London and New York: Palgrave Macmillan 2009).

[viii] See D. P. Sotiropoulos, Milios, J. And Lapatsioras, S., *A Political Economy of Contemporary Capitalism and its Crisis. Demystifying Finance*. To Be Published 5th June 2013 by Routledge, Ch. 9.

[ix] At the beginning of the crisis, overall private sector debt in Portugal amounted to 239 per cent of GDP, that is to say 29 units higher than in neighboring Spain and 116 units higher than in Greece (the corresponding debt levels in France and Germany are 130 per cent and 140 per cent of the GDP, respectively). It is for example characteristic that short-term real interest rates in the 1990s for Greece averaged around 5.4 per cent but after 2000 fell almost to 0 per cent and for long periods went even lower.

[x] D. Strauss-Kahn, (2010) “Greece’s Economy at a Crucial Crossroads”, Dec. 12, 2010, http://www.imf.org/external/np/vc/2010/121210.htm (accessed March 2013).