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IS THE CURRENT CRISIS OF GREEK CAPITALISM A CRISIS OF A FINANCIALIZED ECONOMY?

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ABSTRACT

The article proposes an explanation of the current crisis of Greek capitalism from the point of view of Marx's theory of Money and Finance. In this context, the concept of fictitious capital plays a prominent role, in defining and explaining the process of proliferation of finance in contemporary capitalism also known as financialisation. From this perspective the evolution of the Greek financial system relative to the evolution of capitalist accumulation in Greece, is examined from 1973 till the EU-ECB-IMF economic adjustment program of 2010. The theoretical analysis and the empirical examination of this paper rejects the argument that the current Greek crisis is a financialisation crisis.

Keywords: Bill of exchange, Shadow-banking, Repurchase agreement, Securitization, Fictitious capital, Marxism.

JEL Classification: B14, B24, B51, G21, G24, P16

Introduction

Several heterodox and radical political economists in Greece and abroad explain the Greek sovereign debt crisis of 2010 as the crisis of a financialized economy (Argitis 2010, Lapavitsas & Kouvelakis 2012 and Milios & Sotiropoulos 2010). From this perspective, they accept the twin deficits (fiscal and current account)

argument for the Greek crisis, emphasising the one (fiscal) or the other side (current account). Additionally, they maintain that the debt-to-GDP ratios increased and financial services accounted for an increasing share of national income compared with other sectors. In that sense, the financial sector supposedly dominated the whole economy and drove the accumulation of capital at the expense of non-financial activities.

Nevertheless, in order for this to happen the financial system must be sufficiently transformed is such a way as to be able to dominate and drive the process of accumulation. From the Marxist perspective adopted in this paper, such transformation occurs only when the accumulation of IBC (interest-bearing capital) in the economy becomes extensive and intensive. 'Intensive' growth and proliferation of financial assets signifies their increasing distance from production, while 'extensive' means the extension of IBC to new areas of economic and social life in hybrid forms of capital (Fine 2013-2014, 55). Under such conditions finance can acquire a dominant position as regards capitalist accumulation only in the structured environment of Shadow Banking. In the context of the latter, exchange can be facilitated by the intermediation and dominant presence of fictitious capital.

If Shadow Banking activities are not dominant then the financial system cannot produce forms of IBC to be used extensively and intensively. In this case finance does not dominate capitalist accumulation. This means that the simple proliferation of various financial instruments is not enough evidence that the economy is financialized. What is additionally required is the extensive and intensive accumulation of assets as fictitious capital.

From this perspective, the evolution of the Greek financial system is examined as regards both its qualitative and quantitative aspects. The role of fictitious capital in it is presented and relevant statistical data are employed when necessary. The latter are drawn both in historical perspective as regards the Greek system and in comparison with the financial systems in the European Union. However, before we examine the Greek financial system it is necessary to introduce the reader to the Marxist perspective on contemporary finance and specifically to the role and relevance of Fictitious capital. Therefore, the paper starts with an explanation of contemporary finance from the point of view of Marx's fictitious capital, and his theory of money and finance. Next, on the basis of the conclusions reached, we examine the evolution of the Greek financial system by 2010 and whether this evolution justifies the characterisation of the Greek economy as a financialized economy in crisis, according to the criteria identified in this introduction.

Fictitious capital and money as capital in Marx

According to the Marxist perspective adopted here, contemporary finance is characterized by the expansion of fictitious capital's operations. This requires a coherent definition of fictitious capital and an analysis of its role in Marx's theory of money and finance. The latter is a very sophisticated theory in which the distinction of the use of money as credit from its use as capital is crucial. For Marx, the borrowing, and use of money as capital is different because money is then used not just to buy a good or to meet a payment but in order to make more money. From the perspective of capitalist production, this occurs when money is borrowed in order to expand accumulation with the expectation of a future profit (Papadatos 2016).

Fictitious capital is a form of IBC. IBC is defined as money capital which is loaned in order to be used in the sphere of production for extracting surplus-value, in contrast to the simple loan of money (money as such) which simply facilitates transactions in general. However, from the moment there is an obligation to repay a loan (and this obligation takes the form of debt), it is possible for this debt to acquire a life of its own. Consequently, the obligation (which takes the form of securities) can autonomously be bought and sold at some money value, which might or might not correspond to the ability of its sum of money (if used as capital in the sphere of production) to realize enough surplus-value. This autonomous circulation of IBC in the form of securities is called by Marx fictitious capital. 'Fictitious' does not imply that it does not exist or it is artificially created. It denotes that its circulation is distinct from circulation or the yield of capital which represents (Fine 2013-2014, 49-50). Therefore, fictitious capital is related to the financial activities of capital in general and becomes more crucial as the financial system becomes more complex.

The Capitalist Financial System: the importance of Power and Trust

Credit transactions require trust among participants in the sense that the party which advances credit must have trust in the counterparty making the requisite transfer in due time. In addition, although trust is also necessary between participants in regular exchange of commodities, the trust required to part with capital value against a mere promise to pay is of a different order of magnitude. Therefore, it is essential for credit transactions that relations of trust and power are present among capitalists. This happens because capitalists, who engage in credit transactions are already complexly related to each other through the capitalist division of labour in order to promote capitalist accumulation. Thus,

although credit is originally a private and subjective relation of trust between capitalists, deployed to promote their individual economic activities, relations of trust and power are transformed in the course of credit transactions and gradually acquire a social and objective character.

The capitalist financial system consists of two main pillars: a) the credit system and b) capital markets. More specifically, the credit system is a set of social mechanisms that socializes trust and power in the interest of capitalist profit making. Credit gives rise to a layered set of institutional mechanisms (the credit system) that sustain the capitalist economy as a whole. Relations of trust and power are transformed within the credit system, and acquire an increasingly social content by involving banks, markets and other credit institutions. The requirements of credit also become increasingly social, especially with the information necessary to support trust.

The pyramid of the credit system represents a layering of credit relations. The bottom layer is trade credit whose main instrument is the bill of exchange. Trade credit arises through trade relations, which are specific to economic activity and geographical area. Banking credit (i.e. the collection and advance of loanable money capital by banks) constitutes the next layer. Banking credit arises in the discounting of trade bills and is based on the collection of idle money from several sources and thus overcomes some of the particularities of trade credit. By collecting idle money from several sources in the economy, banks partly homogenize credit and begin to give it a less individual character. The money market (in which LMC (loanable money capital) is traded among banks) comprises the next layer of the credit system. Through money market operations, loanable money capital is established as a social category and the rate of interest is given a precise expression applicable across society (Lapavitsas 2003, 68-86).

The apex of the pyramid of the credit system is the central bank (the leading bank of the money market) which gives to LMC and to credit in general, a partially conscious social aspect.

Finally, the capitalist financial system is complete when a capital (stock) market is established that complements the credit system. In contrast to the latter, the stock market is a venue for mobilization of idle money but on the basis of property (equity) rather than credit (debt). Nevertheless, the credit system is organically connected with the stock market, as both draw funds from the same pool of loanable money capital, and as lending by the credit institutions sustains the operations in the stock market (Lapavitsas 2006, 147, n.27). The connecting

links between the credit system and the stock market are crystallized in the interest rate.

Marx's analysis of the capitalist financial system and contemporary finance: A comparison

In Marx's day, firms financed production and trade by issuing bills of exchange with a usual term of 90 days. These where accepted (guaranteed) by banks for a fee. But a bill could also be 'discounted' (bought) by a bank at less than its face value, also for a fee, with the difference between the bill's face value and its discounted value constituting a rate of interest accruing to the bank for the remainder of the bill's term. Banks financed their discounting with cash or with bank account deposits (subject to prudential liquidity requirements) and the receiving firms spent these payments on the maturing bills. So, firms managed their daily cash outflows (for input purchases and maturing bills) through this discounting mechanism, and through it they financed the purchase of inputs in order to produce the outputs whose sale enabled the flow of repayments. In their turn, banks amassed portfolios of bills, with varieties of maturity dates and hence cash inflows, which in turn financed new discounts and hence cash outflows. Banks managed their cash inflows and outflows via adjustments in the discount rate: too many maturing bills and not enough requests for discounting, and the bank would reduce its discount rate; in the opposite case, it would increase it.

If a firm experienced problems with selling its outputs, it might have to default on its accepted bills, and the accepting bank would then suffer a cash shortfall. If this could not be managed by commercial borrowings the accepting bank would then have to meet its cash shortfall by using its own resources reducing its own cash, or by borrowing more from the Central Bank (against any security that would be acceptable in normal times, but at a penal rate of interest; (Bagehot 1873, 1993). With this procedure, domestic financial problems with one bank, caused by difficulties in the real economy, could be prevented from cascading through the whole delicately balanced system of cash credits and debits. But bills of exchange accepted and discounted at London banks were also used to finance production and trade the world over, and foreigners' gold alone was an acceptable form of payment. So, the Bank of England had to manage its gold inflows (from maturing international bills of exchange) and its gold outflows (from requests for new discounts) through variations in its own discount rate. If outflows exceeded inflows, the Bank could not create new gold (in contrast to its ability to create new credit domestically) and if it could not stem the imbalance (via for example loans from other central banks), it would ultimately have to suspend convertibility. This could only be avoided if foreigners would accept

payment in sterling instead of gold, but the gold standard never in fact evolved into this sort of gold-sterling system.

In sum, the dominant financial asset was the bill of exchange; and problems in the production and sale of output were directly reflected in finance through imbalances in cash flows. Normally, producers and traders paid their debts with bank deposits; banks with their reserves at the Bank of England, and the latter with gold, a hierarchy of money in which each level settled using the claims of entities at the next higher level. But in a crisis, only domestic or foreign cash would do, all at par on demand at rates fixed in gold.

The system of contemporary finance

The system of contemporary finance is different. The most dramatic change is that the dominant financial asset is no longer the bill of exchange with its direct links to the financing of production and trade. Instead, the dominant contemporary financial asset is the 'sale and repurchase agreement' or 'repo', and it is undertaken purely for financial reasons. In a repo, a borrower of cash sells a bundle of securities for x$ to a lender of cash with an agreement that the cash borrower will repurchase the securities for y$ after a fixed term (often overnight)[1]. The securities thereby act as collateral for the cash loan. In the event that the cash borrower defaults on repayment, the cash lender owns the securities to keep, sell or use again as collateral.

The contemporary financial system is built around repo-based money-dealing activities organized through dealers who intermediate risk: foreign exchange, duration and credit. With derivatives separating the flows of risks from the flows of funds, the dealers made most of their profits through this intermediation process. Moreover, in this context institutional developments led to the notion of a 'bank' to become elastic, as the term 'bank' denotes an institution whose assets are loans of longer-term duration than the money liabilities that fund them (a maturity transformation always subject to liquidity risk). Prior to the 2007-9 crisis, only a subset of such institutions had access to complete liquidity insurance provided by central bank backstops, and the remainder, which had to purchase private insurance, have come to be called 'shadow banks'. This is the distinguishing characteristic of contemporary finance. The core of shadow banking is formed around the repo market, which also provides a crucial link with the rest of the financial system, meaning commercial banks and finally the central bank (Mehrling 2011, 26-31).

1The ratio (y-x)/x is the repo rate, effectively a rate of interest. The value of the securities say $z, will generally be of greater value than their sale price, and the ratio (z-y)/y is the "haircut".

How shadow banking works: The role of securitization

As already argued, the repo market is a market for short-term (mainly overnight), collateralized loans. To understand why repos work pretty much like banking, it is necessary to look at how repo transactions work. Let us identify the 'depositors' as the repo lenders. These are largely institutional investors (e.g. pension funds, large corporations) that need some place to invest large amounts of money for short-periods. They also want to obtain higher yields than those offered by regulated commercial banks and to be safe. One alternative is the repo market. A lender can make an overnight loan to a borrower. To make the loan safe, the lender receives collateral usually in the form of government bonds, which are liquid and fluctuate little in value over short-periods. If the borrower is unable to return the funds the lending party will simply seize the collateral. Provided that the value of the underlying collateral does not change significantly over short-periods, a repo transaction is safe for the repo lender.

Like a bank depositor, the repo lender has real access to its money and has the opportunity to reallocate its funds toward some other use on a daily basis. When the repo borrower repurchases the security from the repo lender, he also pays interest to the lender. As long as the repo is collateralized by a Treasury security, it is not fragile in the same sense as traditional banking because the asset that collateralizes the repo is highly liquid and can be easily sold. If the repo borrower can't repay on time, the repo lender simply takes the collateral and sells it for cash. This is basically how the shadow banking system works. Nevertheless, safe collateral such as U.S. Treasury bonds were essential to make this financial transaction work.

However, the growth of the repo market increased the demand for collateral. Also, the fact that the quantity of US Treasuries available was subject to the considerations of US fiscal policy as well as to the demand for US Treasury securities by foreigners, acted as a constrain to the further development of the repo market. Therefore, MBS (mortgage-backed securities) helped to satisfy the further demand for collateral in the repo market. The solution to the shortage of good collateral was found in another form of financial innovation that had evolved since the 1980's: securitization.

MBS and other securitized products helped to overcome the shortage of collateral and to allow for the further intensive and extensive accumulation of fictitious capital. In this way securitization became pivotal for the development of contemporary finance and the recent trend to merge their two main pillars,

namely the banks (credit markets) and capital markets (stock-market). However, securitization transforms property into capital value against a promise for repayment. That is into fictitious capital. By doing that contemporary finance transformed the relation between finance and the credit system in such a way that it disturbed the layered set of institutional mechanisms that comprise the credit system and sustain trust in it. This effect contributed to instability which finally led to the collapse of trust and cause the repo-market crisis of 2007.

For Marxism, this means that instability was rooted in the common element between the financial (primarily shadow banking) system and the credit system: loanable money capital (LMC). Nevertheless, (Fine 1985-1986, 419) notes that LMC involves credit relations that can be articulated to other forms of capital, such as IBC, but also money-dealing capital (MDC). Marx, always distinguished between what he calls the pure forms of capital (MDC and IBC) and the correspondence to the functions of 'money as money' and 'money as capital'. Therefore, borrowing and lending money to buy a house is not contingent upon using the house purchase to generate a surplus through engaging in capitalist production or exchange. So, this is not a part of IBC. But it does become so once portfolios of mortgages are bundled up into an asset and sold, possibly combined with other sets of assets, and sold again, and so on. In this case, those buying the fictitious capital are advancing money capital in the expectation of a surplus even though the origins of this surplus do not lie in such an exchange (Fine 2013-2014, 55-56).

Contemporary finance and the hierarchy of money

Moreover "[t]he most valuable contribution of Marx's theory of the rate of interest is the way in which it has clarified the relation between "debts" and money. In Marx's view "debts" are themselves only money in so far as they absolutely take the place of actual money to the amount of its normal value as a means of purchase or as a means of payment. He also informs us that "debts" can take the place of actual money both for the transfer of capital between capitalists and for the settlement of mutual claims of indebtedness only in times of prosperity, when the state of confidence is very strong, and the sale of commodities at profitable prices being assured" (Fang-hung 1939, 41)

In Marx's classic financial system, bills of exchange financed production and trade, and short-term debt was collateralized by real goods, while repos finance the holding of purely financial assets. In the modern hierarchy of money, as in Marx's day, each level continues to settle using the claims of entities at the next higher level. Part of this hierarchy remains the same as in Marx's day. The

central bank issues reserves and commercial banks issue deposits. All traders in the economy settle their debts with commercial bank deposits and commercial banks settle their debts through their central bank reserve accounts. What is different from Marx's day is what happens both above and below the common part of the hierarchy.

Above, central banks settle in dollars or safe dollar-denominated assets (US Treasuries) (and other world money's such as Euro's). Below, dealers issue repos, and money market mutual funds issue constant net asset value shares. Neither repos nor money market mutual fund shares can be used to settle debts, but they remain money because they can be traded on demand for a commercial bank deposit at par which can then be used for settlement of debts. At all levels of this hierarchy, the money liabilities issued by institutions are the money assets of institutions below them, which are used in turn to fund their money liabilities. Thus, as in Marx's day, commercial banks (wholesale and retail) issue deposits as money against their central bank reserves. And, unlike Marx's day, dealers issue repos as money against assets of overnight government repos with commercial (wholesale) banks; The money liabilities issued by institutions at each part of the hierarchy are more liquid, shorter-term and safer than their assets. All institutions have this maturity mismatch and therefore incur rollover risk, and a crisis depends upon their stock of overnight money assets (their liquidity) and their access to secured funding (either to the central bank or to credit lines at commercial banks). This too is hierarchical.

Thus, according to the Lehman Brothers bankruptcy report: Lehman funded itself through the short-term repo markets and had to borrow tens of hundreds of billions in those markets each day from counterparties to be able to open for business. Confidence was critical. The moment that repo counterparties were to lose confidence in Lehman and decline to roll over its daily funding, Lehman would be unable to fund itself and continue to operate (Gorton and Metrick 2012, 437).

Of course dealers could also sell assets (provided anyone would buy). But the danger then is a fire sale, with a liquidity crisis becoming a solvency crisis. Moving up the hierarchy, retail and wholesale banks have access to the central bank as lender of last resort (subject to having sufficient assets to meet the required haircuts), and so are generally not compelled to sell assets. And the central bank can, as a last resort print money.

The role of the central bank

Consequently, the contemporary financial system (whose distinguishing characteristic is the repo-based shadow banking) is very unstable because of the applications of all products of financial innovation. These led to both greater complexity and greater fragility of the whole financial structure. Shadow banking is the privileged field for the application of more complex forms of fictitious capital (securitization) and its management.

In addition, as already widely argued, the system of contemporary finance is a complex organism more distanced from the real economy of production, trade and consumption than it was in the nineteenth century. Nevertheless, no matter how complex and how much separated from real accumulation the modern forms of fictitious capital can be, ultimately they are still subject to the same limitations as the early forms which Marx described as a special form of IBC.

Within this context, the central bank's monopoly of legal tender became a fundamental component of contemporary finance. Modern central bank money (banknotes and deposits) functions as obligatory means of payment, backed mostly by state debt. Consequently, it has clear aspects of fiat money (that is, money with arbitrary circulation backed by the power of the state). Nevertheless, modern central bank money is still issued by a bank; in other words it is fiat money that has mutated out of credit money. Thus, the management of modern fiat money draws on the social power and trust invested in the central bank, through its access to the credit of the state. Since the state has the right to tax the annual revenue, state credit clearly has very different determinants from the credit of capitalist firms (and is not subject to the same limitation). Thus, in a crisis situation when trust to the market is lost and convertibility is suspended, it is the state which intermediates between the monetary system and the credit system through the central bank.

This was the case in the 2007-9 period when the repo-based shadow banking system went to a crisis. The crisis in the U.S. started when doubts about the values of the underlying assets (collateral) of several MBS, that is mortgage cash-flows, became dominant. Then, the crisis spread to all securitized products as, due to the complexity of securitizations, investors did not know where the risks were concentrated. Next, the repo market was affected as repo lenders ran on repo borrowers. A repo lender in doubt about collateral value could do two things: either ask for more collateral or simply not renew the repo. Both actions are equivalent to a withdrawal of funds from shadow banking. However, as refusals to renew repos became dominant, due to the deterioration of confidence levels, the shadow banking was cut off from liquidity. Very soon the dealer market that trade collateralized assets through repos collapsed and trade was

impossible, as there was no market-maker capable of credibly valuing the necessary funds to establish buying and selling prices. Transmission to the money market was automatic as banks were major participants in the repo market. But soon a common solution has been suggested: the central bank should be the dealer of last resort and provide market-maker services to the markets. This could involve outright purchases and sales of a wide range of private sector securities as collateral. Somehow, the function of the lender of last resort was complemented with that of the dealer of last resort (Mehrling 2011, 110).

Fictitious capital, Contemporary finance and the Greek financial system

Now, it's time to examine where the Greek financial system stands. Modern Greek banking system emerged in the 1920s, when the Bank of Greece was vested with central banking functions and two major state-run credit institutions (the Agricultural Bank of Greece and the National Mortgage Bank of Greece) were established. After World War II, the largest banks and affiliates were all brought under state ownership or control, and in the 1960s the authorities established a trio of development banks. Regulatory obstacles limited entry possibilities for new banks, and the government merged and consolidated the institutions under its control, leading to the creation of a concentrated banking system (Eichengreen & Gibson 2001, 547).

As (Sakellaropoulos 1992, 224-229) argues relations of power and trust of this system were incorporated within what he calls the Greek state finance capital; a peculiarity of Greek postwar state-monopoly capitalism. This new power structure was comprised by a grid of economic interests and was realized mainly through close interrelationships and interconnections of the two largest state banks with big private enterprises. The economic magnitude of this power structure was manifested primarily through the formation of financial groups (mainly those of the "National Bank of Greece" and the "Commercial Bank of Greece"). Within them banking, insurance, industrial and commercial enterprises were brought together. An amalgamation of interests took place both at the level of equity and at the personal level. The power of the group as a whole greatly surpassed the power even of the largest individual corporation. In essence, subsidiary firms - with the exception of industrials - were created to be closely dependent on the mother-bank. The apex of this system was the Currency Committee (comprised of ministers with economic portfolios and the Governor of the Bank of Greece), which provided detailed instructions to each bank. The private sector, for its part, had few alternative sources of finance. Capitalisation and turnover on the Athens Stock Exchange remained negligible before the 1980s. Bond issues were limited to flotations by the state and public enterprises.

Moreover, there was preferential financing of certain enterprises not on the basis of generally applicable laws and regulations, but in conflict to them, on the basis of personal, economic and political relations developed between banks high-management, private entrepreneurs, industrialists and politicians managing the state power. Finally, a third type of financial capital was the appearance of equity holdings and linkages between banks and large industrial enterprises. These were primarily isolated industrial companies which did not belong to the financial group of the bank-mother. In Greece this form of finance capital never gained great importance as the percentage of companies' shares, in the own portfolios of the Greek commercial banks never exceeded 2% of their assets in the period 1959-1977. For comparison purposes, the corresponding figure for German banks ranged between 9% and 12% (Sakellaropoulos 1992, 227).

Nevertheless at least until 1982, the state-finance-capital was for Greece the dominant model of capital accumulation. The state finance capital in Greece agglomerates the dominant structures of economic and political power. The long lasting of this organic intertwining of interests, power and authority to take major decisions was mediated by the state, economic and political power. This is the main difference from the corresponding quality of financial capital established in developed industrial countries. The role of the state there was less important, since bank capital was private and the overall relationship was dominated by large private interests. The role of the state in regulating the total reproduction was limited to indirect forms of intervention that reinforced existing market forces and was not a substitute for them, as the case was in Greece.

Relations of power and trust in the Greek postwar financial system reveal a system reminiscent to that described by Hilferding (1910, 1981) in his book on finance capital; although with significant differences signifying the peculiarities of postwar Greek capitalism. In addition, from a specifically Marxist point of view as Harris (1988, 19-25) argued, the concept of finance capital suggested by Hilferding is not compatible with the arguments of Marxist theory; especially as regards the nature of fictitious capital. Marx created the concept of fictitious capital in the context of the introduction of joint-stock companies. The same phenomenon was seen by Hilferding as crucial for the development of another distinct form of capital, which he called finance-capital. However the dynamics of the two forms of capital (fictitious and finance) move in completely different directions. The main feature of fictitious capital is located in the looseness of the relationship with industrial capital and the production of surplus value, unlike finance-capital which is characterized by its close relationship with industrial capital and the involvement in its activities (Harris, 1988, 19-25). For Greece, state-finance capital is a reflection of economic backwardness related to the inability and weakness of private capital to contribute decisively in the economic

development of the country; something in other capitalisms private capital was able to do. This structural weakness of Greek capitalism was what state-finance capital was trying to make-up: enabling the more powerful parts of Greek capital not only to dominate the domestic market, but also on the basis of this protective cover to gain international competitiveness and for at least two decades after the war to improve Greece's position in the international division of labor until the structural crisis of 1973.

The crisis of the Greek state finance capital

Specifically, the 1973 structural crisis, which affected the Greek economy and led to falling profitability (Maniatis & Passas 2013, 51-66, and Mavroudeas & Paitaridis 2015, 153-175) coupled with increased indebtedness of the non-financial sector to the heavily regulated and state-controlled financial system created a difficult situation for banks. Three main elements constituted the crisis of the Greek State finance-capital.

4. The appearance of problematic enterprises, especially as regards the Greek industrial sector.
5. The danger of over-indebtedness, financial instability and finally collapse of the Greek banking system.
6. The petition for membership in the EEC. Accession to the European Community in 1981 put pressure on Greece to bring financial supervision and regulation into conformance with European practice. However, this pressure reinforced also the neo-liberal tendency within the Greek ruling class seeking to liberalize and privatize the financial system as a reaction to falling profitability. An economic sector under state-control operates at a lower level of exploitation and consequently at lower profit rates compared to the same activity privatized.

This meant pressure to change the relationships of power and trust enforced by the protective cover of state finance capital. The state-finance capital system tried "to change everything in order for everything to stay the same" and finally it failed. Failure was not unrelated to the fact that Greece's effort for participation in the European integration process consistently deteriorated competitiveness and contributed to the worsening of the fiscal position and the gradual weakening of state finance-capital.

The first measures for liberalizing the still state-owned and state-dominated financial system took place in 1982, while in 1987 started the systematic effort towards liberalization. After a significant portion of private debts (related to over-indebted private enterprises) were shifted from banks to the State's budget

and contributed to an increase in the debt-burden of the state (Sakellaropoulos 1992, 257-269), controls on the operation of the financial markets and institutions were relaxed. Selectively, the requirement that banks invest 40 per cent of deposits in Treasury bills was removed in 1993. Inward and outward capital flows were liberalized (long-term flows in 1993, short-term flows in 1994). Commercial banks were permitted to offer the entire range of commercial and investment banking services. The development banks, to compete, were permitted to accept deposits, borrow on the interbank market, grant short-term loans, and invest in corporate securities. Nevertheless, the Greek financial system, in mainstream terms, remained 'financially underdeveloped'. Loans to nonbanks by credit institutions as a share to GDP were the lowest of any EU country, while bank claims on the government sector as a share of their assets where higher than in any country except Belgium. The contrast was as evident for financial markets as for financial institutions. The value of bonds outstanding as a share of GDP was low by EU standards and there was no commercial paper market.

A structural characteristic of the Greek financial liberalization is that during the whole period until at least the introduction of the euro the Greek financial system was state-dominated and to a great degree state-owned. Few banks were privatized until then and even fewer of these private banks played a significant role in Greek banking in terms of market share and market activity and this was reflected in the structure of the system. Therefore, despite reforms, such as the abolition of the currency committee or the shift of private debts from the so-called problematic enterprises to the state, relations of power and trust where little changed, and the system continued its preferential policies on the basis of economic, political and other relationships.

Oligopolistic structure and state-dominated

Oligopolistic structure was the other structural characteristic of the Greek financial system that remained even until 2009 and beyond. In Greece, the financial system is dominated by banks; the other sectors of the financial system (insurance companies, mutual funds, brokerage and investment companies, social security institutions, etc.) comprise only a small portion (BOG FSR, June 2009). What changed with financial liberalization in the 1990s was that big banks reduced their market share and allowed for some small private banks to enter the market at limited market shares without however affecting the structural nature of the system (Table 1). Equity capitalization rose from 2% of GDP in 1985 to 15% in 1994 reaching 169% in 1999, receding 98% in 2000 following the correction of stock prices. Financial liberalization in Greece

increased the role of capital market but failed to change the character of the financial system which remained bank-based and centered on the state.

Table 1: Market Shares of Individual Banks at Selected Dates (Based on Total Assets)

	1980		*1993*		*1998*	
	Rank	*Per cent*	*Rank*	*Per cent*	*Rank*	*Per cent*
National Bank of Greece	1	41.6	1	42.3	1	36.0
Agricultural Bank of Greece	2	16.6	2	12.2	2	13.1
Commercial Bank of Greece	3	12.0	3	10.5	4	9.8
National Mortgage Bank	4	8.1	4	7.0	-	-
Ionian Bank	5	5.3	7	4.6	5	5.6
ETBA	6	4.7	6	5.6	10	1.8
Alpha Credit Bank	7	4.6	5	6.2	3	12.5
General Bank	8	2.0	9	1.4	11	1.6
ETEBA	9	1.6	13	0.6	14	1.0
Ergobank	10	1.0	8	3.1	6	5.2
Investment Bank	11	0.6	-[a]	-	-	-
Bank of Crete	12	0.6	10	1.3	13	1.2
Bank of Athens	13	0.3	20	0.3	-	-
Bank of Piraeus	14	0.3	17	0.4	8	2.0
Bank of Macedonia-Thrace	15	0.3	11	1.0	9	1.9
National Housing Bank of Greece	16	0.2	19	0.3	-	-
Bank of Attica	17	0.2	21	0.3	17	0.6
Bank of Central Greece	18	0.0	15	0.4	18	0.5
Eurobank	-	-	12	0.6	7	3.8
Xiosbank	-	-	14	0.5	12	1.5
Interbank	-	-	16	0.4	-	-
Credit Lyonnais Grèce	-	-	18	0.4	na[b]	na
Egnatia Bank	-	-	22	0.2	15	0.8
Dorian Bank	-	-	23	0.2	20	0.3
European and Popular Bank	-	-	24	0.1	16	0.6
Aspis Bank	-	-	25	0.1	19	0.3

SOURCE: Own calculations using sample collected (see text).
a. — : Bank not in existence as independent entity.
b. NA: Data not available.

Source: Eichengreen B & Gibson H.D , 2001

Throughout the 1990s, Greek banks parked many of their funds in government securities. Their loan-to-asset ratios were low by the standards of other EU countries while their securities-to-assets ratios were high. With the convergence of Greek interest rates to European levels, public issues have been rendered less attractive. And with the relaxation of regulations requiring banks to hold government securities their weight in portfolios has fallen. But large publicly

owned banks continued to hold more bonds in general, and government bonds in particular than their smaller, privately-owned rivals. Also, compared to other EU countries, banks in Greece derive a higher proportion of gross income from noninterest sources. This suggests that fees and commissions are relatively high, reflecting historically limited competition.

As a result, the use and proliferation of modern financial instruments was delayed and got a significant boost after 1993-1995. This is due to the restoration of profitability in the traditional banking system because of liberalization and the significant role played by the Greek banking system in the management of state's debt which as a result of structurally weak competitiveness and constant budget deficits remained at very high levels. Bonds issued by sovereign states and bank loans to states are both types of fictitious capital for their value represents the capitalized stream of future interest payments by the state while, in general, the credit obtained by the state through these instruments is not mobilized as capital. That is, states do not use them to finance the production of commodities for profit (although, of course, the state's spending can indirectly support the profits of some sector of private industry). The corollary is that the interest banks can receive on such bonds is not paid directly from uncertain profits of productive enterprises. Instead, the interest paid by the state to its creditors is ultimately financed by the state's powers of taxation. The strength of the state's tax base depends upon the economy's vigor. However, taxes may deplete corporate profits depending partly on the relative ability of workers and capital to shift their tax burden. Nevertheless, the fact that the state's interest payments are based on the power of taxation means that the state mediates between the banks who are its creditors and productive capital. This mediation makes the bank's ownership of this fictitious capital quite detached from the vicissitudes of industry. The fictitious capital comprised by state debt is, therefore, a form of capital in which banks invest while preserving a high degree of independence from production itself. It gives banks much greater freedom from attachment to specific firms and sectors than either IBC (loans to firms) or equity ownership could. Its liquidity is enhanced when well-developed markets exist to trade state debt. The latter has therefore underpinned today's international banking system (Harris 1988, 21-22).

The introduction of the Euro and the end of the Greek exception

As already argued Greece's accession to the European integration led to deterioration of competitiveness. This loss in competitiveness had both policy and structural causes. By ceding the control of the monetary and fiscal instruments of economic policy to Brussels, Greek capitalism lost critical means

for supporting its competitiveness. This was aggravated further by the fact that it had to compete with more developed capitalisms (i.e. higher capital-labor ratio). When more developed capitalisms compete unhindered with less developed ones the former are able to reap off extra-profits from the latter. Therefore, this combination has resulted in relations of imperialist exploitation (i.e. unequal exchange) that exist within the EU and which divide the core and euro-periphery (Mavroudeas & Paitaridis 2015, 167-168).

In this context, as regards the state-dominated financial system the crucial change brought by the euro was in its relation to the state. In a previous section of this paper it is argued that the credit of the state is what underlies the power and trust invested to the central bank. After the introduction of the euro and as the ECB became the common central bank in EU, the credit of the Greek state was greatly enhanced. Thus, interest rates between Greece and the rest of the EU actually converged. Thus, there was the oxymoron Greek capitalism despite its structural weaknesses relative to German capitalism to be able to borrow more or less on the same terms.

This was reflected to the fact that the government could easily borrow from the international markets at very low rates, even compared to those offered by domestic banks. As a result, it led domestic banks to reduce their holdings of Greek government bonds in order to reallocate a significant part of their LMC abroad in an effort to expand beyond their sovereign[2] as well as towards sectors such as consumer credit and housing. The increased use of fictitious capital to which the credit system plays a vital role is related to the increasing difficulties of accumulation during the last phase of the upswing of the capitalist business cycle. This is because the credit system possess a degree of relative autonomy from real accumulation. This is manifested in the ability of the credit system to continue making profits when real accumulation has met with difficulties. Thus, credit expansion to these sectors was the major growth driver for the Greek economy over the next few years until the crisis of 2009-10 especially as public spending, the other major driver of growth since 1973, now was not available, (at least to the extent it used to be in the past), since the introduction to the euro meant that one had to obey the strict rules of the EU's Stability and Growth Pact.

Credit expansion of Greek banks was greatly facilitated by short-term repo agreements (which enhanced available liquidity) and were based on the existence in their portfolios of a large amount of Greek government bonds which could be used as collateral to the ECB or to private markets. As cronyism between the

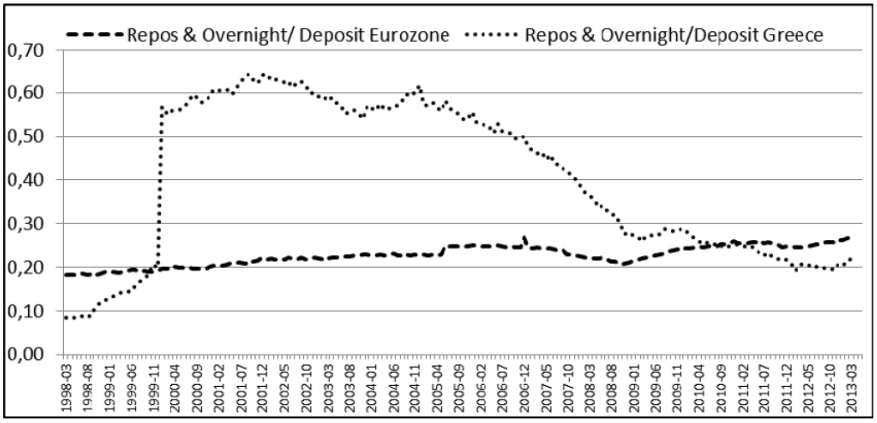
[2] It is noteworthy, that in 2006 Greek banks controlled 14.3% of banking assets in Romania, 16.3% in Serbia, 28.3% in Bulgaria, 32% in Albania and 3.5% in Turkey (Hardouvelis 2006, 29).

banking system and private businessmen never stopped, the expansion of credit could not avoid the financing of unproductive or purely speculative activities. Moreover, despite EMU entrance, the oligopolistic structure and low competition within the Greek financial system meant that the expansion took place at relative high interest rates compared to other Eurozone countries as the so-called ecart (the difference between the weighted average interest rate on loans versus the weighted average deposit rate) was high. Consequently, as we can see in Figure 1 the ratio of overnight deposits and repurchase agreements (repos) in relation to total deposits is much higher compared with the euro zone even after 2004 (reflecting higher ecart) until 2007, when an effort was recorded for the de-escalation of interest rates in order to converge towards the European average (Tsamourgelis & Papadopoulos 2014, 7).

Nevertheless, the degree of leverage in the Greek economy (Table 2) as well as credit expansion for the period after 2000 is much less than credit expansion in housing and consumption in other EU countries, not excluding those of the EU-South (IMF 2012). More specifically, between 1994-2009 mortgage debt rose from 3.8% of GDP to 33.9% (EZ average 39.5%), consumer debt rose from 0.9% of GDP to 16.5% (EZ average 15.6) and business debt rose from 22.5% to 46.7% (EZ average 64.9%) (Moschos & Chortareas 2011, 55-65). In general, domestic credit as a percentage of GDP has grown from 35.5% in 1990 to 84.8% in 2005 (World Development Indicators, 2007). Even in 2008-2010 private credit to GDP reached just 97%, one of the lowest levels in Europe and Japan, and below EZ average of 120% (Moschos & Chortareas 2011, 55-65).

In addition, there was limited use of securitization as in Europe securitization was introduced in the late 1990's (with delay in relation to the US and without the mediation of the state) and got a boost after 2004. Moreover, in Greece although the first securitization took place in 2003, further regulatory arrangements were needed, which further delayed its use. Even then Greek banks did not use securitization, but only to an extremely limited degree amounting to less than 2% of their funding (World Economic Forum 2012,366), while for the EU as a whole MBS amounted to 3% respectively (ECB Annual Report 2009,86) and asset-backed-securities (ABS) reached 5% in EZ (ECB 2009,51). The limited use of securitization is also depicted in Table 3 where sources of funds for Greek banks are presented for the relevant period of 2005-2009.

Figure 1



Source: ECB

Table 2: Indebtedness and leverage in selected advanced economies

	United States	*Japan*	*United Kingdom*	*Canada*	*Euro area*	*Belgium*	*France*	*Germany*	*Greece*	*Ireland*	*Italy*	*Portugal*	*Spain*
Household debt													
Gross	88	74	99	89	70	53	63	59	70	120	51	105	89
Net	–226	–236	–178	–151	–123	–191	–127	–118	–48	–68	–171	–124	–72
Nonfinancial corporate debt													
Gross	87	143	118	53	138	178	152	63	75	244	112	154	196
Debt divided by equity	82	184	86	45	106	53	85	107	264	84	139	144	149
Financial institutions													
Gross debt	87	177	742	60	142	124	169	97	33	691	97	63	109
Leverage of domestic banks	11	23	22	18	23	27	24	28	15	24	19	16	20
Bank claims on public sector	7	79	8	18	n.a.	23	17	21	29	27	32	19	26

Source: IMF (2012).

However, after the 2007-9 global crisis Greek Banks gradually became the only source of borrowing for the Greek government. When the market doubted the ability of the sovereign to serve its fiscal deficit, this created increased difficulties to raise repo finance collateralized by debt on their sovereign (Gabor 2012, 16-21). The Greek sovereign debt crisis was here.

Table 3: Sources of Funds for Greek Banks (2005-2009)

Percentage %

	31.12.2005	31.12.2006	31.21.2007	31.12.2008	31.12.2009
Bank Deposits	4.6	3.2	4.1	3.4	1.3
Interbank borrowing	4.8	6.3	8.8	13.2	14.7
Repo Agreements	9.1	7.1	6.1	7.3	7.5
Bonds/Securities issued by banks	11.1	13	14.4	10.9	10.3
Securitization of assets	1.4	3.2	3.8	4	4.1
Sight Deposits and Current Accounts	12.9	11.2	9.9	7.4	7.1
Saving Deposits	30.6	28	31.5	37.3	38.5
Time Deposits	25.4	28	31.5	37.3	38.5
Total	100	100	100	100	100

Source: Bank of Greece (Financial Stability Report, June 2009)

Conclusions

The Greek repo market was not particularly articulated with securitized products to be used as collateral but remained exclusively oriented to the use of government bonds for this purpose. This is a clear sign that as regards the domestic market there was no intensive and extensive accumulation of fictitious capital created by the private sector. The accumulation of fictitious capital continues to be the privileged field of government IBC assets, i.e. government bonds. In addition, the repo market is primarily oriented towards the ECB and much less so towards private repo transactions. Thus according to the criteria of the Marxist theory the Greek financial system and consequently the Greek economy cannot be considered at the time of the 2009, when the sovereign debt crisis occurred, to have been a financialized economy. This is because despite the proliferation of modern financial instruments after 1993, the financial system did not produce forms of IBC to dominate capitalist accumulation through their intensive and extensive use. This was done only by the state's fictitious capital. In that sense shadow banking practices, even after euro's introduction, never gained primacy and never became the dominant practices of the Greek financial system. Nevertheless, this conclusion refers to developments until the Greek sovereign Greek crisis of 2009-10. After the introduction of the so-called structural adjustment programs of the EU-ECB-IMF and two re-capitalizations of the Greek Banking system, the Greek financial system is neither of the old type nor financialized. Therefore further research will be needed to identify where it currently stands.

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