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# The neoclassical and Keynesian standpoint and policy implications regarding the Greek Financial Crisis

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**Abstract**

**Purpose** – The purpose of this paper is to discover the contradistinctions between the neoclassical and Keynesian paradigms of economics regarding the Greek Financial Crisis.

**Design/methodology/approach** – The answers to the questions and policies regarding the Greek Financial Crisis cannot be derived by using economic analysis alone; they also depend on the perception of social reality and ethical issues. Based on the assumptions about economic behavior, the answers and policies inevitably reflect the observer's assessment of each economic and non-economic performance dimension, as well as the significance assigned to those performance dimensions. Different views on "social reality" and "what is a good society?" are associated with distinct paradigms and a particular set of social values, which have implications for economic policy formulae. These give rise to alternative answers and policies to the Greek Financial Crisis, based on different assumptions, different methods of analysis and different goals.

**Findings** – Overall, in contradistinction, the two paradigms recommend quite distinct policies tackling the Greek Financial Crisis, and at the end, both paradigms have different perspectives on ethics and moral fundamentals regarding debt.

**Originality/value** – Students of the global financial crisis will benefit from this unique approach in testing the two alternative paradigms, between the neoclassical and Keynesian, concerning the Greek Financial Crisis.

**Keywords** Greek financial crisis, Global financial crisis, Washington consensus, Keynesian economics, After the Washington consensus

**Paper type** Research paper

## 1. Introduction

The answers to the questions and policies regarding the Greek Financial Crisis cannot be derived by using economic analysis alone; they also depend on the perception of social reality and ethical and moral fundamentals. Based on the assumptions about economic behavior, the answers and policies inevitably reflect the observer's assessment of each economic and non-economic performance dimension, as well as the significance assigned to those performance dimensions. Also, alternative and often conflicting economic paradigms use different criteria for determining how society and the economy function and how society should distribute responsibilities between the market and the state. Thus, different views on "social reality" and "what is a good society?" are associated with distinct paradigms and a particular set of social values, which have implications for economic policy formulae. These give rise to alternative answers and policies to the Greek Financial Crisis, based on different assumptions, methods of analysis, goals, ethics and morals.

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An economic paradigm depicts merely the complexity of economic processes. Economic paradigms result from the need for researchers to understand and attempt to control their environment by fitting observations into some patterns to assist with the development of thought. Economic paradigms are necessarily abstract from details to develop a framework to understand the complexities of the real world and attempt to reflect actual practices and economic processes. Hence, paradigms are based on simplifying assumptions. An economic paradigm is a synthesis of coherent traditions of scientific research and achievements that provide problems and solutions to a group of economists who share and subscribe to the beliefs, values and techniques of the economic paradigm in question. This results in competition between alternative economic models derived from scientific observation and procedure. Empirical testing cannot provide any sort of final resolution, since empirical tests themselves are theoretically based (Lee, 1990, p. 263), setting aside data imperfections and statistical discrepancies. Due to the reason previously cited and because of space limitations, the paper is a conceptual analysis of the Greek Financial Crisis, overlooking empirical investigations.

The global financial crisis was distinct from any recent crisis in terms of scale and intensity, likewise for Greece. Telling is the front page of the French daily *Libération*, referring to Greece, published on November 1, 2011, a light blue color (a color of the Greek flag) behind the word "chaos" (ΧΑΟΣ), written in Greek capital letters [1]. The purpose of this paper is to discover contradistinctions between only two different paradigms of economics regarding the Greek Financial Crisis: the neoclassical paradigm and the Keynesian paradigm. The research question is: What is, in contradistinction, the neoclassical and Keynesian standpoint and policy implications regarding the Greek Financial Crisis? To be able to answer this research question, the main tenets of the two paradigms are placed in contraposition, endeavoring to point to policy implications and endorsed directions in addressing the Greek Financial Crisis. To my knowledge, such a conceptual approach to the Greek Financial Crisis in distinguishing the two alternative standpoints and policy implications has not been attempted. Importantly, the literature referred to in the course of writing the paper is restricted within the time framework of the Greek Financial Crisis to demonstrate the dominant thinking of the time. In developing the Keynesian antidote to the Greek Financial Crisis, I am also using post-Keynesian sources to reinforce Keynesian propositions, as Stansbury and Summers (2019) align post-Keynesian writings with the Keynesian tradition: in their own words: ". . . the point long stressed by writers in the post-Keynesian (or, perhaps more accurately, original Keynesian) tradition. . ." [2].

Students of the global financial crisis, indeed students of the Greek Financial Crisis, will benefit from this novel approach in testing the two alternative paradigms. The neoclassical paradigm that takes the form of the Washington Consensus, to be accurate, takes the form of the "After the Washington Consensus" (AWC), the modern form of the Washington Consensus. This set of policy reforms undertaken by Greece was required by the International Monetary Fund (IMF), European Commission (EU) and European Central Bank (ECB) (aka "Troika" later "Institutions") to obtain additional credit to pay off external sovereign debt.

It is beyond the scope of this paper to provide a comprehensive account of the chronological events of the Greek Financial Crisis, nevertheless, it is essential to provide a brief overview of key elements. The Greek crisis locates its roots in the presence of a small economy with an amazing array of unique and rather persistent domestic problems, associated with low competitiveness, low tax revenues, high government spending and rent-seeking, directly related to the peculiarities of the domestic political environment and the overall culture (Katsanidou and Lefkofridi, 2020, p. 161; Polychroniou, 2012, p. 2). In mid-October, the newly elected government announced the budget deficit for 2009 was estimated to be 12.7% of the gross domestic product (GDP), while the previous government projected that it would not exceed 6.5% of the GDP. In the end, the EU statistics agency, Eurostat, determined that the Greek budget deficit for 2009 reached 15.4% of GDP. Greece's international integrity disappeared. In May 2010, with a debt to GDP ratio close to 120%, Greece accepted a bailout package of €110bn from the EU and the IMF to prevent default, complemented by economic policy conditionalities. Financial help was offered, to avoid default, at very high interest rates, conditional on the implementation of harsh austerity measures simultaneously surrendering national sovereignty. The ineffectiveness of the first Economic Adjustment Program (EAP) in generating growth and economic stability fueled the need for further funding. On March 14, 2012, the Eurozone member states and the IMF committed the amounts not disbursed of the first program plus an additional €130bn for the years 2012–2014. In May 2012, a "voluntary" debt restructuring agreement called the Private Sector Involvement (PSI) was reached, where most private investors would swap their Greek government bonds for new securities worth 46.5% of the face value of their original claims. The ineffectiveness of the second EAP in generating growth and economic stability fueled the need for further funding. On August 19, 2015, Greece signed with the EU, a Memorandum of Understanding for further financial support up to €86bn, including up to €25bn to recapitalize banks, over three years, from the European Stability Mechanism (ESM). Indicative of the impact of the imposed harsh austerity measures is that it will take up to 2034 for Greece to return to the pre-crisis level of economic activity, ignoring the blow associated with the coronavirus crisis (Katsanidou and Lefkofridi, 2020, p. 161).

The paper is structured in the following manner: Section 2 analyzes the neoclassical paradigm that takes the form of the Washington Consensus, while the latest version appears as the "After the Washington Consensus"; Section 3 explores the Keynesian paradigm in response to the "After the Washington Consensus"; Section 4 places the two paradigms in contradistinction; and Section 5 concludes based on the ethics and moral fundamentals of each paradigm.

## 2. The neoclassical paradigm: the Washington consensus and the "After the Washington Consensus"

In November 1989, the Institute for International Economics convened a conference to investigate what was happening with the economic reforms in Latin America. Structural adjustment in Latin America had the goal of moving to a market-based economic system from a traditional statist economic system. In this conference, Williamson (1990a, pp. 7–20) found the opportunity for the first time to reveal his newfound term, the Washington Consensus, in a paper entitled: "What Washington Means by Policy Reform?" Washington, for Williamson, incorporated the IMF, the World Bank and the US executive branch, the Federal Reserve Board, the Inter-American Development Bank, the members of Congress interested in Latin America and the think tanks concerned with economic policy; it is an amalgamation of political, administrative and technocratic Washington. The papers presented were subsequently edited by Williamson (1990b) and published in a book entitled *Latin America Adjustment: How Much Has Happened?* As a result, the term "Washington Consensus" became publicly known. The Washington consensus is presented using Williamson's original order, headings and terminology in Table 1.

In 2002, Pedro-Pablo Kuczynski and John Williamson's concern with the economic stagnation in Latin America had resulted in convening a team of experts for a comprehensive reassessment of the situation and to make recommendations. The group produced a book edited by Pedro-Pablo Kuczynski and John Williamson titled *After the Washington Consensus. Restarting Growth and Reform in Latin America*. This book "is all about reforms that need to be made in Latin America" (Williamson, 2003a, p. 18) from 2002, "as to put them back on the road of catch-up growth that most people thought they had achieved before the

**Table 1.**
The AWC and the Washington consensus

| After the Washington Consensus | | Policies | Washington Consensus | Keynesian paradigm |
|---|---|---|---|---|
| *New Agenda I Crisis Proofing* | Stabilizing inflation, sub-national governments subject to hard budget constraints, increasing domestic savings | *Fiscal Discipline* | Small operational budget deficit financed without resource to inflation tax. No more than 2% of the GDP | A substantial fiscal stimulus |
| | Stabilize the real economy through Keynesian policies, establish a stabilization fund | *Public Expenditure Priorities* | Redirect expenditure from the administration, defense, indiscriminate subsidies and white elephants to areas with the potential to improve income distribution, such as education, health care and infrastructure | Free basic needs, education, and health care in achieving social prosperity |
| | Maintaining the low inflation rate targeting and strengthening prudential supervision | *Financial Liberalization* | Abolition of preferential interest rates and achievement of moderately positive interest rates | The ECB to function as the lender of last resort; financial regulations created from the assumption that financial markets are destabilizing; the creation of a common Eurobond |
| | Flexible exchange rates and minimize the use of the dollar | *Exchange Rates* | Unified and managed competitive real exchange rate to maintain competitiveness | Fixed exchange rates |

(*continued*)

Table 1.

| After the Washington Consensus | | Policies | Washington Consensus | Keynesian paradigm |
|---|---|---|---|---|
| *New Agenda II: Completing First-Generation Reforms* | As the original Washington Consensus | *Fiscal Discipline* | Small operational budget deficit financed without resource to inflation tax. No more than 2% of the GDP | A substantial fiscal stimulus |
| *New Agenda II: Completing First-Generation Reforms* | As the original Washington Consensus | *Public Expenditure Priorities* | Redirect expenditure from the administration, defense, indiscriminate subsidies, and white elephants to areas with the potential to improve income distribution, such as education, health care and infrastructure | Free basic needs, education and health care in achieving social prosperity |
| | As the original Washington Consensus | *Tax Reform* | Broadening the tax base (including taxing capital flight), reducing marginal tax rates to a moderate level, improving tax administration, and maintaining moderate progressivity | A reduction in taxes in line with the fiscal stimulus |
| | As the original Washington Consensus | *Financial Liberalization* | Abolition of preferential interest rates and achievement of moderately positive interest rates | The ECB to function as the lender of last resort; financial regulations created from the assumption that financial markets are destabilizing; the creation of a common Eurobond |
| | As the original Washington Consensus | *Exchange Rates* | Unified and managed competitive real exchange rate to maintain competitiveness | Fixed exchange rates |
| | As the original Washington Consensus | *Trade Liberalization* | Import liberalization<br>Replace quantitative trade restrictions with tariffs of around 10–20%. Gradual reduction of original tariffs | The establishment of the International Credic Union and countercyclical policy on a global level |
| | As the original Washington Consensus | *FDI* | Abolish barriers to entry for foreign firms and establish a level-playing field for both foreign and domestic firms | Re-regulation of FDI |
| | As the original Washington Consensus | *Privatization* | State enterprises should be privatized, but when marginal costs are less than average costs, or in the presence of environmental externalities, public ownership is might be preferable | Maintenance of State Owned Enterprices as an engine of socio-economic development |
| | As the original Washington Consensus | *Deregulation* | The government should abolish regulations that impede entry or restrict competition and any remaining regulations are justified in terms of safety, environmental protection or prudential supervision. Deregulation should also be applied to the labor market | Full employment with re-establishment of collective bargaining and a minimum wage |
| | As the original Washington Consensus | *Property Rights* | Secure property rights without excessive costs, which are also available to the informal sector | Property rights that block these adverse competitive dynamics and establish dynamic efficiency |

*(continued)*

| After the Washington Consensus | | Policies | Washington Consensus | Keynesian paradigm |
|---|---|---|---|---|
| *New Agenda III: Second-Generation Reforms* | A role for the state: creating and maintaining effective institutions, in providing public goods, internalizing externalities, correcting income distribution, providing decent infrastructure, a stable and predictable macroeconomic, legal and political environment, and a strong human resource base. In addition, reforming the judiciary, education and civil services, building a national innovation system, modernizing the market institutional structure and institutional reform in the financial sector | *Institution Building* | Not a concern | Institutional arrangements that block these adverse competitive dynamics and establish dynamic efficiency |
| *New Agenda IV: Income Distribution and the Social Sector* | Income distribution: Establishing property taxation as the major source of revenue, elimination of tax loopholes and taxing income earned on flight capital | *Tax Reform* | Broadening tax base (including taxing capital flight), reducing marginal tax rates to a moderate level, improving tax administration and maintaining moderate progressivity | A reduction in taxes in line with the fiscal stimulus |
| | Social sector: Expanding opportunities for the poor, spending on basic social services, social safety net, education and health | *Public Expenditure Priorities* | Redirect expenditure from the administration, defense, indiscriminate subsidies, and white elephants to areas with the potential to improve income distribution, such as education, health care and infrastructure | Free basic needs, education and health care in achieving social prosperity |
| | Social sector: Provide property rights to the informal sector and land reform | *Property Rights* | Secure property rights without excessive costs, which are also available to the informal sector | Property rights that block these adverse competitive dynamics and establish dynamic efficiency |
| | Social sector: Microcredit | *Financial Liberalization* | Abolition of preferential interest rates and achievement of moderately positive interest rates | The ECB to function as the lender of last resort; financial regulations created from the assumption that financial markets are destabilizing; the creation of a common Eurobond |

**Table 1.**

debt crisis" (Williamson, 2003b, p. 305). Inasmuch as "the purpose of this study is to develop a policy agenda for reviving economic momentum in Latin America" (Kuczynski, 2003, p. 31). However, this time, the objective was twofold, accelerating growth and improving income distribution. Regrettably, the literature has concentrated mainly on the presentation and critique of the original Washington Consensus policies. At any rate, there is no excuse for being unaware of the modern version of the Washington Consensus, in the form of AWC. Due to this telling contribution, the term AWC, the modern version of the Washington Consensus, will be used throughout the paper. Following, the AWC policies are presented using Williamson's original order, headings and terminology and placed in Table 1 that reveals the relationship to the original Washington Consensus. The AWC stipulates:

(1) New agenda I: crisis proofing.

(2) New agenda II: completing first-generation reforms.

(3) New agenda III: second-generation reforms.

(4) New agenda IV: income distribution and the social sector

In sum, the neoclassical paradigm based on the AWC matched with the insistence of the completion of the Washington Consensus recommendations, effectively endorses the elimination of budget deficits through the imposition of austerity measures, the reduction of public expenditure, the increase in tax revenue, monetary policy targeting a low rate of inflation, flexible exchange rates, liberalization of imports, abolish barriers to entry for foreign firms, ambitious privatization program, deregulation of product and labor markets, and market conducive institutions. All in the name of debt sustainability. Overall, fiscal tightening produces non-Keynesian expansionary effects, as "a serious fiscal tightening increases demand" (Alesina and Ardagna, 1998, p. 488) designated what is known as "expansionary austerity." To be enduring, expansionary austerity must combine spending cuts in public employment, transfers, welfare programs and the government wage bill, some form of wage agreement with the unions that ensure wage moderation, and a devaluation (not relevant in the case of Greece) immediately before the fiscal tightening (Alesina and Ardagna, 1998, pp. 488, 490). Fiscal consolidation and structural reforms will produce economic growth, will stabilize and ultimately reduce the debt-to-GDP ratio, reaching debt sustainability. All so quite consistent with the AWC. Indeed, as the cherry on top, fiscal tightening does not lead to a loss of popularity and eventually to a loss of office for governments that implemented expansionary austerity in the Organisation for Economic Co-operation and Development (OECD), Latin America and the USA, as empirical evidence demonstrates (Alesina and Ardagna, 1998, p. 493). All told, the result has been a path to development, which has not been very different from the AWC. Having said this, "This austerity mania will then hit us all very hard" (Arestis and Pelagidis, 2010, p. 61), from a Keynesian perspective, as we will see below.

## 3. The Keynesian paradigm as an alternative to the neoclassical paradigm of the AWC

The postwar capitalist era was dominated by the belief that government has a crucial role to play in economic and societal development; this was part of the Keynesian legacy. At any rate, the Keynesian approach is marginalized by the mainstream approach due to the neurotic preoccupation with the optimizing behavior of the imperfectly coordinated individual, where risk is quantifiable based on experience and the supposedly underlying stabilizing tendencies of competitive markets. Nevertheless, in the aftermath of the global financial crisis and during the COVID-19 virus crisis, it is argued that ". . . the magical properties of self-regulating markets are rapidly losing traction, even among their advocates" (Mcnally, 2009, p. 41).

The Keynesian propositions are output and employment are determined in the product market, not the labor market; involuntary unemployment exists; an increase in savings does not generate an equivalent increase in investment; a monetary economy is fundamentally different from a barter economy; the quantity theory holds only under full employment, with a constant velocity of circulation, while cost-push inflation causes inflation well before this point is reached; and the capitalist economies are driven by animal spirits of entrepreneurs, which determine the decision to invest (King, 2010, p. 143). In the following, the Keynesian response to the AWC-based conditionalities by Troika is presented in much the same way and registered in Table 1.

*3.1 Fiscal policy*

Interestingly, "... before this recent hysteria at fiscal contraction, fiscal stimulus was thought to be the appropriate macroeconomic tool to save from another Great Depression" (Arestis and Pelagidis, 2010, p. 54). Keynes holds that a government should run deficits in recessions and should run surpluses during expansions, to prevent an acceleration of the public debt. *Alas*, the post-war Keynesian model was replaced by a neoclassical growth model, evolving to the Washington Consensus and then to the AWC. More so in Europe, as "The Eurozone crisis is the product of a toxic neoliberal economic policy cocktail" (Palley, 2013, p. 30). In line with the AWC, there was the abandonment of the commitment of full employment that undermined the income and demand generation process. Instead, there was the adoption of commitment to very low inflation removing the link between wages and productivity growth, wage stagnation and widened income inequality. While before 1980, wages were the engine of demand growth, after 1980, mainly finance became the agent of growth. In tandem, the arbitrary constraint of the Maastricht Treaty's 3% budget deficit limit, in harmony with the AWC, was proven to be politically extremely unpopular, as it undermines sovereignty and the democratic process. Moreover, the 3% budget deficit limit has been proven impractical to apply, as countries flouted the constraint in times of economic stagnation; therefore, "the constraint has generated no benefits and only costs" (Palley, 2011, p. 16). Meanwhile, the Keynesian measures at the beginning of the crisis showed positive results: the GDP growth rates in the second quarter of 2010 on an annualized basis were 4.8% in the UK, 8.8% in Germany and 1.6% in the USA (Arestis and Pelagidis, 2010, p. 55). Overall, the Keynesians recommend a cautiously directed substantial stimulus package to enable the global economy, as well as the Greek economy, to retain at least the pro-crisis economic activity.

*3.2 Public expenditure*

There is relentless pressure from all international agencies through interlocking conditionalities and other means to promote the growth of the private sector in basic and social services, and where possible privatization of public services. This pressure, consistent with the AWC, tends to ignore the historical experience of industrialized countries as well as of high achiever developing countries in education and health. In contradistinction, "Far from achieving its [AWC] goals, it created poverty and exclusion where there had been scarcity. It exacerbated or created conflict where it sought peace" (Faille, 2011, p. 218). Curiously, the IMF selected Greece as a showcase of how IMF programs protect social spending that is both fiscally sustainable and cost-effective such as free healthcare access in the form of health vouchers, poverty booklets and universal healthcare coverage for the uninsured; the evidence indicates to the contrary, as recorded by Kentikelenis *et al.* (2016, p. 564). But any "... IMF's pro-poor concerns are accorded, at best, secondary importance compared to macroeconomic targets" (Kentikelenis *et al.*, 2016, p. 566). As in the past, the Greek government and the IMF should undoubtedly understand that economic growth and social prosperity go hand in hand, to foster economic development. Thus, free basic needs, education and health care are necessary for achieving social prosperity.

*3.3 Tax policy*

Regarding tax policy, based on the 2008 Eurostat report, €76,960.0m was the total tax revenue in Greece. In 2015, receipts were €63,957.0m, a reduction of 16.9%. Should Troika be surprised about the ineffectiveness of the increased tax revenue conditionality upon Greece? Crivelli and Gupta (2016) published an IMF working paper studying the impact of the IMF tax revenue conditionality on the revenue performance during 1993–2003 of 126 low-and-middle-income countries. The results indicate that such a conditionality increased the tax revenue in low- and-middle-income countries, and the growth in revenue collections was faster in countries with IMF conditionality programs compared to countries with no such revenue conditionality. Furthermore, the authors performed several robustness tests in trying to identify any differential effect of a revenue conditionality on tax revenue based on the level of development of the country and the strength and quality of the country's institutions. The results demonstrate that the increase of total tax revenue was lower in middle-income countries (about 1% of the GDP) as opposed to low-income countries (about 1.5%). In other words, the more developed the IMF program country, the lower the increase in the tax revenue.

Also, the study concluded that the impact of revenue conditionality on tax revenue for those countries with weak institutions or high corruption is not statistically significant. In countries where corruption is high, revenue conditionality makes no difference to revenue performance (Crivelli and Gupta, 2016). Greece has shocking levels of corruption. According to the Corruption Perceptions Index (CPI) for 2011, Greece ranks 80th behind all euro-area and other highly developed countries; the estimated Greek shadow economy is roughly three times the size of the Austrian and 1.8 times the size of the German estimates, and corruption is almost double than the respective levels in Austria and Germany (Bitzenis *et al.*, 2016, p. 185). It can easily be derived that the conditionality of increased tax revenues could not be materialized. In total, Greece has the characteristics described in the Crivelli and Gupta (2016) IMF working paper that result in the ineffectiveness of the IMF increased tax revenue conditionality based on the level of development and the weak institutional structure. This argument comes with the caveat that the study was based on data from low- and-middle-income countries. Nevertheless, before the global financial crisis, there was no reason for the IMF to finance developed countries such as Greece, Ireland, Portugal and Cyprus, so such studies were not on hand at the time. Thus, a reduction in taxes in line with the fiscal stimulus is recommended by Keynesians.

*3.4 Financial liberalization*

An outcome of the global financial crisis, the banking crisis, presented a major challenge on how to address the general breakdown of trust between the central bank, banks and the public. The banking crisis emerged as banks lost trust in the central bank and then depositors lost trust in banks, while central banks lost trust in banks' willingness to behave prudently. In Greece, the public's confidence in banks broke down, amid general uncertainty about deposit insurance protection, leading to bank runs that led, overall, to a contagious lack of confidence in the banking system. The inconsistent actions of the ECB, at least in the initial crucial stages of the crisis, questioned whether the ECB would act as the lender-of-last-resort, further damaging confidence in the Greek banking system. The payments system, and thus the social fabric, was threatened (Dow, 2012, p. 83). The banking bailouts certainly could and should be designed in such a way as to punish severely the shareholders and senior managers of the institutions that were rescued while protecting depositors, employees and as much as possible the taxpayer (King, 2010, p. 151).

Nevertheless, the endogenous generation of business cycles "is a basic characteristic" of contemporary capitalism (Minsky, 2008, p. 162). Minsky (2008, p. 126) states, as "each state nurtures forces that lead to its own destruction" and hence "stability – or tranquility – in a world of a cyclical past and capitalist financial institutions are destabilizing" (Lavoie, 2016, p. 61), what Lavoie (2016, p. 61) names the "paradox of tranquility." The central dynamic of Minsky's financial instability hypothesis is provided by financial innovation: new lenders, new borrowers, new products, new ways of avoiding regulation (King, 2010, p. 151). Nevertheless, there is no single explanation for all business cycles as such. Indeed, Wesley C. Mitchell, founder of the National Bureau of Economic Research, stressed that "each new cycle presents idiosyncrasies," as cited in Whalen (2013, p. 19).

For Keynesians, effective financial regulation should be built upon the need to incorporate counter-cyclical mechanisms to correct for the boom-bust nature of financial markets, which are also global in nature, and to overcome the culture and power of finance that appears unaccountable to no one. The establishment of the Euro in Europe, on the one hand, eliminated exchange rate speculation, on the other hand, created bond market speculation; effectively, exchange rate speculation was substituted by bond market speculation. The Eurozone's members wiped out their national central banks, together with the ability to print money, managing interest rates and finance government deficits whenever it was necessary (Palley, 2011, p. 6). Keynesians have long argued that interest rates, at least short-term interest rates, should be under the control of the central bank and considered as the exogenous monetary variable (Lavoie, 2015, p. 7).

In the case of Greece, public debt has also acted both as a "stick and carrot" for the imposition of austerity in the form of the AWC. The ECB was used as a discipline mechanism along the austerity path, the supply (or lack of supply) of liquidity from the ECB to the Greek banks, based on the usage of public debt securities as collateral. The potential of a debt restructuring acted as a "carrot," an ensuing reward for imposing, as a "stick," yet more austerity measures (Nikiforos *et al.*, 2015, p. 779). Meanwhile, the creation of a common Eurobond would have likely reduced pressures on Eurozone economies with excessive budget deficits, such as Greece, as it would provide additional liquidity to the Eurozone economies. The interest rate for the Eurobond would be the weighted average of the national interest rates to avoid a moral hazard problem. In the end, the Eurobond was something that the Eurozone countries, especially Germany, avoided, like the plague, at all costs. Thus, the Keynesian recommendations are that the ECB function as the lender of last resort, financial regulations created from the assumption that financial markets are destabilizing and the establishment of a common Eurobond.

### *3.5 Exchange rate*

Moreno-Brid *et al.* (2004, p. 346) and Kregel (2008, p. 554) argue that although the AWC policies helped to lower inflation and led to an export boom, they failed to increase domestic investment. Thus, there is a strong case for international capital controls, at least over short-run capital movements, and for some degree of control over exchange rates. Serious consideration should be given to a return to the post-1945 system of fixed exchange rates, as proposed vigorously by Paul Davidson (King, 2010, p. 154). Fluctuations in the exchange rates may adversely affect the real economy through increase uncertainty that discourages investment. In this way, eliminating the private market in foreign exchange would greatly reduce the size of the financial sector, a source of crises. Thus, the recommendation is in favor of a fixed exchange rate.

### *3.6 Trade liberalization*

Although protection is inconsistent with the free trade precepts of the AWC, it is advocated by Keynesians and New Keynesians, like Paul Krugman and Joseph Stiglitz. Davidson updates Keynes's proposal, as it does not require that national control of both the local banking system and macroeconomic domestic policies be surrendered. The transformation of the EU to an International Credit Union (ICU) would require only an international agreement among its national members, preserving the core of the Keynes Plan (Modenesi and Modenesi, 2008, p. 572). Davidson's reform plan for international trade takes into account those systemic features that are at the basis of Bretton Woods's success, fixed but adjustable exchange rates, capital flow restrictions and surplus nations initiating the path toward the reduction of imbalances [3]. D'Arista (2008, pp. 536–537) also adds the need for creating the institutional capacity to implement countercyclical policy initiatives at a global level, as a stable general level of money wages to ensure effective demand is not guaranteed. So, Keynesians suggest the establishment of the ICU and countercyclical policy on a global scale.

*3.7 Foreign direct investment–privatization–deregulation*

According to the AWC, the answer is clear: the role of the state should be kept delimited, through privatization and external and internal deregulation in all markets, including the labor market and foreign direct investment (FDI). These policies authorized the full application of the clearing force of competition – the survival of the fittest – as a means of overcoming the crisis with the limited ability of the state to taint this process. At the same time, sacrificing the societal goal of full employment. There was more privatization, deregulation and trade liberalization in Latin America, Eastern Europe and sub-Saharan Africa than probably anywhere else at any point in economic history (Rodrik, 2006, p. 974). Even before the crisis and the imposed conditionalities, successive Greek governments utilized the AWC dictum of state retrenchment, in contrast to the Keynesian paradigm. This was manifested in the 63 privatizations initiated between 1991 and 2008 contributing US$27bn, approximately 3.1 of average yearly revenues, the sixth-largest privatization programs in the OECD based on the size of the Greek GDP (Agnantopoulos and Lambiri, 2015, p. 6). The goal for the Greek economy was to increase competitiveness by deregulation of the product market, such as eliminating oligopolistic conditions and abolishing licenses for the establishment and expansion of enterprises. Greece's imposed conditionalities, in contrast to the Keynesian view, stipulated extensive labor market liberalization, such as less restrictive rules in employees' dismissals, reduction of the social security cost of both employees and employers, flexibility in working hours agreements. The EAP program included reforms – often as prior actions – to the collective bargaining system, the precedence of firm-level (as opposed to sectoral) agreements and the reduction of minimum wages and employee dismissal costs (Kentikelenis *et al.*, 2016, p. 565). Capital controls on inflows, including FDI, are a useful complement to prudential regulations to limit financial fragility. Debt liabilities, including debt recorded as financial FDI, generate credit booms in foreign currency that appear to be a sizable source of fragility to the economy (Ostry *et al.*, 2010, p. 15).

Gnos and Rochon (2004) critique the Washington Consensus policies from the perspective of the increased presence of foreign national banks in local economies, as the result of the removal of barriers to the free flow of FDI. In the end, foreign banks wind up controlling almost half of the banking activity in Latin America. By and large, Gnos and Rochon (2004) argue that the multinationalization of the banking system in developing economies tends to increase, rather than decrease, the fragility of the overall system. Latin American countries and many emerging economies have eliminated barriers to entry to their financial markets in the form of eliminating restrictions in the number of branches, controls over permissible activities and strict limits to the percentage of foreign ownership of domestic banks with the sole purpose of all these changes to attract foreign capital and banks. This increase in foreign ownership of emerging banking systems is problematic because it exports to developing countries one of the most problematic elements of developed countries: the increasing fragility of the economy and the unequal influence of financial interests (Gnos and Rochon, 2004, p. 318). In line with these thoughts, Keynesians propose re-regulation of FDI, maintenance of state own enterprises as an engine of socio-economic development and full employment with the re-establishment of collective bargaining and maintaining a high minimum wage.

*3.8 Property rights and institutions*

In a world where institutions matter, the state's creative role is seen as vital to economic performance and individual well-being. Institutions have been proposed as the "deeper determinants" in producing externalities to other policy areas (Estevadeordal and Taylor, 2013, p. 1,669). A view was expressed more than a century ago by the founders of the American Economic Association, who began their Statement of Principles with the following: "We regard the state as an agency whose positive assistance is one of the indispensable conditions of human progress" (Whalen, 2013, p. 22). Unquestionably, "this does not imply that the state should 'take over' the economy" (Saad-Filho, 2007, p. 533) from a Keynesian perspective.

Government is more than an umpire. Society does not merely establish a set of constitutional liberties and limits and then assign the responsibility to the government to simply enforce the "rules of the game." As there are always new and unexpected conflicts in the economy and social life, the "game" is not static rather dynamic; thus, from a Keynesian view, the government is an unavoidable creative entity (Whalen, 2013, pp. 21, 22). This contrasts directly with the AWC, where the state is not seen as a corrective power. Keynesians counterpoise the state and the market in the AWC form and favor state intervention whether in getting prices right, picking winners and stimulating the private sector through public expenditure. In this context, macroeconomic efficiency is associated with full employment, i.e., when the actual output is equal to the potential output. Consequently, efficiency is not viewed in a static form, rather in the dynamic form, or, even better, in the adaptive efficiency form of evolutionary economics. According to Stanfield (2006, p. 253), dynamic efficiency focuses on economic growth over time and requires an institutional complex that "can assimilate change in an orderly fashion in which conflict is contained and largely resolved."

"Indeed, the market cannot properly be understood separately from the economic, social, and political institutions necessary for its functioning and its legitimacy" (Stilwell, 1996, p. 95). Unfortunately, the knowledge available to improve and implement institutions that sustain growth is rather poor; "advice on these issues is often based on limited experience or specific case studies that are not easily transferred across countries and cultures" (Naim, 2000, p. 516). The only sure thing is that institutions do not travel well! Nevertheless, this poor knowledge should not be a barrier to articulate selective and targeted institutional arrangements that can have powerful consequences on stimulating economic growth. "If 'getting policies right' is wrong or infeasible, this leaves only the tenuous objective of 'getting institutions right'" (Estevadeordal and Taylor, 2013, p. 1,669). In sum, Keynesians propose property rights and institutional arrangements that block these adverse competitive dynamics and establish dynamic efficiency.

## 4. Conclusion: policy implications, ethics and moral fundamentals

The policy implications of the neoclassical paradigm, in line with the AWC, and consistent with Troika's imposed conditionalities upon Greece, call for broad objectives of research, practice and reform, namely, market-oriented incentives, macroeconomic stability and outward orientation. These policy implications have been translated to minimize fiscal deficits, minimize inflation, maximize privatization, maximize liberalization of markets incorporating finance and labor markets in all places, a one-size-fits-all approach. Bailouts sponsored by the IMF are linked with the AWC conditionalities, and in return, governments must comply with austere policy measures. All this in the same line of thought that fiscal consolidation produces non-Keynesian expansionary effects. "But once put in practice, this 'idea of development' [AWC] proved perilous" (Tantos, 2012, p. 28) based on a Keynesian assessment.

In contradistinction to the AWC, Keynesian policy implications for the Greek Financial Crisis call for: a substantial fiscal stimulus; free basic needs, education and health care in achieving social prosperity; a reduction in taxes in line with the fiscal stimulus; the ECB to function as the lender of last resort; financial regulations created from the assumption that financial markets are destabilizing; the creation of a common Eurobond; fixed exchange rates; the establishment of the ICU and countercyclical policy on a global level; re-regulation of FDI; maintenance of state owned enterprises (SOEs) as an engine of socio-economic development; full employment with re-establishment of collective bargaining and maintaining a minimum wage and property rights and institutional arrangements that block the adverse competitive dynamics. Succinctly: substitute the neoclassical AWC agenda with a Keynesian agenda. From a Keynesian point of view, the sovereign debt crisis has implications for the Eurozone, raising questions about its viability and the future of the euro as a common currency. Even the continued existence of the euro itself has been called into question. There is a need for fiscal coordination within Europe to prevent an austerity race to the bottom.

"Greek rationalism was a basis of the European practicalism" as Dudin *et al.* (2016, p. 3) states that the proposed solutions are illogical at the first sight, including keeping Greece within the Eurozone at whatever the cost. The non-restructuring of Greek debt and the imposition of AWC policies were usually rationalized on ethics and moral fundamentals. Because the accumulated debt is part of past excesses of the Greek citizens, the corruption of the Greek political system, the dysfunctional public sector and the high rate of tax evasion, the Greeks must endure a prolonged period of austerity, in line with the AWC, to pay for their past economic irrational behavior (Nikiforos *et al.*, 2015, p. 794). Sadly, and heartbreakingly, in the words of Keynes, "degrading the lives of millions of human beings, and . . . depriving a whole nation of happiness" is neither moral nor righteous, as cited in Nikiforos *et al.* (2015, p. 780). "Morality, however, has not been entirely on the side of the creditor" (Skidelsky, 2014, p. 2).

An irony of history is that Germany, which resolutely opposed the restructuring of the Greek debt, was the recipient of the largest debt restructuring deal in history, after the end of the Second World War. This debt cancelation was one of the main features that instigated the "German economic miracle" of the postwar period. The wide-ranging cancelation of the German debt establishes a precedent for such action in the case of the Greek debt, but Greece was not allowed to taste the same medicine. Greece still needs a cancelation or significant write-down of this public debt, even so, during the coronavirus crisis. The endurance of the austerity policies that target high surpluses in the name of debt sustainability leads to the perpetuity of the recession. "This is clearly a biased interpretation of morality" (Nikiforos *et al.*, 2015, p. 795). Considering the aforesaid, the insistence on full debt repayment, and as a result, the recession of the Greek economy is not rationalized on either pragmatic or moral grounds or the grievous political repercussions with the rise and fall of a neo-Nazi party.

On pragmatic terms, the Greek debt cannot be repaid under any plausible assumptions, even so now under the patronage of the coronavirus crisis and the insistence to repayment is in a vein that can only lead to the destruction of the Greek economy. As revealed in the past, Keynes described the Treaty of Versailles as a "Carthaginian Peace" as the tenacious insistence on demanding reparations that exceeded Germany's capacity to pay, prophetically would lead to a serious economic crisis with serious political repercussions (Nikiforos *et al.*, 2015, p. 795). Alas, history confirmed Keynes' predictions. The economic strain exerted by the demanding reparations was one of the main factors that the Nazi party came into power, which was mirrored in Greece, with the Nazi party gaining 7% of the vote in September 2015. It is Germany today, like England, France and the USA in 1919, that insists on the full payment of Greek debt in contradistinction of its "favorable" treatment after the Second World War. Overall, the policy implications of the two paradigms are the result of ethical and moral underpinnings that are diametrically opposed. All things considered, "... we need to limit the supply of and demand for credit to what the economy is capable of producing" (Skidelsky, 2014, p. 3).

## Notes

1. https://nomadicuniversality.com/2012/08/24/chaos-our-own-gun-on-their-table/
2. The reader should not confuse New Keynesian economics or neoclassical synthesis with the Keynesian tradition. New Keynesian economists, interpreting Keynesian theory, postulate that macroeconomic economic fluctuations are ruminations of frictions and rigidities responsible for a long-winded procedure to reach the classical market-clearing equilibrium: being Keynesian in the short run and neoclassical in the long run. No attempt has taken place in this paper to provide a synthesis, a neoclassical Keynesian approach to the Greek Financial Crisis.
3. For the application of ICU in the form of an Eastern Clearing Union for transition economies, see Marangos (2001).

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