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# **Towards an Understanding of the Greek Crisis and the Flawed Analyses of the Levy Economics Institute's Publications**

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Since the outbreak of the global financial crisis of 2007–08, the Economic and Monetary Union (EMU) has been plagued by a series of debt and banking crises in several member states of the Eurozone – namely, Cyprus, Greece, Italy, Ireland, Portugal and Spain. Some of the problems facing the aforementioned nations have been patched up through bail-outs, bail-ins, and quantitative easing options by the European Central Bank, while many remain unresolved and continue to threaten the future of the EMU – and indeed of the European Union itself.

The failure of the European authorities to address the structural problems facing many of the economies of the EMU member states are related to the intentionally ill-conceived nature of the Eurozone itself and to the political economy approach adopted by the EU directorate and leading powers, with Germany at the helm. Be that as it may, the case of Greece is the one that continues to haunt European authorities as the crisis in the small Mediterranean nation is now well into its seventh year and the debt crisis which exploded in early 2010 has been “contained” through severe austerity measures. What’s more, the European authorities balk at the idea of a debt write-off and contend that Greece’s debt is sustainable only with deeper reforms – as long as Greek authorities implement the current ones with full rigour and do not violate the terms of the bailout agreements. However, these policy measures have been directly responsible for a massive economic and social catastrophe which, among other things, includes the shrinking of the GDP by ¼,

unemployment rates as high as 27%, the collapse of the nation's public health care system, and a huge exodus of skilled and educated labour force.<sup>1</sup>

It should be pointed out that the Greek crisis has its actual origins in two directly related developments: first, in the internal dynamics of Greek political culture and, second in the fact that Greece was ill equipped to join the euro when it did.<sup>2</sup> Since the reestablishment of parliamentary democracy following the collapse of the military junta that ruled the country from 1967 to 1973, the Greek economy marched to the tune of an extremely deformed type of "state capitalism" in which a small group of families dominated the key industries while the state provided the impetus for its major profit-making activities. But with the introduction of the euro, the competitiveness of the Greek economy begins a downfall trajectory. Growth is now based on a model driven by debt-fuelled consumption, which is one of the main types of the financial market-based models of economic development, while capital accumulation not only continues to rely on the looting of public resources but also serves as the vehicle for the transition into a neoliberal-type economy in accordance with the dictates of the EU.<sup>3</sup>

Nonetheless, much of the research done on the Greek crisis fails to acknowledge the interrelationship between domestic and international factors, engaging in ahistorical, apolitical and superficial macro modelling analyses that make a mockery of both political science and economics. One such instance happens to be the publications of the Levy Economics Institute of Bard College, New York, although the various research projects on Greece produced by three scholars of the Institute – President Dimitri Papadimitriou, Michalis Nikiforos and Gennaro Zezza<sup>4</sup> – have been fairly well distributed inside the country, leading eventually to the appointment of the Levy Institute's President by the Syriza-led government as Minister of Economy and Development.

The Levy Economics Institute's publications mainly emphasize macroeconomic management issues, examine various scenarios (e.g. the Geuro proposal,<sup>5</sup> a baseline scenario), and offer policy considerations seeking to help the austerity-driven Greece get out of its current crisis. Specifically, Levy Institute's publications deal

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<sup>1</sup> <http://www.truth-out.org/news/item/19334-the-tragedy-of-greece-as-a-case-study-of-neo-imperial-pillage-and-the-demise-of-social-europe>

<sup>2</sup> See C. J. Polychroniou, "The Greek and the European Crisis in Context", *New Politics*, Vol: XIII-4, Winter 2012, Whole # 52.

<sup>3</sup> <http://www.truth-out.org/news/item/28519-greece-europe-and-the-neoliberal-nightmare-is-there-a-way-out>

<sup>4</sup> <http://www.levyinstitute.org/publications/>.

*Research Project Reports*: October 2012, July 2013.

*Strategic Analysis*: July 2013, February 2014, August 2014, December 2014, May 2015, January 2016, October 2016.

*Working Papers*: No. 771, August 2013; No. 867, May 2016.

<sup>5</sup> However, Papadimitriou, as appointed Minister of Economy and Development, denounced the Geuro proposal as nonsense!.

extensively with main macroeconomic issues such as nominal and real output (and growth), unemployment and job creation, inflation/deflation and competitiveness, and the deficit of the Greek government. The authors of these intelligent macroeconomic exercises offer demand-based and fiscal policy alternatives aimed at encouraging renewed private investment. Yet, the present Government, contrary to its ideology, programme and political intentions, has abandoned proposals to alternative policies and has been executing the commands of the European authorities on Greek fiscal and economic matters since, everyone with the slightest familiarity of the state of Greece under the international bail-outs knows, Greek Ministers and government authorities have substantially lost power and space for strategic action and national policy-making.

Overall, the Levy Economics Institute's intellectual published work, although critical of the EU/IMF austerity measures but silent on the actual nature of the capitalist order that guides the EU's decisions, programmes and policies and the moribund state of the Greek political culture, is context-free, *ahistorical*, *asocial* and *apolitical*, as it suffers from seven important omissions of context, history, political economy factors, local culture and psychology, evolution, internal social dynamism, and the tyranny and impact of the current neoliberal globalization era. These omissions are critically discussed below.

- (1) From a progressive intellectual inquiry stance, the academic background of these publications is superficial. There are a number of important factors which are ignored (seven were specified above), thus leading to incorrect and biased considerations being drawn with respect to Greek endogenous development requirements. For example, the effects of “pork barrel politics” on the Greek society have been adverse in regards to the faring of the state economy, political affairs, and civil rights. Pork barrel policy action often vitiates prospects of productive investment, drastically weakens the domestic market, and significantly restrains local production and trade expansion. A favouritism-based political system has misused or misappropriated funds derived from tax receipts. However, in complete contrast to continuous government spending cuts perspective and seeking to deal with the tyranny of political clientelism and patronage, we incorporate a “functional finance” approach to budget positions,<sup>6</sup> place special emphasis on the roles of fiscal policies in addressing sectoral imbalances and cyclical instabilities of the Greek economy, and argue that whether budget deficits and government debt are “too large” should be judged against the “functional finance” benchmark.

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<sup>6</sup> The Levy scholars seem to disregard the “functional finance” approach as outlined here.

- (2) A fundamental point of the Levy publications is their blind acceptance of global competition and integration, and its highly unfavourable impact on the Greek economy. A corollary of this view is that the less the distortions from international competition in the Greek economy, the greater would be its economic growth. However, we propose here a dynamic mixture of domestic and competitive developmentalism, with a more inward focus in the first instance and export promotion coming as an extension, as a genuine nationally propelled alternative approach should give a far bigger role to endogenous growth factors and industrial targeting. Indeed, it is imperative to aggressively pursue advancement of selected dynamic sectors of high potential and achievability (i.e. various forms of tourism and hospitality, entertainment, food and beverage, solar, renewable and alternative energy as well as production lines that can utilize these alternative energy sources and green technologies, biotechnology, pharmaceutical, information technology and engineering) as there is potential to market opportunities for their growth, and these can open up possibilities and set up incentives for a wide range of new industrial activities. To be more specific, strategic sectors are considered as those with: a significant and/or growing weight in the Greek national economy in terms of their industrial value-added and employment generation; high and rising productivity and compensation of labour; high propensity of private firms to invest in these sectors; and the best trade performance or competitiveness.

Modern production techniques make it possible to manufacture in small series on a viable basis. Targeting and flexibility are also possible, especially if they can draw on modern industrial planning and on smart specialization. Given the growth of production of local industries and improvement of national competitiveness, demand for imported capital and goods could decline and exports of local products expand. Consequently, the country would make a greater and better use of its productive resources and capacity, while at the same time easing its balance of payments constraint. Clearly, industrial targeting can be a realistic and feasible policy option which will only require employment of existing resources in different ways, a rigorous system of checks and balances, a "wiser" public finance, and different government policy choices which are free of corruption and favour.

Since investment funds will largely come through EU and government sources, the market and the state will have to successfully coexist and act as partners with one another to carve out their own spheres of competency and influence, and share in the benefits from their mutual collaboration. A modern and intelligent Greek government that has learned from the wasteful mistakes of the past should find ways to ensure that the best business practices of dynamic and propulsive industries benefit the national economy; should focus on production-increasing and productivity-increasing investment on the accelerators of growth aligning

finance with the industrial targets and linking productivity improvements with incomes; and should emphasize technically proficient initiatives that allow industries to craft responses to changing market circumstances and translate industrial applications into commercial products.

- (3) Enabling political, economic, and other social institutions, necessary politico-institutional reforms and enhanced democratic participation are of paramount importance in our argument as without fundamental reform of existing government institutions, the results will likely be stillborn. These reforms are to facilitate national development planning – that is consistent with the realities that currently exist in Greece – to be developed and implemented successfully. It has to be reminded that by promoting the interests of the few over the needs of the many, the Greek society has suffered from an overemphasis on the needs of special interests. Just as important, functions of various governmental agencies need to be arranged so that spheres of operation are not overlapping so as to eliminate interdepartmental conflict that retards the ability to successfully implement policies in Greece. Without these preconditions, such a radical development framework will founder on short-term expedients, the deficiencies of the civil service, the existing configuration of socio-economic power and certain interests, or the mindset of politicians and people.
- (4) Culturally, institutionally, and developmentally, the Western-EU neoliberal proposals have not achieved the intended economic and politico-institutional goals for the Greek population, especially when considering negative and vexing socio-economic outcomes (e.g. lost production, extremely high unemployment among young people, massive inequalities and marginalization, etc.). Uncritical imposition of neoliberal remedies without the intervening stage of endogenous formulation neither recognizes the possibilities of change permitted by local conditions nor respects the limits on these possibilities imposed by them. Clearly, alternative progressive thinking has always been an important part of the oppositional tradition in the sphere of knowledge, and one of various manifestations of resistance in the behavioural, religious, ideological, and philosophical elements that have their roots deep within the Greek society.

Furthermore, as the institutes which voice concern over the Greek crisis are very “conservative”, genuine, distinctively Greek national development efforts call for a broader cultural involvement in development thinking, and propose a vision of society which removes itself from the ideas and social psychology of crisis and social misery which currently dominate it. Ultimately, the best road ahead can only be found by way of analysis of history, and of the specific economic, social and cultural conditions of the Greek society. Such a holistic development approach for Greece is thus interested in local culture and knowledge, and a critical view against neoliberal remedies.

In addition, needless to say, any hope for a shift in economic and social policy away from the neoliberal project mandates the radicalization of popular struggles. Challenging neoliberalism at the intellectual and ideological level alone is hardly sufficient for compelling policy-makers to confront the deadly shortcomings of the dominant policies and embark in turn on development strategies that help improve the overall conditions of the Greek society. What is required is the spread of a social movement that believes in an alternative future but relies on its own national experience to overcome blocked development, economic pressures, and social injustice while building political bridges of international solidarity with other like-minded movements and governments. Challenging neoliberal globalization does not only imply a rejection of globalization itself but reflects a wider global project of counter-hegemonic resistance which calls into question the nature of economic, social, and cultural interconnectedness that define the contemporary world. Social movements and activists bent on weakening or even overthrowing neoliberal policies in their respected territories should study the contemporary history of anti-globalization struggles for useful insights and appropriate strategies. As recent experience in several Latin American, Asian, and European countries has demonstrated, an alternative future to “barbaric neoliberalism” is very much possible.

# Towards an Understanding of the Greek Crisis and the Flawed Analyses of the Levy Economics Institute's Publications: A Reply

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Karagiannis and Polychroniou make two central claims, as far as we are able to discern. First, they argue that some of our contributions to the analysis of the Greek economy—that is, the macromodel simulations reported in our Strategic Analysis series—are “flawed,” since they “suffer from seven important omissions of context, history, political economy factors, local culture and psychology, evolution, internal social dynamism, and the tyranny and impact of the current neoliberal globalization era.” Second, they claim that “overall, the Levy Economics Institute’s intellectual published work, although critical of the EU/IMF austerity measures ... [is] silent on the actual nature of the capitalist order that guides the EU’s decisions, programmes and policies.”

Regarding the second charge, some familiarity with the Levy Institute’s array of publications over the years should be sufficient to render this claim puzzling, at best. Here we mention several that might be relevant to Karagiannis and Polychroniou’s concerns.

The Levy Institute, as the inheritor of Hyman Minsky’s intellectual legacy, has featured a series of publications devoted to fleshing out our understanding of what is unique to the current stage of global capitalism, with a particular emphasis on specifying the evolution and rising influence of the financial sector. (Examples include: Bellofiore, 2014; Fasianos, Guevara, & Pierros, 2016; Mazucatto & Wray, 2015). More narrowly, Jörg Bibow recently scrutinized the historical development



of Germany’s idiosyncratic anti-Keynesian approach to macroeconomic policy—“(West) Germany’s peculiar variety of neoliberalism”—which has played such a pivotal role in the euro crisis (Bibow, 2017). Dimitris Sotiropoulos, John Milios, and Spyros Lapatsioras embedded their technical proposal for a resolution of the sovereign debt crisis in a broader political argument prioritizing the “social needs and the interests of the working majority” and in which austerity is framed as “a critical condition for the promotion of the neoliberal agenda against the interests ... of labor” (Sotiropoulos, Milios, & Lapatsioras, 2014). And finally, since Karagiannis and Polychroniou place a special importance on the formation of an industrial policy for Greece, the work of Alberto Botta might be of interest to them: in a Levy Institute working paper, Botta detailed a more interventionist EU industrial policy targeting the productive potential of the peripheral economies, with the aim of reducing center–periphery imbalances (Botta, 2014). This is not, by any means, an exhaustive list (we invite readers to do their own browsing at [levyinstitute.org](http://levyinstitute.org)).<sup>1</sup>

The Institute has been growing in relevance as an independent promoter of heterodox points of view, on a variety of socially relevant issues. In a world where economists are pushed more and more toward publishing in mainstream journals—adopting the mainstream methodology of the rational, forward-looking individual—providing support for the diffusion of alternative views is not a small achievement.

Turning to the first accusation made by Karagiannis and Polychroniou—that the Strategic Analyses in particular are flawed by virtue of being “ahistorical, apolitical, and superficial”—we believe this simply betrays a basic ignorance of macroeconomics. The purpose of macroeconomic modeling is to determine the evolution of a relatively small number of key macro indicators, such as output growth, unemployment, inflation, income and wealth distribution, etc. These obviously depend on a myriad of cultural, social, historical, and economic conditions that, however, are impossible to capture—with the current state of technology—in a single model for any given country. This is not unique to our approach, so it is not clear why, on this front, Karagiannis and Polychroniou target our work in particular.

As for what *is* unique to our approach, readers will learn little from Karagiannis and Polychroniou, who have curiously chosen to avoid even a passing mention of our methodology or conclusions. For the benefit of readers, what we have done in our Strategic Analysis for Greece is to show that, when adopting a coherent stock-flow accounting framework, the macroeconomic projections made by the IMF, the

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<sup>1</sup> Karagiannis and Polychroniou cite two papers of ours that seem somewhat ill suited to inclusion in a list of “ahistorical,” “apolitical” research (Nikiforos, Carvalho, & Schoder, 2013; Nikiforos, Papadimitriou, & Zezza, 2016). The first working paper provides a historical and institutional (and moral) discussion of the accumulation of Greek public debt and the political economy of its use during the crisis in the remaking of Greek society (through the imposition of budget austerity, privatization, and labor market “reforms”). The second paper examines, in the context of the process of European monetary integration and the emerging structure of the eurozone, the history of the relationship between Greek foreign and fiscal deficits (noting that, since 1995, the causality has run from the former to the latter—in contrast with the typical narrative in which tax evasion and “profligacy” play the central roles).

European Commission, and the European Central Bank (the “Troika”)—and on which these institutions based their recommendations for austerity policies—are flawed. More precisely, we show that a reduction in the government deficit required by fiscal austerity will create a depression, since net exports are unlikely to increase fast enough to more than balance a contractionary fiscal policy, and private sector demand will not recover by itself in an austerity context. Using our model, we have shown time and again that the Greek economy would not return to growth, as the Troika suggested.

Are our conclusions regarding the prospects of the Troika’s internal devaluation strategy or our assessment of alternative policy recommendations skewed in some particular way due to the macromodel’s abovementioned abstraction from multiple social, political, and cultural factors? Beyond the bare assertion that our analyses are “incorrect” (in what ways, specifically, it is left for the reader to guess), Karagiannis and Polychroniou have declined to make the case in any substantive detail.

In addition to their evident fondness for some sort of industrial policy, the authors are concerned about the harms of “pork barrel politics” and urge the promotion of “politico-institutional reforms” and “enhanced democratic participation.” We are also told of the shortcomings of mere “intellectual and ideological” opposition to the status quo, and of the need for the “spread of a social movement.” To which the obvious reply is: macroeconomic analysis is not all that is required to solve a country’s problems (not even all of its economic problems!). If this is the point they are trying to make, it is unobjectionable—and quite unremarkable.

This is, in general, a perplexing article.<sup>2</sup> In the end, it seems to amount to little more than a complaint that we have presented the findings of a macro model tailored to the Greek economy rather than a comprehensive historical, political, cultural, sociological (and so on) analysis of the European project. We plead guilty to this charge. The Levy Institute will continue to provide—alongside its rich series of heterodox investigations into multiple dimensions of economic theory, history, and policy—macroeconomic analyses that test the assumptions of the dominant policy

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<sup>2</sup> The authors refer to “functional finance,” but in a manner that leaves us unable to make sense of the nature of their critique (we are told that we “disregard” it). We would only point out that, as Karagiannis and Polychroniou are surely aware, the principles of functional finance (at least in the sense in which Abba Lerner intended) do not hold in any straightforward manner in the case of countries that do not issue their own currency—a fact that is at the heart of Greece’s current difficulties.

Similarly, Karagiannis and Polychroniou charge us with “blind acceptance of global competition and integration.” We are inclined to respond to this accusation, but we are at a loss as to what it is they are trying to argue. It should be noted, perhaps, that one of the chief purposes of the Strategic Analysis is to test whether the Troika’s assumptions and related forecasts make sense—and while this part of the analysis does require our taking for granted some of said assumptions (on budget policy, global trading patterns, and so on), this is for the express purpose of showing that *even on their own terms* the Troika’s projections do not add up.

strategies being foisted on the eurozone periphery. We welcome constructive critiques that would help us refine these analyses. Unfortunately, this is not one.

## ACKNOWLEDGEMENTS

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# Towards an Understanding of the Greek Crisis and the Flawed Analyses of the Levy Economics Institute's Publications: A Rejoinder

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In our note “Towards an understanding of the Greek crisis and the flawed analyses of the Levy Economics Institute’s Publications,” we sought to highlight important limitations behind the macroeconomic modelling—and other quantitative exercises—employed by Levy scholars in their *Strategic Analysis* reports with regard to the collapse of the Greek economy and the associated social and political ills that befell the land that gave birth to democracy following the introduction of an EU/IMF-conceived bailout plan. Two of the three authors associated with these reports took an exception to our critique. We were invited by the editors to provide a rejoinder.

To begin with, we did not question the overall contribution of Levy Institute research and publications to contemporary economic reality, so the reference to the academic contributions of heterodox economists either directly associated with the Institute or to scholars whose work has appeared in Levy publications on the part of Nikiforos and Zezza seems to be besides the point.

More to the point, the two co-authors of the Levy Institute *Strategic Analysis* reports on Greece failed to place our sentence “Overall, the Levy Economics Institute’s intellectual published work [*on the Greek crisis*; emphasis added], although critical of the EU/IMF austerity measures but silent on the actual nature of the capitalist order...” in the right context. In our brief article, all the

areas we point out are major components of the Greek crisis. In this context, the multidimensional Greek crisis cannot properly and adequately be addressed by utilizing macroeconomic modelling and other quantitative exercises but requires a sound and comprehensive political economy approach.<sup>1</sup> Because of their built-in assumptions and the construction of formulas used, the methods employed in the *Strategic Analysis* reports on Greece by Papadimitriou, Nikiforos and Zezza have a weak explanatory power and offer unsophisticated policy suggestions which, indeed, suffer from “seven important omissions of context, history, political economy factors, local culture and psychology, evolution, internal social dynamism, and the tyranny and impact of the current neoliberal globalization era.” Nikiforos and Zezza themselves also acknowledge this when they state that “These obviously depend on a myriad of cultural, social, historical, and economic conditions that, however, are impossible to capture [...] in a single model for any given country.” This, however, is exactly at the heart of our critical evaluation of the macro modelling analysis utilized by the aforementioned Levy Institute scholars on the Greek financial and economic crisis as this (macroeconomic modelling) approach is divorced from the underlying structural elements shaping, conditioning and dictating the character of Greek political economy. Instead, we sketched out briefly (because of length constraints) a holistic development approach with a strong political economy dimension which can potentially yield pragmatic, thorough, and refined policy proposals in key policy areas.

On this note, we are fully aware of Botta’s working paper on a more interventionist EU industrial policy as Karagiannis et al. have used this in their contribution to the edited book *Europe in Crisis* (appeared as Chapter 9) as a reference. However, what is important to the Greek crisis is a careful examination of whether the industrial targeting notion, perhaps within a developmental state line of argument, can effectively address industrial performance and other developmental shortcomings of the country. Readers can refer to our second area of emphasis—developmentalism—where a genuine nationally propelled alternative agenda would give a far bigger role to endogenous growth factors and industrial rejuvenation and repositioning. But this implies that (1) while choices and instruments available to Greece have been constrained by harsh conditionalities and agreements imposed by the EU directorate and international institutions, the country’s national government still has room for effective policy action; and (2) supply-side considerations are also necessary and may themselves be influenced by aggregate demand as the growth of aggregate demand provides the opportunities for the growth of aggregate supply, which may or may not be forthcoming (Sawyer, 1989). This point is in contrast to “old fashion”

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<sup>1</sup> For such an alternative approach, see Polychroniou (2011, 2013).

Post Keynesians who correctly emphasize aggregate demand management policies for sustained growth, higher levels of employment and good macroeconomic performance but incorrectly assume that the aggregate supply side “will respond well and everything else will fall in place.”

Finally, it should be noted that although Papadimitriou was the first or principal author of several Levy publications on the Greek situation, his recent public announcements as Economy and Development Minister in Greece are in sharp contrast to the Levy Economic Institute’s published analyses and policy recommendations. In fact, as Minister, he denounced the introduction of a “Geuro” as an alternative to a Greek exit from the euro as being simply unrealistic by proclaiming that “until yesterday I was an academic, and academics say lots of things...,”<sup>2</sup> and now saw an end to the Greek crisis as a result of the austerity policies that were being implemented. In other words, there is a complete contrast between academic analysis and policy implications, on the one hand, and government decision-making and implementation, on the other.

In sum, our argument is that for a realistic, fair and sustainable development solution to the Greek crisis, one has to firmly base the discussion on the formation and evolution of national and international socio-economic forces and the global political environment within which Greece exists. And this is precisely the major failure of the approach adopted by Levy scholars Papadimitriou, Nikiforos and Zezza in their attempt to explain the long lasting Greek crisis.

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<sup>2</sup> [https://urldefense.proofpoint.com/v2/url?u=http-3A\\_\\_m.imerisia.gr\\_default.asp-3Fcatid-3D26509-26subid-3D2-26pubid-3D114237817&d=DwlCaQ&c=VYKZvO\\_tnlsTxm5qZp1oww&r=Se1z8YLE6Gjagy27JGZruXVaxrb-mqhkSqPumtVKjNfE&m=8AUtCT0S9C0oLbKXIIvPkXaxY\\_XynjyosTewKk8aQ10&s=JFLAUtaJYpIZKJswie\\_O5L4-50163EBjxjypK5LYBV0&e=](https://urldefense.proofpoint.com/v2/url?u=http-3A__m.imerisia.gr_default.asp-3Fcatid-3D26509-26subid-3D2-26pubid-3D114237817&d=DwlCaQ&c=VYKZvO_tnlsTxm5qZp1oww&r=Se1z8YLE6Gjagy27JGZruXVaxrb-mqhkSqPumtVKjNfE&m=8AUtCT0S9C0oLbKXIIvPkXaxY_XynjyosTewKk8aQ10&s=JFLAUtaJYpIZKJswie_O5L4-50163EBjxjypK5LYBV0&e=)