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Sovereign Debt Crisis and Peripheral Capitalisms

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Summary

This article calls on the need for scholarly studies to compare and contrast the failure of neo-liberal policies in Eastern Europe and the Balkans in the 1990s in view of the sovereign debt crises in the periphery states of the EU today. It explores the way(s) in which "shock therapy" financial statecraft in former Yugoslavia and elsewhere did not alleviate the debt problem but, quite the opposite, augmented it. The international mechanism in operation in the past, as well as today, has not been and is not real development, modernisation and growth of the countries that suffer from the debt fetter, but rather much-needed depletion of their resources earmarked for the developed capitalist metropolises. This is even more pronounced today *vis-à-vis* the decline of the Euro-Atlantic socio-economic system and the rise of the "global East" (China, India, Brazil, Russia, South Africa, Indonesia, Turkey). The way to recovery for the periphery, as the case of a number of Eastern European and Latin American states shows, is stimulation of domestic demand via Keynesian instruments while moving away from financialisation and neo-liberal engineering.

Keywords: debt, financialisation, financial statecraft, "shock therapy", IMF

> The public debt becomes one of the most powerful levers of primitive accumulation. As with the stroke of an enchanter's wand, it endows unproductive money with the power of creation and thus turns it into capital, without forcing it to expose itself to the troubles and risks separable from its employment in industry or even usury. The state's creditors actually give nothing away, for the sum lent is transformed into public bonds, easily negotiable, which go on functioning in their hands just as so much hard cash would (Marx, 1976: 919).

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Introduction

The de-regulation and internationalisation of Bretton Woods institutions in the 1990s occurred in the context of the collapse of the USSR and the embedded power of neo-liberalism – achieved in the 1980s – as the driving policy form of a new political-economy dynamics in the US and Britain. With no socialist system available and with Europe unable to provide any feasible alternative (see below), the former members of COMECON and other states emerging from the Soviet collapse had no choice but to join and expand the powers of the US Treasury via Bretton Woods institutions and Jeffrey Sachs' "shock therapy" policy recipe.

As an ideology, neo-liberalism was making headways with the writings of such intellectuals as Friedrich Hayek and Milton Friedman.[1] Neo-liberal ideologues were able to articulate a hegemonic discourse presenting the failure of state socialism in the East and the breakdown of Keynesianism in the West as identical projects and the source of all evils.[2] The key claim was that capitalism, as a social system, was failing to thrive under state-led policies and socio-economic practices. These arguments particularly targeted the Bretton Woods assumptions about liberal institutionalism and government regulation, favouring instead a free-market system left to the management of private enterprise. Neo-liberalism, however, also came with a political price in undermining the basic liberal concept of a social contract between citizens and their government for the provision of essential social services, and concentrating economic power in the hands of private capital, or, more accurately, of financial capital.

While the collapse of socialist systems in the early 1990s opened the door to an extension of Bretton Woods institutions and its reconstruction around neo-liberalism, it also removed an important safety valve that had acted to protect Bretton Woods during its many crises: the state-socialist economies of COMECON had offered a relatively stable, long-term market for the excess production of Bretton Woods member-states from 1949 to 1991, thereby partially buffering them against capitalist crises of over-accumulation. At the same time, this socialist alternative market also provided a counter-weight to Cold War practices of the US and its Bretton Woods allies which restricted the free exchange of ideas and justified militarism and intervention in the post-colonial world. Once this safety net and counter-weight were gone, the comfortable balance of a bi-polar world disappeared. Its absence after 1991 increasingly exposed the Bretton Woods regime to capitalism's own con-

[1] Friedrich A. Hayek, *The Condition of Liberty*, London, 1960; Milton Friedman, *Capitalism and Freedom*, Chicago, 1962, and also his very significant policy article "The role of monetary policy", *American Economic Review*, 58: 1-17, 1968.

[2] For a perceptive critique, see: Noam Chomsky and Robert W. McChesney, *Profit Over People: Neo-liberalism and Global Order*, New York, 2003; David Harvey, *A Brief History of Neo-liberalism*, New York, 2007.

tradictions, such as its tendencies toward financial speculation and over-accumulation, its reliance on the US Treasury, and its disregard for the connection between neo-liberal/unpopular economic policies and their political consequences.

This article aims at recasting the failure of neo-liberal policies in Eastern Europe and the Balkans in the 1990s in view of the sovereign debt crises in the periphery states of the EU today (Greece, Portugal, Spain, Italy and Ireland). The ruling elites and bankers in Brussels and the embattled national capitals in the periphery of the Euro-zone seem to be employing the "therapeutic recipes" of the IMF in the 1980s and 1990s, the time when the debt mechanisms of Latin America and Eastern Europe respectively were exploited at the extreme. Lessons have not been learnt. All the neo-liberal policies achieved there was a temporary, albeit devastating, blow to the productive capacity of those societies and states, leading them further into stagnation and debt. The US Treasury, via its Bretton Woods institutions and the power of the dollar, tried to pierce the social formations of Latin America and Eastern Europe in order to deplete their resources and compel them to remain dependent on US-UK management of the global economy. Effectively, this is the essence of globalisation: an advanced stage of Open Door imperialism adapted to financial instruments and logics, since core capitalisms became increasingly dependent on financial services after the gradual outsourcing to Asia and other global peripheries (e.g. Brazil).[3] This is very suggestive to all those peripheral Euro-zone states, first and foremost Greece, whose policies towards dealing with their sovereign debt crisis today seem to favour solutions and conditions similar to those that prevailed in the 1990s in Eastern Europe and the Balkans. I argue that these policies are bankrupt and that they should be abandoned immediately. For the peripheral countries,

[3] The classic statement on Open Door imperialism is William Appleman Williams' *The Tragedy of American Diplomacy*, first published in 1959. In the main, Open Door reflects the need of US capital to conquer new markets outside the US proper, as there is not enough consumer demand domestically to support mass production. In other words, Open Door is a manifestation of crises of over-accumulation. In this context, two remarks are important. When the global economy is geared to industrialism, then US Open Door aims primarily, but not exclusively, to open up the retail market of subaltern/vassal capitalisms. But when the global economy is geared to financialisation and services, then US Open Door aims primarily, but not exclusively, to open up to US-led agencies – such as the IMF and the World Bank – the banking and financial sectors of subaltern/vassal capitalisms (this is the case, for example, with the South-east Asian crisis, or the persistent attempts by the US to have an open European financial system with no fiscal consolidation and centralization). The second remark is equally important. Open Door is accompanied by politics and security perceptions embedded in the US policy-making elites ever since it was adopted as a key policy in the late 19th century. This means that the spread of political democracy and free markets abroad has to be enforced, since homeland security is contingent upon the extent to which political democracy and free market capitalism flourishes abroad. On this issue, the contribution to the debates on Open Door by Christopher Layne remains very significant (Layne, 2006).

the best way out of the crisis is to exit the Euro-zone and pursue, primarily, a policy of internal demand stimulation in view of, secondarily, boosting the productive and export capacities of their states and societies which had been dismantled by the uneven competition with core capitalisms. But as the European periphery was out-competed by the European core, the Western core as a whole today seems to be out-competed by the new capitalisms of China, India, South Africa and Brazil, and also the revived capitalism of Russia, which seems to be taking its revenge over the Western core of the US and the UK.

First, I will give a short description of the global economic crisis today and a definition of the concept of *financial statecraft*, used extensively here to analyse the ways in which neo-liberalism and globalisation were directly promoted and driven by the US Treasury via the IMF and other Bretton Woods institutions. I will then go on to recast the IMF-US Treasury neo-liberal policy in Eastern Europe and the Balkans, suggesting that this policy produced anything but sustainable growth and debt relief. Some benefits in terms of employment and growth became apparent only when the elites of the states of the region began stimulating domestic demand.

Financialisation and the Economic Crisis Today

With the Bretton Woods system evolving into a fully integrated global financial system by the late 1990s, the role of the US Treasury in neo-liberal reconstruction became more visible. In fact, the US Treasury became a direct organiser of political hegemony within OECD countries via dollar hegemony and the control of Bretton Woods institutions, some of which had been transformed, such as the GATT, into WTO (1994). The institutional power that the US enjoyed in governing the IMF and World Bank before 1991 was thereafter joined by an even greater power of persuasion that drew public as well as private institutions to neo-liberalism and financialisation around the world (Pauly, 1994; Brenner, 2006; Lapavitsas *et al*., 2010; Arrighi, 2007). Financialisation characterises the transition from an M-C-M' relation to M-M' one, a transition that occurs after a severe crisis of profitability in the industrial sector (crisis of over-accumulation). This became especially pronounced after 1971 with the floating exchange rates regime and the fiat powers of the dollar as the globe's reserve currency (Gowan, 1999a; Fouskas and Gökay, 2005). Thus, when the US dismantled its own Depression-era restraint on speculative investments by banks – the Glass-Seagall Act – and replaced it with the Gramm-Leach-Bliley Act, labeled the Financial Services Modernization Act of 1999, it effectively institutionalized and formalised *casino capitalism* on a world scale.[4] Once

[4] For the Gramm-Leach-Bliley Act, see http://banking.senate.gov/conf/. "Casino capitalism" was a term coined by Susan Strange in the mid-1980s to describe the unbridled speculation that was developing in the wake of neo-liberal economics and financialisation (Strange, 1986).

introduced, casino capitalism rippled through the global economy promoting massive concentrations and exchanges of capital among global speculators, the transfer of speculative funds to international banks and other financial institutions, and the development of an array of new speculative investment tools to generate quick and easy profits. This whole process of extreme financialisation has completely lost sight of the fact that without real production there is no real value. Production has become increasingly incidental to the much more lucrative business of "balance-sheet restructuring".

It should come as no surprise that the neo-liberal transformation of the global economy would come to a bad end. Warning signs of its destructive capacity had been in evidence during the US Savings & Loan fiasco of 1987. Then, with the added power of the internet and its global communications revolution, the neo-liberal promotion of unregulated currency trading ricocheted like a shot inside the global banking system, first creating the Asian financial crisis, which led the US government to make a frantic multi-billion dollar midnight rescue of Long-Term Capital Management, and later generating a stock market bubble and the "dot.com" bubble, which, when it collapsed in late 1999, added further evidence of the dangers that came from unregulated speculation. What is remarkable is not the many failures of neo-liberalism over the past fifteen years that pyramided investments on speculative debt to balloon overall global paper capital from a relatively modest sum of $70 trillion in the late 1990s to more than $700 trillion by 2007, but the inability of capitalist governments to extract themselves from its grip. Thus, rather than acting to restrain capitalist excess, these governments stood aside to encourage the even greater speculation that eventually produced the collapse of 2007-2008 (Jubak, 2008).[5]

But like its history, the dynamics of the present crisis lie below the surface of events. Certainly, sub-prime lending was a precipitating factor, but it also represents a series of policy choices that were driven by changing circumstances within the global political economy. Some of these were within the control of capitalist governments, such as the dismantling of Depression-era regulations of financial markets. But others, including the rapid evolution of global systems of trade and communications and the regeneration of China and India as major global eco-

[5] Jubak, a seasoned investment advisor, observed that, "the more investors who bought in [to speculative investments such as credit default swaps], the more of these new products Wall Street could sell and the more money it was willing to lend to home builders, home mortgage lenders and credit card companies; to the savings and loans and banks that created the raw materials (mortgages, credit card debt, auto loans) that Wall Street needed to manufacture its products; and to the hedge funds and structured investment vehicles that bought what Wall Street produced... It worked out just fine until reality stuck a pin in the bubble."

nomic centres, were historically beyond Anglo-American policy control (Fouskas and Gökay, 2012). Clearly separating the "inside" from the "outside" is critical to understanding why and how this crisis unfolded and where it might take the global political economy. Time and again, this crisis is the result of contradictions of essentially new forms of combined and uneven capitalist development, including resources depletion and environmental degradation, all of which, in their merger with social struggles, re-activate the causal configuration of the global fault-lines.[6] Financialisation, resources depletion and environmental degradation first became acute in the 1970s (Glyn, 2006: 10) and today operate as severe constraints not only upon US power, but also upon any power or coalition/ensemble of powers that will succeed the US imperium. These three vulnerabilities of the US-led global hegemonic system are also vulnerabilities of China and all emerging powers.[7]

All in all, the two elements that I feel are most important in understanding the present crisis are its ideational origins in neo-liberalism, which re-launched some old tools for economic crisis management and fictitious wealth generation – currency swaps, derivatives and futures, credit default swaps, securitisation, special vehicles, etc. – and the rapid evolution of extra-governmental dynamics within the US-led global system, which has substantially undermined the ability of Anglo-American executives to contain the very effects of the policies they buttressed and unleashed. For that very reason, governments, including the US executive, may fit today, more than ever, to that "vulgar" definition of orthodox Marxism about the state: "the capitalist state is an instrument of the bourgeoisie manipulated at will", although one should qualify the term bourgeoisie with the adjective "financial". As neo-liberalism and financialisation come under scrutiny, their management tools should also be examined to ensure that they do not survive its demise, and as the global system continues to evolve new relationships and dynamics, these must be taken into account when considering how the global political economy can and might also move beyond the "growth at all costs" economic model to a model that recognizes the real costs and benefits of growth.

[6] The concept of "global fault-lines" is defined in our forthcoming work (Fouskas and Gökay, 2012). It is the historical tendency of global social, political, economic and ideational structures to develop unevenly and in a combined way, causing transformations and change. Global fault-lines serve the disciplines of social sciences and international relations better than the concept of "uneven and combined development" (Rosenberg, 2008), and we use it in order to decipher the causes of the current crisis. Global fault-lines do not isolate the economic instance from the other instances of the social totality, such as politics, ideology and the environment.

[7] China, for instance, is especially vulnerable to local government debt, as local governments have borrowed heavily to invest in property and infrastructure. Some estimates put this debt as high as 40-50% of the country's GDP (see Editorial, 2011).

Financial Statecraft

Recent literature on sub-prime lending generally argues that its widespread adoption was possible because of the repeal of the Glass-Steagall Act. This Act had been adopted in 1933 in an effort to restrain the unregulated speculation that contributed to the length and severity of the Great Depression (Chernow, 2001) and, the argument goes, its repeal in 1999 added instability to the financial system by allowing investment banks access to a wide range of previously denied speculative investments and operation of high risk instruments. Yet the repeal of Glass-Steagall itself reflected the institutionalisation of neo-liberalism at the heart of the US financial system as a means of finding new ways to "modernize" the financial services industry to profitably recycle huge amounts of paper and liquid that had become concentrated in the banks (Barth *et al*., 2000). Seeing the repeal of Glass-Steagall as a response to contradictions stemming from within liberal Keynesianism – what Robert Brenner called "asset-price Keynesianism" – raises more substantive issues about how capitalist reforms are generated out of crises as efforts to secure the interests of financial capital, rather than to serve broader class interests in capitalism as a whole.

Using this wider, structural lens, explains how both the repeal of Glass-Steagall and the subsequent expansion of sub-prime lending arguably were forms of financial statecraft adopted by capitalist governments to avoid the consequences of earlier policy accommodations, all of which contained the seeds of an eventual systemic crisis. Financial statecraft is not new. For example, when the US "closed the gold window" and devalued the dollar in 1968-1971, it did so in order to deal with the accumulation of US international debt during the Vietnam War, which exposed tensions with other capitalist governments that no longer would subsidize US economic and political profligacy. In its place, the US pursued a "petrodollar/weapon-dollar" policy that continued promoting the interests of the US Treasury and the dollar as the key international payments currency (Nitzan and Bichler, 2003). But as with the present crisis and its links to neo-liberal reforms, the "petrodollar/weapon-dollar" system quickly became the source of a new and more severe international economic crisis, as huge amounts of new capital flooded into the capitalist banking system demanding opportunities for profitable investment. Thus, both forms of financial statecraft achieved short-term reprieves that only introduced new contradictions and tensions within the global political economy in general, and the US-UK economies in particular, that demanded new financial interventions inasmuch as the logic of the system per se could provide no other alternative.[8]

[8] The yin and yang of these crisis displacement strategies can be clearly seen in William Greider's account of the struggle between neo-liberal monetarism and liberal regulation during the extended inflation-deflation crisis of 1979-1983 (Greider, 1987).

All in all, *financial statecraft* is not the same as *economic statecraft*, that is to say, assigning trade privileges, tariffs and quotas, or providing foreign aid in drought and disaster. Indeed, as a Council on Foreign Relations publication suggests, financial statecraft has to do with the US state's role in financialisation/globalisation (Steil and Litan, 2006). It is, therefore, the active participation of the US state's monetary institutions, and/or of those controlled by the US state, in facilitating new forms of capital flows and currency speculation, such as derivatives and futures, special purpose vehicles, credit default swaps, etc. These practices, gradually unleashed after 1971 with the end of the fixed exchange rates system, promoted further the dollarisation of the global economy, with the US Treasury, through the IMF and the World Bank, underwriting foreign debt and imposing financial sanctions upon undisciplined actors: if you refused to "open your door" to those new financial practices, then you automatically became a pariah.

"Shock Therapy" for the East

One of the most interesting cases of financial statecraft had been the so-called "shock therapy" policy approach, put forth by Harvard University Professor Jeffrey Sachs. I will confine myself here to a brief presentation of the issue, because it has already been dealt with adequately in the relevant critical scholarship (Gowan, 1999a). However, this short presentation is important: it shows how the neo-liberal "shock therapy" policy failed to deliver what it promised, namely to offer the new political economies of East-Central Europe and the Balkans modernization, prosperity and growth. If at all, it showed how predatory the policies of a declining global hegemon are, namely the US, who had failed spectacularly to come up with anything close to a new developmental Marshall Plan, as it did in the 1940s for the reconstruction of Europe. But then the US was a creditor power. Now it is a debtor power, and a declining one for that matter.

A good starting point is the involvement of Bretton Woods agencies in the making of Yugoslavia's debt since the 1970s. This is a devastating affair because, intentionally or not, and as Susan Woodward's path-breaking work has shown, this involvement initiated the bloody break-up of the country that Western mythology attributes to the ethnic nationalism and hatred of the peoples of Yugoslavia.

Mainstream explanations on the violent break-up of Yugoslavia argue that the main culprit had been the highly politicized ethnic hatred between the peoples and the elites of the constituent states of Yugoslavia, which blew out of all proportions after the country's charismatic leader, Marshall Tito, died in 1980. More sophisticated accounts add as a cause to the collapse of the country the very impact of the disintegration of the Soviet empire. Being a non-aligned country, Yugoslavia needed the support of both the West and the USSR to maintain a balance between its borrowing requirements and defence needs. With the USSR gone, Yugoslavia could no longer keep its state cohesion. But these are not the real causes that led to the violent disintegration of Yugoslavia. If at all, these variables should be seen in articulation with the interference of concrete exogenous agencies and even state actors, such as Germany or the Vatican, and above all of the IMF and the World Bank. What do we mean by that?

Yugoslavia's socialist economic experiment following Edvard Kardelj's theories of "self-management", coupled with its "non-aligned" stance in foreign affairs, proved workable during the "golden age": Yugoslavia could borrow money from both the Soviet Union and Bretton Woods institutions, it could buy from and sell to both capitalist and socialist countries and, overall, maintain a stable current account. In addition, this stable international environment contained Yugoslavia's regional economic disequilibria, such as the disparity between the rich Northern federal states of Slovenia and Croatia, on the one hand, and the poor South (Macedonia and parts of Serbia) on the other (Hashi, 1992). However, when the Western economies entered into the long period of recession and *stagflation* (stagnation accompanied by high inflation) in the 1970s, the result had been the blocking of Yugoslav exports, thus initiating a vicious cycle of borrowing and debt creation from abroad, especially from the IMF, that is the US Treasury. When the IMF began imposing conditionality on its handouts in the early 1980s, it met with the fierce opposition of Slovenia and Croatia. IMF conditionality implied an end to Yugoslavia's nearly co-federal state structure and entailed that the richest of the Republics would have had to foot the bill for the neo-liberal led reforms: privatizations of state assets, liberalization of the banking and financial system, retrenchment of welfare apparatuses and severe reduction in wages, and all that, presumably, in order to tame inflation. It was precisely this policy that deepened the ethnic divisions and pushed the political elites of each Republic to adopt a nationalist agenda in order to appeal to their electoral base that, after all, would have had to pay for the federal debt. The Yugoslav state was a classic case of a structured inequality among regions, in which ethnic tensions were exacerbated via a neo-liberal package of economic reforms imposed from outside. Susan Woodward aptly summarized the break-up of the country as follows:

> The [Yugoslav] conflict is not the result of historical animosities and it is not a return to the pre-communist past; it is the result of the politics of transforming a socialist society to a market economy and democracy. A critical element of this failure was economic decline, caused largely by a programme intended to resolve a foreign debt crisis (...). Normal political conflicts over economic resources between central and regional governments and over the economic and political reforms of the debt-repayment package became constitutional conflicts and then a crisis of the state itself among politicians who were unwilling to compromise (...).

> Nationalism became a political force when leaders in the republics sought popular support as bargaining chips in federal disputes. (Woodward, 1995: 15, 380)

The Vatican and Germany, having their own agendas in the Balkans, supported the secession efforts of Slovenia and Croatia (Gowan, 1999b). Especially worth noting is the deal crafted between German and British elites in the run up to the Maastricht Treaty (December 1991), when Britain convinced Germany to agree to its opt-out from the social charter and the CFSP in return for letting Germany to go ahead with the recognition of Croatia, thus initiating the bloodshed. EC's publicly declared common position at the time was aiming at keeping Yugoslavia together. That is how the road to ethnic war opened.

In the good old tradition of Open Door, whether intentional or not, US-led neo-liberal financial statecraft in Yugoslavia, coupled with Germany's and other European powers' agendas, brought about war and the disintegration of the country. It also did very little to deliver growth and prosperity in the worn-torn successor states. In fact, quite the opposite: the process of liberalization and the rapid introduction of free market created a new type of crony capitalism and corrupt practices, obstructing any meaningful endogenous entrepreneurial undertaking leading to job creation and new economies of scale.[9] Interestingly, this practice was "theorised" by Jeffrey Sachs in his so-called "shock therapy" model put forth in 1990. The context in which "shock therapy" was put forth is quite revealing.

The 1980s revived Europe's effort to dissociate itself from the dollar's strategic grip. Dellors' agenda encompassed an increasingly integrated European market and the launching of a common currency, a project that failed to materialize in the late 1960s. A re-unified Germany was driving the monetary policy of the Europeans, and East European markets were very important for German industry and exports. A new *Östpolitik* was revived under Germany's Chancellor Helmut Kohl. The project comprised two interrelated policy dimensions (Attali, 1997).[10] The first was a reform package for the economic reconstruction of Eastern Europe and the Balkans which, similarly to the post-WWII Marshall Plan, was to be administered by endogenous forces on the basis of a post-Keynesian type of economic recovery, stabilisation and growth. The COMECON region would remain united and Cold War barriers to East-West trade would be removed. The second was the gradual integra-

[9] From our work here with the Editorial team of the *Journal of Balkan and Near Eastern Studies*, we would distinguish the contributions by Jovo Ateljevic and Jelena Budak, 2010: Corruption and public procurement: example from Croatia, (12) 4: 375-397, and also other articles by Ateljevic on the issue of corruption. We should also mention here Carl-Ulrik Schierup (ed.), *Scramble for the Balkans; Nationalism, Globalism and the Political Economy of Reconstruction*, London, 1999, especially the contributions by Vesna Bojičić and Branka Likić-Brborić.

[10] From 1981 to 1991 Attali was special adviser to François Mitterrand.

tion of the former Communist countries into the EU and the institutionalization of a powerful geo-strategic axis aiming at a common foreign and defence policy. But Clinton had had a different idea: in the political field, he argued, "Europe may have a separable, but not separate" defence identity from NATO (Fouskas, 2003). In the economic field, he embraced Sachs' version of Open Door.

The declared wish of "shock therapy" was the economic re-organisation of the state-market nexus in the East in order to achieve "a recovery of human freedom and a democratically based rise in living standards".[11] But none of this was delivered. Sachs rejected any form of Keynesianism and gradual transition to free market, opting instead for a rapid sell out of state assets and the immediate integration of East-Central Europe into the West European market. Open trade, currency convertibility, reliance on the private sector, membership of Bretton Woods institutions and openness to foreign investment were Sachs's developmental articles of faith that each former Communist country should subscribe to. As Gowan convincingly showed as early as 1994-1995, "shock therapy" practice for Eastern-Central Europe failed miserably to deliver on all and each one of its promises.

Because East European markets lacked the capacity for economies of scale thus becoming internationally competitive, free trade hit harsh all East-Central European companies, even those sectors in which the countries of the region were strong: steel, detergents, pulp, iron, chemicals, agriculture and apparel. Overall, imports from the West increased and this created a permanent current account imbalance and dependency on the IMF and other Bretton Woods institutions. All this, coupled with the fiscal problems due to weak tax collection and low oil prices, had fast implanted severe state crises into virtually all former Communist countries. Given the anti-inflationary bias of the West, public spending was excluded as a policy addressing the deficits. The door for IMF borrowing had been opened. Throughout the 1990s, living standards deteriorated sharply across East-Central Europe, growth turned negative and unemployment rates increased substantially (tables 1 and 2 on the next page).

The "shock therapy" version of Open Door did not deliver its promises. If anything, it plunged the political economies of the former Soviet and Ottoman spaces into abject misery, under-development and debt. The total debt of the countries in Central and Eastern Europe was $9.8 billion in 1980, and $144.3 billion in 1990, but after ten years of "shock therapy" it soared to $327.3 billion in 2000. The long-term external debt situation was equally disastrous: from $8.1 billion in 1980, it moved up to $116.3 billion in 1990, and $274.6 billion in 2000 (UN Handbook of Statistics, 2003: 29). This, coupled with negative rates of growth, brought these

[11] Sachs quoted in Peter Gowan, 1995: Neo-liberal theory and practice for Eastern Europe, *New Left Review*, 213: 5 (the same text also in Gowan, 1999a, chapter 9).

Table 1. Unemployment Rates in Six Post-Communist States, 1995-1998

Country	**1995**	**1996**	**1997**	**1998**
Czech Republic	2.9	3.5	5.0	6.0
Hungary	10.4	10.5	10.0	9.0
Bulgaria	11.0	12.5	16.5	19.0
Poland	14.9	13.6	11.9	11.5
Romania	8.9	6.1	9.2	9.0
Russia	8.8	9.3	9.7	11.8

Source: Vladimir Rukavishnikov, "Is Russia becoming a third world country? Unemployment risks in the time of post-Soviet restructuring", in: Nikolai Genov (ed.), *Unemployment Risks and Reaction*, UNESCO, Bonn-Sofia, 1999

Table 2. Average Annual GDP Growth in East-Central Europe, the Caucasus and Central Asia, 1989-1998

Albania	0.29	Latvia	–3.72
Armenia	–4.93	Lithuania	–3.8
Azerbaijan	–7.68	Moldova	–9.12
Belarus	–1.49	Poland	1.8
Bulgaria	–3.95	Romania	–3.04
Croatia	–2.16	Russia	–6.26
Czech Republic	–0.22	Slovakia	0.34
Estonia	–2.94	Slovenia	0.24
Macedonia	–5.11	Tajikistan	–8.17
Georgia	–9.26	Turkmenistan	–8.17
Hungary	–0.31	Ukraine	–8.9
Kazakhstan	–4.67	Uzbekistan	–7.7
Kyrgyzstan	–3.91		
Mean			–3.8

Source: Timothy Frye, "The perils of polarization: economic performance in the post-Communist world", April 2002, http://siteresources.worldbank.org/INTDECINEQ/Resources/frye.pdf (accessed: June 2011) countries to their knees, the result being an increasing inability to service their debt, as interest rates went up from 6.5% in 1990 to 16.3% in 2001.[12] In other words, the debt mechanism, led by the US Treasury-IMF, was a mischievous credit instrument pushing the borrower to open up its market, liquidate state assets, only to find its debt increasing since lack of growth was hindering the servicing of debt. The case of Russia in the 1990s, which eventually led to its 1998 currency devaluation and default on its debt, is most interesting.

The first round of financial statecraft in Russia (privatizations and liquidation of state assets) was accompanied by a new political cycle under the pro-Western leading faction of Boris Yeltsin. But all optimism was shattered when, by 1995-1996, it was apparent that Sachs' "shock therapy" could not uplift the Russian economy. Inflation was running at 131% in 1995, and its fall in 1996 and 1997 was temporary and precarious. At the time of the default in August 1998 it was 120%. Real wages "were less than half of what they were in 1991 and only about 40% of the workforce was being paid in full and on time" (Chiodo and Owyang, 2002: 11). In October 2007, the Russian government predictions were counting on a positive growth of 2%, yet real GDP declined by 4.9%. The debt owed to Russia by third countries was debt owed to the USSR and could not be serviced, as these were countries such as Cuba, Mongolia and Vietnam. The weakness of the Yeltsin administration was more pronounced in the collection of taxes, resulting in the sharp deterioration of the state's budget deficit, especially as his administration was unable to stave off the fiscal gap opened with the secession of the Soviet Republics. Under these conditions, and with the IMF and the World Bank withholding credit, a cycle of conflict developed between the Central Bank, the Russian Parliament (Duma) and the executive branch under Yeltsin. By the end of May 1998, demand for Russian bonds plummeted and the government became increasingly unable to re-finance its debt. And as oil prices dropped to \$11 per barrel – it was \$23 per barrel a year earlier – and the Central Bank tried in vain to save the ruble by losing \$5 billion in reserves, the government had no option but to default on its debt and drastically devalue the national currency (official date of default: 17 August 1998). The recovery that Russia began registering under the Putin Presidency and the humiliation over Kosovo should largely be attributed to import-substitution policies and domestic demand stimulation, coupled, especially in the second part of the 2000s, with high international oil and gas prices (Gökay, 2001, 2006). As a major exporter of oil and gas, Russia could benefit substantially from an export-led policy stimulated by currency devaluation and regulation, while at the same time shoring up domestic demand and taming the perverse effects of the debt mechanism, that is to say, reducing the exposure of the Russian economy to the US Treasury and its

[12] Total external debt comprises long-term debt, short-term debt and use of IMF credits.

Open Door policy. But there is also another angle from which one can assess the real achievements of "shock therapy".

Privatizations and other forms of financial statecraft meant, first and foremost, the unfolding of the Stalinist secret apparatuses, which had developed expertise in cash, arms and drugs smuggling under authoritarian socialism. Thus, as Misha Glenny's elegant narrative shows, crime networks in the former Soviet space flourished and became transnational (Glenny, 2008).[13] For example, when communism fell, there were suddenly thousands of unemployed cops and spooks in Bulgaria with first-hand experience of international crime. And, Glenny's account goes on, there were also many wrestlers and weight-lifters, pumped-up on state-issued steroids, who would make for ideal muscle in the protection rackets that quickly sprung up. Drugs, prostitution, money laundering and other underground activities began operating as an economy of scale. Thus, the Bulgarians were soon in competition with others: Moldovans, Albanians, Kazakhs, Georgians, Yugoslavs and Russians, all seeking turf in the new gangster-land of Eastern Europe. That is the real achievement of "shock therapy". Only when those political economies began pursuing an internally stimulated growth strategy from the late 1990s and early 2000s onwards, the economic and social conditions of their societies and states began to change. None of this should have come as a surprise to a careful and unbiased student of international politics: "the IMF 'stabilisation' regimes for East-Central Europe have been the familiar ones of the 1980s Latin American experience" (Gowan, 1995: 83).

Concluding Remarks

This article has tried to re-interpret the policy of "shock therapy" for East-Central Europe, spearheaded by the US Treasury and the IMF in light of "the event": today's global financial crisis and, more specifically, the current sovereign debt crisis in the Euro-zone and its peripheral capitalisms.

The immediate causes of any sovereign debt problem vary from country to country, yet the structural deficiencies, as well as its effects and manifestations are, by and large, the same. The cause of any sovereign debt resides in both domestic (e.g. budget deficits caused by deficient tax collection) and external factors (e.g. current account deficit). In the event, any critical national debt situation resides in the weak growth of the domestic productive sector of the economy, and the debt exaggerates this weakness as the economy becomes more and more dependent on financial instruments and manipulation. It is in this context that conditions of primitive accumulation appear as foreseen by Marx.

[13] Glenny argued that global transnational crime, and not just East European, may account for as much as 25% of world GDP.

In our case study of Eastern Europe and Yugoslavia, Marx's comment does not seem to be wildly off the mark. "Shock therapy" financial statecraft in Eastern Europe and the Balkans, and indeed in the entire former Soviet space, created more misery and economic violence resembling conditions of primitive accumulation in the cities and the countryside: massive unemployment, high inflation, outsourcing and, most importantly of all, manipulation of the debt mechanism by external agencies, further depleting the productive sector of the countries in question. All indications we are in a position to gather today lead to the conclusion that Euro-zone countries in the periphery, first and foremost Greece, are moving towards a similar experience. The duty of the public intellectual is to unveil this and propose a progressive solution.

Today, the US Treasury, via the IMF and in cooperation with the EU and the ECB (European Central Bank) are once again appropriating the debt mechanism, that is to say, they attempt to deplete and liquidate the resources of weak societies and states in order to transfer the much-needed cash to fund their own borrowing requirements and international debts. But this is not a strategy for growth, it is not a strategy pursued by creditor powers, as it was indeed the case after WWII, especially for the US. This is a strategy pursued by powers in continuous relative economic decline since the epoch of the Vietnam War, and emphatically so since 1968-1971.

The Greek sovereign debt situation is the result of a persistent balance of payments deficit with core European countries, chiefly Germany, and the large public sector of the country, with all Greek ruling elites overloading the state in absence of a robust industrial sector, but always in presence of rigorous progressive and radical movements (Lapavitsas *et al*., 2010). This peculiar corporatism, coupled with antiquated tax collecting mechanisms and a post-1974 political elite conceding enormous tax and other privileges to comprador capital (Poulantzas, 1975), led the country to the current deadlock. The so-called "troika" today (EU, IMF, ECB) look at possibilities of prolonging the period of Greek default – which is unavoidable unless those who hold Greek debt abandon the claims on it – in order to transfer the debt to central banks ad public institutions, so it is the European and Greek taxpayer that pays for it (Wolf, 22 June 2011, and Lapavitsas, 21 June 2011). And the issue can be posed in this way alone, because the problem with Greece is not so much the debt as principal that it owes to markets, but the interests rates on that principal that Greece cannot service, since the growth recorded for the real economy is –5,5%, whereas the interest is 4,5%. Thus, a Greek default is unavoidable by virtue of the inability of the country to service its debt, rather than paying back the principal. Some argue that a fiscal consolidation at the European level and the initiation of a process leading to a political union will solve the problem. At best, this is naïve. Peripheral capitalisms will always be reproduced in an uneven and combined way, just as Italy's advanced northern capitalism was proved unable to solve the problem of *mezzogiorno* since the country's national unification in 1861. But is there a progressive alternative? Yes, there is.

The Greek exit from the Euro *now* will help Greece improve immediately its balance of payments deficit by way of pursuing an import-substitution policy while stimulating domestic demand, thus getting on a path towards recovery. This recovery can only be achieved by advancing a new sustainable industrial policy, uploading the public sector and re-directing large strata of the population to productive activities and to sectors that Greece can offer new products that are internationally competitive (e.g. solar energy). It is this policy that will undermine the predator attitude of the "troika" and, eventually, of Open Door imperialism in the Euro-zone. But for this policy to succeed, social and progressive political forces in Greece and Europe must put socialist democracy back onto their own political agenda.

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