Neoliberal Europe in Crisis.
SYRIZA's Alternative

John G. Milios

1. Introduction

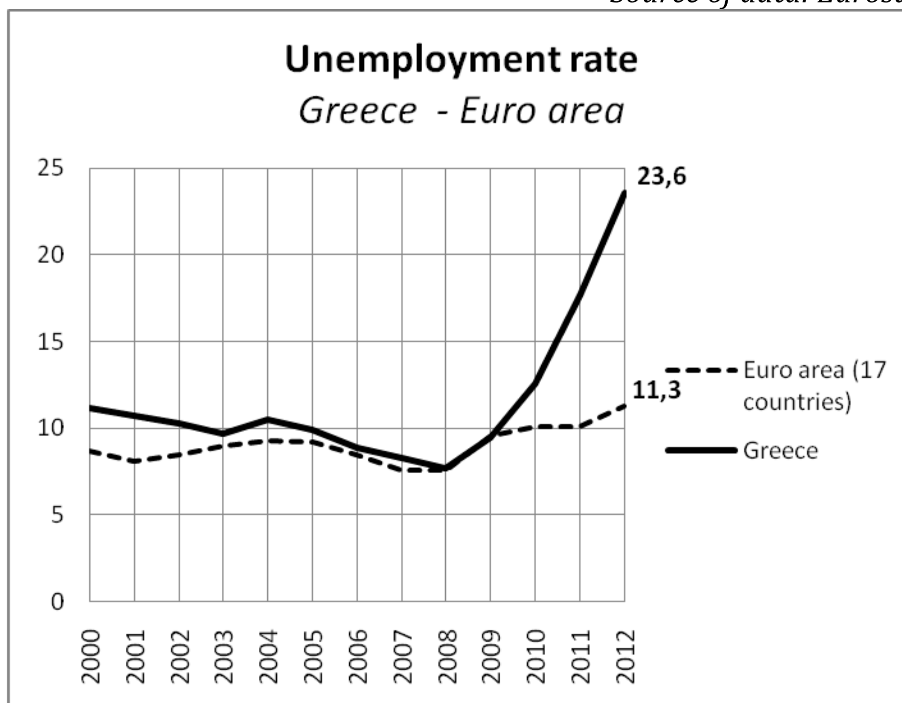
The recent financial crisis is without precedent in the post-war period, a fact acknowledged by the majority of economists. At the same time, the crisis is a 'marginal moment' which unveils and helps us rethink the workings of contemporary capitalism.

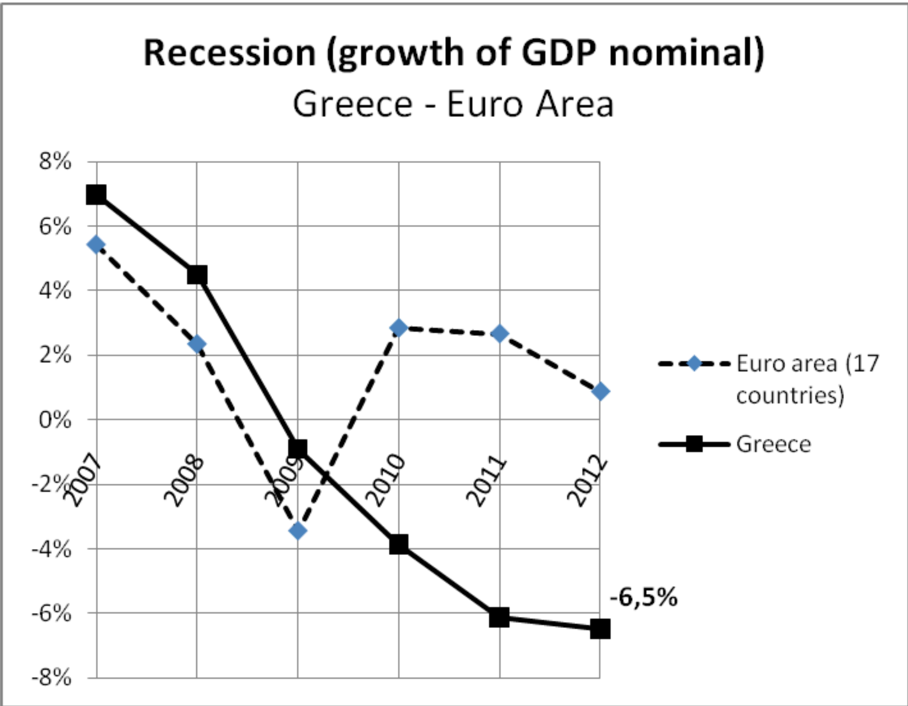
The crisis has more severely hit Europe and the Eurozone (26 million people are unemployed, out of whom 19 million in the Euro Area [EA} and 1.5 million in Greece).

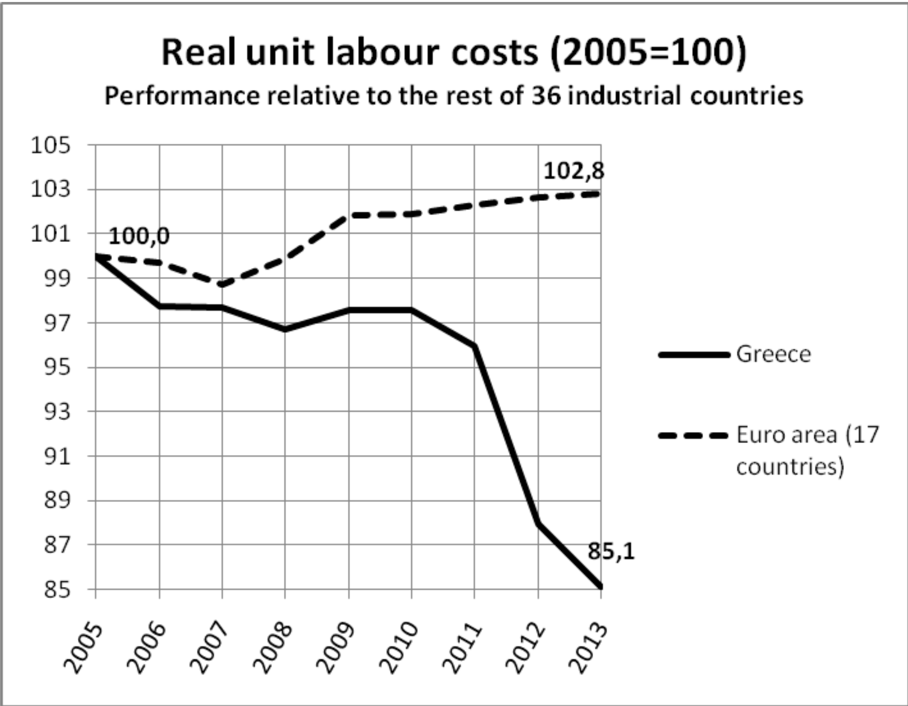
In Greece, the crisis has become devastating after implementing the 'Measures of Fiscal Adjustment' contained in the bail-out Program, known as 'Memorandum of Understanding', which was signed between the Greek Government and the Troika (IMF, EU, ECB) in May 2010. Two additional Memoranda followed in 2012.

2. Greece after Memorandum III in figures

Source of data: Eurostat, 2012 November




Recession (growth of GDP nominal)
Greece - Euro Area
8%
6%
4%
2%
0%
-2%
-4%
-6%
-8%
2007
2008
2009
2010
2011
2012
-6,5%
Euro area (17 countries)
Greece


Real unit labour costs (2005=100)
Performance relative to the rest of 36 industrial countries
105
103
101
99
97
95
93
91
89
87
85
100,0
102,8
85,1
2005
2006
2007
2008
2009
2010
2011
2012
2013
Greece
Euro area (17 countries)

The nominal Greek GDP declined from €231 billion in 2009 to an estimated €195 b. in 2012, i.e. 15.6%. The total bail-out package to the Greek government is estimated to approximately €246 b. until the end of 2014, €183 having already been approved.

3. Euro Area Imbalances and Austerity as 'Fiscal Consolidation'. A Critique

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 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 to the shoulders of the laboring classes and small entrepreneurship. So it is a convenient interpretation for a particular configuration of power.

Besides, it takes two to tango: for reckless borrowing, a 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 so easy to be grasped and measured. The mainstream argument about low competiveness of deficit countries is 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 where celebrated as the basic mechanism for accommodating growth differentials in the environment of the common currency. In other words, imbalances were approached as evidence that the economic experiment of the common currency was actually delivering. They were 'good' imbalances. Suddenly, this interpretation was quickly 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 (For the distinction between "good" and "bad" imbalances see Eichengreen 2010).

It may sound strange but underneath the apparent discontinuity there lies an implicit continuity. Both pre- and post-crisis explanations were there to serve the long-term interests of the strategies of 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 lines.

In the pre-crisis period, Blanchard and Giavazzi (2002) 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 can increase their own consumption (reducing national savings). 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” (Blanchard and Giavazzi 2002: 148). 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 (For an analytical account of the econometric evidence with regard to intra-European current account imbalances see Stockhammer and Sotiropoulos [2012]).

In post-crisis mainstream writings there is a tendency to the gradual decomposition of the above argument. Eichengreen (2010) summarized the alternative explanation, suggesting that 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 summarizes 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 argumentation 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.

Neither 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, quite contrary to what happened to the more developed European economies. The GDP growth over the same time period was 19.5 per cent for Germany, 17.8 per cent for Italy and 30.8 per cent for France (see Milios and Sotiropoulos 2011; ch. 12, Sotiropoulos, Milios, Lapatsioras 2013). Moreover, higher growth in the 'periphery' was associated with higher profitability and both with deterioration in current account positions as general tendency. 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*.

Table 1

GDP and domestic demand growth in various countries: 1995-2008

	Greece	Germany	Netherlands	Spain	France	Ireland
Real GDP	*61.0%*	*19.5%*	*42.0%*	*56.0%*	*30.8%*	*124.1%*
Real private consumption	*55.7%*	*12.3%*	*33.1%*	*55.3%*	*35.5%*	*104.5%*
Real total gross fixed capital formation	*102.8%*	*18.8%*	*56.3%*	*95.2%*	*55.8%*	*130.5%*
Real public consumption	*51.1%*	*14.7%*	*41.4%*	*74.8%*	*20.0%*	*97.3%*
Current account (2008) %GDP	-14.6%	+6.7%	+4.8%	-9.6%	-2.3%	-5.2%
Export volumes (goods and services)	*131.4%*	*159.0%*	*114.1%*	*115.1%*	*76.0%*	*232.3%*
Import volumes (goods and services)	*123.1%*	*115.5%*	*117.8%*	*174.1%*	*101.8%*	*222.4%*
Export prices (goods and services)	*56.4%*	*2.7%*	*18.0%*	*34.2%*	*7.2%*	*13.2%*
Import prices (goods and services)	*51.0%*	*9.3%*	*14.3%*	*28.4%*	*7.9%*	*20.9%*
Consumer price indices	*64.4%*	*22.2%*	*33.1%*	*47.5%*	*26.0%*	*47.2%*

Source: *OECD, Economic Outlook, Volume 2009/2, IMF*

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 mostly in other countries of the monetary union (since we are talking about a monetary union, where exchange rate risk has been practically eliminated). In this sense, 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 suffered economic slack by contrast with the higher rates of growth and profitability that were experienced by 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 key point in understanding this fall is the very fact that the EA is not a single economy but *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.[1]

[1] 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). It is for example characteristic that short-term real interest rates in the 1990s for Greece averaged around 5.4 per cent but

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 surging 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 for dealing with the crisis has as its main objective the further embedding of the neoliberal agenda. It will always stay one step

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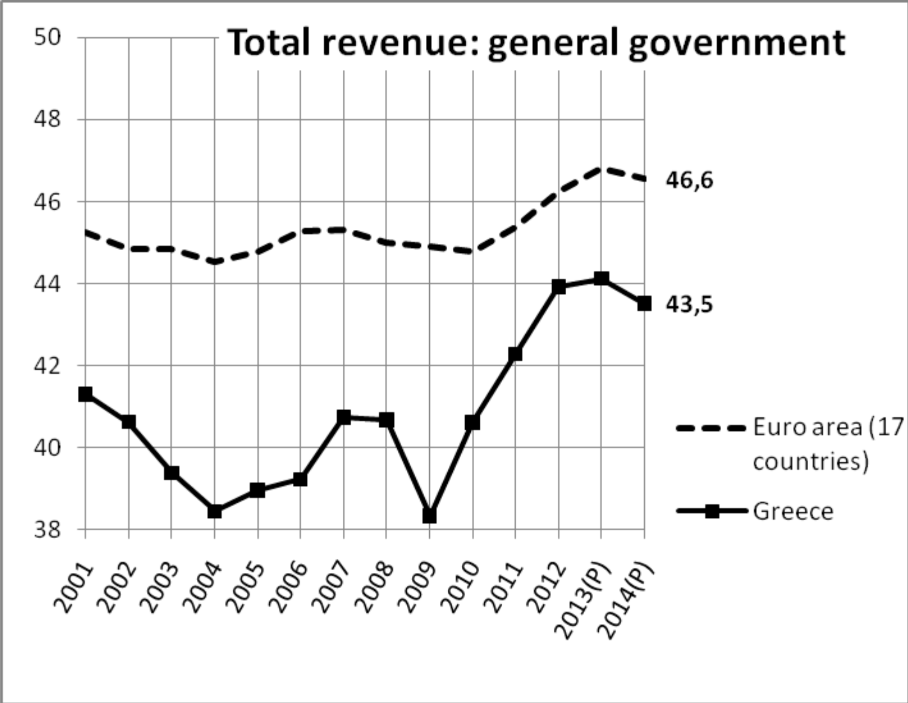
after 2000 fell almost to 0 per cent and for long periods went even lower (see Deutsche Bank 2010).

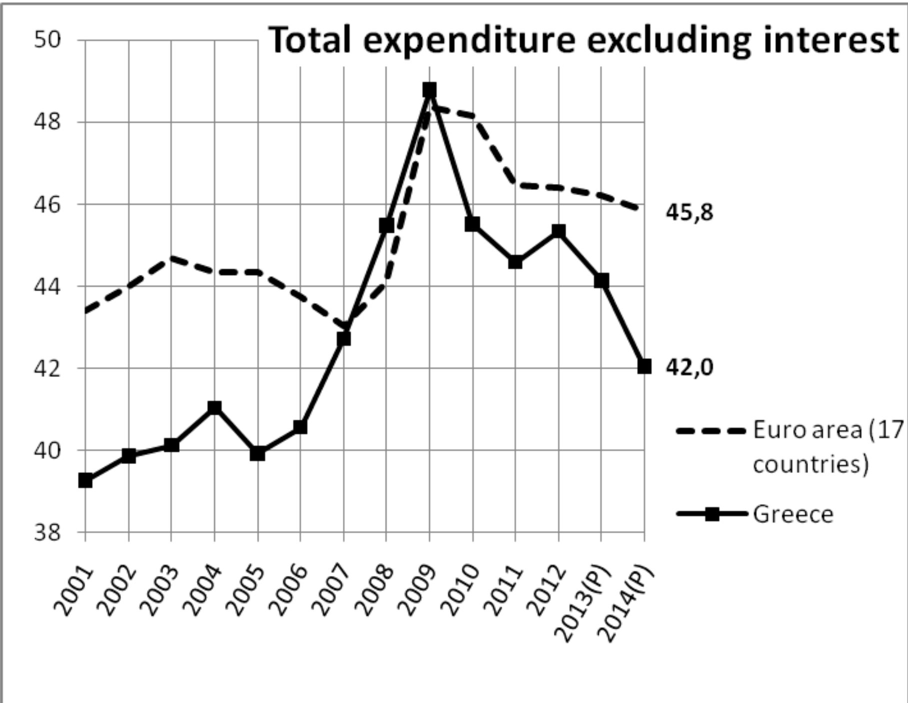
back from the 'real' needs of the time so as to lead states into the path of conservative transformation by 'exposing' them to the pressure of markets. This strategy has its own rationality, which is not obvious at a first glance. It sees the crisis as an opportunity for a historical shift of the correlations of forces to the benefit of the capitalist power, subjecting European societies to the conditions of the unfettered functioning of markets.

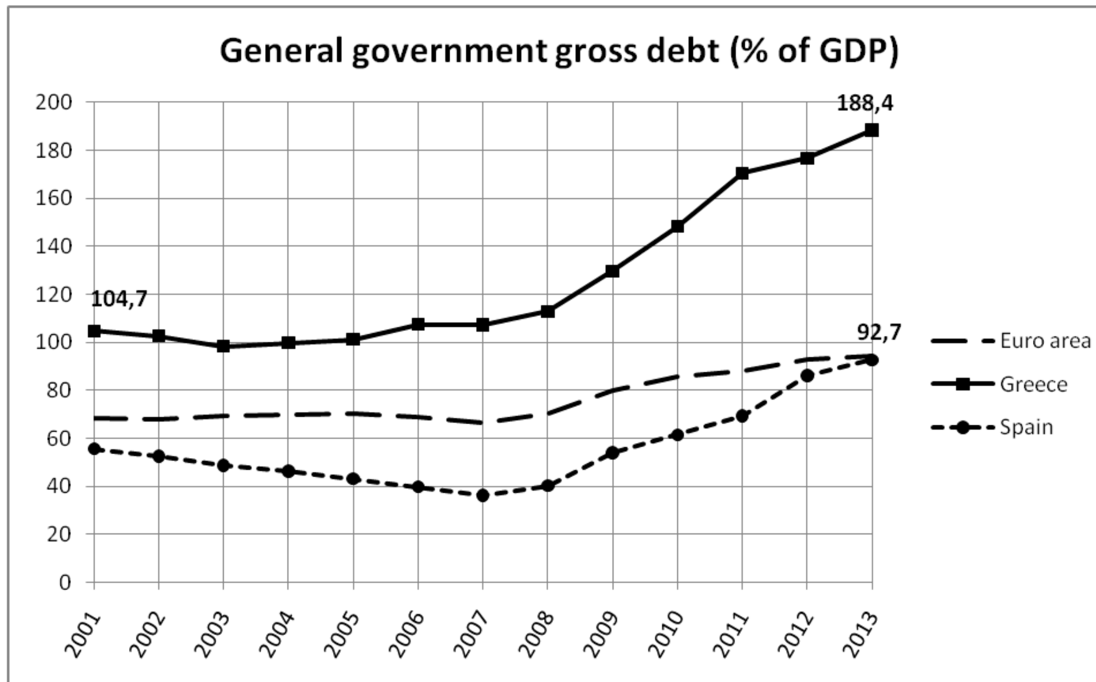
In fact, the EMU setting provided a strong basis for the materialization of an offensive neoliberal agenda. *If there was any profligacy at all, this was due to the tax relief enjoyed by the top social strata*. From this point of view, those who analyze the recent fiscal crisis in the EA as the result 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...

4. The Case of Greece again

The following figures illustrate the above stae argument for the case of Greece. G*iven 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 the benefit of 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 cause was the shortfall of revenues in relation to the expenditures, regardless inefficiencies in the state apparatus (which of course are not Greece's prerogative). The figures focus on the trend of the primary balance which bases itself on the relationship between revenues and primary expenditure (expenditure before interest payments).


Total revenue: general government
50
48
46
44
42
40
38
46,6
43,5
Euro area (17 countries)
Greece
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013(P)
2014(P)


Total expenditure excluding interest
50
48
46
44
42
40
38
45,8
42,0
Euro area (17 countries)
Greece
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013(P)
2014(P)



For the whole period under examination, direct taxes in Greece are more than 4 per cent of GDP lower in relation to EU27 and 3 per cent in relation to EU12. The cause of 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.[2]

5. Austerity as a Class Policy

After the start of the 2008 crisis, European officials, along with the participating governments, were faced with a very difficult puzzle: first, how to deal with the enormous economic problems and contradictions without undermining the neoliberal

[2]We shall just put forward three comments to complete our argument. First, the head of the IMF points out in an interview that from 2010, while workers and pensioners paid the level of contribution which they were required to do, an unexplained tax immunity held for rich people (Strauss-Kahn 2010). Second, since 2007 OECD reports made it clear that it was the reduction of effective corporate tax coefficients 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 sorporations and high incomes. The tax coefficients for firms have 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 European average exceeds 25 per cent. The reduction of capital taxes after 2000 is extraordinary, turning the Greek economy into a sort of a tax paradise.

context of the EMU; second, how to turn the crisis into a chance for further boosting of the neoliberal agenda; third, how to correct the problems while avoiding the 'overcorrection' that would make room for the implementation of social welfare policies in the future; finally, fourth, how to use the tremendous fire power of the ECB without turning it into a 'traditional' central bank.

Given the inelastic parts of public expenditure and the lower tax incomes, recession was approached and used by European states as a tool for further reductions in total expenditure and further relative fiscal burdens to labor. This is the result of the abovementioned type of governance: official responses complementary to the role of the markets. In other words, austerity has been rendered the major economic policy for developed European capitalist formations. Of course, all these observations describe the general trends which depend also on the results of social antagonisms and evolution in each country.

The commentators or analysts who blithely criticize European leaders misunderstand this point. Not only do European officials always have a second and a third plan in reserve, but their decisions must impel 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 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 sovereigns, if Long-Term Refinancing Operations (LTROs) and Outright Monetary Transactions (OMTs) were more decisive, if the current 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 promoting less drastically the interests of capital.

In brief, the European strategy for dealing with the crisis has as its main target 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 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.

6. SYRIZA's Program: An Agenda in Favor of Society's Majority

SYRIZA, as part of the European Left, attempts 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.

SYRIZA's Program bases itself on three pillars:

1. *Social justice*.
2. *Reform of the state*.
3. *A European solution of the sovereign debt problem*.

The root cause of Greece's chronic fiscal problem is low public revenues. Their gap from the Eurozone average relative to GDP was reduced to four percentage points in 2011 (40,9% and 45,3%, respectively). However, they still can't sustain public spending at the level of approximately 50% of the GDP, which has been the Eurozone average over the last years. The spending gap has been systematically financed by an ever higher public debt. However, far from a policy failure, systematic public-revenue inadequacy has been a conscious political choice of the two-party political system that dominated the country in the aftermath of the fall of the military dictatorship in 1974. The alternating governments of ND and PASOK rendered the tax system the locus of a profound distortion in favor of the upper classes. Tax avoidance and tax evasion account for 12% to 15% of the country's GDP, according to officials of the financial and economic crime unit (SDOE). Although not confined to the upper classes, it is their proper tax evasion that weighs disproportionately on the public coffers. That systemic inefficiency of the tax system, exacerbated by the recessionary impact of the global financial crisis in 2008,

triggered the country's fiscal derailment since 2009.

The first and foremost reform, whose introduction is still pending, should have focused on the disentanglement of the tax system from its capture by the economic oligarchy. Indeed, as the international media often remark: the rich don't shoulder their tax burden in Greece. For that to happen, a tandem political and fiscal reform is necessary geared to simultaneously redistributing income, wealth, and power downwards.

From the outset, SYRIZA-USF had emphasised the obvious: that the positive feedback loop between austerity-recession-overindebtedness would be the source of failure of the 'Memorandum of Understanding' (MoU) *per se.* And that providing loans and imposing austerity on an economy already in recession would bring, sooner rather than later, both Greece and its creditors into a calamitous impasse. It consequently doesn't come as a surprise that, at this point in time, Greece is asked by its creditors to stick to austerity, not because its is proven effective, but just because the Greek government committed the country to it.

Apart from being counterproductive in economic terms, austerity is both counterproductive and deleterious in political terms. It bleeds democracy. It has proven to be the incubator of neo-Nazism. The anguish and hardships endured by the Greek people, along with the humiliation felt by the visible enfeebling of democracy and national sovereignty, as the country is practically run by the troika of creditors, they all have sown the seeds of nationalism and xenophobia. People are unfortunately becoming receptive to populist messages of rage and hatred. For the first time in Greek history, a neo-Nazi organization entered Parliament in the June 17th election. Worse moreover, recent polls have shown that organisation to be gaining political momentum, ranked as the third party – behind SYRIZA-USF and ND – in all of them. Blackshirts *Sturmabteilung* are already bringing violence into the streets of Athens and the villages of Greece.

SYRIZA-USF's position is that, however the Eurozone debt crisis might have commenced, it is European in nature. It reflects flaws and asymmetries in both the architecture and operation of the Eurozone.

In that wider European context, SYRIZA-USF has put forward an elaborate and realistic political programme to pull Greece out of the recessionary trap and grow out of its debt. That programme involves the following policy actions:

- Annulling the MoU and replacing it with a plan for the productive and developmental reconstruction of the country.
- Renegotiating and consensually revising the lending agreement, with Germany's treatment in the 1953 London Debt Agreement serving as the compass that guides all parties involved. We want to agree with our lenders on a credible solution, ensuring the sustainability of Greece's public debt and paving the way for economic growth. To this end, the pillars of our policy are:
- ✓ Moratorium on debt-service for a considerable period of time, so that to reorient all available resources towards reversal of recession, economic recovery and growth.
- ✓ Write-off of a significant portion of the nominal value of public debt, preferably in the context of an overall Eurozone resolution of the debt crisis with the European Central bank issuing Eurobonds. If that is not feasible, the solution would occur at the national level.
- ✓ Tying the repayment schedule of the remaining debt to the country's ability to pay, on the basis at least of a "growth clause".
- ✓ Recapitalization of the Greek banking system at the Eurozone level.

SYRIZA-USF – itself an integral part of the *Party of the European Left* – joins its forces with the democratic and progressive political forces and peoples of Europe to remove the neoliberal bias from the process of European integration, to disentangle the Eurozone from the trap of austerity and recession, to revise its mode of operation, and reverse its *de facto* division into the creditor North and the debtor South.

To this end, we propose:

- The European Central Bank to fulfill all the functions of a proper central bank, including the role of a lender of last resort, not only for banks but also for sovereigns.
- The political regulation of Europe's financial sector, employing four policy instruments:
- ✓ A Tobin tax on the short-term movement of capital, initially levied at the European level,
- ✓ European banking legislation modelled on the Glass-Steagall Act, which was in place in the United States from 1933 on to 1999, separating commercial banking activities from investment banking,
- ✓ Abolishing tax heavens, and

- ✓ A public European credit rating agency.
- ➢ Bank oversight and recapitalization at the European level, without policy conditionality.
- ➢ Eurobonds to be issued by the ECB or another European institution, without policy conditionality.
- ➢ The introduction of a *European Fund for Social Development and Solidarity* to distribute financing for projects on the basis of social and environmental criteria. It would be funded by the ECB, part of the EU budget and the proceeds from the Tobin tax.

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