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Uneven geographical development and socio-spatial justice and solidarity: European regions after the 2009 financial crisis

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Abstract

The paper discusses certain issues of regional development theory in combination with long-forgotten conditions of uneven geographical development in the context of the current financial and debt crisis in the eurozone. The dominant explanations of the crisis are mainly macroeconomic and financial but this paper argues for its geographical components/foundations. After a short descriptive comment about the current debt crisis in the eurozone and particularly in Southern Europe as part of the wider global crisis of over-accumulation, an alternative interpretation is provided based on uneven geographical/regional development among Euro-regions, especially since the introduction of the euro. The paper also discusses the shift towards what we may call the neoliberal urban and regional development discourse, which is responsible for a de-politicized shift in regional theory and hence downplaying or simply overlooking questions of socio-spatial justice. The discussion about justice and solidarity goes beyond the controversial rescue plan introduced by the European Union and the International Monetary Fund, which was supposedly designed to help one of the so-called – in a typical colonial way – PIIGS (Portugal, Italy, Ireland, Greece and Spain), namely Greece.

Keywords

Europe, financial crisis, Greece, socio-spatial justice, uneven development

Introduction

In this paper I shall discuss certain issues of regional development theory in combination with the long-forgotten conditions of uneven geographical development in the context of the current financial and debt crisis in the eurozone. The dominant explanations of the crisis are mainly macroeconomic and financial but in this paper I will argue for attention to be paid to the geographical components and foundations of the crisis.

The eurozone is often characterized as an offensive response to global economic forces and at the same time as the apotheosis of neoliberal consensus in favour of anti-inflationary policies (Gauthier,

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2010). There is no question that such portrayals do capture one side of reality, namely the market-conforming face of the euro, as a response to rapid innovations in finance and telecommunications that made government controls on cross-border capital movements obsolete and increased the potential for currency fluctuations. Yet the dominant financial focus tends to obscure the more political and hence spatial side of the euro, which in my view remains more relevant today in the middle of the financial crisis. My argument contains two elements. First, the foundations of the crisis are embedded in uneven geographical/regional development, which characterizes the socio-spatial structure of the European Union (EU). Public debt is not the cause of the current crisis but one of its manifestations. Second, in the context of neoliberal hegemony, particular elites and regional hegemonic blocs in certain central European countries (the original EU-6) took advantage of the inevitable social and spatial restructuring that accompanied the euro's introduction in order to regain political and economic control within the EU and not only vis-à-vis global financial markets. This restructuring is based on pre-euro conditions of uneven economic and geographical development within the EU, which have been accelerated and intensified since the euro's introduction to become the crisis-driven restructuring we face today.

Unevenness over space is not a mere sidebar to how capitalism works, but is fundamental to its reproduction (Hudson, 2005; Harvey, 2010). Whatever its particular source, uneven geographical development is a contributing factor to the creation and maintenance of individual and collective inequalities and hence to social and spatial injustices (Fainstein, 2009; Soja, 2010). Acting against these injustices requires multiscalar institutional and informal networks of solidarity, from global to national and to local/regional. Socio-spatial justice and socio-spatial solidarity are principles and values of progressive planning, often neglected these days. Although I believe strongly that we always need to consider theories, principles and values together, especially during periods of crisis such as the current financial and debt crisis in the eurozone, a combined discussion is more than imperative.

I begin with a short descriptive comment about the current debt crisis in the eurozone and particularly in Southern Europe as part of the wider crisis of over-accumulation. Second, I consider an alternative interpretation of the crisis based on uneven geographical/regional development among Euro-regions vis-à-vis those in Southern Europe, especially after the introduction of the euro. Third, I discuss the shift towards what we may call the neoliberal urban and regional development discourse, which is responsible for a de-politicized shift in regional theory and applied research, ignoring uneven geographical development and hence downplaying or simply overlooking questions of socio-spatial justice. Fourth, I argue that we need to think about justice and solidarity beyond the controversial rescue plan introduced by the EU Commission and the International Monetary Fund (IMF), which was supposedly designed to help one of the so-called – in a typical colonial way – PIIGS (Portugal, Italy, Ireland, Greece and Spain), namely Greece. At the time of writing, Ireland had become the second victim and perhaps Portugal and Spain will follow, highlighting the magnitude of the eurozone crisis. In my analysis, however, I focus mainly on Greece and more generally on Southern Europe.

Debt and economic crisis in Southern Europe: a short description

By the end of 2008, all the major 'developed' economies were in deep trouble. With varying intensity across the globe, owing to different national strands of neoliberalism, similar patterns were observed: unemployment was rising, plant closures and de-localization hit the industrial sector, retail sales plunged, real estate and property markets stagnated and the financial sector had experienced several crises in just one decade. The present crisis combines three elements: the severe crisis of over-accumulation and under-consumption resulting from decades of hyper-neoliberal economic policies and dogmatic market fundamentalism; the geo-economic and geostrategic reorganization of the international division of labour, increasingly moving away from old centres; and a profound and comprehensive global

environmental crisis, unique in human history, which represents possibly the final limits to capital and challenges the very basis of capitalist civilization (Swyngedouw, 2009; Gills, 2010).

In the EU, the crisis hit initially three highly connected sectors: banks, real estate and private and public debt. The first crisis signs were notable in Spain's real estate sector (particularly tourism real estate), in the former communist countries of Eastern Europe and in the Irish banking sector. To this should be added the bankrupt financial sector of Iceland, a non-EU country but with many financial ties with EU banks. Then, from November 2009, Greece became the new crisis epicentre of global capitalism, attracting headlines all over the world. With a huge public deficit of 12.7 percent of gross domestic product (GDP) in October 2009 and an equally huge public debt of almost €300 billion, or around 113 percent of GDP, it is no surprise that the country has been into the 'sausage grinder of the financial markets and international banks' (Golemis, 2010: 129), as they are the principal holders of Greek state bonds. At the same time, an aggressive attack by international financial speculators began, increasing the cost of borrowing from international institutions. The immediate trigger in the Greek case came in February 2010, when the so-called 'socialist' government of PASOK was forced to seek refinancing for more than €60 billion in debt. During the heady days of irrational financial speculation of the late 20th and early 21st century, global banking institutions 'conspired' with the Greek government to conceal the extent of the debt holdings of the country.[1] The crisis caused a sobering up, and skittish investors downgraded Greece's risk rating and withdrew from further refinancing, causing the February crisis and finally the intervention by the IMF and EU.[2]

Following Lapavitsas et al. (2010), the composition of aggregate debt is quite different among the three countries of Southern Europe (SE). The ratio of domestic to external debt[3] stands at 67 to 33 percent for Spain, compared with 51 to 49 percent for Portugal and 49 to 51 percent for Greece. This shows, Lapavitsas et al. continue, that Portugal and Greece are equally indebted externally and domestically, whereas Spain carries a lower proportion of external debt. The composition of aggregate debt is even more different when public debt is considered. For Spain and Portugal, the ratio of private to public debt is quite similar, standing at, respectively, 87 to 13 percent and 85 to 15 percent. But the Greek state is more indebted than the other two by several orders of magnitude: 58 percent private to 42 percent public debt. Furthermore, Greek external debt is predominantly long term in public bonds and the vast bulk of peripheral securities (to governments and private banks) are held by core countries, primarily France and Germany: the south is indebted to the centre-north of the eurozone and the EU (Lapavitsas et al., 2010).

Confronted with current account deficits, SE countries began to rely more heavily on external borrowing, while also expanding domestic debt. Low interest rates and falsely rising credibility allowed them to obtain the necessary funds without undue difficulties for several years. But in late 2009 the structural bias of the eurozone finally met the inefficiency of financial markets and the results were catastrophic for southern economies. The sudden magnitude of this crisis led to the necessity of massive state-financed rescue and recapitalization of the financial system in order to avoid collapse, and fiscal stimuli to attempt to restart growth and reduce unemployment. This short-term solution, however, generated ever larger government borrowing and debt, leading to ever larger public deficits, and thus creating a new debt trap and the current fiscal crisis of the state, including sovereign debt crises.

The EU proved unable (and, I argue, unwilling) to handle the crisis owing to various dogmatic and inflexible neoliberal pacts that form its ideological and everyday institutional modus operandi. The Lisbon Pact in particular prohibits any intervention to help national economies facing a crisis, such as that in Greece and Ireland. When EU governments, particularly those of Germany and France, realized that the crisis was not restricted to Greece alone but could spread to the entire eurozone, a 'solution' was found via a joint IMF/EU intervention, bypassing several 'communitarian restrictions'.[4] The proposed package of cuts that would protect global investors places a high burden on the working and middle classes. It includes extensive privatization; a 2–5

percent increase in sales taxes; a 20–30 percent cut in salaries in the public sector; freezing and in some cases reducing pension payments; a 34 percent cut in public spending on education, health and public works; and, most importantly, major anti-labour institutional changes. These measures will complete a vicious economic circle of rising unemployment and inflation, shrinking tax revenues and profiteering market valuation of economic policies. They will sink the country from its current deep recession into an enduring depression with no obvious way out (Douzinas, 2010; Golemis, 2010; Krugman, 2010). Recession and depression are affecting social classes and regions unevenly. According to some accounts, those who have been first and worst affected are non-unionized workers (particularly women), lower-level civil servants and the lower middle classes in urban areas, with a record of 27 percent unemployment observed in Thessaloniki (*Eleftherotypia*, 14 January 2011 [in Greek]). Urban areas are followed by former industrialized regions (such as Eastern and Central Macedonia), whereas rural and tourist areas will be affected last. An important parameter of the Greek crisis, as well as in other SE regions, is the *informal sector*, which may provide, as in the past, buffer solutions via extended family and friends, production for self-consumption, etc., in which house and land ownership in rural areas will play a major role.

In November 2010, Ireland – a non-SE country and until the crisis a 'success model' – decided to ask for its 'rescue' plan from the EU and the IMF, while until the last moment the Irish government strongly denied such a request.[5] We may see Portugal and Spain too joining Greece and Ireland in the future, which highlights the deeper problem of uneven development in the entire eurozone.

Uneven geographical development and the introduction of the euro

Dominant explanations of the Greek debt crisis and more generally of the 'southern problem' are, as I said, mainly macroeconomic, and their causes are attributed to each country's internal fiscal and budget failures, reproducing the old dogma of 'blaming the victim'. Issues such as corrupt local political and social behaviour, state inefficiency, low productivity but high wages and misuse of EU structural funds are among the causes that have been used repeatedly as explanations of the debt crisis. Although there is good reasoning in these explanations, they tend to be either one-sided or very economistic in their assumptions. They ignore uneven relations among social classes, firms, places and institutions, thus leaving the social and geographical dimensions out of the picture. Here I mean the socially produced uneven geography of SE and the EU and not the naive and essentialist physical geography used by R. Kaplan (2010) to argue that, 'for Greece's economy, geography was destiny' (for a critique, see Hadjimichalis, 2010). Cities and regions across SE had an important role in the crisis but this is not because 'all are in the south', as Kaplan argues, but due to uneven geographical development initiated in pre-2000 conditions, to become eventually the crisis-driven dramatic socio-spatial restructuring we face today. Uneven geographical development as a framework enables us to approach the causes of the debt crisis in a relational way as resulting from *internal/endogenous and external/exogenous factors*. It is the dialectical tension of both factors that produces and reproduces uneven geographical development and it is wrong to prioritize one over the other.

During the last 30 years, with the assistance of the EU, some SE regions succeeded in converging in terms of GDP with EU averages,[6] but uneven geographical development remains a key feature. Convergence between regions in the EU-15 (measured by coefficient of variation) was strong up to the mid-1990s, but the process since then has slowed down, and since 2000 inequalities have been growing again, reaching 1987 levels in 2007 (European Union-Regional Policy, 2007). Two speeds are identified by the European Commission: convergence for regions with GDP higher than 75 percent of the EU-15 average and divergence for regions with GDP less than 75 percent, the majority of which are in the south. Unevenness across the EU increased dramatically after the entrance of the former 'socialist' countries of Eastern Europe. In 2002, 10 percent of the EU-27 population living in the most prosperous regions of north-central Europe accounted for 19

percent of total GDP for the EU-27, compared with only 1.5 percent for the 10 percent of the population living in the least wealthy regions in the east and some regions in the south (European Union-Regional Policy, 2007). In adjusted prices (in terms of the purchasing power standard) the ratio between the top and bottom 10 percent of the population in terms of GDP is 5:1 and in real prices 12.5:1.0. In 2008, 43 percent of EU GDP was produced in only 14 percent of its territory, within the geographical area defined by London, Hamburg, Munich, Milan and Paris in which one-third of the Union's population live and work. These figures would be significantly more uneven without EU assistance programmes (Leonardi, 2006). Following Todl (2000), Structural Funds for the period 1989–93 contributed 2.71 percent to annual GDP growth in Greece, 3.39 percent in Portugal, 0.71 percent in Spain and 0.77 percent in the Mezzogiorno. For the period 1994–9, the contribution of Structural Funds to annual GDP growth was 2.82 percent in Greece, 3.26 percent in Portugal, 1.30 percent in Spain and 1.14 percent in the Mezzogiorno. Portugal and Greece seemed to benefit more and this was also evident in their overall performance during these periods.

On the regional level, Structural Funds have been particularly effective (comparing GDP per capita figures for the period 1980–94) in Canarias, Extremadura, Aragon and Navarra in Spain, in Algarve, Norte and Alentejo in Portugal and in the northern Aegean islands, Crete, the Ionian Islands and Eastern Macedonia and Thrace in Greece. These are mainly agricultural and insular regions with low initial GDP per capita figures and remoteness problems, growing faster than the more developed ones. Since the mid-1990s, however, the regional problem in SE shifted to *intermediate regions*, which from the 1970s up to the mid-1990s were identified as dynamic and innovative, as a 'third way' of regional growth beyond metropolitan areas, state-assisted industrial poles and backward agricultural areas (Paci, 1972; Garofoli, 1983; Amin and Robins, 1990; Hadjimichalis and Papamichos, 1990). These were successful regions in Third Italy, northern Greece, Valencia, the Basque Country, Murcia and northern Portugal, among others, which for the first time showed signs of a slow-down. In these regions, productive structures and labour markets were based on the performance of small and medium enterprises (SMEs) and on the combination of diffused industrialization, specialized agriculture, cultural tourism and a polycentric system of small historical urban centres. From the mid-1990s onwards, and in the context of the wider recession, several major changes gradually took place in intermediate regions, among which two domestic and two international changes were especially important.

On the domestic front, the gradual neoliberalization of state and regional institutions changed the supportive framework dramatically for SMEs, with extensive privatization of public services at various spatial scales. Between 1990 and 2000, privatizations in the EU, as a percentage of GDP, were led by Hungary with 2.7 percent, followed by Portugal with 2.3 percent, the Czech Republic 1.3 percent, Greece 1.2 percent, Poland 1.0 percent, Ireland 0.9 percent, Italy 0.8 percent and Spain 0.7 percent (*Financial Times*, 28 April 2001). In effect, state and regional supportive institutions gradually withdrew their support by asking SMEs to pay high fees for previously inexpensive contributions, e.g. for technical assistance. Recession and neoliberalization in southern economies provided counter-incentives for productive investment since finance capital seeks immediate placement for high profits in real estate, stock markets, banks, retail, etc., creating financial 'bubbles'.

Another equally important withdrawal of domestic support was social and relates to younger family members and to women in particular. The family remains the traditional cornerstone of the success of southern SMEs and the reproduction of the family is essential for the survival of small firms. But across SE a gradual loss of interest in reproducing themselves as skilled and unskilled workers in small family firms in all sectors is widespread among younger generations, particularly women (Vaiou, 1997). Many surveys have found the same lack of interest among the sons and daughters of small entrepreneurs, who were unable to convince their epigones to continue the small family business (Mingione, 1998, 2009). The younger generation prefers higher

education or working in services, avoiding the long hours of hard and unstable work with low pay typical in most small firms.

On the supranational and international fronts, the world recession of the late-1980s to mid-1990s initiated a substantial reduction in demand for products from SE intermediate regions (e.g. design and fashion products), particularly in the USA and Germany, a situation that deteriorated dramatically after 9/11. At the same time, owing to geopolitical changes after 1989, new markets and new competitors in Eastern Europe, northern Africa, Turkey, India, Vietnam and, above all, China entered the scene for low- to medium-quality garments, textiles, ceramics, toys, footwear and furniture (Smith et al., 2002; Dunford, 2011). This opening was positive for some SE firms, which found new markets and new territories for foreign direct investment, but for the majority it was a negative development resulting in massive plant closure. The latter group, together with firms in tourism and agriculture, started employing economic immigrants who arrived legally and illegally by their thousands on SE coasts as a first stop in their journey to other EU countries (Hadjimichalis, 2006; Cánovas and Riquelme Perea, 2007; Labrianidis and Sykas, 2009).

When the unequally developed SE regions found themselves with the same hard currency in 2000, very few in the SE and in the Commission – under the influence of the neoliberal doctrine – paid attention to their pre-existing highly unequal regional production systems and specializations, to their structurally different regional labour markets and to their unequal accessibility to markets (economically, institutionally and spatially) vis-à-vis the 'core' of the eurozone (Medelfart et al., 2003). And even fewer paid attention to differentiating the socio-spatial effects of putting an unevenly developed SE into a macroeconomic and fiscal framework designed purposely for north-central European economies and particularly Germany – a kind of imposed straightjacket.[7]

The major problem in the very formation of the eurozone is the so-called 'national convergence criteria' (price stability, low interest rates, stable exchange rates and limits on the size of budget deficits and national debt) and the neglect of spatial or regional convergence. In the debate on the euro in the early 2000s and now on the debt crisis, very little attention is paid to geographical differences under the four important conditions for a successful monetary union. Following Thirwall (2000), Magnifico (1973) and Martin (2000), (a) regional economic and social structures should have a degree of economic similarity – in the absence of such similarities, neoliberal restrictive monetary policies will produce geographically uneven employment/unemployment; (b) regional economic and social structures should have high rates of geographical mobility for capital and labour – if such mobility is weak, cyclical crisis may lead to persistent regional inequalities; (c) regions should have similar propensities to inflation; and (d) an automatic fiscal mechanism is required through a centrally organized tax/benefit system, that will compensate for different national and regional shock.

If we compare SE regions to the rest of EU-15 regions, none of the above four conditions existed before the formation of the eurozone. After 2000, only capital mobility has improved slightly, while regional divergence in economic structures, employment/unemployment and inflation accelerated. Thus, SE regions, and particularly those with fragile productive structures, became the weak link in a very unstable monetary union. As Martin (2000: 9) argues: 'When countries form a currency union, their regions in effect become "twice removed" from monetary policy and control', because member states transfer such policies upward to the monetary union.

Without a centrally organized tax/benefit system and under the false assumption that sectoral and regional imbalances would be self-corrected by markets, the eurozone moved towards monetary integration. Very few anticipated that a further geographical concentration of economic activities in fewer regions and a deepening of unevenness between people and places should be expected, in line with the historical example of the Italian *Rissorgimento* and the imposed monetary union at the expense of banks, industries and particularly workers in the Italian south (Del Monte and Giannola, 1978). And even fewer raised the likelihood of a capitalist crisis (what neoliberals call asymmetric shocks) unevenly

affecting eurozone regions and member states in the absence of nominal exchange rate instruments and a central redistributive mechanism (Flassbeck, 2010).

In the European Parliament, however, voices from the European Left Party and the Greens argued in 2005 (see *Avgi*, 23 May 2005 [in Greek]) that a new regulatory system is needed for the transition towards a common currency and from tax competition to tax cooperation alongside a further increased EU budget based on its own income, which promotes solidarity by balancing uneven geographical development. These voices were not heard and a new version of the 'old' division of labour between the central-north core (mainly German regions, Austria and the Netherlands) and the southern periphery has emerged, challenging prospects of convergence. This division of labour also includes Ireland, which followed a different development path. The revitalized division resulted in the progressive loss of competitiveness for southern peripheral regions. In Figure 1, this loss of competitiveness is depicted at the national level.[8] Whereas Germany increased its position after the introduction of the euro and the Netherlands remained steadily high, SE countries after 2004 decreased sharply, with Greece leading the tendency to fall. Ireland, after an increase in 1996–9, followed the pattern of decline but with a slight improvement for the 2004–9 period.

The articulation between national and regional scales needs further discussion. Aggregate data, e.g. trade balance or export figures, prioritize the dynamics of uneven state relations at the expense of uneven regional ones. But this is a statistical representation, which masks particular inter-firm relations that operate in different spatial environments and under particular capital–labour relations, the euro being the only equal parameter. Furthermore, these aggregate data hide social and spatial divisions of labour and unequal class relations within firms and regions. Although it is difficult to highlight the above at an analytical level, it is crucial to keep in mind in order to avoid reducing socially and spatially embedded actors to notions of 'Germany', 'Greece' and 'Ireland' or to 'core' versus 'periphery'.

Although the monetary union has increased intra-euro area trade by between 12 and 30 percent over a five-year period, southern regions benefited much less. This was because the market access improvements benefited firms in some north-central European regions rather more than those in SE

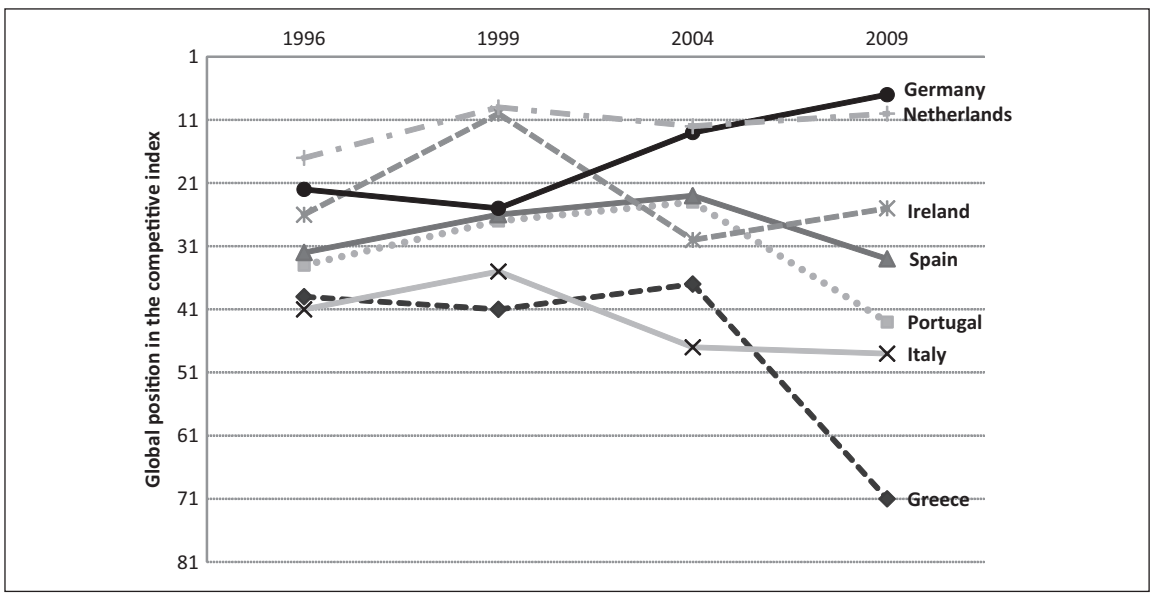

Figure 1. Global competitiveness, 1996–2009
Sources: World Economic Forum (2000, 2004, 2009: 13).

regions as a result of three main factors. First, the absolute trade cost reduction for the entire eurozone increased the relative disadvantage of those behind at the time of monetary unification, particularly SE regions that entered the union with higher nominal exchange rates. Second, the loss of the old nation-state regulatory framework, which protected southern firms via monetary devaluation, bilateral international trade agreements and provision of investment incentives, shifted competitiveness within the eurozone to unit labour cost. And, third, the operation of market forces drew activity and channelled exchange value flows through trade-generating surpluses to north-central regions at the expense of southern ones. These points need further scrutiny.

Although classical political economists gave particular attention to trade as a main source of unevenness across sectors, firms and space, recent theoretical accounts tend to neglect it.

Figure 2 shows the increase in value of German exports to major world areas between 1995 and 2007. In terms of both value and increase, SE stands at the top, with the bulk of products directed to the larger markets of Spain and Italy. The diagram shows also how important SE has been for German exports since the introduction of the euro, when exports to the USA slowed.[9] During the same period, following Figure 3, there has been a continuous negative trade balance for the three SE countries vis-à-vis Germany, with only Italy showing a positive balance in 1995. Unequal trade is a basic condition for uneven geographical development that frames –and is framed by – the production of commodities and the geographical circulation of surplus value embodied in these commodities (Hadjimichalis, 1987; Hudson, 2001). This again introduces the importance of labour productivity and nominal labour cost as major components in competitiveness given the very low geographical mobility of labour between EU regions.[10]

Most commentators treat Greece's public debt problems and those of other SE members of the Eurozone as if they were totally unrelated to external trade within and outside the Eurozone. Between 1995 and 2007, Greece's net exports (65 percent of which were to other EU countries) were sluggish, but domestic demand rose at a healthy 2.3 percent, as imports from EU countries became 'cheap' owing to the euro (Eurostat, 2006, 2009). Real

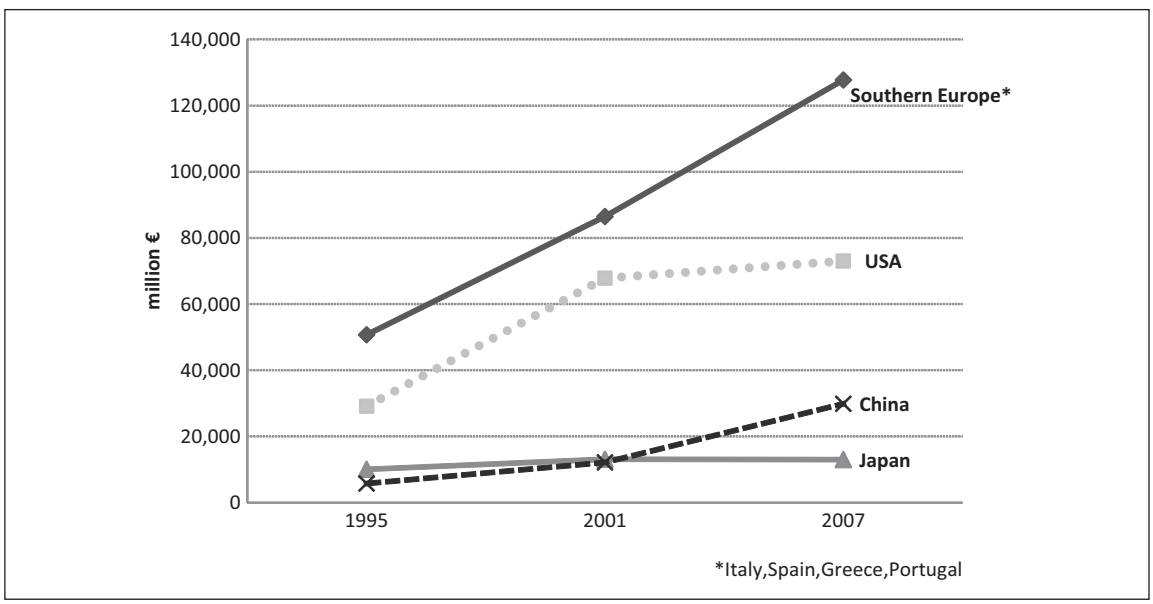

Figure 2. Germany: Value of exports, 1995–2007
Sources: Eurostat (2006: 138–40; 2009: 148–9, 152).

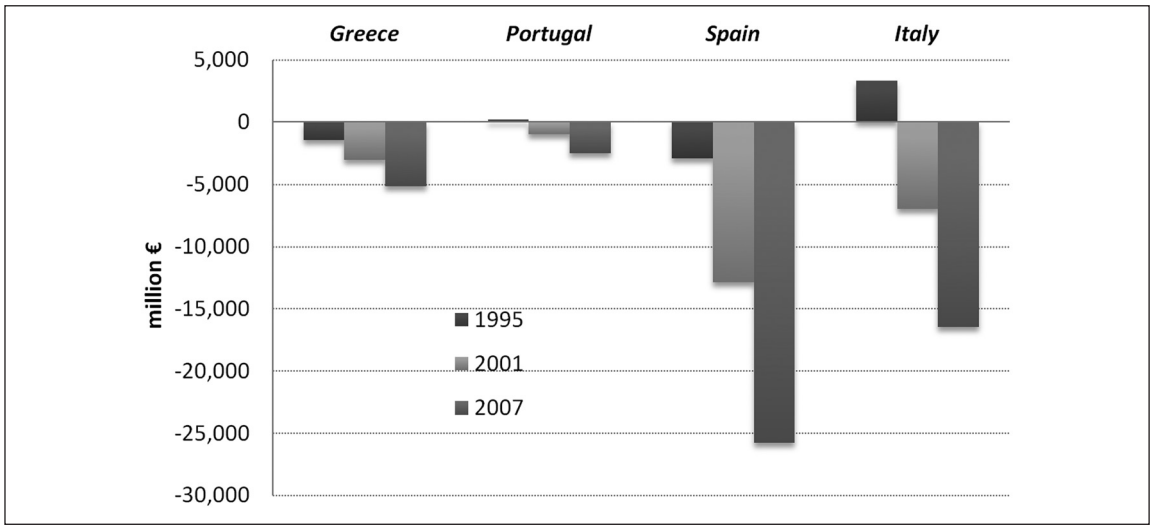

Figure 3. Trade balance with Germany: Greece, Portugal, Spain and Italy, 1995–2007
Sources: Eurostat (2006: 149, 155, 173, 233; 2009: 171, 179, 195, 275).

compensation to labour increased at 1.9 percent per employee annually, a little less than productivity per employee, which increased 2.1 percent annually (INE/GSEE, 2010). Nominal unit labour costs (shown in Figure 4), the most important measure of competitiveness between members of a currency union, advanced at a rate of 2.8 percent per year and reached a level of 135 for Greece and Italy, 131 for Portugal and 127 for Spain in 2011 from a base of 100 in 2000 (Lapavitsas et al., 2010). Labour productivity for SE (with the exception of Spain) and Ireland increased as well, with Greece reaching 140 in 2009 (if 1995 = 100), Portugal 127, Germany 120 and Spain 109 for the same period (OECD, 2009).

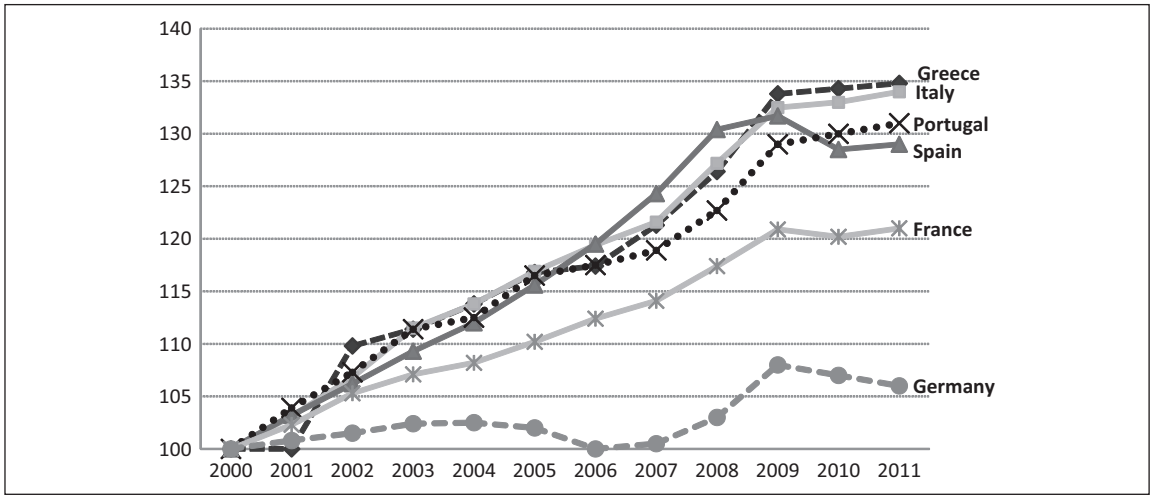

Figure 4. Nominal unit labour costs, 2000–11 (2000 = 100)
Sources: Lapavitsas et al. (2010).

On the other side, German firms and the German state accumulated a huge current account surplus in the same period, culminating at 8.0 percent in 2007. Germany's net exports to SE exploded between 2000 and 2010, but domestic demand stagnated at a 0.2 percent increase annually. German elites took advantage of the unification with the former DDR in 1989 by keeping increases in compensation per employee below those in real GDP per person employed. This, plus low unionization in eastern regions, squeezed labour costs in western regions. The result, as shown in Figure 4, is that unit labour costs rose only marginally in the decade (at the expense of the German working class, particularly in eastern regions), reaching a level of 105 in 2011 from a base of 100 in 2000. This simply means that the production of a comparable good or service that was produced at the same cost in 2000 in all member states of the eurozone, and could be sold at the same price, now costs 25 percent more if it comes from Greece than if it is produced in Germany (Papic et al., 2010). The difference is similar for Spain, Portugal and Italy, 13 percent for France and 23 percent for Ireland.

In summary, the euro provides considerable economic and political benefits to German capital (and to a lesser degree to French, Benelux, Nordic and Austrian capitals). Germany's neighbours are unable to undercut German exports with currency depreciation, and German exports have in turn gained in terms of overall eurozone exports in both the global and eurozone markets. Thus the Greek external deficit reflects, among other things, the strategy of German and other European elites, which is aimed at regaining market shares and political hegemony in the eurozone by squeezing their production costs via freezing compensation to their workers (Medelfart et al., 2003; Jabko, 2010).

The end result was the gradual destruction of productive structures in SE regions, including many prosperous intermediate regions – among them some of Third Italy's famous industrial districts (Hadjimichalis, 2006). The productive restructuring took mainly three forms, apart from firm closures: (a) mergers and acquisitions of SMEs by larger firms, (b) de-localization towards low-cost locations in Eastern Europe and globally, and (c) replacement of parts of native labour by skilled low-waged migrant labour.

In addition to the destruction of regional productive structures based on SMEs, SE countries (and Ireland) faced serious problems from debt-fuelled real estate investments, another geographical cause par excellence of the debt crisis. For Greece, the catastrophic decision to host the 2004 Olympic Games added €20 billion to the public debt and introduced the re-concentration of economic activities back to Attica, reinforcing negative effects for other regions.[11] And for Portugal, Ireland and particularly Spain the bubble in their real estate sector, with thousands of unsold units, generated immense problems for banks. These debt-fuelled investments absorbed billions and billions of euros during the past two decades, far more than industry, and became the other epicentre for debt crisis formation. As Harvey (2010) argues, the connections between urbanization and capital accumulation lie behind uneven development and crisis formation, and debt problems in SE are but another part in the global puzzle.

These developments and the wider recession imposed by neoliberal policies challenged the tax basis of public revenues in southern states. Along with their chronic class priorities and inefficiencies in collecting taxes,[12] corruption, clientelism and bad planning, SE states faced a dramatic decline in public revenues that pushed them to borrow money from the global financial market, increasing further their public debt, which went above the 3 percent of GDP limit imposed by eurozone regulation.[13] Figure 5 shows the increase in the fiscal balance in all SE countries (with Greece leading the race again), but also that Germany, France and Italy too passed this limit in 2009, when the debt crisis started. Public finance is in trouble in the entire eurozone.

When the US financial crisis of 2007–9 arrived in Europe, southern states, on top of the recession and their shattered regional productive structures, spent billions of euros to support their banks, which had been overexposed owing to real estate financing. Helping the banks reduced public revenues even further and caused public debt to skyrocket. The need to borrow money increased at the 'wrong time', when spreads were at the highest level: the

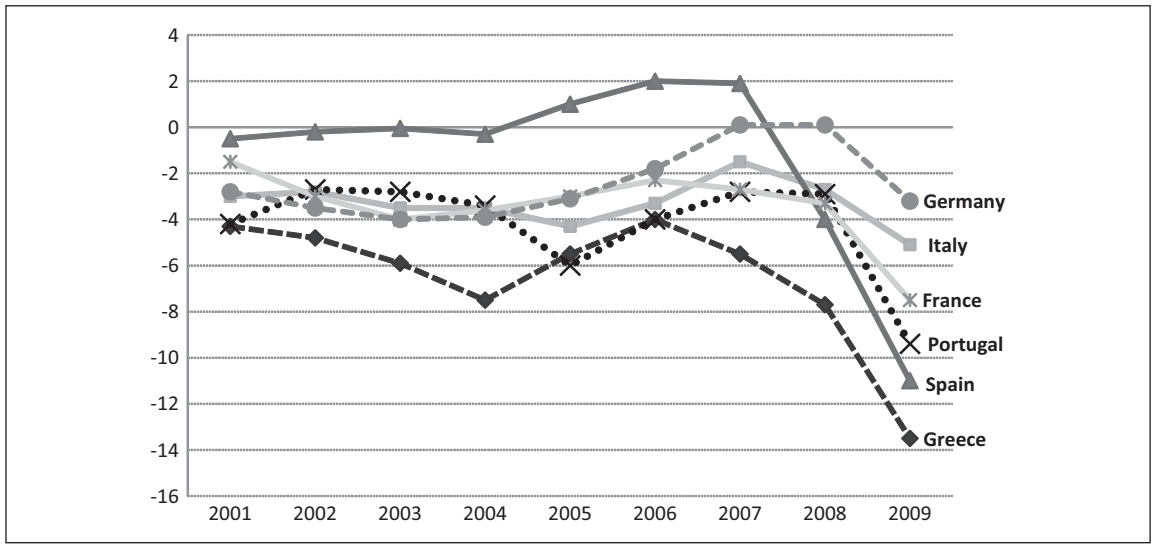

Figure 5. Fiscal balance, 2001–9 (percent of GDP)
Sources: Lapavitsas et al. (2010).

banks that were saved by states in 2007–9 now bite the hand that fed them.

Sliding towards neoliberal local/regional development discourse

In the previous section I argued that the Greek debt crisis is a symptom of deeper causes related to a variety of factors of uneven development: on the one hand, internal/endogenous economic and social restructuring in Greece and other SE countries, plus internal failures on the part of local elites and the state; on the other hand, important external/exogenous factors determining unequal economic and political relations within the eurozone, which have played a major role in escalating the crisis.

If my argument about the social and geographical/regional foundations of the current crisis in the eurozone is correct, what was the reaction from researchers in our field? To my knowledge and until finishing this paper it was very limited indeed – almost a silence. This is nothing to be surprised about, however, because the dominant policy views on European integration and regional development over the last three decades have been neoliberal and they have little that is self-critical to say. We need to remember, however, that neoliberalism in Europe is far from homogeneous; there are different national or even regional strands, which leads us to talk about 'real existing neoliberalisms' (Peck et al., 2010). Or, to put it in another way, the neoliberal doctrine has an uneven impact on different national/regional political economies. With important differences among states and regions, the neoliberal turn in regional and urban affairs neither raised cities and regions to new levels of dynamism (apart from a few superstar cases), nor diminished capitalism's inherent tendency towards crises and uneven development. It has created a major market for new policy 'discourses', which has been met – thanks to the parallel neoliberalization of academia – by the creation of new degrees and professional courses (Lovering, 2010). With cruel irony, during a period when poverty, income inequalities and socio-spatial polarization in Europe were reaching unprecedented levels, local/regional welfare planning almost disappeared; the dominant model became the entrepreneurial city and region.

On the theoretical front, the financial crisis in SE and Ireland came at a time when regional development in Europe was dominated by two major

paradigms, both being used by academics and practitioners alike in member states and by the European Commission. The first was straightforwardly neoliberal, based on a modernized version of old neoclassical theories and macroeconomic top down planning, and loyal to the dogma that free market competition will eventually balance inequalities. It has excessive faith in highly abstract mathematical models as the basis of regional science and policy practice, assuming that poorer regions tend to have higher rates of growth than richer ones and that convergence is a matter of time (Barro and Sala-i-Martin, 1995).

The second paradigm, following a kind of 'third way thinking', was termed 'new regionalism' (NR) and 'territorial innovation models' (TIM) and had a focus on 'communicative planning' (Healey, 1997; MacLeod, 2001; Moulaert and Sekia, 2003). Parallel to more traditional approaches of agglomeration economies, transaction costs and external economies in industrial districts, researchers and policy makers explored the significance of planning as a mainly procedural field of activity; and they focused on clusters and on non-economic factors such as knowledge (codified and tacit), learning (in various forms), networking, social capital, reciprocity and trust in order to explain why some regions are more dynamic than others. Without forming a coherent body of theory, several proposals for 'learning, networked and flexible' regions, 'innovative and intelligent' regions, 'clusters', 'creative' cities, 'communicative planning' and the like appeared as the current array of local/regional development (Asheim, 1996; Healey, 1997; Storper, 1997; Cooke and Morgan, 1998; Amin and Thrift, 2005).

The first paradigm is highly questionable and, although I can see the differences between the two paradigms, I also have major political reservations concerning the second one. My reservations come from the fact that, despite its progressive intentions and 'third way' terminology, its treatment of urban/regional issues is often highly compatible with a neoliberal view. I do not argue that theories of NR or the TIM models are neoliberal *stricto sensu*, or that their exponents are neoliberals. All I am saying is that the way they have formulated – directly or indirectly – the original question posed by Doreen Massey ('in what sense a regional problem?') was de-politicized, at a time when a frontal attack against neoliberalism was needed. This has made their views easy to absorb into neoliberal policies, making it sometimes difficult to differentiate progressive from regressive applications. In that sense there was a gradual slide towards the dominant neoliberal discourse and, when the current crisis arrived in European regions, both neoclassical and NR theories were caught unawares and remain unable to understand its multiscalar geographical/regional causes. Let me clarify this with five points:

1. A key difference in terms of values, goals and methods between 'old' welfare and 'new' regionalism is political. In the former, welfare distributional questions (between people and places) directly connected regional policy with politics. The latter regards regions and cities as quasi-individuals, obliged to find their own ways to economic prosperity in competition with others (Hadjimichalis, 2006; Lovering, 2010). What regions (or cities) need, according to NR, is less politics, more competition, more innovation experts, more pluralism, more learning and more tolerance. In this respect NR has been associated at the subnational scale with the wider de-politicization that has been a key objective of neoliberalism at the national and global scales. Furthermore, de-politicization has been essential for the legitimation of the undemocratic and authoritarian EU/IMF intervention to 'help' Greece and Ireland.
2. NR theories and TIM pay attention to a few successful super-star regions and cities (Perrons, 2004), neglect all other 'ordinary' places and base their explanation of success mainly on internal, endogenous factors within the region or the urban area in question, ignoring exogenous forces (Hadjimichalis and Hudson, 2007). These assumptions were based on a cognitive shift towards seeing places as bounded entities to be studied in their own right. This is highly

compatible with the neoliberal discourse, which promotes the success of the few, idealized competitive individual efforts, ignores relational politics and downplays wider social and spatial conditions, especially those 'failed behind'. In addition, this particular focus of NR approaches helped the establishment of arguments that the causes of the crisis are endogenous only (e.g. corrupt governments, cheating citizens, etc.), leaving exogenous forces, such as the very operation of the eurozone, undiscussed.

3. Following the previous emphasis on regions and urban areas as the pivotal spatial scale for capitalist success, these approaches ignore the regulatory role of the state and particularly its potential in the struggle to ameliorate the lives of people in the places that 'failed' (MacLeod, 2001; Hudson, 2007) and/or in providing protectionist measures for particular sectors. In a period in which major governance re-scaling and widespread introduction of public–private partnerships took place across Europe, NR continued to focus only on particular successful regions and cities. On the one hand, underscoring the role of the state is again compatible with the neoliberal dogma of 'less state – more market', followed by class policies for deregulation of the welfare state and massive re-regulation for the needs of capital. On the other hand, the overemphasis on regions did little to help these approaches to understand the geographical/regional foundation of the current crisis and to recognize the major spatial governance change introduced by the eurozone.
4. Although these mainstream views pay attention to particular regions and cities and have provided pioneering analyses of local productive and institutional structures, they have overemphasized the supply side, giving scant, if any, attention to understanding the empirical dynamic of the demand side and of global capitalist competition. Within the eurozone, the question of labour's compensation is crucial and became a major competitive element after the introduction of the euro. The inadequate analysis of the commercialization, distribution and retailing of products and services coming from model regions became a major handicap, realized only after 2000 and the first signs of crisis. The emphasis on the supply side helped to mask unequal trade among eurozone regions, in particular how debts in the European periphery are related to trade surpluses in the centre-north.
5. The lack of interest in social issues beyond success and competitiveness is also evident in the inadequate analysis by NR and TIM of issues of everyday life and living (beyond consumption and lifestyle), work, poverty and unemployment, and current deep social, demographic and ethnic changes in Europe at multiple spatial scales. Focusing only on technical and procedural modes of flexibility and innovation, these approaches play down the role of labour and they ignore class, gender and ethnicity (Vaiou, 1997), thus losing contact with everyday life in ordinary firms, regions and cities. This is also evident in the way in which the EU/IMF intervention to 'help' Greece was received by the 'third way' politicians of PASOK, who are trying to convince the public that cuts in social services and wages are 'necessary' as 'medicine' for the debt 'disease'.

These five points summarize the distance between NR and TIM and older progressive formulations of welfare regionalism, not to speak of left-wing views of uneven regional and geographical development. However, NR cannot be blamed for all problems in the eurozone or for the EU/IMF intervention. My argument is that the dominant discourse in our field, by sliding consciously or unconsciously towards neoliberalism, first proved itself unable to understand the geographical/regional foundation of the crisis, and, second, helped to direct regional development questions into inoffensive paths by de-politicizing them.

Perhaps the largest failure of both the neoclassical and the NR approaches is their neglect of periodic capitalist crises, what neoliberal economic advisers call 'systemic failures' (see Harvey, 2010). This negation is typical of all apologetic analyses of capitalism, and is to be expected from the neoliberal side. But it is surprising that very few 'third way' NR researchers paid attention to the capitalist crisis that was already visible from the late 1990s in Third Italy and other emblematic regions. The trouble nowadays is that most people have no idea who Keynes was and what he really stood for, and they do not know of Myrdal's 'cumulative causation' and 'backwash effects'; uneven development sounds 'too political' and their understanding of Marx is negligible.

Socio-spatial justice and solidarity after the financial crisis

From the beginning of the crisis in 2008–9 there was an ideological debate that raised several moral issues. If the Greek public debt (and later the Irish case and perhaps the Portuguese and the Spanish in the future) is 'their problem', why should other Europeans help? If corrupt governments and irresponsible citizens, such as the Greeks, have spent 'our money' through the Structural Funds in an irresponsible way, why should we help them again? These issues have been debated for months in the European press (sometimes crudely – see Figure 6) and have been discussed in several meetings in Brussels.

I do not intend to ignore lagging regions' responsibilities and I can offer many examples of EU money-wasting, inadequate leadership and corruption in SE and particularly in Greek regions. But here I would like to discuss the way in which the whole political discourse has been 'cleansed' so that class and geographical differences became 'unmentionable' as part of internal/endogenous factors; in addition, exogenous factors such as the role of neoliberal pacts and the operation of the eurozone, unequal trade and uneven geographical development, discussed in the previous sections of the paper, became 'unmentionable' as well. Wider moral issues that are highly related to the present crisis – such as public interest, common goods, socio-spatial justice and their associated principles of democracy and citizenship – also became unmentionable. Ideology through erasure provides one of the conditions for speaking and acting about the crisis in the way the EU/IMF did.

Neoliberalism is not only an economic project but also, more importantly, an ideological one. It tries to make us believe that there is no alternative. For example, popular media ask: 'You can't do much about the crisis, it's the market, isn't it?' As Doreen Massey and Stuart Hall (2010) have argued, the market is a powerful ideological and linguistic displacement of the 'capitalist system'. It remains anonymous, it erases so many things and, since we all use the market every day, it suggests that we are all somehow inside; we are not only part of the crisis but perhaps we are responsible for it as well.

On the regional development theoretical front, the hegemony of neoliberalism has so far succeeded in defending the taken-for-granted mainstream model of the competitive and entrepreneurial city/region, which undermines any attempt at welfare

Figure 6. "The Liars in the Euro family": the February 2010 cover of the German journal *Focus*

planning. By the same token, any discussion of inequalities, socio-spatial justice and solidarity is also erased from the European regional development agenda.[14] Thus, the decline of critical and radical currents of thought in local/regional development – within 'third way' thinking – leads to an impasse within academia and among policy makers, perhaps comparable to asking the bankers who created the current financial mess to clean it up with exactly the same tools as they used to get into it. Ray Hudson (2007: 1156) summarizes the issue:

> Uneven development is an integral component of capitalist economies and while some regions will exceed national (or other) growth rates and targets, others will not. In other words some will 'fail' as part of the price of others 'succeeding'. … The mainstream view pays scant, if any, attention to distributional issues as central to development and there are strong grounds for arguing that issues of social and environmental justice and equity must be central to any sustainable economic development strategy.

This discussion by Hudson directly introduces the problem of the values and goals of regional development in an unequal Europe, in other words the politics of progressive planning. Dealing in space with losers and not only with winners (as NR does) introduces a moral responsibility for socio-spatial justice. Winners and losers are not social and spatial aggregates but firms, social classes and individuals living and operating in particular places and regions that gain or lose as a result of the particular unequal relations in which they are engaged. In the absence of such a discussion, the majority of analysts – including some from the Left – remain within the mainstream policy environment, which favours interventions targeted towards either reducing the costs of doing business or improving the competitiveness of firms, cities and regions. This emphasis ensures that theory is invoked to justify current practice, further diverting attention from the deeper bases of local/regional deprivation (Pike, 2007; Pike et al., 2007).

In this context, the bail-outs for Greece in March 2010 and for Ireland in December 2010 can hardly be taken as a major solidarity step within the EU, or globally if the IMF is included. The austerity package now imposed in Greece is not a 'just policy for the Greek people', as argued by many European political leaders, the press and George Papandreou himself. Ostensibly, the bail-out is supposed to rescue Greece. Yet there is nothing in the package that aims at helping Greek people or any city and region in the country or in any other southern state. Instead, the bail-out is to provide a guarantee against a debt default by Greece and other European crisis-hit economies. It is therefore entirely a bail-out for holders of Greek government bonds, i.e. the major European banks, and the rescue plan is for their benefit. It is aimed at restoring the balance sheets of Europe's banks that hold Greek bonds; southern states, regions and people are being written off, on the basis that their banks are already net debtors.

Worse still, Greek people are forced to accept fiscal contraction, involving huge cuts to public spending, services and welfare payments and to unemployment that is expected to rise to about 1 million people by the end of 2011, or 23 percent of the workforce. These policies are among the most severe and unjust fiscal austerity packages in Europe since the Second World War. On a broader front, Greece is becoming a test case for the late phase of neoliberal correction in the wake of the economic and financial crisis. In fact, these are not only unjust policies but a radical attack on politics and the pre-eminent expression of the neoliberal hatred for democracy.

What is missing from the above debate is the fact that the eurozone is a production of a new uneven space that is fundamental for the reproduction of European capital. As analysed above, it contains several discriminatory geographies, value flows and locational biases that reinforce socio-spatial inequalities and hence raise issues of socio-spatial justice (Soja, 2010). Henri Lefebvre argued in the late 1960s that the production of new spaces is one of the solutions to periodic crisis, absorbing surplus capital. He wrote in *The Survival of Capitalism* (1973: 31):

> Capitalism has found itself able to attenuate (if not resolve) its internal contradictions for a century, and consequently in the hundred years since the writing of *Capital*, it has succeeded in achieving 'growth'. We cannot calculate at what cost, but we do know the means: by occupying space, by producing a space.

The eurozone, as the production of a new space, hides several consequences from us and generates important contradictions, making the discussion and application of socio-spatial justice at the eurozone level extremely difficult. Three points are in order.

First, to use Lefebvre again and his spatial trialectic (spatial practice, representations of space, spaces of representation), I can see the eurozone as a new '*representation of space*' with important economic and political implications. The eurozone is neither spatial practice (the production and reproduction of particular locations and material characteristics) nor a space of representation (lived spaces, the space of everyday users). It is a representation space only of a currency, the euro, introduced by economic planners and technocrats. During the lengthy negotiations to establish it, it became evident whose political, economic and spatial interests would prevail, i.e. those of the elites in all countries, but with unevenly developed interests and power to implement them. Currencies in use throughout the world hold no value without the underlying political power to make them the legal tender of capitalist exchange. The trouble with the euro is that it attempts to overlay a monetary dynamic on a political geography and a political space that do not exist as such: the euro's *representation of space* is restricted to monetary policies and does not coincide with the sovereign space (with a spatial practice and spaces of representation) enjoyed by other international currencies. Before the crisis one could argue that this hybridity is the euro's novelty and strength. After the crisis, however, it became clear what the eurozone lacks – which is not only expressed in the so-called democratic deficit: it lacks the relationship between the sovereign state with sovereign powers and the sovereign individual – not only capitalists but a citizenry with all manner of different individuals endowed with the sovereign right for socio-spatial justice. In this respect the eurozone has not only a weak central bank that is not a lender of last resort (as the Federal Reserve is in the USA), but also many financial policies and many different regulatory systems, particularly on social and labour market issues. The major problem in the eurozone is the spatial representation of citizenry, which refers not to 'Europeans' but only to Germans, French, Greeks, Spaniards, Irish, etc. The result in the first crisis was to reproduce nationalistic and antagonistic attitudes, far from the idea of a 'United Europe' and of 'European solidarity'. Furthermore this socio-spatial representation works for the benefit of European elites because it homogenizes social classes and places, and hides the articulation between internal and external class forces, which is mediated by the national scale.

Second, following Nancy Fraser (2009), whereas those who established the euro were trying to overcome the 'Westphalian' political-geographical imagination of bounded national spaces of the former nation-states, the everyday operation of the eurozone, particularly during the management of the crisis, seems to re-establish it. This has added more confusion to the justice discourse, which continues to operate under the 'Westphalian' framework. Who and where count today as subjects of justice in the eurozone?[15] In the old Westphalian framework, the 'who' and the 'where' of justice encompassed economic redistribution, legal and cultural recognition, and equal political representation, all of which are overarched by the normative principle of participatory parity (Fraser, 2009). None of those who participate today in the eurozone enjoy these conditions *at the eurozone level*. They have moral standing as subjects of justice only in their sovereign states. This is a second major scalar/spatial contradiction that operates for the benefit of the more powerful elites, states and finance capital.

Third, the introduction of the euro, along with other functions, is used as a mechanism through which global capitalist pressures are shifted to local labour markets in order to secure capital's profitability, as analysed above. European labour markets, however, owing to the weak geographical mobility of labour, remain a national/regional affair and are still regulated by national laws (Ioakimoglou, 2010). So, despite efforts by union federations to organize themselves at the EU level, national/regional spaces are the prime fields of struggle between capital and labour and this is another major spatial/scalar contradiction in the process of European integration, which financial capital again exploits for its benefit.[16] Although in principle the eurozone is the space in which the euro's class function will be judged, in reality this takes place at the national and regional

scales; hence the necessity to smash Greek labour's resistance as a test for the rest of Europeans and to condemn the Greeks as lazy and not working enough.

The triple spatial/scalar displacement of citizenry, justice and class struggle makes it difficult, for the time being, for some citizens of the eurozone to accept solidarity actions for those who 'failed' in the south. It also makes it difficult for unions and ordinary people to understand the problems of 'others' as 'their own' and in turn to organize and synchronize their struggle at the EU level. These difficulties may turn into major weapons if we become convinced that the eurozone (as well as the EU) is not only an arena for capital but a new field of struggle for all, which we have to enter highlighting our alternative vision of another more just federal Europe.

Concluding comments

Greece, Ireland and maybe other eurozone countries in the future are not only 'local cases', 'victims' of the grand global structural process of capitalist restructuring. Economic crises occur in particular places, but they are outcomes of the simultaneous operation of a multiplicity of economic and geopolitical forces and struggles (mainly inter- and intra-class), both 'internal/endogenous' and 'external/exogenous', from local to global, which tie together antagonistic capital fractions and, in turn, provide an outlet for the social and spatial distribution of benefits and losses.

The Greek dominant classes are not innocent in their economic and regional policies, creative statistics and inefficient public sector. But neither are the European elites, particularly the German ones. Holding German labour compensation increases below productivity rises for the past 15 years (with the help of low wages in eastern regions) was a conscious policy against the German working class and towards a big trade surplus, which led to the big net SE deficit. According to the United Nations Conference on Trade and Development, Greece may have lost its resources because of the downward spiral its regional economy has entered as a consequence of being brought into competition with Germany's labour cost-dumping. And the EU and the eurozone planners as a whole are far from innocent. After the collapse of Soviet communism, the dominant political forces in Europe believed arrogantly that crisis-free neoliberalism would soon lead to the end of history and thus refused to apply any real cooperation in favour of a more just socio-spatial development. Keeping the budget of the rich EU to a meagre 1 percent of EU GDP and allocating only 0.45 percent of this to all Structural Funds (including regional policy) does not contribute much to socio-spatial justice.

As Harvey (2011) noted, if one were to represent the strategic core of the current neoliberal project in terms of the state-assisted mobilization of financialized forms of accumulation, coupled with a rolling programme of regressive class redistribution and social repression, then the current crisis looks more like a qualitative transformation than a terminal event. Moreover, the forced imposition by the EU/IMF of extreme neoliberal reforms in Greece was possible only because of the economic crisis. Indeed, crises might be considered to be a primary engine of capitalist restructuring that elites and regional hegemonic blocs across Europe use, jockeying for better positions.

The current crisis is threatening the political legitimacy of the eurozone and it contains a strong spatial element that requires further scrutiny. The social and spatial distribution of who, what and where benefits and loses from the crisis is an important issue that poses fundamental questions of justice, principles and values. Unfortunately, the current dominant urban/regional theories and models do not ask such questions. On the one hand, traditional economic and regional theorists are too interested in sophisticated forms of mathematical model-building to bother with the messiness of history and geography and they propose policies that are more of the same. On the other hand, NR theorists are trapped in their de-politicized views; they have been unable to realize the co-optation of their models by dominant neoliberalism and have nothing to say about the current crisis. And both, by promoting competitiveness and the success of a few star regions and cities, pay scant attention to conditions of uneven geographical development across European regions, which, as I

argued before, played a decisive role in initiating and maintaining the crisis.

Radical geography and radical planning provide a politically progressive framework to understand and challenge the social and spatial injustices of capitalist uneven geographical development. But this requires struggles not only at the level of long-term desires but also at the level of more specific and situated cases, here and now, in which existing politics and practices are reframed and interrogated for their transformative potential.

Notes

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1 The journal *Der Spiegel*, which usually reflects the German government's position, describes in its electronic version (2 August 2010) how Greece's debt managers agreed a huge deal with the savvy bankers of US investment bank Goldman Sachs at the start of 2002. The deal involved so-called cross-currency swaps in which government debt issued in dollars and yen was swapped for euro debt for a certain period to be exchanged back into the original currencies at a later date. Such transactions are part of 'normal' and 'legitimate' government refinancing, and are not controlled by Maastricht rules. But in the Greek case – and, as it happens, in the case of Italy and even France in previous years – the US bankers devised a special kind of swap with fictional exchange rates. That enabled Greece to receive a far higher sum than the actual euro market value of its debt and to enter the eurozone with a deficit of 1.2 percent of GDP. In that way Goldman Sachs secretly arranged additional credit of up to $1 billion for the Greeks.

2 There is a great deal of literature on the Greek crisis, including Burke (2010), Gauthier (2010), Gogas (2010), Ioakimoglou (2010) and Vergopoulos (2010). For an extensive macroeconomic analysis of the debt of Greece, Spain and Portugal from a political economy perspective, see Lapavitsas et al. (2010). For a general theoretical account, see D. Harvey's latest book, *The Enigma of Capital* (2010).

3 Domestic debt is owed to creditors in the same country whereas external debt is owed to creditors in other countries.

4 One of these restrictions prohibits the EU from intervening in social and welfare issues in member states and particularly in labour legislation, health and education. Hence the joint venture with the IMF bypasses the Lisbon Treaty and is able to do the 'dirty' work.

5 In contrast to the Greek case, the problem in Ireland is the banking sector, which from the late 1990s up to 2008 gave out cheap loans on houses and construction projects without asking for many guarantees. House prices were continually rising and eventually in 2008, as in the United States, caused the housing price bubble to burst.

6 For the limitations of using GDP figures, see Dunford (2010), and for the problematic construction of EU regions via statistical configurations, see Hudson (2007).

7 For example, interest and inflation rates and fiscal policies that are 'appropriate' for stimulating core economies are deflationary in depressed peripheries, and vice versa, but have been imposed on both. See also Aalbers (2009).

8 For regional competitiveness in NUTS 2 regions for 2009, see European Commission (2010). There are no data on pre-2000 regional conditions.

9 Export figures do not include military and defence weapons, which are subject to specific bilateral agreements. Military spending is a major source of public debt in Greece, which spends almost half of its GDP on it. After the USA, the major exporter of weapons to Greece is Germany, followed by France and the Netherlands.

10 In the USA, the proportion of the total population that moves to another state for work is 2.8 percent annually, compared with 0.15 percent in the EU-27 (Eurostat, 2006).

11 Regional inequalities among the 13 Greek regions (NUTS 2), measured in GDP/capita with the Theil index, increased from 0.05 in 1996 to 0.19 in 2006 and to 0.25 in 2009. My calculations are based on Eurostat data.

12 In Greece, ship-owners, the most powerful national capital fraction and top in the EU in terms of shipping tonnage, paid taxes as low as €1.1 million in 2009, which is less than migrants' contributions via applications for work permits (*Eleftherotypia*, 5 May 2010 [in Greek]). Needless to say, the majority of ship-owning firms are not suffering from the crisis because most of them operate at the global scale.

13 Although the treaty on Economic and Monetary Union does not allow the public deficit of member states to go higher than 3 percent of GDP (they are legally subject to a financial sanction mechanism), the EMU Stability Pact was not enforced against Germany and France in 2003 despite their egregious failure to comply with the 3 percent limit. The European Court of Justice issued a statement in July 2004 that the Council was not compelled to take punitive action against France and Germany, which was a signal for other countries to do the same.

14 For an important reintroduction of questions on spatial justice, see the bilingual electronic journal *Justice Spatiale/Spatial Justice*, http://www.jssj.org/.

15 I will not discuss here the major issue of migrants 'without papers' in the EU – the approximately 1.8–3.3 million people who live, work and produce wealth without social rights, not being subjects of justice. For more see European Commission (2007).

16 The first and most important consequence of the Greek crisis was the euro's fall by 12 percent in only 3.5 months in early 2010, a true kiss of life for the German economy: new orders for its industrial sector increased considerably, bringing about the greatest peak since 2007. In the entire eurozone, the economic situation improved for the very first time since the recession, so that the French finance minister Christine Legarde argued that 'Europe became more competitive because of Greece'. And even in Greece, in the middle of its public debt crisis, industrial capital gained considerably, with a 25 percent increase in exports during 2010 relative to 2007.

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The author would like to draw readers' attention to references that should be included in the following article 'Uneven geographical development and socio-spatial justice and solidarity: European regions after the 2009 financial crisis' by Costis Hadjimichalis *European Urban and Regional Studies* July 2011 18: 254–274, DOI: 10.1177/0969776411404873: p. 256: The following passages should be directly attributed to Lapavitsas et al., 2010:

> 'The composition of aggregate debt is even more different when public debt is considered. For Spain and Portugal, the ratio of private to public debt is quite similar, standing at, respectively, 87 to 13 percent and 85 to 15 percent. But the Greek state is more indebted than the other two by several orders of magnitude: 58 percent private to 42 percent public debt. Furthermore, Greek external debt is predominantly long term in public bonds and the vast bulk of peripheral securities (to governments and private banks) are held by core countries, primarily France and Germany: the south is indebted to the centre-north of the eurozone and the EU.' (Lapavitsas et al., 2010, p. 9)

> 'Confronted with current account deficits, SE countries began to rely more heavily on external borrowing, while also expanding domestic debt. Low interest rates and falsely rising credibility allowed them to obtain the necessary funds without undue difficulties for several years. But in late 2009 the structural bias of the eurozone finally met the inefficiency of financial markets and the results were catastrophic for southern economies.' (Lapavitsas et al., 2010, p. 22).

The above references were inadvertently left out at manuscript editing stage, although they were included in previous drafts.