CHAPTER 8

STATE, FINANCE AND GROWTH: BEYOND THE NEW POLITICAL ECONOMY

The manifold importance of the state-finance connection

We have traced the political economy of postwar Greece from the 1950s to the present by focusing attention on the state-finance connection. This focus has been warranted in many ways. State-controlled credit was the most important developmental instrument during the postwar decades. State control included the ownership and management control over credit institutions as well as the administrative fixing of the rules and prices under which financial resources were allocated. State-controlled credit provided the principal tool for financing government spending. It operated, whenever it did, as the long arm of indicative planning and industrial policy. Financial interventionism allowed state actors to define infant industries and 'national champions', to afford preferential treatment to selected sectors, subsectors, or individual producers, and to exclude others. A bank-based financial system, with a heavily undeveloped capital market, forced businesses to turn to predominantly state-controlled credit institutions for finance. State-controlled finance served as a principal mechanism of state intervention, being both an instrument of economic stabilization and one of (re)distribution and selective policies. Financial interventionism substituted for the feebleness of redistributive functions, by cushioning less competitive (but usually politically substantial) socioeconomic groups from market forces. Especially after 1974, financial interventionism provided a constant financial lifeline for the government's distributive activities, and in that sense formed an inseparable extension of the modern redistributive as well as clientelistic state. The armory of postwar financial interventionism (capital controls, credit restrictions, special reserve requirements) was systematically relied upon for monetary stabilization. The entire developmental model of the postwar Greek economy (as in other developmental states) was premised on state-controlled finance. Both economic growth and monetary stability during the Bretton Woods era were made possible under financial interventionism.

Financial interventionism was pivotal in supporting Greece's postwar industrialization and development, as well as in underwriting the economic decline of the 1980s. Credit interventionism created overleveraged industrial enterprises of high vulnerability to an external shock, such as that of the 1970s. It generated a moral hazard condition of easy credit to those overindebted firms as well as to government, 'socializing' the cost of the failure of the former, and facilitating electorally-driven fiscal laxity for the latter, and in both cases postponing painful overhaul and restructuring. Thus, to a significant extent, the results of the abusive distortion of financial interventionism were evinced in the inflationary public debt trap of the 1980s and much of the 1990s, where a growing share of economic resources was swallowed up in servicing interest payments, crowding out productive investment. As the effects of institutionalized financial laxity accumulated beyond the point of being economically sustainable, they necessitated a particularly harsh disinflation in the 1990s, led by financial liberalization and monetary reform.

Financial liberalization, the dismantling of the state-finance connection, was of no less momentous implications. On a real as much as symbolic level it meant the final abandoning of the postwar developmental institutions of administered finance. On a state sovereignty level, it completed the alignment of the domestic economy to European and global financial market forces. On a macroeconomic level it meant accession to the primacy of disinflation, and its pursuit through indirect instead of direct monetary instruments –which also implied the erosion of expansionary policies. On a socioeconomic level financial liberalization brought a significant reallocation of economic (and thus, one might say, political) resources from sectors traditionally favored for developmental or redistributive purposes (manufacturing industry, SMEs, agriculture) to an increasingly emboldened financial sector and mobile, globalized business capital. On a political and ideological level, financial liberalization also generated the forces that would buttress the disinflationary or stabilization state, as will be further discussed below. Financial deepening promoted a rentier mentality and a wide number of stockholders and eventual stakeholders in 'sound finance' and macroeconomic discipline. Finally, at the level of institutional architecture, financial liberalization had important regulatory implications, as monetary and banking policies were transferred from the sphere of government intervention to the regulatory jurisdiction of an eventually independent central bank. Overall, the effects of financial liberalization involved the government at large subscribing to a mechanism of self-imposed macroeconomic discipline through institutional self-binding. It involved a choice of policy commitment over policy discretion. It finally involved a transition from the primacy of politics that had dominated the postauthoritarian era to the primacy of policy and the constraining impact of economics.

From developmental to stabilization state

The gradual postwar build-up of interventionist financial institutions and policies, in full accord with the orthodoxy of the time and in line with the coldwar regime dependencies, was justified primarily by the overwhelming primacy of economic development. The crisis of financial interventionism came with the dramatic change of the international economic as well as domestic political regime in the post-1973 period. However, the severe distortions and inflationary effects emanating from the crisis of financial interventionism did not lead to financial liberalization until after a significant time lag. Certainly not before external pressure had peaked and prolonged macroeconomic instability was turning into an economically unsustainable state of affairs as well as a serious political liability. It was only when these pressures had played themselves out, that government conceded to the gradual abolition of credit interventionism, which had also proven a vital and enduring political instrument. Thus financial interventionism, though initially founded on a compelling economic rationale, outlived both its developmental and stabilization mission, having ended up serving the political exigencies of democratization, social redistribution, party consolidation in power for either ND or PASOK, or sheer electioneering and clientelism.

In other words, not only did the postwar but also the postauthoritarian configuration until the late 1980s continue to rely on the institutions and policies of financial interventionism. These had been initially placed in the service of a developmental state, and then post-1974 were fossilized under the convenient inertia of the political and distributional status quo. As we have argued, the state was developmental in its economic ideology but less so in its administrative organization and function. It was not developmental in the strict sense of a strong, operationally autonomous 'plan rational' bureaucratic apparatus of high competence and integrity, but it was in its prioritization of development and its employment of financial interventionism as a principal tool. When it finally came to be implemented, the dismantling of the developmental state (which by that time was delivering stagflation rather than growth) via financial liberalization formed simultaneously the adjustment response to the overpowering need for macroeconomic stabilization and disinflation, as well as the means for achieving it.

The change of the international and European economic environment after 1973 and into the 1980s, and its attendant institutional and ideological transformations, marked a change in the quality and configuration of the factors circumscribing the state's role over finance. These constraining factors pointed to state capacities in the sense of the economic and political feasibility of the state's policy options, and in that sense they also denoted a change in the state's policy preferences and priorities. The economic configuration of capital mobility and exchange rate instability, especially after a period of prolonged high inflation in Europe, entailed the almost single-minded prioritization of macroeconomic stability and disinflation over employment and redistribution.

The liberalized international financial regime that succeeded the collapse of Bretton Woods had as its primary characteristic floating exchange rates that were supposed to act as the main stabilization mechanism, both internationally and domestically. An imbalance in the foreign account would be handled by devaluation of the exchange rate. But for devaluation to succeed the domestic price level must not increase in tandem with devaluation, that is domestic inflation needs to be controlled. This is easier said than done since the prices of tradeables by definition tend to increase in tandem with devaluation. Domestic stabilization, therefore, required the prices of nontradeables to decrease to offset the impact of the increase in the prices of tradeables. That has been a main reason why the post-1974 liberalized international financial regime has incorporated an inherent deflationary bias.

The disinflationary international regime (Forsyth and Notermans 1997) that gradually emerged was far less a set of 'generally agreed-to rules, regulations and plans' than the Bretton Woods international order had been. Much more was owed to the sheer force of not-too-orderly competition between powerful states, including the hegemony of a less multilaterally-oriented US, and a growing defiance on the part of multinational market players and financial corporations, all subject to the opportunities and constraints of economics and technology. The deeply political nature of the institutions and policies produced by the international interplay of power, competition, and necessity justifies its treatment in terms of an international political economy regime (albeit one of intense disorder) rather than merely an international economic context. Though endogenously transformable from the standpoint of global power actors, this international political economy acquired the compelling force of an exogenous, objective constraint when it came to small open economies and democracies with no capacity to affect unilaterally global outcomes.

The deflationary bias of the liberalized international financial regime has certainly a lot to do with the fact that developed countries setting the pace of the 'Washington consensus' are typically international creditors, thus staunchly preoccupied with maintaining low inflation. Capital mobility (that is, the free cross-border movement of short-term capital) has transformed foreign exchange markets into financial asset markets, so that exchange rates are no longer so much driven by the needs of trade finance but by the search for quick speculative gains. Market volatility creates financial risks, associated with severe exchange rate fluctuations, financial contagion, and the threat of a general loss of liquidity (though in the Eurozone context the room for speculative gains is limited). Even if financial risks may be hedged through specific instruments such as derivatives, they do raise the overall cost of financial commitments. Given the risk of financial crises provoked by large capital movements, risk-averse European governments (or for that matter the ECB) have sought to establish 'credibility' in the eyes of global financial markets. For that they have to subscribe to policies which elevate financial stability above growth and employment. The paramount objective of defending macroeconomic stability, translated into low budget deficits and a proclivity to high real interest rates, meant that European markets in the 1980s and 1990s tended to settle in a low-growth, high unemployment equilibrium (Eatwell and Taylor 2000: 111ff; Bermeo 2001).

The corollary of the liberalized international environment is the change in the relative position of actors in the economy. Capital mobility has increased the tax burden on labor and eroded its bargaining power. Industry remains important but in no way comparable to its former status as the favorite child and prospective engine of postwar development, while the limits of national industrial policy are heavily circumscribed by EU competition rules. The banking system is no longer government-controlled and forced to subsidize developmental or redistributive priorities, but free to operate along profit-maximizing lines. The central bank has been granted full political independence, is institutionally prohibited from participating in the primary market for public debt, and is officially endowed with a statutory commitment to price stability. Government itself has no channel of access to preferential credit by taxing the banking system, but is forced to finance its deficit by resorting to the internationalized money markets. On the ascending side in terms of importance and bargaining power are financial markets, banks, financial investors, institutional stockholders and bondholders. Given that both government and the private enterprise sector as deficit units rely exclusively on liberalized financial markets able to demand constantly higher returns, disinflation becomes a principal normative determinant of the system given the supreme bargaining power of the (typically inflation-averse) creditors within the system.

Reflecting the impact of the transformed international political economy, the Greek state has shifted in its financial and economic role to prioritizing macroeconomic stabilization and disinflation. It has been transformed from (a weak and incomplete version of) a developmental state to a full-fledged 'stabilization state'.[1] What defines a developmental state and what distinguishes it from a stabilization state? A developmental state sought to enlist a mechanism of controlling and allocating financial resources to the primacy of economic growth. The keyword was development, signifying a more far-reaching process than growth, not just more output but a different composition of output than previously produced, derived from technical and institutional transformations. An institutional framework was thus devised so as to substitute for the market's perceived failure to promote long-run development. Through various interventionist instruments (government subordination of the central bank, bank nationalizations, credit and capital controls, financial regulations, administered interest rates, selective credit policies and indicative planning, specialized banking institutions), domestic production was protected, and finance was directed to economic activities considered pivotal for economic development. The state's principal attachment to the developmental objective did not mean that macroeconomic stability was ignored. The conservative economic record of Greek postwar governments until 1973 unambiguously testified to the fact that price stability and payments equilibrium were consistently at the forefront of government priorities. These, however, were not viewed as objectives in themselves, but as the necessary preconditions for allowing sustained economic development. Development was the paramount objective, and macroeconomic stability was the necessary precondition for achieving it.

The transition to a stabilization state as regards the state-finance connection is anteceded by two major events. One is that Greece has graduated into the developed middle-income country group, its markets have become more complete and better operating, the economy needing less intervention, and in any case incapable of growing at the high rates that were possible at an earlier stage of development. Developed status is also consolidated by membership in the EU, through which Greece partakes in the collective dividend of European progress, be it in the form of institutional modernization, international political upgrade, structural adjustment in various fields, or plainly increased financial inflows. This also implies that the pace of Greece's economic policies in the 1980s and especially in the 1990s was being set by the developed economies of the EU. The second major event is the international economic and ideological decline (amidst a European environment of sustained monetary instability and high public deficits) of the postwar interventionist model that had underpinned developmental state strategies.

A stabilization state is not a Keynesian state pursuing stabilization through interventionist policy means (such as the incomes policies or price and credit controls extensively relied upon in the past) which under the new liberalized environment are increasingly rendered obsolete or ineffective. A stabilization state will seek to rely on the market and to diminish state interventions under the premise that interventions would create longer-run disequilibria by distorting market signals and resource allocation. In the 1990s' EMU transition period, the stabilization state would enter a self-binding process of subscribing to international institutions such as the EMU nominal convergence criteria or surveillance mechanisms, that is external mechanisms inducing politically painful adjustment by altering the government's incentive structure. To a considerable extent a stabilization state also parts company with the Keynesian stabilization role of using macroeconomic expansion to even out the business cycle, though the 2001 international recession has certainly tested the limits of this self-restraint –as will be further discussed. The EMU framework discourages the countercyclical use of fiscal policy through its austere restrictions on government deficits. Even if EMU member states were to defy the rules of the –already loosening—Stability and Growth Pact (prescribing a maximum limit of budget deficit not exceeding 3 percent of GDP) or the intergovernmental commitment to balanced budgets or primary surpluses,[2] the Pact's disciplinary role would be taken over by public debt markets (raising risk premia on new debt), the Maastricht Treaty no-bail-out clause (prohibiting EU governments from helping each other), and potentially financial regulators as well (prohibiting large exposures of banks to government bond holdings) (Lemmen 1999; Eijffinger and de Haan 2000). Thus, fiscal discipline in the EMU is not just the result of intergovernmental agreement enshrined in institutional text, nor just a matter of cyclical ideological disposition in support of neoliberal precepts. It is the direct consequence of liberalized and globalized financial markets penalizing any medium- to long-term divergence from fiscal discipline.[3] As for the countercyclical use of monetary policy, it is restrained not only by the monetarist-leaning (though not quite, as will be seen below) ideology of the ECB but especially by its inability to redress national-level asymmetric shocks.

Which is the economic ideology underpinning this new policy configuration? If the postwar Greek developmental state reflected an eclectic orthodox-developmentalist mix that included a residual Keynesianism, and the postauthoritarian economy a misapplication of Keynesian precepts, the stabilization state can be associated with a residual monetarism tempered by strong portions of economic pragmatism. The European economic orthodoxy of the later 1980s and 1990s, upon which the EMU was founded, echoes monetarism in its strict adherence to the primacy of disinflation, and the crucial role it attaches to monetary policy as exclusively committed to monetary stability combined with an undisguised distrust of fiscal policy as the right instrument for fighting recessions. However, the pragmatic orthodoxy of the 1990s has not been truly monetarist. The ECB independence grates on Friedman's well-known opposition to central bank independence. Moreover, the endorsement of fixed exchange rates (as early as the EMS project) was a departure from the monetarist doctrine

(McNamara 1998: 173). The role of the ECB in easing or tightening the monetary stance may have little to do with the aggressive monetary activism of many European central banks of the 1960s or 1970s, but it does not suggest a commitment to stable money growth either. (Only a minority of economists continue to believe that stable money growth can guarantee a stable economy). As it happened with the US Federal Reserve in 2001, the ECB's monetary policy also loosened in the first substantial signs of a Eurozone slowdown in 2001 –though without this necessarily implying a green light towards relaxing fiscal policy. The ECB has refrained from fully endorsing (the monetarists' favorite) monetary targeting, which forms only the first of its mixed 'two-pillar' policy strategy. The second pillar (which some have interpreted as inflation targeting) includes the assessment of a wide range of non-monetary economic variables, such as labor market indicators (including wages and unit labor costs), fiscal policy indicators, and financial market indicators (such as the yield curve and stock prices) (Issing 2000).[4] Such 'formal' deviations from the monetarist doctrine notwithstanding, the ECB echoes (German-styled) monetarism in viewing inflation as 'always a monetary phenomenon' and attributing 'a prominent role to money' (Issing 2000). The ECB assigns primacy to disinflation to a degree that is notably stronger than the one followed by the Federal Reserve in the 1990s. Since its inception, the ECB has defined price stability within the 0-2 percent inflation range (ECB 1999),[5] whereas the Federal Reserve under Alan Greenspan has come to accept the looser 0-3 percent definition, and to accommodate a considerably more important role of monetary policy in enabling economic growth.[6] Clearly, the ECB, lacking any previous track record, has been more hard-pressed to establish anti-inflationary credibility than the Federal Reserve post-Volcker, and this is a chief factor to explain the disparity. Both the ECB's aversion to countercyclical activism and the Bundesbank-led deflationary monetary policies of the 1980s and 1990s as precondition for allowing low interest rates can be interpreted with reference to monetarism.[7] Moreover, one can read the ECB's adamant anti-inflationary stance as a (monetarist-leaning) forceful position in support of supply-side structural adjustments rather than monetary or fiscal easing as the only avenue for raising the rate of economic growth. Indeed, the surrender of macroeconomic instruments for the purposes of economic growth has the almost exclusive reliance on supply-side policies for fighting unemployment as its corollary (Allsopp and Vines 1998: 5ff; Issing 2001).

The state's changeover from a developmental to a stabilization economic mission is not simply a mirror image of its external environment. External pressures and constraints do not amount to one-way options; they simply increase, often unbearably so, the cost of noncompliance. The decision whether to conform or not continues to rest in the hands of national policymakers, as several examples of non-conformist government policies in Europe have demonstrated. More importantly, of interest here is not just the extent to which external pressures are internalized by the domestic policy system but the deeper transformations that these pressures help bring about in state ideology, preferences, strategy, and ultimate policy behavior. The state policies, which under the postwar or postauthoritarian conventional wisdom used to appear as necessary, desirable or feasible, are under the new international configuration treated as politically precarious, economically hazardous or fundamentally flawed. The state's role in the economic process is defined under the conceptual framework of a disinflationary or 'sound finance' paradigm that determines the meaning state actors impart to their policies as well as the direction these policies take (cf. Hall 1993). It is in that sense opportune to refer to a substantive transformation of the state's role in the economy.

Certainly, the contractionary impact of a disinflationary regime is mitigated if not offset by other momentously favorable circumstances established by EMU. A common currency allows, for instance, Greece as Eurozone country to conduct most of its foreign trade in Euro, thus easing the pressure exercised by currency markets on its balance of payments. Not having a foreign exchange constraint in trading with the EMU partners is in itself expansionary. Should the Euro become a reserve currency, the foreign exchange constraint is removed in trading with the rest of the world too. And of course, a reserve currency would allow European economies cheaper and more secure access to capital. A functioning Euro, given the size of its constituency, makes the Eurozone, and all national economies that comprise it, a 'price maker' instead of a 'price taker'. This would afford national governments a relatively higher degree of economic independence from international monetary constraints as compared to any recent period, say from the mid-1970s to the late-1990s. These factors, including the anticipation that commercial demand for the Euro will counterbalance speculative demand, create a framework that makes it possible even for a state prioritizing monetary stability to influence investment and redistribution to a greater extent than perhaps expected under the constraining Stability and Growth Pact.

Thus in the EMU landscape the state acts in the broader sense as custodian of macroeconomic stability and hands-off market regulator, and growth is expected to result:

a) from expanding privatized and liberalized competitive banking and financial systems in the Eurozone operating upon market efficiency standards that enable them to afford lower, flexible, and less volatile interest rates. Price stability allows the price system to perform its informational role more effectively, improving the allocation of resources and the conduct of macroeconomic policy. The Stability and Growth Pact is expected to free financial resources (which, among others, were diverted to hedging against inflation) to be directed to investment and long-term growth (Barro 1997; Feldstein 1999). The chosen policy mix seems to be one of tight fiscal policy that allows longer-term interest rates to remain low (the 'Clinton-Greenspan' policy mix) rather than a lax fiscal policy that would need to be counterbalanced by a harsh monetary policy (the 'Reagan-Volcker' mix).
b) from increasingly liberalized product and labor markets and other structural reforms (which are not devoid of social and redistributive implications). Especially for a smaller peripheral country in need of structural adjustments such as Greece, increased competition under EMU creates a strong external push for advancing liberalization in the product, services and labor markets, including greater flexibility in wage and employment conditions to offset the loss of control over monetary policy.

c) from any remaining EU structural funds –at least for the European periphery. For Greece, EU financing (Structural Funds and Cohesion Fund) through the First Community Support Framework (1989-93) amounted to an annual average of 4.5 percent of GDP, and average annual financial inflows through the Second Community Support Framework (1994-99) reached 7.2 percent of GDP (Christodoulakis and Kalyvitis 2001: 22ff). The Third Community Support Framework Fund ends in 2006. That said, one of the greatest challenges ahead for the Greek economy is to sustain the economic growth rates of the second half of the 1990s after the EU financial inflows have been terminated. That will be especially difficult given the tight constraints the large public debt poses on the exercise of fiscal policy combined with the relatively low productivity and competitiveness of the Greek economy.[8] Under such circumstances fiscal and structural policies will be hard pressed to stabilize the economy in the event of an (endogenous or exogenous-driven) asymmetric shock.

The primacy of macroeconomic discipline is not however incompatible with developmental objectives. An environment of sustained monetary stability may prove conducive for state developmental functions, exercised however in a more indirect manner. The stabilization state is still assigned with delivering fundamental public goods, beginning with creating and safeguarding regulatory conditions that allow markets to operate efficiently. That said, the expansion and integration of markets revives concern over market failures, intensifying the need for ever higher and supranational regulatory vigilance. Moreover, principal among the state's developmental tasks remain public investment in infrastructure, education and training, new technologies and R&D, where private initiative often lacks adequate incentives or capacity to mobilize. For instance, investment in new technologies and especially employee retraining may be far less efficient if attempted without coordination with labor and business; business may be incapable of resolving its own collective action problems without state mediation. In such or similar cases the state assumes the flexible, indirect developmental role of an honest broker, a mediator of social pacts, aimed to expedite economically necessary and politically sustainable structural and sectoral adjustments. Even a countercyclical fiscal stimulus in the event of a recession remains possible under EMU, provided it is of a short-term direct nature and the overall budget prospect on the medium-term remains positive. Forced to respond 'to the parameters of a globalized world economy', the stabilization state is no more a 'direct provider of growth', but rather 'a partner, catalyst, and facilitator' (World Bank 1997: 1).

State, power, and finance

The deregulation of financial interventionism was path-dependent upon the conditions of its inception. The concentration of financial power in government hands and the relative weakness of private capital (if compared to advanced capitalist Western Europe) meant that the initiative, decisive authority and political control for dismantling credit *dirigisme* could only come from the state itself.

Both domestic financial interventionism and financial liberalization were not imposed on the state by influential interest coalitions of the market or civil society. The accommodation of particularly powerful socioeconomic claimants, different in each case, may have been targeted in order to vest policy arrangements with a necessary minimum degree of societal support. Possibly the minor specifics of these arrangements were fine-tuned towards satisfying particular interests and minimizing distributive losses of others. Nonetheless state policymakers (including the Bank of Greece) in both cases retained exclusive initiative for the design, formulation and implementation of the respective institutional reforms. In other words, financial interventionism and financial liberalization, standing at the antipodes of financial configurations, were both state-directed institutional arrangements. They were both adopted by state (government and BoG) policymakers, financial interventionism in order to promote economic development and financial liberalization in order to facilitate macroeconomic stabilization. They were not *directly* imposed by an external actor or economic regime, though such factors weighed crucially on the final policy decision, especially in the case of liberalization. And they did not result under the force of organized pressure from dominant sections of capital, though such pressures were present, exercised, and taken on board, and the final policy outcomes were 'sold' to policy beneficiaries with an eye on enhancing the government's political returns.

The strength of the state that such policymaking pattern entailed was not a function of a 'developmental' elite state bureaucracy characterized by proficiency, commitment, cohesiveness, operational autonomy, and resistance to private interest capture or political infringements. Such features marked, to a significant extent, only the BoG, whose instruments, however, were confined to monetary and credit policies, falling short of a full-fledged developmental function. The BoG indeed testified to a high degree of policy strength, defined through our fourfold framework of resource capability, agenda identification, policy determination, and policy insulation/ arena control. On the contrary, any government strength was derived largely from the direct control over developmental economic instruments (prominently including credit *dirigisme* and state banking) and the indirect political control over collective socioeconomic life, via patterns of state corporatism or *parentela* pluralism. The permeating politicization of government intervention was an enduring integral feature of the developmental state both in the postwar and, more strongly, in the postauthoritarian period, when it assumed a less haphazard, more systematic form. This fragmented, 'intermediate' state (chapter 3) lacked the overall capacity and perhaps will to engineer the desired developmental transformations in the economy and society (as the heavily qualified achievement record of industrialization demonstrated), despite *ad hoc* successes in implementing its developmental objectives in particular policy areas.

Powerful state elites (government ministers, the central bank, the Currency Committee) had a leading role in shaping the developmental state's institutions and policies under conditions of relative sociopolitical underdevelopment and economic protectionism. Capital controls, financial and industrial interventionism, import substitution policies, all formed a nationalist-leaning institutional apparatus aimed to moderate the impact of the international economy by altering foreign price signals, serving among others the paramount objective of conserving foreign exchange. On the contrary, amid conditions of market internationalization, regime interdependence, and European integration, the role of state actors in institutional and economic policy design decreases.[9] Economic opening and market integration transfers power from labor to business, from state actors to private capital holders, from national government to intergovernmental and supranational authorities, from national to transnational interests. Under the political economy of Europeanization and globalization it makes sense to look more carefully at the demand rather than the supply side of public policies, to seek to explain policy and institutional outputs less in terms of state-centric objectives and policy processes and more in terms of transnational regime interdependence and country-based or internationalized market coalitions. The transition to this globalized political economy of market interdependence via financial deregulation and capital account liberalization is perhaps the final major act, the swan song, of the developmental state, implemented through state-directed, exclusive, top-down policymaking.

Financial interventionism in the hands of a developmental state (even one with the serious structural limitations of the Greek public bureaucracy) was a factor of state strength, positively correlated to the underdeveloped status of both the economy and civil society. The balance changes post-1974, when the economy has reached an adequate level of development, and the sociopolitical system has turned into a pluralistic liberal democracy. Socioeconomic interests here have greater political capacity to mobilize, they command considerable resources, including benefits earned and consolidated as vested *acquis* resulting from postwar state clientelism. By that time, a state-protected industrial structure has crystallized, and Olsonian-type rent-seeking groups have become entrenched (Olson 1982), as the politics of credit deregulation showed (chapter 6). Moreover, in a bank-based system, industrial firms have developed close accommodative ties with the banks, which often allow them preferential lines of finance as a function of middle-level arrangements with less need for political intermediation. It should be underlined that the postwar configuration endowed industrial capital with important bargaining power which stemmed not only from its elite infiltration, but mostly from it being viewed, under the prevalent developmental policy doctrine, as the principal engine of economic growth. Even more accommodating, due to its superior know-how and expected added value, was the treatment of foreign investment capital. Unlike advanced Western economies, business capital in developing Greece was courted perhaps less for its direct job-creating role and more for its pivotal contribution to the build up of a national productive base.

As a result of political democratization, not only business but especially labor has become more assertive. Intensified political competition for the vote of a growing small-middle class, including small business owners, self-employed professionals, and so on, has raised their bargaining power too. The post-1974 and particularly the post-1979 period combined these features with a stagflationary economic conjuncture. Economic crisis, a prolonged downswing of the business cycle, an inflationary environment, transform developmental instruments of strength into sources of economic weakness. Being holder of the extensive discretionary policy resources emanating from the control of direct monetary instruments, the state is forced to direct these resources to accommodating the grievances of competing groups hard-hit by the economic downturn. The vicious inflationary cycle and the 'debt trap' resulting from the expansionary use of financial interventionism erode the state's economic power, intensifying socioeconomic demands while undercutting the state's ability to meet those demands. Inability to satisfy the extensive socioeconomic pressures and to deliver economic stability and growth generates disillusionment that undermines the state's political legitimacy and strength (cf. Maravall 1997). That was, at the domestic level, the situation in the second half of the 1980s, necessitating the recourse to monetary adjustment and macroeconomic stabilization.

The surrender of the credit and eventually monetary policy instrument renders the state financially sound but politically weaker given the loss of discretionary power. State interventionist authority is transformed into regulatory capacity, that is the ability to define a broad, universal, and minimalistic framework of economic activity rather than to directly intervene to influence that activity. Through a conscious self-binding strategy of surrendering tactical instruments for the sake of strategic objectives, the state may be strong, in the sense of having brought about more conducive conditions for achieving its economic mission of providing inflation-free growth in a sustainable way (though this is yet to be proven). However, it is a strength derived from substantially narrowing down some of the state's other practices, including clientelistically-minded financial distribution, growth-minded protectionism, socially-minded redistribution, and electorally-minded employment of macro- and microeconomic policies.

The politics of economic reform

Rather than being treated as 'noise' or as an exogenous nuisance to the elegant parsimony of economic theorizing, the independent role of politics upon economic reform imposes its own terms of policy implementation. As the stages of financial liberalization and 'deepening' unfold, so do their real effects on the economic process and societal interest arena. As the market impact of reforms feeds into the 'real' economy, winning beneficiaries embrace the reforms effectively or less so, interest dissatisfaction assumes the form of organized political grievance, whereas wider long-term benefits are –typically—silently diluted. At the same time that policies generate their politics, the reverse process also makes its mark. Whereas, for instance, the sober technocratic pace of the 1985-87 stabilization allocates disinflation costs in an at least technically indiscriminate way, the electoral, polarized politics of 1988-89 transforms credit deregulation into a clientelistic spree.

The inseparability of financial and monetary reform from its surrounding politics in a constant game of challenge, interaction, and compromise, will substantially affect not only the preconditions and implications of policy but its very content as well. If the road to the market-liberal promiseland of sustained growth through a competitive, open, financially 'deep', and liberalized economy passes through many long years of stabilization, then this transition itself involves its own set of policies, and its own distinct share of state initiative to deal with the politics these policies generate. In so far as the general reform orientation came in response to severe 'objective' external constraints (originating from both European integration and globalization) the main challenge of state reformers lay perhaps not so much in initiating or in designing reform, but in sustaining it. This, among others, entailed seeking to vest policy implementation with the irreversibility of institutional self-binding. Such self-binding was provided, as already argued, by the Maastricht convergence criteria, by the granting of full independence to the central bank, and by financial liberalization itself, multiplying the cost of policy divergence from economic orthodoxy. Prolonged stabilization politically generates its own economic policy instruments and institutions, which consolidate the state's transformation into a stabilization state.

Development, equity, redistribution

Greece's standing as a 'backward' economy (to use the least charitable postwar term) in the 1950s and 1960s meant that the normative dilemma (equity versus efficiency) through which more advanced European economies of the Keynesian era were forced to navigate was deferred in the Greek case. It was not only Greece's civil war trauma that had bequeathed a very un-Keynesian disposition to substantial questions of equity, identifying them with a suspicious socialist agenda. It was not even only the foreign tutelage, which skewed economic policy toward the objective of building a Western-type market economy open for Western products, if only through statist means. (On a parallel track, 'Keynes at home, Adam Smith abroad' summarized the stance of many Western European countries after the 1960s). It was not even the political understanding that much of the grievances arising from the unresolved questions of equity would be left to follow the channel of (foreign migration) exit rather than dissenting voice, wherever loyalty to the conservative regime was a sheer impossibility. It was even more strongly the deep-held belief that the question of equity should be premised upon the availability of sustainable and redistributable wealth, and should thus be preceded by the accumulation of such wealth through economic development. Be it an honest technocratic credo or an astute political strategy for obtaining the acquiescence of the masses, the cause of development was heralded as the simultaneous solution to both equity and efficiency.

However even in that authoritarian-prone semblance of a western-type democracy that was the postwar Greek polity, public grievances (if not systemically outcast in time) could assume political means of expression, thus calling to be dealt with. Since the political sphere tended to exclude carriers of dissent, the re-inclusive functions would have to be carried out by the trickle-down effect of the anticipated gains of economic development. Where dissenting citizens were disenfranchised by politics, the economy sought to re-enfranchise them. (The strategy was particularly abused by the dictatorship). Financial interventionism was assigned with performing a notable part of this inclusive function, albeit in a highly particularistic way.

The postauthoritarian governments, under the constraints posed by the country's transition to democracy, attempted to rely on financial interventionism, disregarding the fact that principal preconditions which had economically sustained it were, into the 1970s, becoming increasingly obsolete. In addition, the long-deferred equity question, whose part suppression had formed the cornerstone of the postwar conservative developmental regime, was by now resurfacing with unprecedented political wrath. The fiscal expansion, typical of a South European postauthoritarian trajectory, was exactly aimed to afford social legitimacy to a born-again centrist conservative ND in the 1970s and to cement PASOK's hard-won social coalition in the first half of the 1980s by affirming a commitment to social redistribution.

In general, the postwar developmental state was (re)distributive[10] mainly through a particularistic use of industrial, credit, and to a certain extent agricultural policies, while showing considerable restraint in its use of income, fiscal and overall monetary policies. Within the official framework of its support to industry and exports for their pivotal role in development, the postwar regime was able to target resources to government-favored private firms, either in the form of bank credits or in that of selective 'incentives' and protectionism. This configuration of policy instruments changed in the post-1974 period. The servicing by postauthoritarian governments of broader redistributive objectives, and the effort to catch up with the standards of the West European welfare state meant an overall heavier reliance on both monetary and fiscal expansion, as well as a readiness to accommodate wage demands through lax incomes policy. On the other hand, the process of industrialization by the late 1970s had entered a stage of structural decline, and consensus was growing among policy experts about the perverse effects of credit activism and its potentially subversive impact on the effectiveness of monetary policy. Thus towards the end of the 1970s industrial and credit policies were losing their importance compared to the pre-1973 period; their revival under the first PASOK term in the 1980s was ineffective and short-lived. From a postwar instrument of structural transformation of the economy, developmental credit and industrial policies into the 1970s and 1980s (generously propped up by post-1981 inflowing EU funds available for structural change) became a means for shoring up existing economic structures and supporting the least competitive strata in society.

Ideas, institutions and interests in economic policy

The historical continuum in which this case is examined allows us to draw some broader conclusions on the role of ideational factors in shaping economic policy and the conditions of paradigm shift. Ideologies filter the way in which economic reality is perceived, interpreted and acted upon. Weber had long suspected that 'worldviews give direction to actions that are independently propelled, like trains on a track, by material and ideal interests' (cited in Hamilton 1994: 192). Economic ideology affects economic policy responses to given circumstances by conceptually framing (both in the positive and in the normative sense) those circumstances. By attaching value to a menu of policy alternatives, economic ideology privileges some at the expense of others. By defining the policies to be chosen, or the reputation of policymakers, ideas carry a transformative impact on economic conditions (Jacobsen 1995; Majone 1996b; Blyth 1997; Pagoulatos 1999d). In our case, developmentalism, Keynesianism, or monetarism, all have offered evidence substantiating the above.

Economic ideology affects the economy by defining policy responses, but the reverse process takes place as well. The objective quality of the surrounding economic circumstances crucially privileges one set of economic ideas over another. The adoption of any ideological framework itself is contingent upon real economic conditions. These include the socioeconomic structural endowment (early postwar Greece being a textbook case for developmentalism but not for Keynesianism); the international regime (Bretton Woods versus floating exchange rates); the particular moment in the evolution of the economic cycle (a 1959-60 recession calling for countercyclical deficit financing); the objective economic context (chronic inflation and high public indebtedness ruling out a reflationary response to the early 1990s recession); salient economic events (a balance of payments crisis after the 1985 elections in Greece precipitating the adoption of disinflation). Prolonged inflation in the 1970s and 1980s eventually ended up privileging the objective of disinflation and monetarist precepts. Capital mobility also engendered a deflationary bias of national macroeconomic policies. By the same token, periods of low inflation and sluggish growth or recession (2000-1) internationally revive faith in a Keynesian stimulus by relaxing both monetary and fiscal policy, and intensify criticism against the Stability and Growth Pact. Thus the menacing specter of a 'debt trap', by the same token, begins to give way to that of a 'liquidity trap'. While monetary instability privileges the primacy of disinflation and monetarist-type macroeconomic strategies, recession economics largely remains Keynesian.

Economic conditions, resulting as the intended and especially as the unintended effects of coordinated and uncoordinated state and market activity, create an 'objective' environment to which states and market actors are in one way or another pressed to adjust. Policy shifts evolve by way of a Hirschmanian oscillation between varying degrees of state involvement (Hirschman 1982). In the early 2000s, the international terrorist threat, followed by an avalanche of mega-size financial scandals, have given rise to a public-safety public-interest discourse in the US spreading to Europe. This discourse promotes international coordination, stronger regulation, and even the renationalization of a broad range of financial, trade, communication, transportation, technological, and other activities. As a general trend this may only represent a temporary reaction, but it does temper down substantially the ideological primacy of business freedom and unrestrained market efficiency that prevailed in the 1980s and 1990s. In broader terms, the generalized pessimism of the early 2000s, following the end of the prolonged US economic euphoria of the 1990s, has made globalization seem far less irreversible than before, especially if assessed under the light of the 1930s historical experience (cf. James 2001).

In parallel with such ideological cycles evolves a build up of recent historical experience regarding capitalist crises. This build up of historical learning narrows the limits of policy debate and broadens those of economic pragmatism. Thus, under the accumulated international experience of proto-Keynesian and Keynesian exits from recession from the

1930s through the 1960s, stagflation in the 1970s, and a long struggle against inflationary expectations in the 1980s and part of the 1990s, the economic orthodoxy of the 2000s seems to be more encompassing, pragmatic and 'wiser' than that of previous periods. Indeed, the real threat of deflation revives the importance of countercyclical fiscal policy when inflation is low and interest rates have nowhere lower to fall. Such context helps distinguish more clearly the correct use of a Keynesian fiscal stimulus from its erstwhile inflationary misapplication of using deficit financing not merely to cushion recession but as a constant boost to economic growth. (Since the 1960s and 1970s many Western governments demonstrated how easier it was to loosen the budget in a downturn than to tighten it up in the upswing, giving rise to widespread and justified fiscal skepticism).

'Objective' conditions nonetheless are still to a great extent subject to (inter)subjective interpretations provided through ideational frameworks. For instance, the definition of a 'tolerable level of inflation' is highly susceptible to the surrounding economic ideational context and 'national' anti-inflationary culture (Busch 1993). Thus the sustained disinflationary commitment of the EU over the 1990s has been attributed to the influence of the German Bundesbank, traditional bearer of a relentless defense of price stability rooted in the traumatic experience of the Weimar Republic hyperinflation (Dyson and Featherstone 1999). Similarly in the Greek case, an anti-inflationary national policy discourse, rooted in folk memories of prolonged monetary instability and War hyperinflation, allowed the postwar BoG to prioritize price stability as precondition for development, without significant opposition. That same discourse, at least in the earlier postwar period, did not favor deficit spending, considering it as a demonstration of fiscal irresponsibility and politicking. Conversely, identifying a long record of price stability with the (mostly right-wing or authoritarian) postwar governments, by the post-1974 period had significantly blunted sociopolitical reflexes against inflation. By the second half of the 1970s, a considerable section of the Greek public and the political spectrum even positively identified a more lax and inflation-accommodating macroeconomic stance with progressive politics.

Broader observations can be made regarding the interplay between ideas, institutions, and interests. Institutional and policy change in the international economy results principally from the mobilization of governments, supranational authorities, and transnational economic interests all seeking to take advantage of windows of opportunity for advancing their objectives (Story and Walter 1997; Pagoulatos 1999a). Hence, for instance, the US and countries with developed financial markets such as the UK, along with globalized financial capital, pressed for financial liberalization globally as conducive to their interests. Under conditions of prolonged inflation, the bargaining power of central bankers and the internationalized financial sector (the 'sound finance' coalition) rose, as discussed in chapter 4.

Apart from economic conditions, domestic adjustment to external pressures and to the dominant international policy paradigm is also mediated by political and institutional factors, some of which have been reviewed in this book. The political regime of the 1950s and 1960s, aligned behind the coldwar camp, allowed very limited divergence from the policy mixes that constituted the acceptable economic orthodoxy of the time. The ideology of the political party in power was an important factor, as policy divergence from the economic orthodoxy in the first half of the socialist 1980s showed. But the mediating impact of governing party ideology is less decisive under conditions of accelerating internationalization/ European integration and domestic economic pressure, as the significant cross-party convergence over the 1990s demonstrated. National junctures engendering a primacy of political over policy objectives (democratic transition in 1974, party regime consolidation in 1981) undercut the impact of external economic pressures and defer domestic economic adjustment to the international policy paradigm.

Institutional facets of the state structure and the financial system facilitated particular domestic economic policy responses by carrying an impact on the macroeconomic constraints under which governments operate. A state-controlled banking system and a politically dependent central bank operating under the Currency Committee rendered deficit-financing easier, enabling the governments' recourse from the 1960s through the 1980s to developmental, Keynesian or pseudo-Keynesian expansion. A more independent central bank –or a CB *de facto* granted higher operational autonomy by government, like the BoG after 1985 and especially in the 1990s—will have the power to counteract the government's fiscal expansionism with monetary austerity. A powerful bureaucracy will be able to design and implement industrial and other sectoral policies and influence economic activity towards the desired direction; a weak one will undercut the action scope and effectiveness of a developmental state. A fragmented civil service of low policymaking capacity and authority rendered economic policy more permeable vis-à-vis external influences. Such influences usually originated from top ministerial advisors recruited directly from elite academia, international organizations, or transnational corporate circles often representing the hardcore of policy orthodoxy. Thus, paradoxically, as a result of an incoherent administrative machine, economic policymaking was rendered continuously open to the latest ideological and policy developments in the international economic and academic environment. On the policy demand-side, institutional organization affects the types of distributional claims societal actors place on government. A more centralized neocorporatist structure of interest organization and wage bargaining (Greece increasingly from the second half of the 1990s) facilitates wage moderation, while fragmentation encourages rent-seeking behavior and obstructs an effectively coordinated response to unfavorable financial reform, as seen in chapter 6.

Different institutional configurations generate their own winners. Industry was the champion of the postwar period, labor a relative gainer of 1974-85, and domestic state-controlled banks rather an overall net loser in the 1970s and 1980s until deregulation. By the same token, the EMU era marked the powerful entry into the policy game of internationalized financial capital, and through that, the domestic banking sector as well. Since the 1990s and especially after the 1994 liberalization of capital movements, economic ministers have been obliged to retain an open line of communication with major global financial market firms, drumming up their confidence in the prospects of the Greek economy, agonizing to avert any sudden outflow of capital or downgrading of government paper, trying to sell chunks of privatizable public companies or to lure investors to the Athens stock exchange. Never in the postwar period has economic policy been so dependent routinely on the approval of private financial capital. Attracting financial market confidence has succeeded the developmental era ritual of major domestic and international industrial enterprises lobbying government ministers to extract licenses, subsidies, exemptions and other favorable concessions for their investment and business activity.

Different stages of capitalist development are also associated with distinct ideations and images of capitalist vigor and success. In the mainstream imagery, the nation's economic well-being in the postwar developmental period was measured by the number of new industries, the smelting-furnaces, and the rate of overall economic growth with paramount emphasis on manufacturing. The postauthoritarian period through the 1980s advanced (and eventually failed to meet) an expansionary standard of success, in the form of an economically viable resource redistribution and pluralistic social spending. The new political economy of financial-market based capitalism ideologized a far more disciplinarian macroeconomic commitment, with a booming stock market as central yardstick of economic growth and success.

On a final note: some comparative and normative considerations

Our account offers a strong caveat against approaches that tend to view the Greek case through the lenses of national exceptionalism. Historiographical and social science literature of modern Greek society and economy has been plagued by accounts which tend to reproduce a sense of Greek 'uniqueness', regarding either its subjection to the American hegemony of the postwar era, or the problematic functioning of its democratic institutions of that period, or the employment of state and finance institutions or the recent economic experience of the 1980s and 1990s. Contrary to such ethnocentric accounts, we have placed our subject matter within a comparative framework of state-finance configurations. This has shown the Greek financial system and political economy of the postwar period to fit the general pattern of developing economies both in the developmental role of state institutions and in the authoritarian-prone or incomplete maturation of democratic political and civil society institutions. After 1973 the Greek economy is subject to the same crisis and forceful pressures emanating from the international environment. Its stagflationary response to the regime shift following the Bretton Woods collapse parallels that of advanced European economies, as Greece has graduated from its developing country status. Democratic transition and consolidation (a shared experience with the Iberian peninsula) opens way to the full politicization of economic and financial policies, eventually leading to serious divergence from the new disinflationary European orthodoxy in the 1980s. Yet, even that divergence is anything but 'unique', given for example its strong similarities with the (nonetheless more short-lived) French socialist 'reflation in one country' experiment of 1981-82. Finally, adjustment to the disinflationary orthodoxy via financial liberalization and monetary austerity brings the full convergence of Greece with the EMU nominal criteria and with the EU policy canon as well. Far from 'unique' or 'exceptional' (or at least not more than any national trajectory could claim to be) the Greek case is interesting not only for what it tells about itself, but also for what it relates regarding the general policy patterns of which it forms part.

Let a bold generalization be ventured at this point. From the 1950s to date perhaps the central issue guiding economic institutional design and policy planning has been: how to devise the appropriate set of institutions that would maximize the comparative advantages of the country? Diverse experience emanating from different national trajectories has suggested more than one routes to success. Depending on the particular stage of development, overarching regime, and surrounding socioeconomic and political conditions, different models and paradigms have driven reform efforts across time. None has been able to operate unconstrained from path dependencies created by past choices, and none is devoid of redistributive implications, economic, sociopolitical and intertemporal trade-offs of all sorts. No policy solutions, including the most successful, are devoid of perverse effects, and all involve consequential dilemmas. It thus comes to no surprise that there are no permanent or universally 'right' institutional remedies and policy fixes. As the various unintended consequences of financial interventionism have amply demonstrated, the successful developmental state of yesteryear may be the lame duck or the greatest impediment of tomorrow (Japan provides evidence to that). And its dismantling may solve a category of problems, but only to generate a new set of different ones. That said, one should not trivialize the positive aspects of financial interventionism: since 1980, three quarters of the member countries of the IMF, developed, developing and emerging alike, have been hit by financial crises.[11] Greece was an exception, crucially assisted also by its ability to rely on state-controlled finance. Interventionism breeds its perverse effects, but non-interventionism may lead to other kinds of undesirable consequences.

Greece's postwar boom was not a case of Keynesian prosperity but the take-off of a developing country. Greece's equivalent of *les trentes glorieuses* was a time of deferred welfare though steadily decreasing poverty, and sociopolitical deprivation, both of which leave no grounds for postwar era nostalgia. Then Greece's own belated experience with Keynesianism in the 1970s and 1980s was flawed and far from having been crowned with success. In fact, it may have offered a potent argument for the wisdom of surrendering some economic policy control to external technocracy agents less susceptible to the vagaries of electoral politics. (It may also, even more wisely, have suggested an institutional reform path of rendering electoral politics less debilitating in their economic impact). With the hindsight of the relatively successful economic adjustment of the 1990s, a major lesson to be drawn is that in the era of increasing globalization and interdependence unilateral divergence comes at a heavy financial price. Independent policy efforts to contravene the dictates of global-capital-imposed economic orthodoxy by substantially raising social spending and tightening social regulation are highly likely to meet with rising inflation, faltering economic growth, and higher unemployment down the road.

However, this admission of 'gloomy' pragmatism should far from imply an uncritical *in toto* acceptance of the 'sound finance' orthodoxy. Quixotic expansionary attempts doomed to fail as they seek to defy the overwhelming power of global financial markets are best match for the Panglossian belief in the superior self-regulating efficiency of unfettered financial liberalization. Certain items of the orthodox agenda retain their robustness as policy prescriptions. These include the merits of open trade, the overhaul of insurance and pension systems, the need to ground social redistribution on sound public finance, the divestiture of at least some state-owned business firms (followed by bold re-regulation), the rationalization and marketization of a certain range of state-controlled activities followed by a clear delineation of the public-private boundary. Other items of the currently orthodox agenda, however, have been laid bare to compelling dispute. While the dismantling of barriers for cross-border investment capitals has spread growth opportunities, the total deregulation of restrictions to the movement of purely speculative short-term capitals has left many economies under the Damoclean sword of a financial collapse, transferring unprecedented power to the hands of collectively irrational global financial market players. Inasmuch as unilateral national opt-outs from this global financial disorder are hardly viable, the degree of absurdity of this particular dimension of financial globalization has rightfully intensified calls for global-level universally coordinated action oriented towards 'governing' and taxing short-term capital movements (Sachs 1998; Krugman 1999a).[12] Regaining democratic control over economic policy inevitably passes through multilateral and supranational cooperation, aimed at establishing a substantial degree of global control over short-term capital movements, that is enforcing a global governance over financial globalization (cf. Ruggie 1995).

All that said, today's anti-globalization backlash, comprising as it does anything from rationalist proponents of global-level institutional reform to zealots of anti-market Ludditism, parochial anti-Americanism, and cultural nationalism risks throwing away the baby with the bathwater. A dangerous paradox has been remarked, among others, underlying the reaction to globalization: that is a tendency of blaming social dislocations caused by what is today a largely self-regulating international market on excessive international regulatory intervention and encroachment in national policy sovereignty (Streeck 1996: 314). This 'democracy illusion' fails to comprehend the exact nature of supranational interdependencies, seeking instead refuge to an affirmation of national interest. It thus ends up obstructing precisely those multilateral supranational-level procedures necessary for the emergence of effective regulatory reform and global-level governance.

[1] The argument on the 'stabilization state' draws on Pagoulatos (1999c and 2000c). Dyson (2000) employs the same term.

[2] The Stability and Growth Pact requires balanced budget or surplus in the medium term. This target has been interpreted as the structural deficit, which will allow automatic stabilizers to work in a recession (Artis and Buti 2000). Thus, if all Eurozone countries had reached the medium-term target, they could stabilize the economy by using fiscal policy while respecting the Stability and Growth Pact in a normal recession. (If the recession is more severe, the penalty envisaged in the Stability and Growth Pact does not apply anyway). However, most member-states have not reached this level of fiscal consolidation as yet.

[3] Article 3a of the Treaty on EU specifies the guiding principles of economic policy as 'stable prices, sound public finances and monetary conditions, and a sustainable balance of payments'.

[4] On monetary targeting versus inflation targeting, see Bernanke et al. (1998). A chief argument against money supply targeting is that financial market liberalization and innovation have rendered M3 an unreliable indicator. Over the 1990s a number of CBs (including New Zealand, UK, Canada, Australia, Sweden, Finland, Spain, and Greece) shifted to inflation targeting. Germany remained the only major EU country committed to monetary targeting. Monetary targets were set in Greece since 1979 (two years after Spain and Portugal) but they were usually grossly overshot until eventually, into the 1990s, abandoned implicitly for exchange rate targeting, which (in the few years until full EMU entry) evolved into a loose form of inflation targeting.

[5] The ECB has specified that price stability is to be pursued on the medium-term, meaning that deviations from the inflation target due to exogenous disturbances or other factors will not have to be directly confronted by monetary policy.

[6] The Federal Reserve Reform Act of 1977 requires the Fed to 'promote effectively the goals of maximum employment, stable prices and moderate long-term interest rates' (Paley 1998: 124). On the contrary, the ECB has the primary objective of maintaining price stability and

supporting the general economic framework for growth and employment only to the extent that this does not compromise price stability (ESCB Statute, article 2).

[7] As Friedman (1968: 7) argued, 'low interest rates are a sign that monetary policy *has been* tight (…); high interest rates are a sign that monetary policy *has been* easy (…) Paradoxically, the monetary authority could assure low nominal rates of interest –but to do so it would have to start out in what seems like the opposite direction, by engaging in a deflationary monetary policy' [emphasis in the original].

[8] In 1999 overall productivity in Greece was 59 percent the EU average, with manufacturing productivity being the lowest (42 percent). Only financial services and business activities productivity was above EU average (101 percent) (European Commission 2000b: 98).

[9] Decreases compared to the previously controlled range of state instruments, but is certainly not abolished. The literally 'powerless' state may indeed be a myth (Weiss 1998; cf. Wade 1990 and 1996) but this is not to say that its power has not been significantly eroded under the forces of world economic integration.

[10] Lowi's (1964) classic typology distinguishes between distributive, regulatory, and redistributive policies. He views distributive policies as characterized by 'the ease with which they can be disaggregated and dispensed unit by small unit', 'highly individualized decisions that only by accumulation can be called a policy', a virtual synonym for 'patronage'. Regulatory policies, on the other hand, are also specific and individual in their impact but incapable of the disaggregation typical of distributive policies. Regulatory decisions cumulate among all the individuals affected by the law in roughly the same way, and are cumulative largely along sectoral lines. Finally, redistributive policies are like regulatory policies in that they involve relations among broad categories of individuals, but there the categories of impact are much broader, approaching social classes (*contra* Greenberg et al. 1977).

[11] Crisis frequency since 1973 has been double that of the Bretton Woods and classical gold standard periods, and matched only by the 1920s and 1930s (Bordo et al. 2001).

[12] Measures could entail: the imposition of minimum stay or non-interest bearing reserve requirements upon short-term 'hot' money inflows, or a Tobin transaction tax to 'throw sand to the wheels' of short-term financial capitals. Any such measures of course would only make sense if imposed at a global level, or otherwise capital would move to countries opting out of the tax.