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Vassilis K. Fouskas and Constantine Dimoulas, *Greece, Financialization and the EU: The Political Economy of Debt and Destruction,* Palgrave Macmillan, 2013, 272 pp. $90 Hardcover.

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Book Review

Greece, financialisation and the EU (Palgrave 2013) by Vassilis Fouskas and Constantine Dimoulas, is an essential reading to understand what is behind the euro-zone crisis and, especially, the crisis of Greece. The last phase to date in the unfolding of the global financial crisis was the outburst of a sovereign debt crisis in the Euro area, first in Greece, in May 2010, then in Ireland at the end of November 2010, and finally to all the members of the so-called PIIGS group (including Portugal, Ireland, Italy, Greece and Spain).

Greece was the first casualty in May 2010. The fact that its debt had been downgraded by Moody's a few days prior did not help to avoid speculation, as well as the long time taken by other members of the Euro area before deciding to provide a rescue package. This package included the establishment of an *ad hoc* European Financial Stability Facility[i]. Second in line was Ireland, which was plagued by the ongoing crisis of its banking system at the end of November 2010. Although its European partners had approved a rescue plan providing an overall €85 billion (€35 billion to bail out the Irish banking system with the remaining € 50 billion to help the government's day-to-day spending), the markets insisted on increasing the yields required to buy Irish bonds (as well as Greek, Portuguese, Spanish and Italian ones)[ii]. Amid serious worries for the stability of the entire system, on 16th and 17th December, 2010 the European Council moved toward the institutionalisation of a rescue tool called the European Stability Mechanism, which was officially launched on 8thOctober 8[iii].

However, in December 2010 the financial and economic situation in Europe and especially in the eurozone was still heavily compromised. The main problems were found in the interplay between sovereign debt difficulties and the weakness of the banking sectors of some countries with the Euro. Taken together, these issues could bring serious consequences for the sustainability of the EMU as a whole as the book clearly points in its first chapter.

In its assessment of the main risks for the financial stability of the eurozone, the ECB differentiated between sources outside the financial system and sources of concern inside it (ECB 2010). Outside the financial system, the main sources of risk for eurozone financial stability included: the possibility of new concerns with

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respect to the sustainability of fiscal stances in some Member States; a resurgence of global imbalances; vulnerability of non-financial corporations' balance sheets; and macroeconomic problems related to the increase of unemployment and related reduction of private credit. Within the eurozone financial system, important risks included the possibility of new strains to the financial system; more problems with banking exposure to bad debt; increase in the volatility of financial markets in the lack of macroeconomic recovery (ECB 2010).

The main worry that remained, however, was concerning the lack of sustainability of public finances in some eurozone countries, which had prompted market speculation against Greece. This had already created an adverse feedback loop between lower economic growth, bank funding vulnerabilities and fiscal imbalances, as was reflected in increases in the persistently growing spread between eurozone sovereign bond yields (ECB 2010). On the other hand, the profitability of many eurozone large and complex banking groups (LCBGs) continued recovering in the second and third quarters of 2010, demonstrating how the banking sector had succeeded in shifting the burden of the financial crisis, a very well known phenomenon within the literature on financialisation the authors quote in the book (ECB 2010). Finally, concerns were voiced with respect to the possibility that global financial imbalances could widen again, another consequence of fincnaiclisation, thus creating new strains on the fiscal and financial sectors of some eurozone countries (ECB 2010).

Similar worries were confirmed in 2010 and 2011 when the Greek, Irish and Portuguese spreads with the German Bund hit, respectively, 1600, 1200 and 1100 basis points in July 2011. Also, the Spanish and Italian sovereign debt spreads with the Bund reached 400 basis points, Belgium hit 200 basis points and France hit 90 basis points (ECB 2012).

In 2012 the situation was still extremely worrying, with Spain having to accept a sort of bailout for its endangered banking sector of about 100,000 million Euros and Italy being widely considered the next in line[iv].

Much of the blame for the sovereign debt crisis has been put on the dire situation of the PIIGS fiscal stance. Although it cannot be denied that the countries considered were not enjoying a healthy budgetary situation, it must be noted that the policy of fiscal stimulus to combat the crisis came at a high cost for the fiscal position of many other countries. For example, the newly elected Obama administration introduced a stimulus package of $ 800 billion, bringing the budgetary deficit to 10 per cent of GDP in 2009. A similar figure was envisaged for the same year in Japan, while in the UK the deficit to GDP figure was almost 13 per cent. In the eurozone, the deficit to GDP was on average only 6 per cent in 2010, whereas in the mid1990s it had reached more than 7%[v]. The situation was of course different in the different countries of the eurozone. However, with respect to the case of the PIIGS, two points must be stressed.

First, some of the countries which have since been affected by the most serious wave of attacks to their sovereign debt were by no means performing so badly in terms of deficit to GDP in the course of the crisis. In 2010, when the attacks started, Greece had a deficit to GDP of 10.3%, only 4.3% higher than the eurozone average which was 6% at the time. Portugal and Spain with 9.8% and 9.3% respectively were just around 3.8% and 3.3% higher than the Eurozone average[vi]. Italy had actually been doing quite well in the course of the crisis, better than the average of the eurozone, with a deficit to GDP of only 4.6% in 2010, which had even declined from 5.4% in 2009. Of course, commentators then blame the Italians for having an outrageous debt to GDP ratio. However, it is worth noting that in 1995 this ratio was 121.5% against an average of 72.5% in the rest of the future eurozone, whereas by 2010 the difference between the Italian performance and the average of the eurozone had actually decreased from 49% in 1995, to 34%[vii]. Moreover, in 2010 Spain had a debt to GDP ratio of 61.2% much below the eurozone average of 85.2%, and also Ireland and Portugal were not doing that bad with figures of 92.5%and 93.3% respectively[viii].

Finally, similar performances of the deficit and debt to GPD ratio must be seen in the context of spectacularly declining levels of GDP which by definition, if only for mathematical reasons, increase their values. Between 2007 and 2009, Ireland lost 12.2% of its real GDP, Greece 6.5%, Spain 7.2%, Italy 6.8% and Portugal 5.3%

In an effort to identify the relation between the global financial crisis and the crisis of the eurozone, it is important to ask, along with this book, two questions[ix]:

First, are the larger spreads recorded in the course of the crisis a consequence of larger fiscal deficits and debt or do they show a change in the global political economy?

Second, what is the historical trajectory followed by Greece in terms of fiscal policy before the global financial crisis?

In other words, was it completely the fault of Greece if the sovereign debt crisis erupted when it did?

The authors take a long-term view on this question to answer that the crisis in Greece, as well as in the rest of the Euro-zone, was the necessary consequence of long last fault-lines in the global political economy. By assessing the historical development of Greek sovereign debt from the end of the 19th Century to our days, the book is able to put the question of fiscal debt in an historical perspective which makes reference to global shift in the balance of power to identify the real causes of the current disease.

Of course this means that also the recipies to resolve the problems cannot and shall not be found in ad-hoc measures aimed at curtailing the capacities of the Greek economy to address its long-lasting fault lines.

To conclude there is no doubt in the mind of the author of this review that this book is an essential reading to make sense of the latest events in the Eurozone from a distinct and highly original theoretical perspective.

Notes

[i] See BBC News, available at http://news.bbc.co.uk/2/hi/business/8671632.stm as accessed on December 22, 2010. See also below this chapter.

[ii] See BBC News, available at http://www.bbc.co.uk/news/business-11860879 as accessed on December 22, 2010.

[iii] See BBC News*Q&A: The European Stability Mechanism*, available online http://www.bbc.co.uk/news/business-19870747 as accessed on October 9, 2012

[iv] See Financial Times, June 13th 2012:, available athttp://www.ft.com/cms/s/0/d2d42d1e-b36c-11e1-83a9-00144feabdc0.html#axzz1xfURTAr3 as accessed on June 13, 2012

[v] See ECB statistics, available at http://www.ecb.int/stats/gov/html/dashboard.en.html as accessed on October 9, 2012

[vi] Ibid.

[vii] Ibid.

[viii] Ibid.

[ix] See Manganelli, S. and Wolswijk,G. (2009),"What drives spreads in the euro area government bond market?",*Economic Policy*, 24: 191-240.Arghyrou, M.G. and Kontonikas, A., (2010)*The EMU sovereign-debt crisis: Fundamentals, expectations and contagion*,.Cardiff Economics Working Paper, N. E2010/9. See also Monfort, A., and Renne, J.-P., (2011)*Credit and liquidity risks in eurozone sovereign yield curves*.Paris: Banque de France Working Papers Series, n. 352.Haugh, D., Ollivaud, P., D. Turner, (2009) *What drives sovereign risk premiums? An analysis of recent evidence from the eurozone*..Paris: OECD Economics Department Working Papers, N.

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