The Shirt of Nessus: International Debt as a Tool of Hegemonic Control

Omar Hamed Ghannam
o-ghannam@aucegypt.edu

The Shirt of Nessus: International Debt as a Tool of Hegemonic Control

Table of Contents

Table of Contents 2

I. Introduction and Framework: 4

Defining Parameters and theoretical framework 6

Politicizing debt: 14

Purpose of Research and methodology: 17

Proposed Crisis Model 19

Proposed Hypothesis: 21

II. Greece: A Modern Financial Tragedy 25

A Hypoxic Birth 26

Easy Credit 28

Market Shock: Winds of Aeolus 30

Political Crisis: A Melian Dialogue 40

The Melians 40

The Athenians 44

The Skirmish 126

Resolution: The Siege 52

The Sack 56

III. Puerto Rico: The Glacial Crisis of the Caribbean 60

Terms of Integration: The Root Cause 61

Easy Credit: A mess of pottage 65

Market Shock: Scraping the barrel 71

Political Crisis: What can be done? 73

La Junta: 75

Resolution: 114

IV. Ecuador: The Art of Default 87

Easy Credit: Gold, Black, and Green 90

Market Shock: The Original Bailout 93

False Shores 97

Political Crisis: 102

Resolution: 110

V. Conclusions and Analysis 116

Economic Dysfunction: 117

Political Dysfunction: 118

Exploitability: 123

Didactic Dysfunction: 125

Limitations and Applicability: 127

VI. Bibliography 128

I. Introduction and Framework:

Few topics in human societies are discussed with the same dread reserved for indebtedness. The negative depiction of debt in a variety of human cultures and religions is not surprising, indebtedness has been known to land people in prison, or worse, slavery. That negative view of debt also appears in political discussions on the national level, harrowing stories of financial collapse in the aftermath of debt crises are common on every continent. Yet, sovereign debt crises keep happening and with an alarming frequency as the growth of international financial markets and proliferation of new financial instruments create a very precarious system. Access to cheap credit on the international market created an economic culture of "rollover" that essentially allows a continuous foreign debt burden provided it is "sustainable". This "sustainability", however, is entirely conditional on the stability of the international financial market, perhaps the most complex and tempestuous existing market. As an unforeseen market crash, half a world away can suddenly make rollover impossible, and trigger an economic crisis, there seems to be no sure way of eliminating the risk of sovereign debt crises. This begs the question; given how recurrent sovereign debt crises have become in the past decades[1], is this a feature of the international financial system, or simply a bug in its code? If debt crises are indeed a feature of the system and a tool to be wielded by certain actors, why are they deployed? And how can they be countered? If they are a bug, why do they keep happening? What is the problem that is not allowing actors to correct this

[1] David Harvey, "Neo-Liberalism as Creative Destruction," *Geografiska Annaler: Series B, Human Geography* 88, no. 2 (2006): pp. 154.

malfunction or guard against it? Is the root cause economic, ideological, or a mixture of both?

Tackling such a question requires us to define some key aspects such as what constitutes a sovereign debt crisis, what kind of debt is associated with these crises, and what are the overarching structures within which debt crises occur?

Defining Parameters and theoretical framework

As high levels of debt to GDP are not the surest measure to determine if a crisis is occurring or not, the simple criteria used here will be the inability to service external debt and requesting debt restructuring to stave off default. For this study, the focus will be placed on debt owed or guaranteed that is denominated in currencies not controlled by the indebted polity. By default, this places our focus on economies in the periphery of global capital accumulation as these are the economies whose dependence on international reserve currencies can put them at this risk. By using this rather specific definition we exclude domestic debt denominated in the national currency as the government can amortize it quickly by deploying inflationary measures, thereby staving off default.

As to the system within which this indebtedness is happening, that is capitalism, debts -and loans their natural inverse- are a necessary component of the system. They allow for a hastening the value realization process, increase the velocity of money, and generally allow for bypassing current resources bottlenecks if future returns are forecasted to cover the servicing costs[2]. That is economically, debts and loans are part and parcel of the system. It is no coincidence that the etymological origin of capital is *capitale*, Latin, for the principal of a loan[3].

Having established the necessity of debt, it is no surprise that every school of political and economic thought has tackled the issue of debt casting it in one light or the other. The view of debt that is most in currency is perhaps the one illustrated by Michael Todaro and Stephen Smith in Economic Development, a book[4] used for many introductory economics courses around the world. Todaro and Smith historicized international debt crises as the results of global macroeconomic trends and access to easy money. Their model pinpoints the origin of the international debt as the variation in the valuation of different goods. As such while less developed countries produce and export less-valued primary goods, they import more-valued secondary goods. This basic imbalance in the valuation creates the gap that international debt tries to bridge. Added to that dynamic is capital-rich nations' desire and ability to export capital and developing countries need to import that capital to develop their own resources. Their analysis of the proliferation of debt crises in the later decades of the twentieth century is rather simple. The recycling of commodity boom windfalls meant greater access to foreign loans for a great majority of poor countries, prompting them to become less than cautious and accrue debt from commercial banks rather than Bretton Woods institutions to avoid their conditionality. Of course, this lack of conditionality came at the price of higher interest

[2] Ramzī Zakī, Azmat Al-duyūn Al-khārijīyah: Ru'yah Min Al-'ālam Al-thālith (Crisis of External Debt: A View from the Third World) (Cairo: al-Hay'ah al-Misṛīyah al-'Āmmah lil-Kitāb, 1978), 69-72.
[3] Graeber, David. *Debt the First 5000 Years*. (Brooklyn, New York: Melville House, 2014.) 453.
[4] Michael P. Todaro, and Stephen C. Smith. Economic Development (Harlow: Pearson, 2015.).

rates that can easily become unserviceable in case of external shocks, triggering an international debt crisis, and forcing these countries to resort to the Bretton Woods system and the conditionalities that they avoided earlier[5].

Todaro and Smith's primary takeaway is that debt – both personal and international - is the mechanism to ensure the realization of surplus value. However, their focus on a balance sheet approach to international debt renders it devoid of any meaningful nuance or critique of its mechanics. For example, as they explain the financial cycle for commodities' profits recycling as in the case of the petrodollars, this cycle seems to always favor accumulation at the capital exporting countries. Since what they lose in exchange for the commodities is then compensated for by the profits deposited in their banks and the accrued interest and opportunities for further financial investments. When this is added to the fact that these countries usually have the trade balance to their favor to begin with and before the accrued benefits of their positions as financial centers, it paints a picture of an unbeatable system where countries are locked in their positions for the system's duration. This deeply troubling and natural conclusion to the cycle as explained by Todaro and Smith is never reached, as they shy away from systemic condemnations and favor critiques of individual actors. Their analysis also does not seem to be well positioned to explain or address some realities of the global economy such as the high levels of debt incurred by capital surplus countries such as the United States of America (U.S.A.) and Japan.

Paul Krugman's analysis of the Asian financial crisis offered a similar view of debt, that places the blame on individual actors, blaming the high levels of foreign debt

---

[5] Michael P. Todaro, and Stephen C. Smith. Economic Development (Harlow: Pearson, 2015.), 541-560.

accrued by the private sector while staying mostly uncritical of the system within which these actors operate[6]. In 2015, after several debt crises later, Krugman inched ever-so-slowly with the help of Gauti Eggertson to interrogate the system within which the hazard of debt crises occurs. They present debt crises origins as sudden shocks to the market that force actors to take drastic measures to deleverage quickly enough to adjust to the shock, or face a sovereign debt crisis. This view still blames individual actors for their own demise, but it recognizes the importance of the systemic shock in instigating the situation and forcing the actors to make a certain set of choices[7].

Analyzing the same financial crisis, Joseph Stiglitz went beyond Krugman's superficial analysis. For instance, Stiglitz notes the proliferation of debt crises from the 1970s onward which allows him to see the crisis as a part of a trend. This meant that while Stiglitz pointed to government secured private debts as a hazard and high ratios of short-term debt to foreign reserves as a good predictor of crises, he did not explain the crisis away as individual failures[8] of actors. Instead, he argues that the crisis is created by the failure of theoretical models informing decision making to account for the full complexity of the financial markets and the accompanying lack of regulation. This argument is of course, bolstered by the fact that the trend acceleration starts in the late 1970s as financial deregulation gains momentum. Even though Stiglitz acknowledges that the handling of such crises creates "winners and losers" depending on which course

---

[6] Paul Krugman, "Balance Sheets, the Transfer Problem, and Financial Crises," *International Finance and Financial Crises* 6 (1999): pp. 459-472.
[7] Gauti B. Eggertsson and Paul Krugman, "Debt, Deleveraging, and the Liquidity Trap: A Fisher-Minsky-Koo Approach*," *The Quarterly Journal of Economics* 127, no. 3 (June 14, 2012): pp. 1469-1513.
[8] Jason Furman et al., "Economic Crises: Evidence and Insights from East Asia," *Brookings Papers on Economic Activity* 1998, no. 2 (1998): pp. 2-51.

of action is taken, he does not fully pursue that case[9]. His analysis is almost purposely apolitical, as even as he addresses lack of financial regulation and theoretical frameworks as important conditions for such crises, he does not address the ideology that informed these theories or pursued the deregulation of the financial industry - that is neoliberalism.

The main issue with the aforementioned views is that they acquiesce to debt as a fait accompli, they treat it as an almost apolitical economic tool, relegated to the domain of economics and finance. This general disregard for the political aspect renders them unable to problematize debt, or question its logic. The pure economic rationalization of debt creates a disconnect between the logic of its accruing, which is economic, and the reality of managing its crises, which is political. In fact, upon closer inspection we see that external debt is nestled in two intersecting power asymmetries; the first is the asymmetry between the polities themselves - debtor and creditor- and the positions they occupy in the global division of labor, and the second asymmetry lies between the different social classes within the same polity who have varying degrees of power and differing views on the optimal outcome.

As such, it would only make sense to look at debt from a political economy lens, such as that employed by the late Rosa Luxemburg. Luxemburg outlined the importance of international debt for the creditor states as both an outlet for surplus capital that cannot be effectively recycled within the system, and a way to ensure the realization of the value produced in the debtor state. Luxemburg extends that, refusing to leave international debt as a mere economic tool. She expounds “Foreign loans are indispensable… they are the surest ties by which the old capitalist states maintain their influence, exercise financial

[9] Furman et al., “Economic Crises”. Pp. 96-102.

control and exert pressure."[10]. Luxemburg thus chooses to view debt as both political and economic, and argues that both the creditor and debtor attempt to use debt to further their own goals within the system. The creditor hopes to bind the indebted to themselves and absorb the value chains embodied in the indebted, while the indebted attempts to bypass primitive capital accumulation that is needed for the transformation of socio-economic relations and mode of production. Although developed over a hundred years ago, Luxemburg's conception of international debt is still valuable and surprisingly current. Her model of the debt process also allows for objective fulfillment for both parties engaged, but recognizes that this is usually not the case, and that whatever absolute improvements occur in the indebted polity, it will remain relatively subservient to the creditor polity. Luxemburg's serious interrogation of debt as a political tool was groundbreaking, thorough, and practically timeless. The problem with Luxemburg's work today is mainly that her structural approach can leave little room for agency, as the process is presented as nearly automatic and the domination of the indebted seems certain. This fatalistic view however is completely justified by her temporal surroundings as the cases she drew on such as Khedivate of Egypt and the Ottoman Empire presented results that supported her thesis. However, over a century of developments gives us access to a variety of cases where the outcome was not a given. The general trend that saw the emergence of liberal democracies as the dominant form of organization and concessions on political freedoms and rights to organize meant that social factions could articulate and pursue positions on issues that were previously deemed the prerogative of the state or sovereign such as the national debt. This does not detract from her work

[10] Rosa Luxemburg, *The Accumulation of Capital* (London: Routledge and Kegan Paul, 1971). PP. 357-367, 395-421.

which remains influential and informative until today but rather to say that a proper examination of debt now necessitates a deeper acknowledgment and analysis of agents and their choices out of the options offered within the system.

After Luxemburg's thorough and extensive analysis, came Vladimir Lenin's more famous contribution in his book Imperialism: The Highest Stage of Capitalism. Lenin's view was much simpler than Luxemburg's. For him, international debt was extended by the imperial centers to their "tributary" vassals as a means to financially institutionalize their bondage. This imposition theory of debt privileges the creditor as the center of analysis, Lenin views the process of financialization and extension of loans as an act of capitalism in decay that resorts to the exportation of capital due to the high-profit margins backed by gunboat diplomacy if default is on the horizon[11]. Lenin's analysis is much more blunt and superficial compared to Luxemburg's, he does not engage with her work at all, focusing much of his energy on his feud with Karl Kautsky. By failing to engage with Rosa Luxemburg's much more developed body of work, Lenin produced a much less nuanced view of debt within imperialist structures. However, his position as the founding father of the Soviet Union guaranteed his theory much more fame, even if its actual contribution to the field was rather limited.

With a full century-worth of debt crises and analyses, Wolfgang Streeck developed one of the most balanced models of indebtedness. Streeck problematizes debt both politically and economically and offers a structural view that focuses more agency on actors within the system. He agrees with Todaro and Smith on recognizing an important role for the balance of payment problems as he explores the debt crises of the

---

[11] Vladimir I. Lenin, *Imperialism, the Highest Stage of Capitalism* (Moscow, Moscow: Progress Publishers, 1970). Pp. 123-127.

same period but posits that the real culprit is neoliberalism. Streeck's analysis is beautifully simple. As neoliberal reforms encouraged lower tax rates and financial deregulation to incentivize investments, it simultaneously decreased the state's ability to generate revenues drastically while a liberalized financial system allowed them to cover the deficit through easy credit. These mutually reinforcing axioms normally result in an increase in the accepted sustained indebtedness and make the polity vulnerable to shocks it otherwise would have cleared[12]. Streeck's integration of mental conceptions and ideologies and their ability shift economic orthodoxy and affect which of the actions possible within the system can be taken by different actors allows for a merger of the political and economic reasoning of both the accruing and the management of debt. Also his focus on the relationship between taxation and indebtedness allows for an analysis that centers class relations, as fiscal trends within a polity are indicative of the strengths of the different classes and social formations, avoiding a monolithic view of the system and allowing for deeper inspection. Streeck's analysis takes this even further as he argues that debtors become an exogenous constituency of the state whose needs and interests are shielded from any sort of democratic demands leveled by the endogenous constituencies such as the citizenry[13]. Streeck's analysis remains one of the most thorough, coherent, and logically consistent analyses of that crisis. For our analysis, Streeck's focus on class relations as metered by fiscal and debt policy can be extended to external debts too, allowing us to transcend state relations and to use external debt to analyze direct

[12] Wolfgang Streeck, *Buying Time: The Delayed Crisis of Democratic Capitalism* (London: Verso Books, 2014). Pp. 49-84.
[13] For a full analysis of internal debt mechanisms and policies, see Wolfgang Streeck's *Buying Time: The Delayed Crisis of Democratic Capitalism*.

interactions between different classes in different states through the medium of international debt.

Politicizing debt:

So far, we have only explored the political as an auxiliary to the economic. But before we can formalize the questions furthering this research, we need to ground our questions in firm political theory, that is political in its own right, not by the extension of economic argument. This is where the Neo-Gramscian school has a lot to offer. Antonio Gramsci's revolutionary work on Historic Blocs as a tool of understanding the predilections of governing powers in different polities. These blocs form through alliances between different socio-economic forces that together aspire for hegemony. This conception of historic blocs allows us to see the state as a space of interaction and struggle instead of a single-willed monolithic actor, which necessarily upends traditional views of global politics. The second concept Gramsci has to offer is Hegemony that is "The structure of values and understandings about the nature of the order that permeates the whole system of states and non-state entities", this hegemony can be enforced as effectively by fanciful emulation, forceful coercion, or mere inaction. As such, hegemony is the overarching structure, within which these historic blocs are nestled.

Neo-Gramscian scholars such as Robert W. Cox and Stephen Gill have done much to alleviate any confusion or vagueness in the Italian revolutionary's conceptualization of hegemony and applied it on a global scale. World hegemony is thus defined as "an outward expansion of the internal hegemony established by a dominant social class. The economic and social institutions, the culture, the technology associated with this national hegemony become patterns for emulation abroad."[14] This definition of hegemony is important for three main reasons. First, it liberates itself and its subject of study from the state-centricity of many of the aforementioned analyses, allowing it to deal with socio-economic classes and transcend the veils of the state apparatus. It also sheds the subject-object duality and distinction that shapes much of the conversations about imperialism. Second, it escapes the barrenness of purely economic analysis into the vista of comprehensive material analyses, which is examining not only the material conditions such as economic institutions and natural resources, but also the social institutions, cultural traditions, technological innovations and political arrangements that such conditions produce. Third and most importantly, it does not get mired in defining core and periphery distinctions, world systems, or even the difference between variations of imperialism, but rather chooses to go for the essence of that, which is hegemony. Thus, the Neo-Gramscian pursuit of hegemony is an attempt to create an understanding of the essence not bounded by spatiality or temporality.

As to the content of this hegemony today, David Harvey argues that the hegemonic ideological force of our time is neoliberalism. Having supplanted the social democratic hegemony in western countries during the 1980s and introduced through shock therapy to post communist countries during the 1990s, neoliberalism emerged as the dominant hegemonic ideology. This view is not controversial in the least in the general discourse, however, Harvey's view of neoliberalism as a force of creative destruction that aims to destroy old systems of socio-economic organization, purposely paving the way for an upward redistribution of economic and class power is anathema to

[14] Stephen Gill, ed., *Gramsci, Historical Materialism and International Relations* (Cambridge: Cambridge University Press, 1994). PP. 61.

the neoliberal discourse.[15] While neoliberalism has been marketed as the financial rationalization of the economy and a common sense approach to monetary questions, any implication that it is a conscious project with class power implications is soundly ignored. This purposeful portrayal of an ideology as merely the rational ideologically disinterested view is the mark of hegemonic ideologies. Ideologies that so thoroughly permeated through the culture to the extent that they can be easily -and purposely- confused for human nature. Harvey argues that the two main elements of neo-liberalization are financialization and crisis manipulation. Financialization in this sense is the rising wave of financial deregulation, speculation, and promotion of incurring higher debt levels. Essentially, this meant making financial services the binding agent of the economic system, and allowing financial capital to take the central role of directing the economy, its surpluses, and in turn socio-economic life. Harvey also notes the same trend of accelerating debt crises that Stiglitz noted and ties it firmly to the hegemonic rise of neoliberalism. In this vein, Harvey views the rising debt levels and recurrent debt crises as a neoliberal "trap"[16], a tool that allows for redistribution of wealth masking neoliberalism's failure to generate the growth that it promised. It also justifies the austerity measures and privatizations and the rewriting of the social contract in a way that allows upward redistribution of wealth and power. Simply put, debt becomes a trap that ensnares polities in a crisis, the solution to which favors the restoration of class power to capital[17].

[15] Harvey, "Neo-Liberalism as Creative Destruction" pp. 147-149.
[16] Harvey, "Neo-Liberalism as Creative Destruction" pp. 154.
[17] Harvey, "Neo-Liberalism as Creative Destruction" pp. 152-155.

If we are to synthesize these views, debt ceases to be a mere tool for the realization of value on the global stage. As hegemony extends itself, the periphery's fanciful emulation of the core's culture necessitates raising loans to bridge the gap between them. Thus debt not only can be a product of hegemonic relations, but it also serves to reify it in terms of economic domination. This versatility is embodied in how the hegemonic historic bloc can use debt to secure the servitude of marginalized classes in different polities across the globe, institutionalize terms of exploitation and entrench them in the socio-economic fabric of indebted polities. It also allows the hegemonic powers to covertly interfere in the war of formation of national historic blocs by supporting or opposing certain social factions so as to ensure that the emergent historic bloc will be compatible with their own.

Purpose of Research and methodology:

With these essential parameters defined, we can move on further to exert the question of whether these crises are a feature or a bug. This query can be pursued by exploring the arguments supporting either answer and applying them to selected cases to examine which bears truth. Due to the near impossibility of quantifying all instances of debt crises in global politics and analyzing each on their own merit in this given space, the research will follow an inductive approach. This will be done by surveying three prominent case studies of debt that vary in the economic situation, material conditions, ruling historic blocs, and lastly position within the global political-economic system. First is the case of Greece whose current debt crisis became the poster child for great recession-induced debt crises in Europe, it also presented a very dynamic political situation in which debt and its implications remained at the crux of the political discourse. The second case is that of Puerto Rico, one of the last colonies remaining on the planet, the debt crisis of which revitalized independence discourse within the Caribbean nation. Although ostensibly a part of the United States of America, the island is in many ways “alien” to the mainland. The third and last case is Ecuador, the Ecuadorian case is one of the most interesting as it saw multiple sovereign defaults, dollarization of the economy, and a military coup. These three cases cover polities that span disparate international configurations, varying economic conditions, and different historic blocs since the neoliberal turn of the 1980s and the concomitant financialization and prevalence of cheap credit.

These three cases present a fully independent state in Ecuador, a modern colony in the Puerto Rican Case, and finally a polity within a supranational organization in Greece. These varying cases are meant to reflect different degrees of agency for the local historic blocs and their interactions with the hegemonic centers. This variation reflects in other areas such as access to capital markets, the internal power dynamics within the polities themselves, and extends more importantly to the structure of the economy and its integration in the global economy. They also present differences in the mental conceptions that permitted the incurrence of debt and how the different socio-political forces related to their international creditors. Simply put, each one of these cases is embedded into different economic, political, and social constellations, so that by including them in this study to compare and contrast, the largest amount of variables and differentiation in material conditions could be surveyed, the only constant being international debt crises. Building on this inductive approach, the commonalities of these cases can be reasonably attributed to debt, allowing us to examine how much agency can be curtailed by debt and if that curtailment is a bug or feature of the system

Proposed Crisis Model

Surveying these cases and others, we find that debt crises unfold in four main stages, we detail them as follows:

1- Easy Credit: The polity incurs easy debt, through the cases I have observed that the incurrence of debt happens during periods of low interest rates, which are often presented as an opportunity. Not capitalizing on it would constitute lost opportunities for growth, an anathema to governing economic mantras.

2- Market Shock: an adverse market development causes a constriction in the money supply on the international market and raises interest rates, opening a chasm of deficit that can quickly descend into a debt crisis. The speed by which the crisis progresses is inversely proportional to the polity's ability to close the gap, either by drastic cuts to services or by generating new revenue.

3- Political Crisis: the progression of the economic crisis necessitates increased politicization as various factions start vying for more power within the historic bloc. While decisions are being made as to how the cost of the crisis will be shared, various factions attempt to shield themselves from the fallout by increasing mobilization.

4- Resolution: the turmoil either begets changes within the historic bloc that attempts to form a new hegemony that reflects the new socio-economic reality, reflecting which factions lost ground and which factions gained power, or the status quo is allowed to continue if the economic crisis abates.

Ironically, in the aftermath of the crisis, the government usually makes a point of its ability to secure loans for rollover. The impeccable logic of debt stands, while blame is assigned politically, and punishment economically, although rarely to the same groups. These bifurcated consequences almost nullify the need for reflection, especially if the blame can be placed on mischievous and cruel gods of the market. This disconnect between the economic logic of incurring debts mystified by equations and their interpretations and the political rationality of managing their crises is nothing less than the heart of the issue as it precludes any effective contingency planning and devoids the process of any didactic potential. As such, it becomes our task to investigate what is the cause of this bifurcation if it is to be treated.

The main limitation of the study is the cases' concentration in what can be seen as a more integrated near-periphery which might limit its application to Heavily Indebted Poor Countries (HIPC) where capital formations might be less developed or coherent. However, the burgeoning debt crises of the past couple of decades have been concentrated in this near-periphery, partially thanks to some successes of the HIPC initiative. Still, the study aims to curtail this limitation by focusing on the material interests underpinning the aims and goals of different factions entering into the crisis. This evasion of essentialist claims permits a more versatile model that allows a higher degree of agency for actors, and hence expanded applicability beyond the specific class formations and factions present in these cases. The main challenge to the conduct of the study, however, is the relative dearth of scholarship in English on the Ecuadorian case, and recent academic work on the still-unfolding Puerto Rican case. While these are certainly challenges to the research process itself, it is all the more reason to attempt to add to the scholarship on these cases.

Proposed Hypothesis:

My argument is that debt crises create a situation whereby one faction or the other has to bear the fallout. the three primary factions are either the working classes of the indebted state who shoulder the cost as austerity, reduction in services, and higher regressive taxation. The capital classes and the money managers of the indebted state could shoulder the burden in the form of increased regulation of their activities, higher corporate and capital gains tax, and a reduction in their autonomy through increased government presence in the marketplace. Last but not least are the lenders, who could shoulder the cost as a default on their loans, drastic haircuts to the debt value, and loss of capital forwarded. Of course, these lenders nested in their own historic blocs can call on their allies to fortify their position, as their losses can bleed into their own national economy, and threaten their own internal hegemony.

As such there are three possible outcomes possible for alliances formed. As these factions jockey for position in the conflict, each takes stock of its objective, and which of the other factions can be accommodated while achieving that objective. For the working class, that objective would be to avoid austerity and all that comes with it from cutting social services, lower wages, and higher taxes. As this objective can only be served by defaulting or debt haircuts, this puts them at diametric opposition to the lending institutions, rendering an alliance highly unlikely. The other faction that can however be accommodated and served by debt haircuts or even a default is the capital class. This forms the national alliance, whereby the indebted historic bloc solidifies around its leadership and demands that the lending institutions -international capital- bear their fair share of the loss. The capital class can make the choice to ally with the lending institutions instead. This forms the capital alliance, lending institutions and domestic capital reinforce each other forcing the working class to bear the burden of failure in the name of austerity while domestic capital only pays the meagerest of prices in the name of economic orthodoxy. These alliances can form and reform more than once during a crisis.

As such the actor best able to make a choice in who to ally with is the capital class. three elements have to be considered to predict the course of action taken by capital. First, is the composition of the capital class itself. On one hand, Industrial capital has a close working relationship with the working class which if well organized can pressure industrial capital into a national alliance as through strikes and labor actions they can halt the process of production and hold capital hostage. On the other hand if financial capital and its rentier auxiliaries are the dominant factions within the class, the working class has much less leverage, especially compared to lending institutions. Lending institutions themselves being a central part of the architecture of global financial capitalism means that not only do they operate within the same ideological conceptions as local financial capital, but also means that they are integrated to a large degree. Defaults can put severe stress on financial capital as it halts its ability to realize value in the market.

The second element is the internal balance of power. That is, positions classes occupy within the historic bloc; a sufficiently organized and powerful working class could overwhelm capital democratically and make it an unwilling partner in the national alliance. A disorganized working class could have trouble articulating itself beyond demonstrations and sit-ins and can end up easily paying the full price of the crisis. This ability of the working class to organize itself is perhaps the most important determinant of the outcome of the crisis. At the beginning of the crisis, capital is fully aware of the cost of antagonizing the lending institutions, that is the outcome of a national alliance and subsequent default. As such in its starting position capital has an often quantified cost -through projection models- of allying with the working class, and an ambiguous amount of social unrest as the cost of the capital alliance. This implies that the default position of capital is to seek a capital alliance. However, the more organized the working class, the more unrest is possible. A sufficiently powerful working class can raise the cost of unrest high enough that it surpasses the cost of projected losses. At such a point, the rational choice for capital becomes the national alliance.

The third element to be considered would be the creditor's ability to exact punishment. The creditor could have a range of options at his disposal including financial embargoes, seizure of assets, and even war. Although there is no shortage of wars to force repayments in history, their incidence has dropped significantly, as within the current global economy losing access to the global financial market is a much more credible threat than war, and arguably more devastating.

As such, it is possible to hypothesize that maximum political autonomy will allow for maximum maneuverability within the debt crisis. Following this path, it is expected that the winner within the national arena gets to negotiate terms with creditors. An industrial economy would probably be the best environment for the working class as it allows it maximum leverage over capital through control over the process of value realization. It is also to be expected that the strength of financial capital, that is its ability to realize value independent of the working class would make it least susceptible to democratic coercion by the working class. The global financial architecture also allows financial capital far more freedom to escape -coercion or austerity- through offshoring and capital flight than industrial capital can muster at this point. Default also breaks access to financial markets threatening to cut the umbilical cord connecting local and international capital. As such it is to be expected that in polities where financial capital is more dominant, the likelihood of defaults in the event of a debt crisis decreases. Thus, the hypothesis is that the power of financial capital within the historic bloc is inversely proportional to the probability of default as a chosen outcome to debt crises.

Industrial capital on the other hand might be more amenable to defaults depending on how integrated it is in the global value chains. An industrial capital mostly oriented to an internal market can withstand debt crises and default much easier than industrial capital that relies on external markets for supplies. It also reasonably follows that sectors that realize profits on the international market would be more amenable to default as it allows them disproportionate gains during the crisis due to their access to their secured access to hard currency. As such, it would be logical to conclude that agricultural capital and labor would be more amenable to default than austerity. While the different forms that manifest determine whether labor or lenders have to shoulder the cost, they do have one thing in common. Domestic capital rarely has to pay a price for debt crises, even though it reaps the lion’s share of rewards from their incurrence. To put it in behavioral terms, an actor has no inclination to cease an action if there are no negative consequences.

II. Greece: A Modern Financial Tragedy

“Greece Gets Bailout, Vows to Spend It Unwisely”

Such was the endplate for a Saturday Night Live sketch from 2011. The sketch depicted the Greek gods discussing the financial crisis and heaping blame on the Greeks as lazy and unscrupulous people who need to be taught prudence and the value of savings by the unwilling Klaus, the German god of finance. The gods of mount Olympus force Klaus to accept the deal by threatening "we invented democracy, we can take it away"[18]

Although comedy shows are rarely good source material, they can be very prescient in capturing and distilling the general discourse. Warnings that bailouts will only lead to more profligacy abounded in the media.[19] The general narrative of Greek irresponsibility and laziness was displayed time and time again in attitude polls taken during the crisis. Such allegations necessarily removed Greece from the temporal context of the 2007-2008 financial crisis and the political context in which countries such as Ireland, Portugal, Spain, and even Italy were teetering on the edge. Members of the Greek government have gone as far as describing the portrayal as a propaganda campaign, and with good cause. Not only was the Greek debt crisis a function of the great recession, but also a function of Greek history itself. Greece was born as a heavily indebted polity. Greece suffered its first default before its independence was won.

A Hypoxic Birth

In 1824 and again in 1825 the revolutionary Provisional Administration of Greece raised loans in the city of London to finance the war of independence. By 1826 the PAG would default on the loans as the Egyptian expedition ravaged the Greek countryside and

[18] *Greek Gods - SNL*, *YouTube* (Saturday Night Live, 2013), https://www.youtube.com/watch?v=IcaHutZQiIA.
[19] Adam Creighton, "GREECE'S DEBT CRISIS: THE PRICE OF CHEAP LOANS," *Policy*, 2011, pp. 10-14.

Greek fortune hit its nadir. It would not be until 1829 that the great powers would finally agree to recognize the PAG as a sovereign state, and thus the Greek state would be born with an umbilical debt around its neck. It is important to note, however, that the Greek government did not squander the 2.8 million pounds sterling it borrowed, in reality, the Greeks would only get less than half of the loans' value, a mere 1.3 million GBP due to obscenely high commission and issuance of less than 60 percent of par[20]. This economic turmoil begat a tumultuous and unstable polity and between 1832 and 1833 the great powers of Great Britain, France and Russia would convene again to solve the Greek crisis and resolve on two measures, first, a German would be crowned king of Greece, an Otto instead of a Klaus, and the Greek loans would be consolidated and guaranteed by the great powers in return for Greece ceding legal control over its revenues to its now creditors[21] - the great powers. The independence won by eight years of Greek blood was lost in four by the stroke of a pen.

Greece would refuse to negotiate with creditors until 1866 claiming it was not responsible for a loan raised before its creation. While that might not be a strong argument, one can easily see why Greece would not want to bear a debt that would immediately put it at more than a 200% debt to GDP ratio. In 1878, Greece and the creditors reached an agreement to repay 1.2 million GBP[22], but after significant pressure from the great powers - the guarantors- Greece relented and agreed to pay back the entire nominal amount of the debt of 2.8 million GBP. Such incidents became common in the

[20] Carmen M. Reinhart and Christoph Trebesch, "The Pitfalls of External Dependence: Greece, 1829–2015," *Brookings Papers on Economic Activity* 2015, no. 2 (2015): pp. 307-328.

[21] An 1829 attempt by the newly independent Greece to haircut the debt to match the actual amount disbursed was rebuked by the creditors who insisted on full repayment. For more see Reinhart and Trebesch, "The Pitfalls of External Dependence". pp. 319

[22] Reinhart and Trebesch, "The Pitfalls of External Dependence". pp. 312-319

Greek state's history as, by 2015, it had spent roughly 50% of its independent existence in external default[23].

Not only did Greece spend half its history effectively barred from the international money market. It spent the first half of its existence in deficit despite achieving primary surpluses that were immediately consumed by debt servicing. According to Josefin Meyer, Carmen Reinhart, and Cristoph Trebesch, lenders would still get returns of 1-5% on their investment, despite the recurring defaults due to partial debt service during debt crises and the high yields demanded by the market for such risky borrowers.[24] Greece would suffer through enough defaults that there are legitimate disagreements over how many default episodes there were, with estimates ranging from five to seven depending on how strict or lax one's interpretation of what constitutes a default episode is. The most recent one of which, the July 2015 default, was the shortest and perhaps most documented of Greece's various defaults.

Easy Credit

As mentioned before Greece could not access financial markets for the majority of its history as it was dogged by defaults and a highly unfavorable debt to GDP ratio. This meant that successive Greek governments were particularly aware of their precarious positions and diligently worked to pay down debts and avoid default crises; difficulty in obtaining new loans meant that they were only solicited when absolutely vital and prudent. This meant that Greece was not in too bad of a financial position in the

[23] Reinhart and Trebesch, "The Pitfalls of External Dependence". pp. 316-319
[24] Reinhart and Trebesch, "The Pitfalls of External Dependence". pp. 307-309

run-up to World War II and the accompanying destruction, and although Greece would suffer dearly, after the war it would massively benefit from the Marshall plan. Although funds directed to Greece were less than expected for a country of its size and importance in the emerging cold war, Greece made the most out of the funds available as it managed to lower its debt stocks from more than 77% of GDP before the war to 23% in 1952[25]. For three decades Greece's debt stocks would rarely cross 25% of GDP, as successive governments were very cognizant of what it would mean for Greece to enter another debt spiral. The free access to capital markets Greece earned in 1964 after renegotiating with all debt holdouts was hardwon and the accession to the European Union in 1981 was the crowning achievement of decades of shrewd fiscal management[26].

Belonging to the European Union opened many doors for the Greek economy, investments became easier to come by and an unprecedented level of access to money markets saw Greece reap the fruits of years of wise stewardship as its access to capital could now turbocharge its economy and make up for the lost time. Greece did indeed see an astounding level of growth as its economy more than doubled between accession to the EU and the introduction of the Euro in Greece in 2001[27]. This astounding growth however was fuelled by a borrowing spree as Greek debt levels rose from 26% in 1981 to 107% in 2001[28]. Adoption of the Euro allowed the Greek economy to access capital much easier as it grew by more than 160% between 2001 and 2008, the flipside of that was that Greek debt stocks stayed abreast with GDP, as this sudden growth was almost

[25] International Monetary Fund (IMF). "Greece: Debt % of GDP," *Historical Public Debt Database.* https://www.imf.org/external/datamapper/DEBT1@DEBT/GRC.
[26] Reinhart and Trebesch, "The Pitfalls of External Dependence". pp. 318
[27] International Monetary Fund (IMF). "Greece: GDP, Current Prices" *World Economic Outlook.* https://www.imf.org/external/datamapper/NGDPD@WEO/GRC.
[28] (IMF). "Greece: Debt % of GDP,".

entirely fueled by more than 200 billion Euros in Debt. The easy money access blinded the Greek decision-makers as they either forgot what debt can do or chose to believe that modern Greece, ensconced in the EU, one of the earliest acceders to the Euro was secure enough.

Market Shock: Winds of Aeolus

In 2007, when rumbling in the financial market started, Greece's debt to GDP lay slightly over 103%, a worrying but manageable level. Not to mention Greece has not suffered a debt crisis in more than 40 years, a record - albeit a sad one- in Greek history, and more importantly one of Greece's classical problems when it came to international debt; the currency mismatch, was no longer a problem since Greece acceded to the Euro in 2001. When Prime Minister Kostas Karamanlis called for early elections in 2007, the bulk of electoral campaigning focused on local forest fires and corruption claims[29]. Karamanlis' New Democracy won the election with the brewing financial crisis cresting unnoticed in the background. In 2009 Karamanlis called for another early election, the campaigning this time however centered on one thing only, the financial crisis. Rapidly rising unemployment and debt quickly became the nexus of political campaigning and street protests. Karamanlis would handily lose the election to George Papandreou's PASOK along with 20% of the Hellenic Parliament. Less than two months later, Papandreou had to revise up the deficit for 2009 -which had already passed- from only

[29] ABC News, "Polling Booths Open in Greece," ABC News (ABC News, September 16, 2007), https://www.abc.net.au/news/2007-09-16/polling-booths-open-in-greece/671268.

5% to 12.7% as the previous government had attempted to hide the gravity of the situation by cooking the books[30].

Both Kostas and George were scions of established political dynasties from opposing sides of the spectrum. Kostas traded on the Karamanlis name, and while his uncle[31] had the guile to trade some of his pseudo-fascist views for conservative ones as he maneuvered Greece into the EU, Kostas was no such man. He was a traditional Greek politician in post-apostasy politics. George's family on the other hand had a more tragic history. The first Papandreou, Georgios was a liberal anti-fascist whose first government collapsed less than three months after the liberation of Athens in the prelude to the Greek civil war. Almost twenty years later he would rise to the prime ministership again only to be cast down in a royal coup and die under house arrest a few years later as his son was exiled. Andreas, already seen as a radical before his exile, came back after the dictatorship's dissolution to form the Panhellenic Socialist Movement (PASOK). A deft politician and a gifted speaker, he rose to prominence quickly, first becoming prime minister in 1981, an office he would hold for most of his remaining fifteen years. Andreas remains a towering figure credited with helping Greece heal from the civil war and juntas' legacies[32]. Even in staying in the EU despite his opposition to it, he is credited as seeking pragmatic means to achieve his ideological ends. His successors, however, were far less impressive[33].

---

[30] Evelyn D'Angelo, "Greece & the Odious Debt Doctrine ," *Brooklyn Law Review* 78, no. 4 (2013): pp. 1630-1632.

[31] Konstantinos Karamanlis was the prime minister four times and served as president for two non-consecutive terms.

[32] He presided over a general move to the left as the Greek Communist Party (KKE) was rehabilitated, reactivating the left in Greece after several crackdowns had bloodied and weakened it.

[33] Yanis Varoufakis and Justin Fox, "The Global Minotaur: The Crash of 2008 and the Euro-Zone Crisis in Historical Perspective," *Columbia University, New York*, (November 9, 2011).

Papandreou the third immediately started exploring options for a bailout. Skyrocketing debt to GDP ratio and expanding deficits were liable to rip through the Greek economy and sink the Greek state into default again. Within a week of officially requesting aid from the European Union (EU) and the International Monetary Fund (IMF), representatives of the IMF, European Central Bank (ECB), and European Commission (EC) reached a bailout deal for the Greek state to the tune of 107.3 billion Euros. The sheer swiftness with which the agreement was reached allayed fears of a default for a while, the display of capitalist solidarity was assuring to the markets, especially since all parties to the agreement achieved their goals.

While PASOK was ostensibly a socialist party, much like the rest of its counterparts it had morphed into a neoliberal party during the age of the Washington consensus. Any pretensions otherwise were laid bare by the bailout which saw the working masses overwhelmingly bear the price of the bailout. Later revelations from the meeting minutes revealed that the Greek government did not even seek a haircut to the debt, probably in an attempt to preserve Greece's still-fragile financial reputation while also calming the markets. The minutes also revealed the disparity between the representatives of trade unions, syndicates, and NGOs who were very critical of the bailout program, and Greek business interests that were excited, and saw the bailout as a chance to advance its own agenda curtailing rights and privileges in the labor market.[34]

[34] "IMF Leak: European Banks Had Committed to Maintain Exposure in Greek Bonds after First Bailout - but Didn't," ThePressProject (The Press Project, February 3, 2014), https://web.archive.org/web/20141019030859/http://www.thepressproject.net/article/55653/IMF-leak-European-banks-had-committed-to-maintain-exposure-in-Greek-bonds-after-first-bailout---but-didnt.

The first party to this bailout is the IMF, which achieved its fundamental goal of preserving financial stability -or what was left of it- and prevented a Greek default and the possible contagions it would have triggered for the price of 30 billion Euros. The EU organs, although representing the varied and different interests of the composing countries, were unified in their goal to avert a Greek default, each for their own reasons. Peripheral countries such as Ireland, Italy, Portugal, and Spain were seriously worried about a domino effect from a possible Greek default as the increased uncertainty and interest rates would disallow them from continuing to rollover their debts, creating liquidity cliffs for them to fall over. On the other hand, more powerful economies were heavily concerned about the health of their banks. These banks' very low exposure rates -in some cases as low as 3%- meant that they might not survive a Greek default, and definitely could not survive its aftershocks in the European periphery[35]. As such representatives of states such as Germany and France effectively bailed out their banks by way of Greece. In addition to this, real fears percolated in EU halls of power that Greece crashing out of the Euro could be the death knell for the young currency and the project it reified[36].

As for Greece itself, Papandreou exhausted PASOK's political capital passing the bailout and the attendant austerity measures. While the bailout saved Greece's banking system and the Greek state from insolvency, the accompanying austerity measures wrecked the working class resulting in rapidly increasing poverty and soaring

[35]Yanis Varoufakis, *Adults in the Room: My Battle with Europe's Deep Establishment* (The Bodley Head, 2017). Pp. 24-27

[36] Manuela Moschella, "Negotiating Greece. Layering, Insulation, and the Design of Adjustment Programs in the Eurozone," *Review of International Political Economy* 23, no. 5 (September 22, 2016): pp. 808-810.

unemployment. This was the price Papandreou accepted in exchange for the state's solvency and the hard-won access to capital markets that the Eurozone granted. Given the briefness of Greece's unhindered access to capital markets and the momentous effort it took to achieve it, Papandreou's motives are fully understandable. Crashing out of the Eurozone was a terrifying prospect, Greece would not only lose access to valuable money markets in the Eurozone amid the debt crisis, but it would also lose its currency with all the social, political, institutional, and economic costs of such a rushed monumental transition. All of these attendant costs to Grexit meant that it could not be rationally considered as a first or even a second option, the mere fact that Grexit went from an unthinkable option to a preferred outcome for the majority of Greeks[37] in a few years is a testament to the cruelty of the bailout. However, Papandreou's mistake was identifying the locus of the problem in access to capital markets and not the debt that prevented it in the first place.

As such the speed with which the bailout came together was simply because all in attendance were in agreement that the Greek working class would foot the bill and since they did not have any real champions in attendance, a consensus was reached quickly. The price the Greek people had to pay came in the form of grinding austerity; firesale privatization of state assets, mass layoffs, weakening labor protections, increased taxes, and cuts in services and social protections. All of these measures were to achieve high primary surpluses in the budget and allow the Greek state to decrease its debt load very gradually without affecting any haircuts to the borrowers.

[37] In the July 5th 2015 referendum more than 60% of Greeks would vote against further bailout, a result that if implemented would necessarily mean a Greek exit from the Eurozone.

The failure of the measures taken in May 2010 became evident so quickly that in a little over a year discussions about a second bailout started. The results were unequivocally a disaster for Greece. By 2012 unemployment had doubled, poverty grew, and as a result, a recession set in. Greece would shed more than a sixth of its GDP within the same period, sending its debt to GDP ratio to new heights, again finding its access to money markets throttled. The fact that a second bailout would be needed, makes the failure of the first unequivocal. It has even been argued that the first bailout is what necessitated the second as it did not offer sufficient debt relief and saddled Greece with impossible expectations due to significantly underestimating the recessionary effects of the austerity inscribed within it.[38]

Before a second bailout could be agreed and having narrowly survived a no-confidence vote in the parliament, Papandreou announced he would seek a referendum on the new bailout as his mandate was nearly non-existent. After pressure from Greece's international partners, namely France and Germany, Papandreou withdrew the idea and chose to step down as prime minister instead, to be replaced by Lucas Papademos - a banker- to head a new technocratic coalition government. The second bailout would see a new round of austerity, high primary surpluses, weaker labor protections, lower minimum wage, and budget cuts. On the other side, the creditors also bore a part of the burden accepting a lower interest rate -3.5%- in addition to a 50% haircut to private creditors that

[38] Nicos Christodoulakis, "From Grexit to Growth: On Fiscal Multipliers and How to End Recession in Greece," *National Institute Economic Review* 224 (May 2013): pp. 66-76.

amounted to nearly 100 billion Euros.[39] The measures aimed to bring the Debt to GDP ratio down to allow Greece access to the money markets on its own merit again[40].

Although a haircut amounting to a quarter of the debt is not small, and probably might have saved Greece in 2010, by 2012 it had virtually no effect on the macroeconomic conditions of the country. The ongoing recession that was fueled in no small part by the austerity measures was made worse -not better- after the 2012 round of austerity as the economy continued to shrink in 2012 and unemployment continued its inexorable march upward. The Papademos government would call for a new election after the implementation of the deal. Papademos himself became a disposable executor of the will of the Troika as any career politician or public servant saw the bailout as career poison.

In May 2012 a new election was held that saw PASOK lose three-quarters of its parliament seats, with New Democracy winning a plurality but unable to form a governing coalition. The rise of the fortunes of parties running on anti-austerity is best exemplified by SYRIZA, a coalition of leftist anti-austerity parties that would fuse into a single party to contest the upcoming June elections. The June elections would see all parties lose seats except for New Democracy led by Antonio Samaras, and Syriza led by Alexis Tsipras who widened their leads. Samaras then formed a coalition government

---

[39] David Gow, "Eurozone Crisis: Banks Agree 50% Reduction on Greece's Debt," The Guardian (Guardian News and Media, October 27, 2011), https://www.theguardian.com/world/2011/oct/27/Eurozone-crisis-banks-50-greece.

[40] "Papademos Warns Fellow Greeks Economic Collapse Looms without Sacrifice," Bloomberg.com (Bloomberg, January 4, 2012), https://www.bloomberg.com/news/articles/2012-01-04/papademos-warns-fellow-greeks-economic-collapse-looms-without-sacrifice.

inviting all parties - except for the neo nazi Golden Dawn- to participate; three of the five parties invited refused to join a government that committed to the bailout[41].

Despite dodging the poison pill that was the second bailout, Samaras' government did not benefit from any public goodwill. Samaras hoped to capitalize on his absence from the governments that signed the bailouts and draw a distinction between his government and the previous ones. The public, however, seemed to see Samaras as a continuation. Opposition to the Troika program continued unabated, protest movements spread far and wide with anti-austerity protests becoming a staple of syntagma square. The distrust between the people and the government had grown to the point of widespread calls to stop paying taxes at all, in effect attempting a public default[42].

While "We Won't Pay" was motivated by the masses' inability to pay these taxes, the rich sheltered their assets in tax havens. In 2015 a study estimated that Greece could raise 1.2 billion Euros annually in addition to 16 billion Euros in arrears and back-taxes from assets stored in tax shelters. While this would not immediately solve the crisis it would have definitely alleviated some of the pressure, and perhaps staved off the worst of the worst of austerity. Instead, Samaras pursued a policy of tax cuts that reduced taxes on dividends and estates by half, offsetting the lost revenue by increases in taxes such as the Value Added Tax (VAT) which had increased from 19 to 23% in 2010[43]. However, the

---

[41] Rachel Donadio and Liz Alderman, "Samaras Takes Office as Greece's Prime Minister, Facing Major Challenges," The New York Times (The New York Times, June 20, 2012), https://www.nytimes.com/2012/06/21/world/europe/greece-poised-to-form-new-coalition.html.

[42] Exadaktylos, Theofanis, and Nikolaos Zahariadis. "Quid pro Quo: Political Trust and Policy Implementation in Greece during the Age of Austerity." *Politics & Policy* 42, no. 1 (2014): 173–77.

[43] Nina Roussille and Paul-Adrien Hyppolite, "A More Ambitious Agenda Is Needed to Help Achieve Public Debt Sustainability in Greece," Kennedy School Review (Harvard Kennedy School, August 17, 2016), https://ksr.hkspublications.org/2016/08/17/a-more-ambitious-agenda-is-needed-to-help-achieve-public-debt-sustainability-in-greece/.

recessionary spiral reinforced by austerity meant that even though the VAT increased, the total VAT revenue collected decreased between 2010 and 2015 by roughly 20%[44].

As the recession shrank tax receipts, and the Greek government was forced to achieve primary surpluses, self-reinforcing stringent austerity measures were introduced regularly with each round of austerity ritually followed by protests and strikes, and governmental bans on protests and strikes[45]. In November 2013, -seemingly bowing to public pressure- Samaras put forward a budget that did not include wage cuts and tax hikes requested by the Troika[46]. However, he quickly backed down and passed even more cuts that saw government spending drop by more than 17% in between 2013 and 2014[47]. Despite some signs of recovery in 2014, such as a slight improvement in the unemployment rate, it did not turn out to be the bottleneck it was purported to be. The IMF's forecasts in June revealed that the Greek government would face a financing gap of over 5 billion euros in 2014 and more than 12 billion in 2015, not only did that signal the failure of the two previous bailouts, it also indicated that a third bailout will be necessary[48].

2014 was supposed to be the corner to be rounded, after the last disbursements of the second bailout and the accompanying rounds of austerity, Greece was supposed to be able to stand on its two feet and be done with bailouts and austerity. The announcement

---

44 Organization for Economic Co-operation and Development (OECD). "Greece: Details of Tax Revenue" *OECD.Stat.* https://stats.oecd.org/Index.aspx?DataSetCode=REVGRC.
45 Cristoph Dreier, "Greek Government Bans Demonstrations in Central Athens," World Socialist Web Site (International Committee of the Fourth International (ICFI), July 19, 2013), https://www.wsws.org/en/articles/2013/07/19/gree-j19.html .
46 Joanna Kakissis, "2014 Greece Budget to Contain No Austerity Measures," NPR (National Public Radio (U.S.A.), November 21, 2013), https://www.npr.org/2013/11/21/246492064/greece-no-austerity-budget.
47 Niki Kitsantonis, "Parliament Approves 2014 Budget in Greece," CNBC (CNBC, December 8, 2013), https://www.cnbc.com/2013/12/08/parliament-approves-2014-budget-in-greece.html .
48 Varoufakis, *Adults in the Room*. pp. 129-131..

that there is a financing gap poured gasoline on the already inflamed social and political situation in Greece, and the news of a possible third bailout ensconced debt and how to manage it in the center of the national discourse. As the austerity measures whittled down Samaras' governing majority to a bare minimum, the governing coalition realized that they had neither the mandate nor the votes to pass the new bailout program; this necessitated a new election. Striving not to spook the markets, Samaras decided that instead of calling for a snap election, he would bring up the presidential elections[49]. Elections that he knew could not be won; a failure that would trigger a dissolution of the parliament and new elections, thus the elections could be justified by the presidential election instead of the impending third bailout[50].

Not only did Samaras understand that he was certain to lose the election - New Democracy trailed Syriza since late 2013 in opinion polls-, he understandably wanted to lose the election. He has avoided putting his name to the 2012 bailout and he had no desire to be responsible for the 2015 bailout, even though he implemented the first and supported the second. As such when the election was held on January 25th, 2015, the victory of Syriza was not surprising, and its electoral promises against austerity and bailouts marked the first time since 2010 that Greece was intending to face down its debtors for a better deal and the rise of a new historic bloc.

[49] The Greek president is elected by the members of parliament.
[50] Varoufakis, *Adults in the Room*. pp. 105-107

Political Crisis: A Melian Dialogue

The Melians

When the Syriza Government headed by Alexis Tspiras was formed in 2015, by all accounts they were in an unenviable position. Greece had lost a full quarter of its national income since 2010[51], debt servicing accounted for 45% of all government expenditure[52], even with such a high debt servicing cost, the state still faced a financing gap of over 12 billion euros. Out of 15.19 billion euros needed for the 21 debt repayment tranches in 2015, the government could only muster little more than 3 billion, enough to cover the first six tranches[53]. By June, however, the government would be insolvent. This simple fact meant that by June Syriza had to make a choice.

Syriza had to choose one of three options. The first was a third bailout and continuing the vicious cycle that ruined Greece for the past five years, it was in opposition to this option that Syriza ran and won. The second was to renegotiate the second bailout, haircut the debt, and/or restructure its payment to allow for lower primary surpluses so the government can attempt to resuscitate the economy and end austerity. This was the plan that Syriza proclaimed and by all accounts its preferred outcome. The third option was default. If no renegotiation was to be had, payments would stop, and shortly after Greece would crash out of the Eurozone. For Syriza, this was the nuclear option, by no means their preferred course of action, but still preferred to a third disastrous bailout. These were at least the stated preferences of the party. The nature of

---

[51] Varoufakis, *Adults in the Room*. Pp. 124-126.
[52] Varoufakis, *Adults in the Room*. Pp. 167.
[53] Varoufakis, *Adults in the Room*. Pp. 510.

the party that originated as a coalition and came to bring together KKE veterans along with PASOK apparatchiks, union organizers, and left-wing economists was mostly coherent but never cohesive. Although often framed in the press as a rabidly left-wing party, Syriza had its share of factions ranging from the moderate social democrats to more radical socialists, and plenty in between. Although these factions represented real divisions within Greek society and the body politic and as such their differences defy any attempt to enumerate their various positions, in 2015 and for our study, only their position on these three options mattered.

The first preference; renegotiation was favored by all, the difference, however, was in ordering the second and third preferences, for the moderates, a bailout was preferable to the nuclear option. For the radicals, crashing out of the Euro was preferable to extending the humanitarian crisis that has unfolded.

Renegotiation fundamentally hinged on the proposals put forward by the minister of finance Yannis Varoufakis; although in the radical camp, his proposals were very modest and mainly focused on restructuring the debt in a way that allows Greece to decrease the primary surplus from 4% to 1% of GDP and hence ease off the austerity and allow the government to revitalize the economy through more public spending. The objective was to reduce the debt service by spreading out the amortization of bonds, his proposal focused on dividing the debt into different segments each to be structured through bond swaps either to perpetual bonds, or GDP indexed bonds depending on the legal framework through which they were issued[54]. This was done to avoid any legal -or electoral- troubles for the lenders in an attempt to lessen the political cost for

[54] Varoufakis, *Adults in the Room*. Pp. 496-498.

renegotiation on their part. This was particularly signified by the absence of haircuts in his purported plan, as lowering the amortization rate would in effect be a haircut without any of the accompanying political cost. The philosophy of the renegotiation would be to create a mutually beneficial agreement that would see the lenders have their dues fulfilled -although a bit later- through lessening the burden on the Greek people and allowing them to prosper. However, his most controversial proposal was the uncoupling of Greek banks from the Greek state. This would release the Greek state from its bank liabilities by allowing the European Financial Stability Facility (EFSF) to receive shares in the banks instead of bonds[55]. This would turn the bailout into a buyout and stimulate the Greek banking sector. However, this in effect would have meant the liquidation of the Greek banking class[56] and its attendant factions in the media and other industries. This proposal however does not seem to have been bandied about in the campaign as it was mainly expressed in the non-paper passed to negotiators and officials, possibly due to Varoufakis' estimation that the measure will not only be opposed by bankers but also by some old school socialists as they would rather see the banks nationalized instead of sold off to foreigners. An argument he rebutted by pointing out that the state has nothing to gain from such nationalization, instead he believed the formation of a new state bank free of all these liabilities would see the fears of his party compatriots allayed.

Out of these three paths default was the most perilous, as default in the Greek case not only meant losing access to capital markets, it also meant losing its currency. A

---

[55] Varoufakis, *Adults in the Room*. Pp. 65.

[56] The proposal would have seen the banks capitalized in the buyout thus safeguarding deposits and fortifying the bank system against runs or liquidity issues. The plan was simply to substitute the German bankers for the Greek ones to maintain liquidity while keeping the Greek depositors minimally affected..

default meant that the ECB would immediately stop accepting Greek bonds and subsequently the Greeks could no longer access Euros. In the annals of debt crises, this would have been a first. Central banks are usually one of the few institutions that lend insolvent governments as lenders of last resort. However, the ECB's responsibility is to the European Commission, not the Greek government and as such according to its governing code, it could not accept bonds from an insolvent state. As such the Greek government would have to introduce a new currency in the wake of the default if they did not wish to turn to barter. On the other hand, a default could allow the government to pursue restructuring plans and haircuts as it would have nothing more to lose; a new currency reflecting the state of the Greek economy instead of the entire Eurozone would eliminate price distortions and encourage exports. So, while the default path would be perilous it was not without its positives. However, the fact that it would cost Greece the Euro and all its attendant privileges meant that Greek capitalists and bankers were ferociously against it.

Within this national alliance, the factional divide between the radicals and the moderates in ordering their preferences reflected the preferences of the broad working-class coalition represented by the first, and the party apparatchiks and bankers represented by the second. With this came the understanding that comes June 5th, if no agreement was reached each faction would have to coerce the other to accede to their preferred option. This meant that not only could international capital reified in the lenders play a battle of attrition against the national alliance until June 5th, but it could also exploit the factional divide within the governing bloc.

The Athenians

On the other side stood the Troika; the IMF, the ECB, and the EC representing the various European states. Although infamous for its reputation of austerity, the IMF was far from the lead villain in the Greek tragedy. Despite designing the first bailout and signing on the second, the IMF started to become deeply skeptical of the Greek program's chances for success since 2011[57], this change of tone reflected the views of the IMF's new management under Christine Lagarde[58]; she was far less hawkish on austerity than her predecessor and garnered goodwill with the Greeks on account of the Lagarde list[59]. While not an erstwhile ally of Greek labor, her presence was small comfort for the new occupants of Maximos that they would have at least one sympathetic ear. It is also possible that the IMF only seemed sympathetic due to its placement as the second fiddle to the ECB, after all the IMF had to negotiate with the ECB and the EC before it even negotiated with Greece[60]. The fact that the ECB and EC provided the majority of the funds meant that the IMF had to concede to their targets, something the IMF openly criticized in its assessment of the 2010 bailout. The IMF outright felt sidelined arguing that the ECB took charge of bank supervision despite having less expertise just by virtue of their financial contribution while the EC focused on compliance with EU norms more

---

[57] Moschella, "Negotiating Greece." pp. 800.
[58] In her role as the French minister of finance between 2007 and 2011 Lagarde pushed for the first bailout and as a result saved the overly exposed French banks from ruin. For more Varoufakis' *Adults in the Room.* pp. 23-29
[59] The list contained information of 2000 Greek tax evaders with accounts in Switzerland. For more see BBC Europe, "Greece Arrests Journalist over 'Lagarde List' Banks Leak," BBC News (British Broadcasting Corporation , October 28, 2012), https://www.bbc.com/news/world-europe-20116548.
[60] International Monetary Fund, "Greece: Ex Post Evaluation of Exceptional Access under the 2010 Stand-by Arrangement," *IMF Staff Country Reports* 13, no. 156 (June 2013): p. 30.

than growth impact[61]. The strong words - and they were only words- that the IMF had for the ECB, and the fact that it squarely laid the blame at the EC and ECB's feet made the Greeks hopeful that the IMF would not make the same mistake for the third time.

The ECB's overriding motive was to maintain the Euro at any cost and perceived a Grexit from the Eurozone to be an existential threat to the Euro. This fanatic commitment to the institution of the Euro also meant it was the most rigid when it came to any renegotiation as concerns about jeopardizing the principles of the monetary union agreement tied their hands[62]. As such, Mario Draghi's insistence that any debt relief or restructuring be completely voluntary was not surprising, even if it was an invitation for investment bankers to manipulate credit default swaps[63]. The fact that the ECB controlled Greece's monetary supply meant the ECB stood as the primary bulwark against any Greek challenges and could retaliate immediately when needed. The single weakness in the ECB's defenses was the Securities Market Program (SMP)[64] bonds, 6.6 billion euros worth of these bonds were due in 2015, and any unilateral cut to them would open the ECB and Draghi to legal and political challenges[65]. A unilateral haircut would have put leaders in Germany, France, the Netherlands, and especially in the European Commission in the crosshairs as it called their own judgment into question.

The European Commission was the only overtly political institution in the Troika. As the executive organ of the labyrinthine EU it is heavily hampered by an impossibly

---

[61] IMF, "Greece: Ex Post Evaluation", pp. 31-32
[62] Moschella, "Negotiating Greece." pp. 810-812
[63] Joseph Stiglitz, "Capturing the ECB," Project Syndicate (Project Syndicate, February 6, 2012), https://www.project-syndicate.org/commentary/capturing-the-ecb.
[64] The bonds in reference were Greek bonds bought off the market by the ECB to prevent a collapse in the securities market as a part of the bailout program for more on the Greek bonds see Varoufakis, *Adults in the Room*. pp. 186-187.
[65] Varoufakis, *Adults in the Room*. pp. 93-94.

complex system of official bodies such as the Economic and Financial Affairs Council (ECOFIN) and the European Commission, and unofficial bodies such as the Eurogroup. This allows for differences of opinion not only to materialize on the national level between different member states but also within these states' levels of representation within the EU bodies. The wide diffusion in responsibility that this system permits however is not matched by an equally diffuse power structure. The relationship between the Eurogroup and the ECOFIN is an example of an inverted relationship between power and responsibility. The Eurogroup, an informal grouping lacking any official mandate or governing code enjoys the opacity it is afforded as it effectively has to pre-approve any measure if it is to pass in the officially sanctioned and legally binding sessions of ECOFIN. This murkiness made the movements of various European actors quite difficult to ascertain; it also allows for plausible deniability, strategic ambiguity, and contradictory messaging. The perks allowed by such complication and opaqueness make it difficult to plausibly claim that it is accidental to the system and not a part of the design.

Broadly speaking, the Troika's preferred choice was a third bailout building on the second bailout and preserving the memorandum of understanding (MOU) undergirding it; as this would keep the Euro and the EU intact while preserving the reputation and political capital of the leaders of debtors bloc. However, much like the Greek national alliance, in the debtors' alliance too differences over which option occupies second preference were the main crack in the alliance. Within the IMF for example, Lagarde and her director of the European department Poul Thomsen seemed to repeatedly contradict and disagree with each other, as Lagarde seemed to prefer renegotiation even over a third bailout sometimes while Thomsen repeatedly refused renegotiation and insisted that the MOU remains untouched[66]. Diverging views on the Greek debt crisis were particularly pronounced in the cases of Germany and France. Germany, the indisputable economic hegemon of the Eurozone and the leading power in the EU found itself at cross purposes as one direction was to preserve the Euro as a political project, through a third bailout or even renegotiation; this seemed to be the direction in which chancellor Angel Merkel headed. On the other hand, the German minister of finance Wolfgang Schäuble was more concerned about the financial soundness of the Euro as an economic project[67]. Schäuble was sternly opposed to renegotiation and at one point suggested that he is amenable to a Greek time-out. This timeout would see Greece crash out of the Eurozone, readjust independently, and after a rapid recovery return to the EU on a sound footing[68].

Within the EU machinery, Greece hoped to find allies in the other indebted European periphery countries such as Ireland, Spain, and Portugal; as leniency for Greece could surely benefit them too. It also hoped to make a common cause with France and Italy as both nations feared they cannot afford the social and political costs of further austerity, as such they too stood to benefit from a Greek renegotiation[69]. This support was demonstrated more than once, but it was not strong enough to withstand any German criticism. Thus, it is important to note that while the besiegers preferred a third bailout, and the defenders preferred a renegotiation, default was no one's preferred outcome.

[66] Varoufakis, *Adults in the Room*. pp. 360-367.
[67] Varoufakis, *Adults in the Room*. pp. 348-364.
[68] Varoufakis, *Adults in the Room*. pp. 408-413.
[69] Varoufakis, *Adults in the Room*. pp. 404 406.

The Skirmish

When the insurgent Syriza seemed destined to win in the 2015 election, the Samaras government started warning that a Syriza victory would trigger bank closures. The fact that these closures would happen even if New Democracy won was immaterial since there was no way New Democracy would win. After all, shifting blame is a time-honored democratic tradition, and in a purely pragmatic sense, it was the right thing to do for Samaras. The fact that their rhetoric could trigger a bank run might still be explained away as an undesired consequence. Less than a month before the election, however, the recently appointed governor of the Bank of Greece Yannis Stournaras gave a foreboding speech in which he spoke of rapid depletion of liquidity in the markets and irreparable damage to the Greek economy due to the political crisis.[70] The Bank of Greece is not supposed to be a political actor, and more importantly it is supposed to stabilize the markets, not spark a bank run. Syriza's leadership understood well that they will not have much time as the Greek bailout program ends on February 28th, only a month after their election. The coffers will be empty by June 5th if no new agreement is reached. Tsipras, the new prime minister chose to form his government in coalition with the right-wing conservative Independent Greeks (ANEL). The controversial choice seen as an unholy alliance was meant to create an image of Greece united despite ideological differences. The government then sallied forth as time was of the essence.

This sally came in the form of a charm offensive that saw Tsipras and Varoufakis tour European capitals drumming up support and allaying fears. Tsipras would attempt to

[70] BBC Business, "Greek Central Bank Boss Warns of 'Irreparable' Damage," BBC News (British Broadcasting Corporation, December 15, 2014), https://www.bbc.com/news/business-30488045.

rally political support while Varoufakis would present his plans to fellow ministers of finance and economic functionaries to raise support among the technocratic financiers. The latter's plan to avert a third bailout rested on the achievement of four main objectives. The first objective was to agree to a debt swap whereby bonds could be swapped for perpetual bonds or GDP-indexed bonds whichever is legally and politically feasible in each case. Alleviating the burden of debt amortization on the Greek budget would have not only closed the financing gap, but it would have also ensured that Greek debt would be sustainable[71]. The second objective was to amend the MoU in such a way that the onerous 4.5% primary surplus would be replaced with a more realistic and bearable 1.5%. This would alleviate the humanitarian crisis that has unfolded in Greece as it would allow the government to increase public services. The increase in government spending also served as a Keynesian counter-cyclical infusion to reinvigorate the economy.[72] The third objective was tax reform. The plan called for lower corporate income tax rates, lower value-added taxes, to revitalize the private sector[73], as well as battling tax evasion through a new digitized system with high penalties, a period of amnesty, and an agreement with the Swiss government to facilitate applying the new system to Greek assets stashed away at Switzerland[74]. The object of these reforms was to make the tax pool shallower and wider, to mitigate the recessionary-deflationary spiral without reducing the government's revenues. Lastly, the fourth and perhaps most divisive of these objectives was to decouple the Greek state from the Greek banks. The logic was simple: the banks were a liability and since the Greek state was functionally insolvent,

[71] Varoufakis, *Adults in the Room*. pp. 112-115.
[72] Varoufakis, *Adults in the Room*. pp. 271-274.
[73] Varoufakis, *Adults in the Room.* p. 100.
[74] Varoufakis, *Adults in the Room.* pp.170-176.

reducing liabilities is the prudent thing to do. This would have been done by allowing the European Financial Stability Facility (EFSF) to buy out the banks instead of bailing them out[75]. Although economically sound, offering to sell out the Greek banks was highly unorthodox, and perhaps fatal to a national alliance.

Only nine days after the new government was inaugurated and in the middle of their goodwill tour, the ECB sucked the wind out of their sails. On February 4th, the ECB removed the waiver that allowed the ECB to accept Greece's junk-rated bonds as collateral[76]. The announcement came shortly after a meeting between Varoufakis and Draghi that focused on opening negotiations to review the Greek debt. This first salvo effectively put the Greek financial system under siege as Greece's own central bank -a subsidiary of the ECB- could no longer supply it with the liquidity needed. Instead of Greece going bankrupt on June 5th, its banks would be shuttered by February 28th. With the Greeks now on their back heel, they would not truly regain the initiative for the length of the crisis.

While repealing the waiver before its deadline on the 28th was a declaration of war, even the most ardent supporters of Grexit agreed that this was not the time for it, even if Greece now had a justification to default. This was due to two factors. The ideological factor was that Greece could not be seen to be thrown out of the EU and had to exit on its own terms. This was important for Greece's national image but more importantly to its position in the global market. The second and more important factor was the economic and administrative one. Immediately on taking office Varoufakis set up

---

[75] Varoufakis, *Adults in the Room.* pp. 65,504.

[76] AFP, "Euro Takes a Wallop as ECB Plays Hardball with Greece," TheJournal.ie (TheJournal.ie, February 5, 2015), https://www.thejournal.ie/ecb-greek-debt-collateral-1920913-Feb2015/.

a team to implement a digital parallel payments system that uses the newly digitized tax database as a core for a national payment system. Such a system could stave off societal breakdown in the event of a forced Grexit and eventually would serve as the basis for the new currency[77]. As it was not ready yet, it would be incumbent upon the Greeks to get back in the good graces of the ECB even if they planned to sever their connection to it later.

Due to the intentionally arcane and purposefully subtle architecture of the financial markets and the EU, the only realistic way to reinstate the waiver would be to reach an agreement in the form of a vague communique through the Eurogroup. The communique is the only formal product of Eurogroup meetings. Their sparse wording, obliqueness, and austerity in details were almost designed for the understanding of financial experts and no one else. Since the Eurogroup was also the seat of Eurozone finance ministers it is where the political will of the Euro countries translates into the economic politics of the Eurozone. This is why the Greek government decided that the Eurogroup was to be the battleground for renegotiation.

The February 4th recension was needlessly aggressive and cruel, this was plain to see. However, the backlash was not foreseen. While many states were relatively comfortable watching the Greek tragedy, the unnecessary choking of the dying economy was worse than a crime, it was a mistake. Germany maintained two parallel lines of communication, the first between Merkel and Tsipras, and the second between Varoufakis and Schäuble, and given Schäuble's reputation as a disciplinarian, it is not difficult to guess which was the good cop and which was the bad cop. While Schäuble

[77] Varoufakis, *Adults in the Room*. pp. 95-98

rebuffed Varoufakis, Merkel seemed to be much more sympathetic[78]. The United State of America (USA) support, although purely rhetorical, was seen as a gentle reminder for Germany that it got carried away. In addition, Lagarde and Thomsen were becoming more and more amenable to the Greeks as Draghi's move could not be explained away by anything but malicious intent[79].

Occupied with the Ukrainian crisis, with pressure mounting Merkel decided to overrule Schäuble and instructed that an agreement be reached. The first skirmish would end on February 20th after only 16 days[80]. The main points of the communique were establishing an extension to the Greek program for four months allowing for renegotiation and committing Greece to an appropriate primary surplus -read 1.5%-. In exchange, Greece agreed to commit to honoring its debt and expressed its commitment to economic reform[81]. By holding out and standing fast the Greeks managed to secure one of their long term objectives and bought enough time to achieve the rest.

Resolution: The Siege

Perhaps due to the entropy of victory or simply because of the haphazard manner in which the governing bloc was assembled, the national alliance was beginning to unravel even before the Greeks were done celebrating their victory. Factional divides between the moderates and the radicals were flaring up, especially after it was revealed that the chairman of the Greek council of economic advisors George Chouliarakis a close

---

[78] Varoufakis, *Adults in the Room*. pp. 211-213
[79] Varoufakis, *Adults in the Room*. pp. 222-225, 267-270
[80] Varoufakis, *Adults in the Room*. pp. 248-251
[81] Eurogroup, "Eurogroup Statement on Greece," Consilium (The European Council, February 20, 2015), https://www.consilium.europa.eu/en/press/press-releases/2015/02/20/eurogroup-statement-greece/.

ally of deputy prime minister Yannis Dragasakis was working with the Troika behind the negotiating team's back[82]. Dragasakis, an economist by training and a party apparatchik with close ties to banks and business leaders was a leader of the moderates[83], and the fact that one of his appointees was working with the enemy elevated factional disagreements to suspicions of treachery.

Only a day after the victory of February 20th, Dragasakis and Chouliarakis neglected to pass on a letter from the president of the working group of the Eurogroup Thomas Weiser regarding the process and deadline of amending the extension of the loan agreement. The minister of finance would only know about the letter after the deadline had passed, disallowing Greece from capitalizing on the February 20th breakthrough or wringing any more victories. As such by the time the month came to a close, the Greek government was effectively divided against itself.[84]

The attempt to bypass Greek capital -represented by the banks' liquidation proposal - as the middleman and forming an unholy alliance between Greek labor and European capital was rightfully seen as an existential threat by Greek capital. As such while Greek capital was on board for renegotiations as they normally would not hurt it, decoupling the banks meant that instead of renegotiations being the second preferable option, it plummeted to last preference as even a default would see Greek capital survive in some measure no matter how bloodied. This calculation ushered in the about-face by the moderate wing as they proceeded to sabotage the renegotiation process. This is not to say that by exploring an alliance with European capital, Greek labor was unique in its

[82] Varoufakis, *Adults in the Room*. pp. 286-288.
[83] Sebastian Budgen, and Stathis Kouvelakis. Greece: The Struggle Continues. *Jacobin*, July 14, 2015. https://jacobinmag.com/2015/07/tsipras-varoufakis-kouvelakis-Syriza-euro-debt/
[84] Varoufakis, *Adults in the Room*. pp. 293-304.

lack of confidence in the national alliance. Even before Syriza's coalition government came to power, status quo failsafes -such as Stournaras- had already been placed to secure a favorable conclusion to Greek capital in case the national alliance fails. As for Greek labor and its erstwhile representatives in the left platform to emerge on the winning side, not only would it have to overtake the moderates within the party's government, they would also have to overcome the failsafe guardians of the status quo. In addition to this factional strife and in contrast with the Troika side of the equation, the Greek side did not have any measure of factional discipline that could keep the coalition from fracturing and in fact from here on onward was openly undermined by infighting.

The victory of Greek capital and its ability to impose its will on the historic bloc was not a foregone conclusion, in fact, it seemed unlikely just weeks prior. Three identifiable factors pushed it to that victory. First, the firm grip capital had on Greek institutions gave it a home turf advantage as the left faction was forced to work with the institutions and people that Greek capital created and empowered. Stournaras' presence at the helm of the Bank of Greece is a great exemplifier of that grip. The fact that Yaannis Roubatis, the head of Greek Intelligence could easily sow disinformation between the radicals proved very detrimental to cohesion and led to an outright fracture in the radical wing as everyone believed the others compromised[85]. The second factor is the material fact that the hundreds of billions of Euros that poured into the Greek economy in the previous decades filtered through Greek capital, which allowed it to build strong and lasting patronage networks in the media, professional class, intelligentsia, and political

---

[85] Varoufakis, *Adults in the Room*. pp. 420- 425. Roubatis was connected to Greek capital through the Hellenic Gaming Commission which was in charge of lottery and gambling. The reorganization of HGC alienated Roubatis from the radical camp and especially Varoufakis.

parties. This control over the distribution of financial resources allowed Greek capital to have a significant advantage in manufacturing consent, at least among the bureaucrats filling the various seats of lesser power. The third factor was that a capital alliance between European capital and Greek capital would always be more preferable to an unholy alliance between European capital and Greek labor for ideological and practical considerations. It would not require there to be an admission of guilt, ideological realignment, or any course change, the capital alliance was already the status quo and the sheer force of inertia was on its side.

During March, the discord grew as the stress mounted and trust practically vanished[86] . As the cohesion of the government itself dissipated, the political will and capital necessary for Greece to maintain a deterrent stance vanished. Tsipras and Varoufakis started attempting to solicit help from Russia and the People's Republic of China. They attempted to levy their competition with Germany and political-economic interests in the region in hope that they will buy Greek bonds in a volume sufficient enough to keep his government solvent through April[87]. No help was coming forth, Russia was bloodied by economic sanctions and China could not risk angering European partners over a matter so trivial to their national interest.

According to Varoufakis, on April 5th he was sent to default to the IMF before learning mid-air that his comrades back home had decided that it was to be an empty threat[88]. Although such a bluff seemed insane to him. It does make sense in its context.

---

[86] Varoufakis recalls Tsipras telling him that the head of Greek Intelligence Yannis Roubatis passed on information to Nicos Pappas and Spyros Sagias that Varoufakis was collaborating with Schäuble to tank the negotiation and force a Grexit. For more Varoufakis, *Adults in the Room*. pp.422-423

[87] Varoufakis, *Adults in the Room*. pp. 314-322

[88] Varoufakis, *Adults in the Room*. pp. 355-360

Having already lost the political will to default, the success of the bluff would have very high returns, but its failure would only lead to them paying and agreeing to a third bailout, which was the status quo trajectory of events. As such while completely incomprehensible to Varoufakis, their big gamble was low risk and high reward, a typically good gamble. More interestingly they were right; Lagarde took Varoufakis' meeting well and by the end had effectively called the bluff[89]. Greece did not seem to suffer any punishment for this attempted default that it would not have otherwise suffered.

The Sack

While the following months were filled with details and anecdotes, none of them served to alter the course of events. As the Greek coffers emptied, Greece missed its payment for June 5th as expected. The IMF unilaterally bundled the missed payments with a later payment at the end of the month, but since the math did not change Greece's failure to pay at the end of June was not in doubt[90] . By June 26th as the last attempts -no matter how faint their hopes of success -at renegotiation failed and the Troika steeled its position. The end of June would see the loan extension expiring as well as the coming due of over 1.2 billion Euros to the IMF. Syriza came to a decision to put the acceptance to a referendum to be held on July 5th where the Greek people can directly say yes or no to the proposed bailout. Syriza's request for a short extension to cover an extra week for the referendum to take place was refused by the Troika[91].

[89] AFP, "Greece Agrees to Repay IMF Debt by April 9: Lagarde," Yahoo! News (Yahoo!, April 6, 2015), https://news.yahoo.com/greece-agrees-repay-imf-debt-april-9-lagarde-012200543.html.
[90] Varoufakis, *Adults in the Room*. pp. 428-429
[91] Varoufakis, *Adults in the Room*. pp. 443-447

Greece would default on June 30th[92] as it failed to pay the IMF again. After five days of bank lines, cash withdrawal limits and the doom and gloom of default, 61.3% of voters refused the Troika's package[93], giving Syriza a clear mandate forged in the fire of default to refuse the ultimatum. However the will to use default as a tool of defiance faded three months earlier. Greece would not trigger the SMP haircut for retaliation and go its own way. Varoufakis resigned on the next morning, and his successor Euclid Tsakalotos immediately began to negotiate the third bailout despite the express wishes of the Greek people.

In less than a week the third bailout was signed, hours before another IMF tranche came due on July 13th[94], and more importantly before the SMP bonds came due later that month. On July 16th another austerity bill was passed, one of four Syriza would shepherd through the Hellenic parliament. Syriza's popularity waned as its rhetoric against austerity directly contravened the austerity measures it enacted. With defections rising, Tsipras had to call another snap election in September that saw Syriza win by the skin of its teeth as it shed almost an eighth of its supporters in eight months. In 2019 Syriza lost to New Democracy as it continued to splinter further. Greece's debt stocks continued to increase as its GDP stagnated, while unemployment started decreasing, Greece did not recover to pre-crisis levels on any major economic indicators.

---

[92] Renee Maltezou and Robert-Jan Bartunek, "Greece Defaults on IMF Payment despite Last-Minute Overtures to Creditors," Reuters (Thomson Reuters, June 30, 2015), https://www.reuters.com/article/us-Eurozone-greece-idUSKBN0P40EO20150630.

[93] Graeme Wearden et al., "Greek Debt Crisis: Deal Reached after Marathon All-Night Summit - as It Happened," The Guardian (Guardian News and Media, July 13, 2015), https://www.theguardian.com/business/live/2015/jul/12/greek-debt-crisis-eu-leaders-meeting-cancelled-no-deal-live.

[94] Wearden et al., "Greek Debt Crisis".

During and after the crisis the metaphysical argument that the Greeks were inherently lazy, profligate, and unscrupulous people found a home on the pages of respected journals and magazines[95]. Media representations often completely decontextualized the Greek crisis in an arguably propagandistic manner, of which the Greeks themselves were fully aware. This belittling was also extended to Greek proposals during the crisis. However, the fact that only a month after the third bailout was signed, Ukraine availed itself of a deal very similar to the one the Greeks sought, including extending debt maturities, write-downs, and GDP indexed bonds[96] reveals that the proposal's feasibility was not a valid reason for Troika objections. In fact, feasibility was not at all an important factor in the Troika's decision-making process as evidenced by pursuing a policy in Greece that the IMF had acknowledged cannot work in private since 2011 and in public since august 2015[97].

Having removed the economic feasibility argument against renegotiations, it follows that the Troika's choices were dictated by political considerations instead of economic reasoning. While the Troika saw a lot of moments of factional disagreements between various actors such as the IMF and ECB, between France and Germany, and even between Merkel and Schauble[98] -who represented the same state- over the particularities of how to handle the Greek debt crisis, there was a broad understanding that acquiescing to renegotiation would be tantamount to an admission of guilt and

---

[95] Reinhard Wolf, "Debt, Dignity, and Defiance: Why Greece Went to the Brink," *Review of International Political Economy* 25, no. 6 (October 23, 2018): pp. 829-853.
[96] Phillip Inman, "Ukraine Agrees 'Win-Win' Debt Restructuring Deal," The Guardian (Guardian News and Media, August 27, 2015), https://www.theguardian.com/world/2015/aug/27/ukraine-agrees-win-win-debt-restructuring-deal.
[97] Landon Thomas Jr., "The Greek Debt Deal's Missing Piece," The New York Times (The New York Times, August 15, 2015), https://www.nytimes.com/2015/08/16/business/international/the-greek-debt-deals-missing-piece.html.
[98] Varoufakis, *Adults in the Room*. pp.340-404

responsibility for the humanitarian crisis that has unfolded. This was supplemented by a leadership -manifested in Germany, the beating heart of European capital- that managed to cow dissidents within its own ranks time after time. This meant that any challenge to the status quo would have to come entirely from within the Greek polity.

This is to say that salvation for Greece had to come from within, and even though the relationship reified in debt is a very unbalanced power relation where the lender will always have more power than the borrower and can seek to supplement this power through codifying and institutionalizing its power; the outcome is far from predetermined. As such, discrete actions and choices made by faction leaders and representatives arguably had more to do with the defeat of the Greek alliance than the sheer arcane inertia of institutions opposing it.

III. Puerto Rico: The Glacial Crisis of the Caribbean

Terms of Integration: The Root Cause

It might be quite unexpected to think of the world's oldest existing colony as being sup-optimally integrated into the hegemonic world system led by its direct colonial overlord. However, it is that suboptimal integration that meant that Puerto Rico's place in the hierarchy had to be modified twice in the last 100 years. The Island was colonized by the Spanish crown just one year after Columbus' infamous journey to the new world. Between 1493 and 1898 the island was controlled by Spain and ran a colonial economy growing cash crops such as sugarcane and tobacco to fuel the Spanish empire, and except for a brief -albeit temporary and unprotected- ascent to the status of a province with representation in the Spanish Parliament "Cortes"[99], the island remained in all respects a colony. During the Spanish-American War, the United States of America successfully invaded the island and took it in the Treaty of Paris of 1898, the U.S. interest in the island was strategic as well as economic. Interests that Elihu Root - then U.S. secretary of war - extolled in a report to Congress in 1899, detailing how to best exploit them while avoiding enfranchising the island's inhabitants[100]. The fact that the first major mention of the Island in congress was solely dedicated to ensuring its exploitation without granting it representation is very telling of the intent of the American capital at the time and a precedent that would remain an honored tradition to this day. In 1900 congress signed the

---

[99] The Autonomic Charter "Carta Autonómica" which granted Puerto Rico these rights was a royal ministerial decree and not a law passed by the Cortes which meant that it could be revoked on the whims of the Council of ministers. This status coupled with the fact that the decision was taken in 1897 at the height of the Cuban war of independence makes the concession of autonomy appears more of a ploy to dissuade Puerto Ricans from joining the Cuban brethren in revolt. See Juan R. Torruella, "To Be or Not to Be: Puerto Ricans and Their Illusory U.S. Citizenship ," *CENTRO JOURNAL* XXIX, no. I (2017): pp. 110-112.
[100] José I. Fusté, "Repeating Islands of Debt," *Radical History Review* 2017, no. 128 (May 2017): pp. 97.

Foraker Act granting Puerto Rico the right to organized government, allowing it a popularly elected lower house, and the U.S. appointed upper house and governor, with the U.S. congress retaining the right to overturn any laws passed by the Puerto Rican legislature. In 1901 the insular cases added insult to injury by declaring that only the fundamental constitutional rights extended to unincorporated territories such as Puerto Rico, and the rest can be only conferred by congress at its own leisure. The discussion for the insular cases which are still affecting Puerto Ricans until this day is rife with racism and xenophobia, to say the least, Justice Henry Billings Brown cited his concerns vis-a-vis "differences of race, habits, laws, and customs of the people," as well as "differences of soil, climate and production."[101]. In 1917 citizenship was imposed on the people of Puerto Rico through the Jones Act, this imposition was a move to curb the Puerto Rican independence movement, which culminated in 1914 in a house of Representatives unanimous vote for independence which was rejected by the U.S. Congress as unconstitutional[102]. The Jones Act passage and the citizenship it granted did not give Puerto Ricans the right to vote in national elections, but did allow them to be forcibly conscripted for World War One, to freely elect their senate, and most importantly granted them access to US mainland[103]. It also granted Puerto Rico's municipal bonds the "triple exempt"[104] status[105]. This status meant that Puerto Rico's municipal bonds were tax

[101] Fusté, "Repeating Islands of Debt," pp. 94-96

[102] Jon Lee Anderson, "The Dream of Puerto Rican Independence, and the Story of Heriberto Marín," The New Yorker (The New Yorker, December 27, 2017), https://www.newyorker.com/news/news-desk/the-dream-of-puerto-rican-independence-and-the-story-of-heriberto-marin.

[103] Torruella, "To Be or Not to Be". pp. 115-117.

[104] Meaning interest and proceeds are exempt from municipal, state, and federal income taxes. Making it one of the most lucrative investments

[105] Fusté, "Repeating Islands of Debt," pp. 104.

exempted on the municipal, state, and federal level, making it a pure profit investment for the lenders, and an easy way to fund the island's chronic budget deficit.

As the world economy developed, Puerto Rico lagged, its mainly agricultural economy was faltering and cash crops became a less reliable source of income in an increasingly industrialized world. In 1948 President Truman's administration introduced "Operation Bootstrap". The Operation was an industrialization program aimed at promoting Puerto Rico as a paragon of the virtues of U.S. economic values. During the 1950s the Gross Domestic Product (GDP) of the island grew by 68%, and in the following decade an astounding 90%, during this period manufacturing rose from negligible levels to contribute 40% of the island nation's GDP[106]. These developments on the island were coupled by U.S. diplomatic propaganda that culminated in the removal of Puerto Rico from the United Nations list of non-self-governing territories by resolution 748 of the General Assembly. The American delegation argued that since Puerto Rico had been given the right to elect its governor -in 1947 Elective Governor Act- along with the upper and lower house of its parliament it was a self-governing territory and that the operation Bootstrap coupled with Public Law 600 establishing Puerto Rico as a commonwealth have shown that the U.S. was a benevolent partner rather than an exploitative overlord. The passage of the 748 resolution was a great victory of American imperialism and allowed the exploitation of Puerto Rico to continue with limited scrutiny[107].

---

[106] Robert Looney. "Austerity in the Tropics: Is Puerto Rico the New Greece?" *The Milken Institute Review* 16, no. 4 (2014): pp. 70.

[107] "Developments in the Law — The U.S. Territories," *Harvard Law Review* 130, no. 6 (April 10, 2017): pp. 1656-1661. https://harvardlawreview.org/2017/04/the-international-place-of-puerto-rico/.

However, the turbulence of the 1970s oil shocks disturbed the island economy greatly as it relied on oil for power generation, the concurrent stagflation was detrimental to the recently established industries and posed a tangible threat to the "American Dream" that Puerto Rico was supposed to embody. As the 1970s lurched onwards Operation Bootstrap was gradually doomed, and the island began to deepen its reliance on debt. Operation Bootstrap was the first major adjustment in the terms of integration for Puerto Rico. Although the U.S. has been gradually adjusting the island and constantly reorienting it towards the mainland's needs through systemic proletarization and dispossession that aimed to force the islanders into a waged work system that suited the U.S. it was Bootstrap that truly changed the Island. The shift from agricultural to industrial work was not motivated by the gregarious nature of Truman but was a continuation of the policies set by Root and his ilk in the first year of colonization. The island's agricultural economy was now a diminished asset. Industrialization was the answer. Puerto Rico offered a haven for investors, the island had direct access to the U.S. market with low-waged workers lacking federal protections, a great outlet for the excess capital of the post-war economic boom.

The industrialization program also helped integrate the island's labor in the American economy, both on the island and the mainland as the development of the Puerto Rican economy necessitated labor's acquisition of industrial skills that allowed it to take advantage of its access to the U.S. labor market. These skills combined with the crushing of the Puerto Rican Nationalist uprising in 1950 and the disillusionment that followed saw more than 700 thousand Puerto Ricans leave for the mainland between

1950 and 1970.[108] These combined push and pull factors saw the population of Puerto Ricans on the mainland outpace the growth of that on the island. It also had a compounding effect on the success of Operation Bootstrap as the simultaneous siphoning of disgruntled labor and injection of capital allowed the island to average 6% real GNP growth for these two decades[109]. The spirit of Root's report lived on as the U.S. continued to exploit the island in new ways while avoiding enfranchising its populace. The Puerto Rican boom encouraged returning to the higher rates of borrowing that prevailed until the late 1930s, between 1969 and 1973 the island's borrowing increased by roughly 90%. By 1974 the island experienced its first debt crisis as its borrowing surpassed the limit imposed in its constitution[110].

Easy Credit: A mess of pottage

In 1976, as stagflation reached its crescendo the U.S. government approved section 936 of the Internal Revenue Service (IRS) code. Section 936 was a measure by which U.S. transnational corporations received tax exemptions on all their profits reported in Puerto Rico and transferred to the mainland, so long as these profits remained in earmarked bank deposits in Puerto Rico for no less than five years, and a tollgate tax of 2 percent was paid. Thus section 936 effectively established Puerto Rico as a domestic tax haven for American capital. As a result investments from the mainland returned, especially in industries where patents played an important role in profit generation such

---

[108] "Puerto Rican Emigration, Why the 1950s?," Department of Latin American and Puerto Rican Studies (Lehman College), accessed July 29, 2020, https://lcw.lehman.edu/lehman/depts/latinampuertorican/latinoweb/PuertoRico/1950s.htm .
[109] Ricardo R. Fuentes-Ramírez, "The Political Economy of Puerto Rico: Surplus Use and Class Structure," *Latin American Perspectives* 47, no. 232 (May 2020): pp. 23.
[110] Fusté, "Repeating Islands of Debt," pp. 104-106

as pharmaceuticals. American drug giants sold their drug patents to their Puerto Rican subsidiaries, allowing for all royalties on the patent to be registered on the island, as well as manufacturing the final product[111]. The section succeeded in buying time for the island and mitigated the effects of the 1970s crisis on it while benefiting American capital first and foremost.

For twenty years after its introduction, section 936 was the lifeblood of the Puerto Rican economy, capital utilizing the 936 mechanisms was averaging around one-third of all bank deposits during that period and reaching over 42% of all bank deposits in 1985[112]. By 1996 it registered over 15.4 billion USD of direct investments, the highest U.S. foreign direct investment in the world at the time by a significant margin. However, it was also in 1996 that the U.S. Congress decided to repeal section 936 by phasing it over 10 years. Making 2005 the final year when the section will apply, giving capital plenty of time to rearrange its operations[113]. Between 1996 and 2006, the island's banking sector lost more than 7.4 billion USD in deposits, constraining the cash supply on the island significantly[114]. The repeal of 936 was not the only shock to Puerto Rico's economy. The creation of the World Trade Organization also negatively affected Puerto Rico's value for its masters in the mainland as the privilege of national treatment for companies in Puerto Rico became obsolete due to the resulting international regulations

---

[111] Emilio Pantojas-García, "Is Puerto Rico Greece in the Caribbean? Crisis, Colonialism, and Globalization," *The Fletcher Forum of World Affairs* 40, no. 1 (2016): pp. 57-59.

[112] Joaquín Villanueva, Martín Cobián, and Félix Rodríguez, "San Juan, the Fragile City: Finance Capital, Class, and the Making of Puerto Rico's Economic Crisis," *Antipode* 50, no. 5 (2018): pp. 1418.

[113] Pantojas-García, "Is Puerto Rico Greece in the Caribbean?". pp. 59-61.

[114] Villanueva, et al, "San Juan, the Fragile City". pp.1418.

and free trade agreements[115]. The repeal of 936 was not unexpected since the world's financial regulations loosened and as tax avoidance operations became a complex art.

The financial deregulation, collapse of empires, and their unique segmented tax systems allowed for higher capital mobility[116] but also created a drive to seek these same exemptions afforded by the empire. This meant that while governments were trying to attract this newly hyper-mobile capital[117], armies of accountants, lawyers, and assorted consultants were being trained in tax avoidance to direct capital to these tax havens. The weakening of the socialist bloc and the waning influence of communism also meant that many of these tax havens were safe from socialist revolutions that could expropriate their hoards.[118] As a result, while trillions of dollars have been siphoned from the global economy and directed to tax havens, these havens benefited greatly, while the global economy grew an average of 1.4% between 1982 and 1999, tax havens grew by more than double at 3.3%[119]. The strong performance of tax haven economies necessarily begs the question of why Puerto Rico turned away from it, especially considering that tax havens' reversal of policies would result in a significant reduction in the volume and speed of international money[120]. Decisions that decrease the velocity and elasticity of foreign capital in a state are rarely contemplated since that goes against the incentives and imperatives enshrined in the capitalist system. The government of Puerto Rico still

---

[115] Pantojas-García, "Is Puerto Rico Greece in the Caribbean?". pp. 59-60.
[116] Ana Margarida Raposo and Paulo Reis Mourão, "Tax Havens or Tax Hells? A Discussion of the Historical Roots and Present Consequences of Tax Havens," *Financial Theory and Practice* 37, no. 3 (June 4, 2013): pp. 314.
[117] Dhammika Dharmapala and James R. Hines Jr., "Which Countries Become Tax Havens?," *Journal of Public Economics* 93 (July 21, 2009): pp. 1059.
[118] Dharmapala, and Hines Jr., "Which Countries Become Tax Havens?,". pp. 1064
[119] Dharmapala, and Hines Jr., "Which Countries Become Tax Havens?,". pp. 1059
[120] Raposo, and Mourão, "Tax Havens or Tax Hells". pp. 323.

needed American capital, but American capital was no longer in need of Puerto Rico. The island colony had served its role for the period.

Through its life as a colony, Puerto Rico was never the master of its own finances as it remained very much under the mainland's thumb. Its economic situation is always worsened by the fact that it has all the obligations of other states, but less in its arsenal to address them. Since the American subjugation of the island roughly twelve decades ago the island's reliance on debt to finance its government was only interrupted between the 1940s and 1960s. Puerto Rico's dependence on American capital to create jobs and drive development on the island renders it hostage to that capital, as it cannot contend with it on equal footing, so it can only submit. This has resulted in the Puerto Rican government adopting pro-business tax policies that favor low taxes for companies and corporations in hope of luring investments. This meant that the island's tax revenues chronically fell short of its needs. On the other hand, Puerto Rico's triple tax-exempt status makes its bonds extremely sought after by American investors. This constant supply of bond buyers meant that Puerto Rico never had a shortage of cash, which along with the belief that the U.S. government would eventually bail it out in case of default, kept the Island's credit ratings high well beyond the point of no return. Puerto Rico became addicted to debt. Forcibly so.

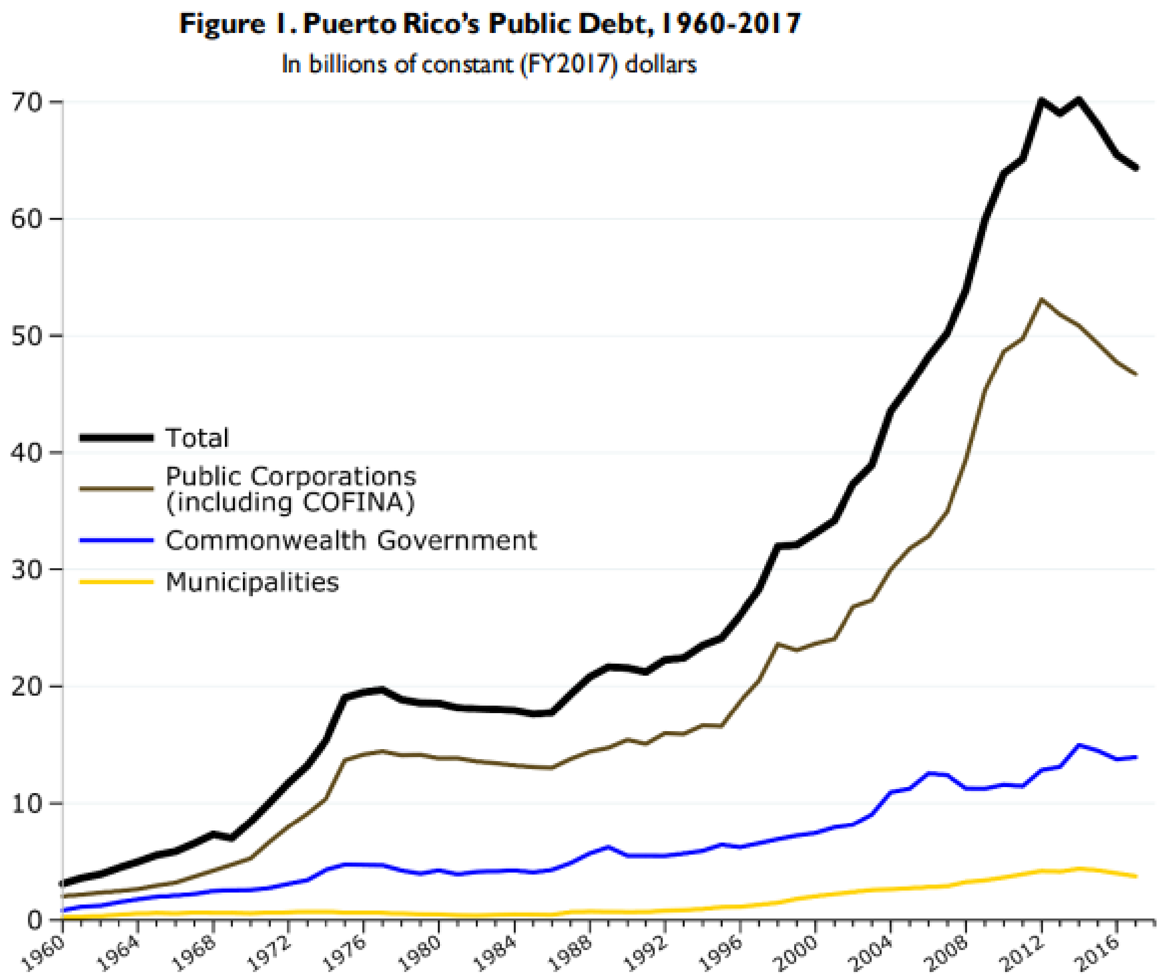

Figure 1[121]

These loans did not all go to financing necessary or remunerative projects, in fact, some of them were directed into "megaprojects" that ended up driving the insular government further into debt. One major culprit is the Puerto Rico Convention Center District Authority. The district authority was originally intended to just manage the convention center built on the site of an old military base, however, its portfolio grew

121 "Puerto Rico's Public Debts: Accumulation and Restructuring," Congressional Research Service (United States Congress, May 18, 2021): pp. 4. https://sgp.fas.org/crs/row/R46788.pdf.

rather impressively. In 2004 the District Authority inherited the soon-to-open convention center along with its credit line of 415 million USD, as well as Agrelot Coliseum which had a line of credit of 230 million USD, hence accruing 645 million USD in debt in one year. The District Authority was also granted the right to issue bonds, a power it used to its full extent in 2006 when it issued a bond by the Hotel Room Tax revenue for over 468 million USD, which by the end of its payment will have netted the District Authority a cost of roughly 800 million USD. The debt-ridden Authority has been making losses since its establishment except for the years 2011, and 2012, with no end to the losing streak in sight[122].

Emilio Pantojas-García dates that kind of focus on propagandistic “mega projects” to the administration of Pedro Rosselló, an obsession that remains to this day. Other projects included two natural gas pipelines, the super aqueduct, and the Urban Train[123]. The Urban Train alone cost 2.5 billion USD (1 billion more than its original budget) and currently loses over 50 million dollars annually due to low ticket sales, which hover around a third of what it needs to breakeven[124]. The only economically viable project of these, was the only necessary one, the Super Aqueduct[125]. As the Island’s government is fundamentally lacking in power considering the colonial context in which it exists, megaprojects become a disproportionately important source of legitimacy both through sheer propagandization of the projects and also through awarding contracts to favored political patrons.

---

[122] Villanueva, et al, “San Juan, the Fragile City”. pp. 1420-1422.
[123] Pantojas-García, “Is Puerto Rico Greece in the Caribbean?”. pp. 61-62.
[124] Villanueva, et al, “San Juan, the Fragile City”. pp.1422.
[125] Pantojas-García, “Is Puerto Rico Greece in the Caribbean?”. pp. 61.

Market Shock: Scraping the barrel

The Market shock in question here unfolded at a rather glacial pace, as it started with the repeal of section 936 in 1996 and manifested gradually over the next two decades. However, the pace of the crisis is irrelevant when the subjects affected cannot make the decisions necessary to brace for it. With the announcement of the phasing out of 936 in 1996 over a decade, capital that made use of the section started to retreat from the island, slowly but surely deindustrializing Puerto Rico. As previously mentioned, the island's banking sector was already bleeding 936 deposits. In the factories, the picture was even grimmer as by the end of 936 in 2005, Puerto Rico lost 36,000 manufacturing jobs out of the 153,000 that existed in 2000. Almost a quarter of workers in manufacturing were out of a job within 5 years, and even though the trend slowed after the repeal -as mainland corporates had already adjusted by firing all expendable labor before the deadline- it did not halt. By 2014 a further 42,000 workers in manufacturing lost their livelihoods, reducing manufacturing jobs to just 75,000 by 2014, less than half of the 2000 figure. That deterioration is not surprising considering that over the same period real growth investment would also decrease by an average of 2.3% annually[126].

Capital flight and the ensuing constriction of available funds simultaneously forced Puerto Rico to continue borrowing on increasingly more dangerous terms while depriving it of the only asset that could have proved useful in the crisis, its skilled workforce. As the crisis deepened not only did sectors like manufacturing end up shrinking, but even government workers found themselves at the crosshairs as a third of

[126] Pantojas-García, "Is Puerto Rico Greece in the Caribbean?". pp. 60

them were fired in 2009[127]. This created significant pressure on the island's workforce to emigrate to the mainland triggering a massive exodus from the island nation. According to U.S. Census Bureau data by 2018 Puerto Rico had already lost over 600,000 people to emigration out of the 3.8 million persons that populated the island in 2000[128], decreasing the population by over 15%[129]. San Juan, saw its population shrink by 18% between 2000 and 2015, and the rate of vacancy in housing increased from 10.2% to an astounding 23.5%[130], with almost one in four houses vacant even before the devastating Hurricane Maria hit in 2017 and triggered a wave of 160,000 Puerto Ricans to head to the mainland[131].

Worse still, this wave of emigration did not translate into remittances that could help buoy the economy back home. While there is not a lot of scholarship on why remittances from the mainland to Puerto Rico are low, there is enough to prove that it is abnormally low. Jorge Duany shows that Puerto Ricans' economic behavior veers sharply from comparable immigrant labor groups. Few Puerto Ricans send money back home from the mainland and those who do send less than their Caribbean counterparts do. As such remittances contributed an average of a measly half percent to the island's GDP

---

[127] Linda Backiel, "Puerto Rico: The Crisis Is about Colonialism, Not Debt," *Monthly Review* 67, no. 5 (October 2015): pp. 13.

[128] Although some might argue that the 160,000 Puerto Ricans that emigrated in the aftermath of Hurricane Maria should be discounted in the course of such a study as it was due to a natural disaster and not due to economic reasons, the abundance of evidence proves that the catastrophic failure in the response to the hurricane which prompted the emigration was ultimately caused by the economic crisis.

[129] "U.S. Census Bureau Quick Facts: Puerto Rico," Census (United States Census Bureau), accessed July 28, 2020, https://www.census.gov/quickfacts/fact/table/PR/PST045221 .

[130] Villanueva, et al, "San Juan, the Fragile City". pp. 1427.

[131] Jennifer Hinojosa, and Edwin Meléndez, "Puerto Rican Exodus: One Year Since Hurricane Maria," *Centro De Estudios Puertorriqueños*, September 2018, pp. 7.

since the 1980's, compared to an average of 15% of GDP in other Caribbean nations[132]. This could be the result of many factors, including the unrestricted movement of capital and labor between the mainland and the island, the extension of federal programs to the island, and more importantly the absence of a currency mismatch. All of this means that simply there are not enough distortions between the home market and the host market for remittances to exploit. That is to say, that contrary to other cases where remittances offset the economic cost of emigration, in the case of Puerto Rico that silver lining does not break through. Meaning that immigration to the mainland only helped the island in so much as to alleviate the chronically high unemployment burden. All of these factors conspired to leave Puerto Rico worse for wear as the gap between revenues and expenses widened, debt grew faster than the economy itself, a situation much worsened when the economy started contracting. By 2016 the situation was untenable, and an intervention from a higher power - an imperial power- was needed.

Political Crisis: What can be done?

Due to Puerto Rico's status as a colony of an uncontested global hegemon, spaces for resistance are heavily restricted. Popular resistance to changes in the social contract or changes in the historic bloc often attempts a change in the ruling coalition as the primary vehicle for renegotiating the terms of debts or even contesting their validity. However, as Puerto Ricans have a very restricted form of autonomy, even changing the government

[132] Jorge Duany, "To Send or Not to Send: Migrant Remittances in Puerto Rico, the Dominican Republic, and Mexico," *The Annals of the American Academy of Political and Social Science* 630 (July 2010): pp. 209-219.

would not be as potent a tactic, as the government itself does not have the power to contend with the U.S. Congress which has the supreme say over the island.

The political establishment's capture by what is often termed the Criollo bloc coupled with the impotence of the Puerto Rican government meant that what resistance would transpire could not be practiced in the halls of political government, but instead in public spaces. As such public spaces can either be captured by force of an insurrection or non-violent propaganda of the deed. Notwithstanding that an armed insurrection against the mightiest military on the planet could be infeasible, it understandably does not seem to capture the islanders' imagination or support; The suppression of the 1950 insurrection was swift and brutal, the use of warplanes to quell the unrest signaled to Puerto Ricans that armed struggle would be met by excessive force. As such art or cultural artifacts that seek to contest the narrative became the most observable method of resistance. The first sign of that popular upswell is the common referral to the current administration on the island as the *la junta*, a term used derisively for military or occupation governments.[133] *Brigada Puerta de Tierra* (BPdT) a local community organization on the frontlines of debt-wrought displacement has been deploying artistic means such as graffiti, songs, dances, and occupations when needed.[134] While that kind of protest might be derided by some as ineffective, it serves to shape the narrative of resistance, ensuring that the ruling criollo bloc and Washington D.C. do not get to ignore the suffering of the disaffected when crafting the tapestry of their narrative. In short, BPdT other cultural resistance movements use the spaces that are available to them to their full potential to ensure discord is not erased and that authorities cannot go unchallenged, even if the challenge is

[133] Villanueva, et al, "San Juan, the Fragile City". pp. 1418.
[134] Villanueva, et al, "San Juan, the Fragile City". pp. 1428-1430.

symbolic. Lastly, the biggest sign of crisis is the immigration wave out of the island and to the mainland. The exodus of Puerto Ricans crossing to the mainland for their own good, an unenviable decision. More remain on their island, defiant in the face of a crisis waiting for a brighter future that would not be dominated by laws and decrees handed down from the mainland.

La Junta:

The Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) was the mainland's response to the crisis. The law was the result of an increasing cultural pressure building up in the mainland as ever more Puerto Ricans arrived bringing tales of ever-worsening conditions. The federal law enacted on June 30th, 2016 created the PROMESA board, a presidentially appointed board with no input from the Puerto Ricans themselves with sweeping powers over their lives[135]. To mitigate the bitterness of what amounted to the imposition of direct rule from the mainland the law also allowed a stay on litigation that can be imposed while the board negotiates to restructure the island's debt. On July 1st the Puerto Rican government suspended debt repayments avoiding a 1.9 billion USD repayment that was due on the same day[136].

Even with that stay of execution, the PROMESA board was immediately derided as a fundamentally unrepresentative and unaccountable body, quickly earning the nickname La Junta. La junta was in no way an exaggerated expression, the board was given the right to enter contracts on behalf of the island, and a clear mandate to prohibit

[135] "Developments in the Law — The U.S. Territories,". pp. 1666.
[136] Nick Brown, "Puerto Rico Authorizes Debt Payment Suspension; Obama Signs Rescue Bill," Reuters (Thomson Reuters, June 30, 2016), https://www.reuters.com/article/us-puertorico-debt-idUSKCN0ZG09Y.

striking by sector employees[137]. Not only was it legally independent from any influence of Puerto Rican institutions whether it was the governorship or the legislature, but the law also stipulated that these institutions cannot act in a way that would impair the purposes of the board[138]. Finally, the board and its members could not be held legally liable for its actions[139]. As such the PROMESA board was very overtly an institutional manifestation of an unfettered imperial will. These sweeping dictatorial powers of the board could only have been forged at the intersection of debt and colonialism; two of the clearest forms of power imbalance. The board's main source of power is its raison d'etre; that is the bankruptcy-like process it allows Puerto Rico to enter and more importantly the preceding negotiations to avoid a bankruptcy case. Puerto Rico's colonial status means that it cannot default as a sovereign nation can, while leaving it exempt from the right to go bankrupt like other U.S. municipalities, as such the creation of the board allowed Puerto Rico to access this right to restructure its debts. However, that access can be extended only at the sufferance of the board, as it can also end the bankruptcy-like process if it feels the Puerto Rican government is not being serious enough. That is to say that while the Puerto Rican government had to negotiate with creditors it was also negotiating with the board to continue enjoying the right of negotiating with the creditors, and when all is said and done, only the board had the right to force Puerto Rico into bankruptcy[140].

---

137 "48 U.S. Code § 2124 - Powers of Oversight Board," Legal Information Institute (Cornell Law School), accessed July 20, 2020, https://www.law.cornell.edu/uscode/text/48/2124.
138 "48 U.S. Code § 2128 - Autonomy of the Oversight Board." Legal Information Institute (Cornell Law School), accessed July 20, 2020. https://www.law.cornell.edu/uscode/text/48/2128.
139 "48 U.S. Code § 2124 - Exemption from liability for claims." Legal Information Institute (Cornell Law School), accessed July 20, 2020. https://www.law.cornell.edu/uscode/text/48/2125.
140 Juan Gonzalez, "Puerto Rico's $123 Billion Bankruptcy Is the Cost of U.S. Colonialism," The Intercept (The Intercept, May 9, 2017), https://theintercept.com/2017/05/09/puerto-ricos-123-billion-bankruptcy-is-the-cost-of-u-s-colonialism/.

In the shadow of this new authority, the 2016 elections took place and saw Ricardo Rosello of the statehood oriented New Progressive Party elected governor amidst a palpable decline in turnout as Puerto Ricans were emigrating out of the island in droves. The bonafide scion of an upcoming criollo dynasty; Ricardo's Father -Pedro- governed the island between 1993 and 2001, overseeing the prelude to the crisis, and arguably played a role in inviting it. Ricardo the younger ran on a platform of seeking statehood and renegotiation with debtors that would avert the worst and protect pensioners. However, it did not take long to break what will he might have had to fight. Even while asking for quite modest haircuts, debtors could easily see that he had no real power to force them to accept his terms. The only real power over Puerto Rico was the oversight board, sitting in New York, safely away from the island and its increasingly frequent protests. Rosello failed to reach a negotiated settlement with creditors even as the board allowed him more time to negotiate. He discovered a 7.5 billion USD deficit which meant that he was running out of time while creditors could afford to wait. By the advent of May, Rosello's government had to face legal action as the court stay ended, with the government of Puerto Rico filing for the bankruptcy-like protections afforded by PROMESA on May 3rd[141].

Only a few days later, Rosello announced cuts across the board including the closure of 184 schools and pensions cuts across the board as he prepared a budget for the board's approval[142]. It is important to highlight that these cuts had no bearing on the crisis. Rosello, and Padilla before him repeatedly expressed that austerity alone cannot

---

[141] Frances Robles, "Puerto Ricans Face 'Sacrifice Everywhere' on an Insolvent Island," The New York Times (The New York Times, May 6, 2017), https://www.nytimes.com/2017/05/06/us/puerto-rico-insolvency-business-owners-anxiety.html.
[142] Robles, "Puerto Ricans Face 'Sacrifice Everywhere'".

solve the crisis as they both enacted austerity measures. This ritual mutilation of the island's economy to prove to the federal government how badly help is needed reinforced the grotesque feeling about seeking a closer union with a government that seemed uncaring, and Rosello's public support started to dwindle rapidly. Even before his official turnaround protests against Rosello escalated as thousands of workers protested on May Day launching a strike. After the announcement of budget cuts to education, students joined in the fray pouring into the streets in their thousands as the island's resistance became more galvanized and militant since the mainland intervened, but did not side with the Puerto Rican people[143].

In June and July, the island was roiled by unrest and Rosello put forth his budget conforming to the PROMESA board's turnaround plan which saw massive cuts to government purchases, payroll, and no clear answer for how to keep the pension funds afloat or even repay the debt[144]. The Puerto Rican Electric Power Authority (PREPA) filed for bankruptcy-like protections afforded by PROMESA mere days after as it struggled to service its 9 billion USD debt[145]. All of this was overshadowed by the landfall of Hurricane Maria devastating the island killing nearly 3000 residents and destroying much of the already insufficient infrastructure and taking the power grid

[143] Ibid
[144] Nick Brown, "Puerto Rico Budget to Protect Pension Payments: Governor," Reuters (Thomson Reuters, May 31, 2017), https://www.reuters.com/article/us-puertorico-debt-budget/puerto-rico-budget-to-protect-pension-payments-governor-idUSKBN18R3C8.
[145] Mary Williams Walsh, "Puerto Rico's Power Authority Effectively Files for Bankruptcy," The New York Times (The New York Times, July 3, 2017), https://www.nytimes.com/2017/07/02/business/puerto-ricos-electric-power-authority-effectively-files-for-bankruptcy.html.

completely offline,[146] and ravaging the coffee planting industry[147]. The lackluster federal response inflamed tensions even higher as Puerto Ricans felt completely abandoned by the mainland government dictating their lives through the board. An errant remark from President Donald Trump mentioning wiping out the Island's debt in October 2017 saw the market for Puerto Rican bonds dive until the secretary of treasury cleared it up saying that the president spoke figuratively[148].

From there on protests continued apace with the government's reforms as the island suffered through a very sluggish recovery. In June of 2018 Rosello approved a law that would allow for PERPA to be privatized raising the ire of Puerto Ricans who rightly felt that they were being squeezed further in their time of need[149]. A month later Rosello signed an executive order raising the minimum wage for government-contracted workers to 15 USD per hour in an apparent attempt to ameliorate some of the worst effects of the crisis. This measure's success was doubted from the beginning as government contracts have naturally shrunk due to the austerity measures imposed by Rosello earlier[150]. The austerity measures as implemented by Rosello significantly reduced the state's patronage system, as the allocation of government contracts is the primary conduit of power for the

---

[146] Holly Yan, "Puerto Rico Governor: Power Could Be out for Months," CNN (Cable News Network, September 21, 2017), https://edition.cnn.com/2017/09/20/americas/hurricane-maria-caribbean-islands/index.html.
[147] Agencia EFE, "Crean El Fondo De Ayuda Agrícola Para Levantar Sector Tras María," Primera Hora (Primera Hora, January 6, 2020), https://www.primerahora.com/noticias/gobierno-politica/notas/crean-el-fondo-de-ayuda-agricola-para-levantar-sector-tras-maria/.
[148] Mary Williams Walsh and Alan Rappeport, "White House Dials Back Trump's Vow to Clear Puerto Rico's Debt," The New York Times (The New York Times, October 4, 2017), https://www.nytimes.com/2017/10/04/business/dealbook/trump-puerto-rico-debt.html.
[149] Nicole Acevedo, "Puerto Rico's New Law Moves to Privatize Power Grid Nine Months after Hurricane Maria," NBCNews.com (NBCUniversal News Group, June 20, 2018), https://www.nbcnews.com/storyline/puerto-rico-crisis/puerto-rico-officially-moves-privatize-power-grid-9-months-after-n885111.
[150] Acevedo, "Puerto Rico's New Law Moves to Privatize Power Grid".

island's non-sovereign executive. That is to say, austerity whittled down the already thin support for the island's government with most reforms geared to those still retained on the payrolls and not the ones who fell through the cracks.

By July 2019 Rosello's failures had piled up, ranging from the failure to uphold his campaign promises, or manage the aftermath of Hurricane Maria, in addition to the layoffs and privatizations as his administration became mired in corruption charges[151]. The leak of hundreds of pages of his communication with his staff was the straw that broke the camel's back, reigniting protests demanding his removal along with the PROMESA board. However, Rosello's denigration of the board itself in the leaked messages meant that he would have no backing from the mainland[152].

The protests coverage in US media portrayed as anti-corruption protests specifically against Rosello and barely acknowledged any anti-austerity or anti-junta character of the protests. Rosello became unable to continue under the pressure of daily protests and resigned attempting to plant Pedro Pierluisi as his successor by appointing him secretary of state, seemingly to protect himself. Pedro was not recognized by the Puerto Rican senate and a legal dispute over Rosello's succession lasted for a week afterward [153]. Thrown out of the governor's office by the court in August 2019, Pedro Pierluisi won the governorship of the island in November 2020 by a slight plurality on

[151] Lola Fadulu, "Hud Delays Disaster Preparation Money for Puerto Rico," The New York Times (The New York Times, August 3, 2019), https://www.nytimes.com/2019/08/02/us/politics/hud-puerto-rico-disaster-money.html.
[152] Michael Weissenstein and Joel Colon, "'Chatgate' Scandal Plunges Puerto Rico Governor into Crisis," Time (Time Magazine, July 2019), https://web.archive.org/web/20190716040854/https://time.com/5627187/puerto-rico-ricardo-rossello-chatgate/.
[153] Alejandra Rosa, Patricia Mazzei, and Frances Robles, "Puerto Rico Supreme Court Ousts New Governor, and Another Is Sworn In," The New York Times (The New York Times, August 7, 2019), https://www.nytimes.com/2019/08/07/us/puerto-rico-governor-wanda-vazquez.html.

the same day as a nonbinding referendum on statehood passed by a 5 point margin in a scene that exposed the futility of playing politics on the island.

While continuing the status quo became an untenable situation for Puerto Ricans, it has not for the U.S. government. While Puerto Ricans have held six referenda in the last thirty years that demonstrated time and again the growing untenability of the reality of colonialism on the island. As Puerto Rican capital manifested in the criollo political elite seeks a closer union that would afford it mainland protections and perks, a strong independence-oriented tradition persists and remains popular among the Puerto Rican population at large. Meanwhile, the colonial nature of the commonwealth is laid bare by the sweeping powers of the board that is accountable to none of these forces and only represents New York capital. Since U.S. capital actively benefits from Puerto Rico's territorial status to either use it as an internal tax haven, a tax-exempt money-making machine for financial capital, and an appreciated subsidy for the U.S. shipping industry by way of the Jones Act, it has an active interest in keeping the territorial status so derided by the locals.

As such debt functions to set an economic parameter to a political question as the high debt levels make independence functionally impossible due to the immediate and necessary default and subsequent loss of access to financial markets, hence making it a fool's errand. At the same time, the debt also makes statehood politically difficult as it would be quite easy to oppose admission to a bankrupt state. Hence the debt accrued by the island goaded by mainland policy functions to nullify Puerto Ricans' political will and acts as an economic baffle that ensures that even when Puerto Ricans try to force a change in the status quo it necessarily has to be closer to the U.S. to shield it from liability and not away from access to U.S. dollars and aid.

Resolution:

1,600 miles away from San Juan streets roiled by hurricanes, scandals, austerity, and protests, the PROMESA board continued to meet and exercise its prerogative as the sole economic arbiter of the island. For more than five years the board oversaw lengthy negotiations between Puerto Rico and its creditors. Until 2019, the board's only success was restructuring the Government Development Bank for Puerto Rico's (GDB) debt accounting for less than 7% of the debt in 2017, a testament to the creditors' resistance as they could afford to wait, while the island's government could not. The fact that the GDB is functionally an organ of the government of the island explains the relative speed of the agreement. However, it would not be until 2019 that a significant chunk of Puerto Rico's seventy billion dollars debt would be restructured as the U.S. court approved the restructuring of the Puerto Rico Sales Tax Revenue Bonds -also known as COFINA[154] bonds-. After acrimonious disputes as the junior bondholders felt that they are made to bear the burden of the restructuring as well as between General Obligations (GO) bondholders and COFINA bondholders[155]; the court ruled in favor of a deal that cut 18 billion USD in COFINA bonds to about 12 billion USD as well as freed sales tax revenue

[154] COFINA is the Spanish acronym for the Puerto Rico Sales Tax Financing Corporation
[155] Nick Brown, "Puerto Rico Go Bondholders Will Not Support Cofina Settlement," Reuters (Thomson Reuters, June 12, 2018), https://www.reuters.com/article/puertorico-debt-settlement-idUSL1N1TE2DD.

previously dedicated to COFINA to also finance repayment of GO bonds[156]. The board also oversaw agreements that would reduce PERPA's debt by about 30% and lower Puerto Rico Aqueducts and Sewers Authority's (PRASA) annual debt obligations. While the PRASA deal passed[157], the PERPA deal is yet to go through. With these deals in place -only PERPA still outstanding- about 37 billion USD is consolidated into roughly 26 billion USD.

A settlement for the other 33 billion USD is currently in the U.S. district court[158]. This settlement is to see the significant haircuts needed to ensure that this restructuring actually saves Puerto Rico from the abyss. 22 billion USD owed on GO bonds and Public Buildings Authority (PBA) bonds would be swapped for 7 billion USD cash award and 7.4 billion USD in new bonds reducing the debt load to around 34 billion USD. Through the process, the board has allayed creditors' fears and gained their support for the deal,[159] slowly but surely, as it battled Governor Pierluisi over pension cuts that he ran against[160].

Although often having to face Pierluisi, the Junta effectively had a veto over him, and as such in his official capacity as governor he would often be subsumed by the board. However, during negotiations, three specific factions seemed to have clashed the most

---

[156] Reuters Staff. "New Sales Tax Bonds Issued under Latest Puerto Rico Debt Restructuring." Reuters. Thomson Reuters, February 12, 2019. https://www.reuters.com/article/usa-puertorico-bonds-idUSL1N2071K8.

[157] "FOMB Approves PRASA Debt Transaction," The Weekly Journal (The Weekly Journal, October 26, 2021), https://www.theweeklyjournal.com/business/fomb-approves-prasa-debt-transaction/article_29e87640-365e-11ec-99eb-cbfdde5bb0a0.html.

[158] Danica Coto, "Puerto Rico Debt-Restructuring Bill Advances amid Criticism," ABC News (ABC News Network, October 27, 2021), https://abcnews.go.com/International/wireStory/puerto-rico-debt-restructuring-bill-advances-amid-criticism-80803915.

[159] Maria Chutchian, "Puerto Rico Financial Oversight Board Lands Deal with Junior Creditors," Reuters (Thomson Reuters, July 14, 2021), https://www.reuters.com/legal/transactional/puerto-rico-financial-oversight-board-lands-deal-with-junior-creditors-2021-07-13/.

[160] Maria Chutchian, "Puerto Rico board finalizes deal securing bond insurers' support for debt plan" Reuters (Thomson Reuters, July 27, 2021), https://www.reuters.com/legal/transactional/puerto-rico-board-finalizes-deal-securing-bond-insurers-support-debt-plan-2021-07-27/

with the board. The first was the retail bondholders[161], the private investors valorized by republican senators as the victims of a bailout. The retail bondholders however did not represent a strong enough faction to avoid shouldering the haircuts, which meant that they would have to suffer a much more disproportionate share of the cut than institutional investors[162].

On the other side, the teachers' unions were the second faction clashing with the board, and often Pierluisi too. The Teacher's Federation of Puerto Rico (FMPR)[163] repeatedly opposed the board and called on the governor and the legislature to oppose it too[164]. The FMPR's opposition ranged from declarations to marches and protests and left a mark. The board dedicated one of the few factsheets published to directly address the FMPR claims and enlists the support of other teachers' unions that support it including the mainland American Federation of Teachers as well as smaller teachers' unions on the island[165]. The unionists and pensioners rightly felt that they have already paid enough and should not be saddled with more austerity. The board's plans insisted on phasing out the pension system through freezing benefits and transitioning to a defined contribution plan, a massive downgrade as defined contribution plans are only effective if the employee can

---

[161] Retail bondholders in this context specifically refers to private/retail investors unaffiliated with investment firms or hedge funds.

[162] Maria Chutchian, "Puerto Rico bankruptcy nears end as debt plan goes up for approval" Reuters (Thomson Reuters, November 9, 2021), https://www.reuters.com/legal/transactional/puerto-rico-bankruptcy-nears-end-debt-plan-goes-up-approval-2021-11-08/.

[163] The acronym for Spanish "*Federación de Maestros de Puerto Rico"*

[164] Pedro Correa Henry, "Retired Teachers to Gov't: Stand up to Fiscal Board, Protect Retirement Law," San Juan Daily Star (San Juan Daily Star, July 6, 2021), https://www.sanjuandailystar.com/post/retired-teachers-to-gov-t-stand-up-to-fiscal-board-protect-retirement-law.

[165] "Fact Sheet - FAQ Teachers Agreement," Oversight Board (Financial Oversight & Management Board For Puerto Rico), https://oversightboard.pr.gov/debt/.

spare the contribution to be matched[166]. In an island with a 45% poverty rate, a defined contribution plan would be adding insult to injury. Not to mention a flurry of changes that Puerto Ricans saw as death by a thousand cuts bringing what welfare and rights the island had to an end.

Both Rosello the younger and Pierluisi ran on platforms that promised no cuts to pensioners, Rosello eventually caved to the board, not that he had a choice. The board bore all the awe-inspiring weight of the U.S. government and while it can be antagonized by decisions here and there, it cannot be defied without risking unthinkable ramifications. When Pierluisi attempted to reassure pensioners by signing the Dignified Retirement Act that would honor his zero cuts to pensions pledge, he was sued by the Board[167]. Pierluisi immediately filed for a stay on the trial of the case,[168] probably recognizing the ease with which the board might win the case. While this does not comply with the oversight board's strategy which would see pension cuts imposed on 30% of its recipients[169]; it is arguably not necessary for the debt restructuring package, as even though pensions lack funding, the social and contingent economic costs of throwing 30% of pensioners into precarity is too great. As the debt restructuring hinged on reaching an agreement on pensions, the Puerto Ricans felt confident enough that the board will not throw out the

[166] "Fact Sheet - FAQ Teachers Agreement,"
[167] "Oversight Board Sues Pierluisi, AAFAF, Legislative Leaders," The Weekly Journal (The Weekly Journal, July 2, 2021), https://www.theweeklyjournal.com/politics/oversight-board-sues-pierluisi-aafaf-legislative-leaders/article_765b492e-db70-11eb-8517-a7941822dc2e.html.
[168] Robert Slavin, "Puerto Rico's Governor Defends Stay Request on Pension Cuts Law," The Bond Buyer (The Bond Buyer, September 2, 2021), https://www.bondbuyer.com/news/puerto-ricos-governor-defends-stay-request-on-pension-cuts-law.
[169] "Fact Sheet - Support Agreement with Public Retirees" Oversight Board. Financial Oversight & Management Board For Puerto Rico. https://oversightboard.pr.gov/debt/.

deal just on the pension issue[170], especially that the cuts amounted to nothing more than a self-flagellation that would bring nothing but pain to the island while actively hindering the recovery of its economy. Eventually, they were vindicated as the Oversight Board agreed to remove the cuts from the plan[171]. A symbolic win for the island but not much more than that.

The island has already been wracked by debt; years of austerity and cuts to services made the impact of hurricanes and earthquakes much worse than they could have been. Massive loss of human resources as almost a quarter of the island population has left among increasing inequality and poverty, as the middle class who could afford to leave departs the island; the social chasm on the island between the criollo bloc and the dejected urban poor widens further. The deal put forth by the board and the island's government will not change any of that, while the judge is yet to issue a verdict, her assent is assumed at this point, as the Board and the island's government would not risk putting a deal at this late of a stage that would be rejected. The debt has already done its job, and excess cruelty could risk feelings of indignance turning into sentiments of independence.

---

[170] Michelle Kaske, "Puerto Rico Board Ends Spat That Threatened Restructuring," Bloomberg.com (Bloomberg, October 28, 2021), https://www.bloomberg.com/news/articles/2021-10-28/puerto-rico-able-to-move-debt-plan-forward-without-mediation.

[171] Nicole Acevedo and Gabe Gutierrez, "Will Puerto Rico's Debt-Restructuring Deal End the Largest Bankruptcy in U.S. History?," NBCNews.com (NBCUniversal News Group, October 29, 2021), https://www.nbcnews.com/news/latino/will-puerto-ricos-debt-restructuring-deal-end-largest-bankruptcy-us-hi-rcna4051.

IV. Ecuador: The Art of Default

Stability is not a feature of Ecuadorian political history, the country's history is littered with the coups and revolutions that characterize modern Latin American history. That is to say, this instability is not a cultural feature, but an economic one. The availability of native land that can be expropriated and exploited, meant that governments could always attempt to stave off political conflicts around economic resources by borrowing, both politically and economically against the promise of the unspoiled frontier. As such whenever the frontier ends the conflict put on hold by that expansion is reanimated, sometimes violently sometimes not. Economically, this was mirrored in the cycles of commodity booms Ecuador's fertile farmlands provided. The sugar, coffee, cocoa, and banana booms and busts track the rise and fall of political projects and fortunes. The easy credit incurred in these booms would lead Ecuador to many debt crises and defaults. For the majority of the cocoa, boom starting in the late 19th century and ending in the mid-twenties, Ecuador was the world's largest producer of cocoa until the West African cocoa plantations displaced it in 1916[172]. During this period cocoa accounted for 70% of Ecuadorian exports. Fertile lands coupled with cheap oppressed labor as well as a natural riverine transport system allowed the "Kings of Cocoa" around the Guayaquil port city to amass wealth through cocoa trade and exports. The kings of cocoa were by far the most dominant capital faction -thanks to access to coveted hard currency- during the rise and fall of the liberal radical party which coincided with the cocoa boom[173]. Even before the kings of cocoa Guayaquil was the biggest and most

---

[172] Thomas Purcell, Estefania Martinez-Esguerra, and Nora Fernandez, "The Value of Rents: Global Commodity Chains and Small Cocoa Producers in Ecuador," *Antipode A Radical Journal of Geography* 50, no. 3 (2018): pp. 641-661.
[173] Purcell, Martinez-Esguerra, and Fernandez, "The Value of Rents" pp. 646-649.

important city in the pacific coast region and has always been a center of the region's export of commodities to the world market, whether it was coffee, cocoa, or the upcoming banana. As such the coast often benefitted from these booms more than the mountainous Sierra did, while they both equally suffered the crashes. This led to the emergence of a more populist political culture in Quito - the Sierra's heart-, which has a significantly larger indigenous population and usually displays more redistributive tendencies, as the Sierra's economy is mostly geared towards internal consumption[174].

During the 1950s and 1960s, Ecuador got a second wind as it was the world's largest exporter of bananas during the banana boom, between 1960 and 1971 banana exports would account for an average of 7% of Ecuadorian GDP[175]. It is important to note that this was after banana prices started falling when United Fruit developed new disease-resistant strains. Starting in the sixties, with the first banana export failure, the country's four-time president José María Velasco Ibarra was removed in one of the many coups that removed or instituted him, and a project of import substitution industrialization was launched. Industrialization seemed like the only option to bring the country out of the commodity boom and bust cycle by creating an internally oriented industrial economy. However, this project would lag as the funds for it would not be available until another commodity boom[176]. This time in the least powerful and most exploited of the three regions, the predominantly indigenous Amazonian Oriente region, as massive oil deposits

---

[174] Luis I. Jácome H., "The Late 1990's Financial Crisis in Ecuador: Institutional Weaknesses, Fiscal Rigidities, and Financial Dollarization at Work," *IMF Working Papers* 04, no. 12 (January 2004): pp. 1-46.
[175] Simon Cueva, and Julian P. Diaz. January 2019. "The Case of Ecuador." Macro Finance Research Program, Working Paper, Becker Friedman Institute, University of Chicago, Il.pp. 1-39.
[176] A. Kim Clark, "Globalization Seen from the Margins: Indigenous Ecuadorians and the Politics of Place," *Anthropologica* 39, no. 1/2 (1997): pp. 17-26.

were discovered[177]. The subject of this study will be the ensuing oil commodity boom and the extended debt crisis and defaults that followed.

Easy Credit: Gold, Black, and Green

In 1970 Ecuador exported only 38.8 tons of oil, slightly less than 250 barrels a year[178]. The country was already expected to increase that rapidly; recent discoveries in the Oriente region by a Texaco-Gulf consortium along with the installation of the Trans-Ecuadorian Pipeline (SOTE) meant that Ecuador's oil output was bound to increase. By all measures no one expected Ecuador to be a major producer of oil, but as the scope and quality of discoveries were revealed calls for nationalization ramped up, and eventually, a coup forced President Ibarra to nationalize the oil fields[179]. President Ibarra was overly familiar with coups, he was deposed and imposed by coups in the past, in this one he survived, but had to capitulate to the coup leaders, forming a civilian dictatorship. It would not be long before Ibarra is fully deposed though, and a full military dictatorship is instituted as another coup fully removes him from power.

---

[177] The indigenous population in the Oriente as well as the Sierra were already starting to mobilize as the 1964 agrarian reform and colonization law affected more than 16% of all land in the Amazon region, and the law required 50% of the land to be deforested for the titles to be granted generating untold ecological devastation. The indigenous peoples rightfully understood that oil extraction could wreak more havoc than the most recent wave of colonization. For more see José Suárez-Torres et al., "Development, Environment, and Health in Crisis," *Latin American Perspectives* 24, no. 3 (May 1997): pp. 83-103.

[178] Diane C. Bates, "The Barbecho Crisis, La Plaga Del Banco, and International Migration: Structural Adjustment in Ecuador's Southern Amazon," *Latin American Perspectives* 34, no. 3 (May 2007): pp. 108-109.

[179] Gabriela Valdivia and Marcela Benavides, "Mobilizing for the Petro-Nation: Labor and Petroleum in Ecuador," *Focaal Journal of Global and Historical Anthropology* 2012, no. 63 (January 2012): pp.69-71.

The Junta inherited an optimal situation for rent extraction. An incoherent capitalist class divided between the Quito and Guayaquil factions, and a heavily fractured working class divided along ethnic and ideological lines, and 1.5 billion barrels of oil in indigenous lands[180]. The waves of colonization and value extraction that shaped Ecuador had resulted in a deeply economically unequal and socially fragmented state as it grew in patches around extraction sites. As such, even though it is tempting to speak of the Guayaquil externally-oriented commercial and financial capital in contrast to the more industrially inclined inward-looking Quito faction, both Guayaquil and Quito factions were often divided within themselves. The working classes in Ecuador did not fare much better[181]. They were divided geographically between the Pacific coast, the Andean Sierra, and the Amazonian Oriente. They were divided among ethnic lines between Europeans, Mestizos, Indigenous peoples, and Afro-Ecuadorians. They were also heavily divided ideologically between Christian syndicalists, Marxist workers, Maoist teachers, and conservative unionists. Still, it was an eclectic collection of such forces uniting under a single banner and calling for a general strike in 1971 against Ibarra's anti-labor policies that brought down his regime[182].

The 1973 October war and ensuing oil embargo, sent oil prices booming, giving Ecuador access to a massive unexpected windfall that turbocharged its economy for a decade allowing it to grow tenfold[183]. The Government, in its role as owner of Petroecuador suddenly had access to massive revenues that they could direct to the provision of state goods and the resulting improvement in quality of life. However, by

[180] Valdivia, Benavides, "Mobilizing for the Petro-Nation" 69-71
[181] Jácome H., "The Late 1990's Financial Crisis in Ecuador", 38.
[182] Valdivia, Benavides, "Mobilizing for the Petro-Nation" 72-73
[183] https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=EC

1975 oil prices had stabilized but government expenditure continued covering the deficit through credit provided to the burgeoning oil nation. As such the closing of the frontier was delayed for some time. Between 1972 and 1978 government expenditure grew from a little over 13 billion sucres (500 million USD) to more than 86.6 billion sucres (3.4 billion USD). Initially, this was mainly funded through oil export revenues, however, the share of debt funding increased as the decade progressed and the price of oil remained virtually stable between 1974 and 1979. To keep spending pace with the rising inflation the government turned increasingly to borrowing. Between 1971 and 1976 Ecuadorian external debt grew by 160% from 260.8 million USD to 693 million USD, by 1980 it would balloon to 4.65 billion USD growing annually at an average of 60%[184]. Overall, between 1971 and 1981 public foreign debt rose from 9% of GDP to 20.2% of GDP, similarly total foreign debt -including publicly guaranteed foreign private debt- rose from 17.7% of GDP in 1972 to 35.3% in 1981[185]. This of course resulted in a serious current accounts deficit and put downward pressure on the sucre's exchange rate at the black market even as it remained fixed at 25 sucres to the dollar officially. As such the military's decision to hold an election in 1978 when the inflation rate caught up with and surpassed the growth rate was not surprising.

Jaime Roldos Aguilera won a plurality in the 1978 election and a wide majority in the 1979 runoff election. Roldos' rise was directly fueled by his mentor Assad Bucaram - the Guayaquil native was a renowned populist, anti-communist yet anti-oligarchical-, since Bucaram could not run, his party nominated his protege Roldos. Roldos' campaign saw him unite the various fractured parties behind the leadership of Bucaram's

184 Clark, "Globalization Seen from the Margins" 19-21.
185 Cueva, and Diaz. "The Case of Ecuador." P.8

Concentración de Fuerzas Populares (CFP). Promising both to curb state spending, while raising the minimum wage, improving the provisioning of services, and to explore means to better reform the political system. To balance his Pacific credentials he chose the Andean politician Osvaldo Hurtado as his running mate[186]. As he ascended to the presidency the Iranian revolution and subsequent Gulf war sent oil prices doubling in one year. Since oil accounted for roughly half of Ecuador's exports at the time, the second windfall saved Roldos from having to make any serious sacrifices especially as he failed to translate his popular appeal into a political will for reform. In 1981 after a short conflict with Peru -which Ecuador lost- bolstered his popularity, he died in a plane crash on May 24th[187]. Hurtado however was not as lucky as Roldos.

Market Shock: The Original Bailout

Ecuador's oil-fueled economy allowed the country to sustain excessive current account deficits as long as oil prices remained high. The oil boom had fuelled the economy as a direct source of revenue for the government, a reason for increased foreign credit availability, and an engine of public spending that hoped to properly industrialize the country. As well as a massive source of inequality, corruption, and political struggle over how to control the oil rents. Inequality in rentier economies can be seen as a simple failure of democratic function, as a functioning democratic society would see rents distributed equally. As such with the dictatorship and following fractious and barely functioning democracy, distribution of rents in Ecuador was patently unfair. While

[186] Bates, "The Barbecho Crisis" 109.
[187] Associated Press, "ECUADORAN LEADER DIES IN PLANE CRASH," *The New York Times*, May 25, 1981, p. 1.

petroleum accounted for 10% of GDP, it accounted for an average of half Ecuador's exports but was directly linked to less than 1% of the working population[188]. This meant that petroleum proceeds and the concomitant services and banking operations became sources of political patronage as well as access to foreign currency.

The 1982 El Niño season was particularly destructive in Ecuador, triggering an outbreak of malaria and destroying crops across the country. Shortly after, the oil glut arrives and oil prices start to recede. The absence of any substantial oil savings funds meant that the government had no way to cushion the blow to current accounts. This led the government to rely more on seigniorage to finance the deficit, spurring inflation. The 1982 Mexican default triggered an effective freeze on new loans to Latin America[189]. The concomitant global recession meant that money markets were drying up just as Ecuador's budget deficit was increasing, and Hurtado, with all his sources of foreign currency shrinking, finally had to act. In May 1982 he moved to devalue the sucre by 25%, as well as increasing bank interest rates, increasing the prices of publicly provided goods and services, and eliminating subsidies and introducing budget cuts[190]. The devaluation necessarily worsened the problem of rising external debt, both public and private. Shortly after the banking sector started asking for relief as the devaluation made their borrowing spree much more costly; threatening a collapse of the banking system, the government of Hurtado finally extended relief.

---

[188] Suárez-Torres et al., "Development, Environment, and Health in Crisis,"pp. 92-93.
[189] Cueva, and Diaz. "The Case of Ecuador." pp. 4-9.
[190] Paul Beckerman, "Dollarization and Semi-Dollarization in Ecuador," *Policy Research Working Papers*, July 2001, pp. 1-38.

The relief came in the form of the “Sucretization” in the context of an IMF program. In 1983, it was agreed that the Ecuadorian government would assume 1.5 billion USD of private foreign debt -amounting to 11% of GDP-, in exchange for debt denominated in sucres; leaving little more than 200 million USD in private foreign debt by 1984. This offloading of private debt onto the public balance sheet especially in the context of another round of devaluation in March 1983 constituted not only a bailout but a massive transfer of wealth to the banking sector. The rampant inflation accompanying the devaluation wiped out possible gains from labor price competition[191]. The worsening crisis saw the GDP contract in 1983 by 3.3%. In 1984 Leon Febres Cordero a conservative neoliberal was elected by a very narrow margin while the unpopular Hurtado did not stand for election[192].

Cordero’s reign was characterized by aggressive neoliberalism, he liberalized the economy, deregulated the banking sector, removed import taxes as well as price controls, and also embarked on a privatization campaign that lagged quickly as popular opposition to him mounted[193]. Upon taking office he also extended the time limit for private businesses to repay their “Sucretiziation” obligation to the Central Bank of Ecuador (CBE) by seven additional years. In 1986 as the first Gulf war neared its end, oil prices collapsed to levels not seen in over a decade with oil revenue as a percentage of GDP reduced by more than half, from 12.5% in 1985 to 6.5% in 1986 triggering another crisis and contraction in the Ecuadorian economy[194]. The worsening conditions and general distrust of the political system as it stands led the indigenous movements of the Coast,

[191] Beckerman, “Dollarization and Semi-Dollarization in Ecuador”. 1-6
[192] Bates, “The Barbecho Crisis” 109.
[193] Bates, “The Barbecho Crisis” 109-110.
[194] Cueva, and Diaz. “The Case of Ecuador.” pp. 10-11

Sierra, and the Amazon to coalesce into the "Confederación de las Nacionalidades Indígenas del Ecuador" (Confederation of Indigenous Nationalities of Ecuador—CONAIE). The newly minted confederation between indigenous people consciously chose to avoid political processes as they sought to avoid the baffles to popular action that they form[195]. In January of 1987, debt service to foreign banks was interrupted and the government went into arrears, in March an earthquake damaged the SOTE pipeline, and exports were stopped for five months, during which the state's foreign reserves ran dry and the government resorted to successive mini devaluations by mid-1987 as social unrest continued to mount[196].

Much like Hurtado, Cordero ended his term deeply unpopular, opting not to run; he was succeeded by Rodrigo Borja Cevallos, a social democrat who capitalized on the rising discontent and ran against the neoliberal reforms[197]. Borja's hands were tied however, even as oil prices started to slowly recover, his government remained in arrears[198]. Large contraction in the economy, as well as negative international reserves and fiscal deficits mounting, left Cordero constrained. Forcing him to implement an emergency austerity program that saw spending cuts, increased fuel prices, reopening the economy, suspension of net lending from the CBE to the state government, consolidated tariff schedules, and tax reform that included introducing the VAT[199]. Unpopular as these reforms were with Cordero, and his supporters who specifically voted for an anti-neoliberal candidate, they were deemed necessary to access IMF funds as due to the

---

[195] Kenneth P. Jameson, "The Indigenous Movement in Ecuador: The Struggle for a Plurinational State" *Latin American Perspectives* 38, no. 1 (January 2010): pp. 63-73.
[196] Beckerman, "Dollarization and Semi-Dollarization in Ecuador". 6-7.
[197] Bates, "The Barbecho Crisis" 109-110.
[198] Beckerman, "Dollarization and Semi-Dollarization in Ecuador". 6-8.
[199] Cueva, and Diaz. "The Case of Ecuador." pp. 11-12.

Mexican crisis and accumulating arrears, Ecuador lost access to international money markets and could only resort to multilateral institutions or private lending. Even though shortly after his rise to power he signed an agreement with CONAIE to establish a National Directorate of Bilingual Intercultural Education. His inability to deliver any significant reforms and heel turn on austerity negatively affected his credibility, and in 1990, CONAIE helped organize the indigenous uprising against Borja and neoliberal reforms. They negotiated with the government over a set of demands that ranged from the creation of a plurinational state to the removal of the U.S. military base in Manta, to resisting prioritizing debt servicing over public services[200]. While the confederation did not succeed in its first foray, it certainly demonstrated that a new political force is emerging.

False Shores

This, however, does not represent a turn of events. Ecuador was to become an even more unequal society. By 1992 the rent-driven economy had fueled inequality, as the bottom 20% of Ecuadorians earned only 2% of the national income while the top 20% of Ecuadorians collected more than 73% of the national income[201]. This immense inequality in income distribution necessarily meant a vast accumulation of capital in the hands of the upper classes who could offshore this money in dollars and then lend the foreign currency to the cash-strapped government. That upper class that collected these rents and shifted their foreign loans to the public balance sheet, managed to stash more

[200] Jameson, “The Indigenous Movement in Ecuador”. 65-66.
[201] Clark, “Globalization Seen from the Margins” 20.

than 2 billion USD in offshore bank accounts thanks to banking liberalization[202]. As such the capital factions had fully hedged their positions in the upcoming crisis, especially as the arch-neoliberal Sixto Duarte Ballen won the presidency in 1992. He called for refocusing on the primary sector and cooperated closely with the IMF[203] and sought to exploit the weak and still fractured labor movement to push forward the lagging privatization program, even so much as threatening to privatize Petroecuador -the primary reason Ecuador is still solvent at this point-[204].

In 1994, attempting to shore up foreign reserves, Ballen liberalized the banking sector even further allowing them even to operate in dollars and deal with Ecuadorian through offshore branches. While this attracted Ecuadorian offshore capital through high rates on sucre deposits, allowing the state to benefit from the sudden influx of flight capital, it also started the official and creeping dollarization of the economy[205]. This capital influx, coupled with the austerity grinding the public sector expenditure from more than 31.4% of GDP in 1987 when the crisis started to less than 24% in 1994, virtually wiped out the deficit for the year[206]. The returning capital triggered an "orgy of credit"[207] and gave the economy all the appearance of recovery. In the same year, Ballen started negotiating with the IMF and creditors and later managed to reach a debt reduction deal that would leave Ecuador owing only 6 billion USD and reduce the debt servicing cost to finally bring the government out of arrears. In January 1995, however,

---

[202] Clark, "Globalization Seen from the Margins" 21.
[203] Bates, "The Barbecho Crisis" 111.
[204] Valdivia, Benavides, "Mobilizing for the Petro-Nation" 70-73.
[205] Nader Nazmi, "Failed Reforms and Economic Collapse in Ecuador" *The Quarterly Review of Economics and Finance* 41, no. 5 (2001): pp. 727-735.
[206] Nazmi, "Failed Reforms and Economic Collapse in Ecuador". 727-728.
[207] Gabriel X. Martinez, "The Political Economy of the Ecuadorian Financial Crisis," *Cambridge Journal of Economics* 30, no. 4 (July 2006): pp. 567-585,

the trend started to reverse for Ballen as another expensive -if short- war with Peru reversed the capital flow pressuring the sucre down as the banks started to face serious trouble. In October a large bank failed and vice president Alberto Dahik had to flee the country as he faced corruption charges[208].

The ignominious end of the Ballen administration mired in corruption and economic crisis was succeeded by the ascent of Abdala Bucaram. Heir to the Bucaram machine and calling on Roldos' populist image, Bucaram ran a populist anti-austerity campaign heralding an end to austerity, corruption, and increased investments in public services but yet barely won a majority as the sierra and coastal elites did not warm up to him. Bucaram's time was short, his quick face turn once in office and rampant corruption shorn him of what little support and legitimacy he had[209]. Protests roiled Ecuador as a broad coalition of the opposition protesting the administration was bolstered by CONAIE and their experience with civil disobedience methods. As the situation deteriorated, Bucaram was impeached in February to stave off the civil strife and was succeeded by Fabian Alarcon as interim president until a presidential election was held[210]. Alarcon's term saw the crisis worsen especially as the 1997 financial crisis sent shockwaves through the global financial system while another destructive El Nino hit Ecuador. His government lacked the mandate and seemingly the willingness to arrest the crisis, he also called for a constitutional convention to write a new constitution in 1998. The next year saw oil prices collapse further, and another small bank failed in March, starting in April Ecuadorian banks witnessed runs of various severity. The new constitution went into

[208] Beckerman, "Dollarization and Semi-Dollarization in Ecuador". 8.
[209] Bates, "The Barbecho Crisis" 111.
[210] Jameson, "The Indigenous Movement in Ecuador". 65-66.

effect in August establishing the legal autonomy of the CBE and setting price stability as its sole objective, it also barred the CBE from lending to the central government except to avoid liquidity crises[211]. Mere days after the new constitution went into effect, Jamil Mahuad took over as president only to be faced with a bank failure within his first week in office[212].

In December, Mahuad convinced Congress to extend treasury cash guarantee to all bank deposits and credit lines to shore up confidence in the banking system, and leave the government on the hook if they fail[213]. Given that the deregulation of the banking sector by Ballen led to the number of banks increasing by 57%, and financial institutions, in general, rose by 180%, all of them poorly supervised, allowing for shady and outright fraudulent lending practices[214]Mahuad's gamble was disastrously risky. The 1994 Ballen-introduced banking law had serious and obvious deficiencies especially in regards to offshore activities supervision, it also left it with virtually no mechanism of dealing with bank failures, resulting in cascading bank failures as the successive governments stood helpless to intervene[215]. In January several smaller banks failed with the Deposit Guarantee Agency (AGD) shouldering repaying their deposits after a deposit freeze for a year. Meanwhile, the proportion of nonperforming dollar-denominated loans continued to rise, first due to unmatched borrowers, and then thanks to the devaluation of the sucre constantly inflating the dollar stock. In February, the sucre was floated to limit the hemorrhaging of foreign reserves, within a month the sucre had lost more than 30% of its

[211] Cueva, and Diaz. “The Case of Ecuador.” pp. 13-14.
[212] Beckerman, “Dollarization and Semi-Dollarization in Ecuador”. 17-18
[213] Beckerman, “Dollarization and Semi-Dollarization in Ecuador”. 17-18
[214] Martinez, “The Political Economy of the Ecuadorian Financial Crisis”. 573-576,
[215] Cueva, and Diaz. “The Case of Ecuador.” pp. 14.

value, triggering another run on the banks. Even as oil prices doubled in 1999, the banking crisis was too severe at this point for any windfall to stop it. The rising oil prices renewed protests, and transport workers went on strike until the government agreed to freeze domestic fuel prices[216].

In August 1999, the government of Ecuador announced that it is withholding interest on Brady bonds and asked for relief. The bonds were designed to be nearly impossible to default on and included strict and explicit pledges not to ask for future restructurings, Ecuador became the first to effectively default[217]. In September, negotiations with the IMF for relief broke as congress failed to pass tax reforms recommended by the IMF, as a result, the government announced that it would only continue to service uncollateralized bonds and directed the holders of collateralized bonds to ask for the collateral. Bondholders, however, chose to activate the cross-default clauses which put Ecuador in default on all its external bonds, amounting to 6.5 billion USD[218]. By the end of 1999, the Ecuadorian banking system had fully collapsed. More than 60% of the entire commercial banking sector had fallen to government hands through the AGD, as banks failed, their clients regained access to their deposits after a time freeze, then proceeded to withdraw their deposits fully from the collapsing banking system -and offshoring it if possible- accelerating its collapse. The rolling bank crises paralyzed the government and drained its resources. The government had to suspend pay for some government employees, most affected among which were the teachers who

[216] Beckerman, "Dollarization and Semi-Dollarization in Ecuador". 19-21
[217] Arturo C. Porzecanski , "When Bad Things Happen to Good Sovereign Debt Contracts: the Case of Ecuador," Law and Contemporary Problems 73, no. 4 (2010): pp. 251-271.
[218] Beckerman, "Dollarization and Semi-Dollarization in Ecuador". 21-23

went on strike, the GDP contracted by 7.3%, urban unemployment doubled, and the government managed to achieve a small primary surplus[219].

Simply put, all of Ecuador had to pay for the sins of its bankers. Ecuador had virtually entered a permanent state of civil unrest. The collapsing economy, the unpopular government, and the unpopular political system as a whole saw the country mobilize, and CONAIE's choice to remain independent of the political system allowed it to be in the center of coalescing opposition to Mahuad's policies. After Mahuad announced dollarization in January 2000, the population revolted. The dollarization policy would amount to another transfer of wealth to the upper classes who held dollars, while the majority of Ecuadorians would lose even more than they already did. As Ecuadorians continued to pour into the capital, the army refused to disperse them and a national salvation junta was announced headed by Antonio Vargas of CONAIE, colonel Lucio Guiterrez, and judge Carlos Solorzano[220]. The junta lasted all of a day before fears of sanctions and international pressure forced them to dissolve and institute Gustavo Noboa, Mahuad's vice president to finish his term[221].

Political Crisis:

Even though dollarization was the straw that broke the camel's back for Mahuad's administration as it was deeply unpopular with the sweeping majority of Ecuadorians, full dollarization was the logical conclusion of the slate of reforms implemented over the past two decades, often in opposition to popular will and campaign promises. The

[219] Beckerman, "Dollarization and Semi-Dollarization in Ecuador". 17-23
[220] Jameson, "The Indigenous Movement in Ecuador". 65-67.
[221] Bates, "The Barbecho Crisis" 111-112.

banking class, which started essentially as an outgrowth and an auxiliary of commercial capital in the colony, had been steadily feeding on the amassed surplus of commodity booms. The "Sucretization" was by all accounts a massive transfer of wealth to private firms and banks that had racked debts beyond their ability to realistically service. This drive was enabled by lax financial regulation and political connections and outright corruption. The "Sucretization" itself was a product of the scale of financial malpractice of Ecuadorian bankers, who claimed that they are effectively too big to fail. The massive exposure to foreign debt in the private sector made a full economic collapse a possibility in the event of mass defaults. Exposure alone however does not account for the ensuing transfer of wealth, but "moral hazard" does[222]. That is corruption. The intimately close relationship between business and politics practically meant that a lot of the politicians in charge were bailing out themselves, their private firms, or their banks. Simply, the capital-owning class bailed out itself and skimmed a bit off the top.

Interestingly enough, shortly after the "Sucretization" as the Mexican crisis saw foreign creditors desert the region, newly under-leveraged private lenders would become the main source of foreign borrowing along with multilateral institutions as the government attempted to service the newly nationalized foreign debt[223]. Having emerged not only unscathed but profiting twice, financial capital had no incentives to reform its practices leading directly to the notoriously corrupt financial sector of the 1990s.

The repeated platitude in almost every work discussing the financial crises of Ecuador stresses in the strongest terms that the root cause of all these crises is misguided

[222] Stephen D. Younger, "The Economic Impact of a Foreign Debt Bail-out for Private Firms in Ecuador," *Journal of Development Studies* 29, no. 3 (April 1993): pp. 484-503.
[223] Cueva, and Diaz. "The Case of Ecuador." pp. 22-23.

attempts at economic reform and weak financial regulation. However, the fact that bankers, through cosmetic accounting practices and with minimal supervision created two banking crises within fifteen years costing Ecuadorians billions of dollars each time without any significant crackdown on the banking sector, speaks not only to the failure of the system of democratic accountability but also to the absolute dominance of financial capital in Ecuador. The IMF-sponsored banking reforms in the intervening period did not seem to help, as strengthening regulations rarely matters if circumventing regulation is the problem. This circumvention was far more a function of social relations, political connection, and economic entanglements than of legal code. The fractured and usually incohesive labor movements in Ecuador could not move to protect themselves from the crises. They did not have the political connections, or organizational structures that could protect their interests, as such the only means of mobilization for them was protesting. They could bring down two presidents in quick succession, but they could not dictate the aftermath in either case.

Financial capital, by its very function as the originator of the crisis, was alerted to it first. The bankers in Guayaquil and Quito identified both the ideological position of the government as well as banking deregulation as what encouraged the financial corruption that characterized the 1990s[224]. Fundamentally, they understood that the conditions allowing them to cook their books allowed everyone else in the financial sector to do the same, which is evidenced by the extent of bank failures[225]. This early warning allowed them to move to hedge their positions and lobby for their interests. Meanwhile, their relative class cohesion -at least compared to labor- and political connections allowed

[224] Martinez, “The Political Economy of the Ecuadorian Financial Crisis”. 575-577,
[225] Martinez, “The Political Economy of the Ecuadorian Financial Crisis”. 567,

them to do this effectively, meaning that each time, when the bill came due, someone else would have to pay.

Hence, labor's protestations against Mahuad in January were not going to change anything about the current crisis. Semi-dollarization was incredibly unstable and retreat from dollarization was not possible now barring radical and mostly illegal measures. Dollarization was also deemed a prerequisite for any IMF bailout, and Gustavo Noboa ended up shepherding it through Congress in March of 2000 as the Fundamental Economic Transformation Law among other neoliberal reforms, expanding privatizations and liberalizing the labor market[226]. Labor and indigenous movements went on to collect more than a million signatures for a referendum on dollarization before it was legally triggered in September. Noboa expressed that he was willing to improve infrastructure and public expenditure, but that dollarization was a fait accompli[227].

Within a month of the dollarization law, the IMF reached a 304 million USD standby agreement with Ecuador and immediately disbursed the first of six tranches. This was followed in May by the Inter-American Development Bank (IDB) releasing several delayed tranches from sectoral adjustment loans in 1994. In June, the IMF released its second tranche and the World Bank's turn came to supply a 150 million USD structural adjustment loan with comprehensive conditionalities[228]. In July a debt reduction deal was reached under the auspices of the IMF, whereby bondholders were offered to exchange their Brady bonds and Eurobonds for uncollateralized bonds due in 2030 with an initially low-interest rate, or a high-interest bonds maturing in 2012 if they accept a

[226] Beckerman, "Dollarization and Semi-Dollarization in Ecuador". 27-30.
[227] Jameson, "The Indigenous Movement in Ecuador". 66-68.
[228] Beckerman, "Dollarization and Semi-Dollarization in Ecuador". 27-34.

35% cut on the principal. In total this amounted to a 40% write-off on the principal on these bonds. The new bonds however were even more fortified than Brady bonds hoping to make a third restructuring or discussion of these bonds impossible[229].

From then on Noboa does not differ much from his predecessors, he institutes more neoliberal reforms in September to access the third IMF tranche which triggers protests by CONAIE and various labor and opposition groups. In December, he announced another round of structural adjustment reforms which renewed the protests forcing him to cave. The rest of Noboa's term is spent attempting to fulfill conditionalities and access tranches. Sometimes he would succeed, sometimes he would fail[230]. Overall, the shocking passage of dollarization mobilized the Ecuadorian people to a degree where they forced their will on the government with some regularity. The fact that CONAIE, which opted to remain outside of the political system, was a major force enforcing this new accountability made perfect sense. The fundamental problem with electoral democracies lies in how little control the electorate has on an official after their election. This lack of direct and ongoing accountability is arguably a part and parcel of the design of modern executives. Consequently, the only way to counter that fundamental flaw was to go outside of the political structures as they are imposed.

The overall desolation of the crisis would see more than half a million Ecuadorians immigrate within two years, their remittances will help bolster the nation's current account for the coming years as the crisis subsides[231]. Lucio Guitterez, the former colonel in the national salvation junta started running for president after his release from

[229] Porzecanski, "When Bad Things Happen to Good Sovereign Debt Contracts". 253-255.
[230] Jameson, "The Indigenous Movement in Ecuador". 66-68.
[231] Bates, "The Barbecho Crisis" 118

prison, building a wide coalition with a significant part of CONAIE and the associated Pachakutik Movement[232], teacher unions, and various anti-neoliberal political forces. He heavily benefited from comparisons to Hugo Chavez. However, after coming to power he chose indigenous people to head the ministries of agriculture and foreign affairs and then proceeded to rule as a standard neoliberal[233].

In March, Guiterrez signed another standby agreement with the IMF, precipitating a break in his coalition as the indigenous movements started to peel off. By July, any dialogue about restoring CONAIE support was over and disappointment set among the movement as they felt betrayed by Guiterrez[234]. As a result of his talks with the IMF, they agreed that if he manages to denationalize the "crown jewel" fields in Oriente, the IMF can sponsor another round of debt reduction for beleaguered Ecuador. With a long history of staving off privatization attempts, the Petroecuador workers started a slow down in June and escalated in August to massive strikes and protests after the administration fired organizing workers. The minister of energy even requested militarizing Petroecuador after more than half the workforce refused to show up. Eventually, Guitterez accepted his defeat but his support was damaged greatly among most of his former supporters[235].

As Guittirez attempted to pass more reforms, his popularity waned and opposition to him grew at a dangerous rate. From 2004 onward, massive protests swept the country

---

[232] The Pachakutik Movement in Ecuador was established in 1996 as an electoral auxiliary to CONAIE. This was done to allow the indigenous movement to create a political cover and experiment with electoral politics without compromising the integrity of CONAIE itself. The Pachakutik Movement is not directly affiliated with CONAIE. For more see Jameson, "The Indigenous Movement in Ecuador". 67-73.

[233] Franklin Ramírez Gallegos and Carlos Perez, "Political Change, State Autonomy, and Post-Neoliberalism in Ecuador, 2007–2012," *Latin American Perspectives* 43, no. 1 (January 2015): pp. 143-157.

[234] Jameson, "The Indigenous Movement in Ecuador". 67-68.

[235] Valdivia, Benavides, "Mobilizing for the Petro-Nation" 70-73.

over corruption and austerity even as CONAIE was conspicuously absent, humiliated by the betrayal and attempting to reunite and reorient the movement[236]. By April 2005, Guitterez was removed by Congress, bowing to the protests to be succeeded by his vice president Alfredo Palacio, a former technocratic minister of health. Palacio spoke of the need to rewrite the 1998 constitution and brought his economic advisor, Rafael Correa, as Minister of Economy and Finance. Both Correa and Palacio were brought along in Guitterez's anti-neoliberal phase, Correa, for example, was charged with looking at the feasibility and setup of universal healthcare. They attempted to reappropriate funds dedicated to buybacks stipulated by the 2000 debt restructuring deal to pay for healthcare but failed to pass the measure[237].

Guitterez was the third president to run on an explicitly anti-neoliberal platform and the second to be removed in an uprising. While Borja's opposition to neoliberalism was a more coherent -and ideological- opposition, he became president in the aftermath of compounding crises, and as such his concessions were opposed but on some level understood. Bucaram and Guitterez however were another case. Both of them populists; they seemed to have espoused anti-neoliberal stances mostly for political purposes. Bucaram's stunningly quick turn -not to mention his razor-thin majority- saw his political fortunes plummet immediately. Guitterez's was slower, which was arguably a function of his coalition taking the time to unravel around him and coalesce to oppose and depose him. Eventually, both Bucaram and Guitterez seemed to concede too much, too early, and without enough hesitation. But more importantly, their hand was not forced as Borja's has been, and as such their treachery appeared entirely elective.

[236] Jameson, "The Indigenous Movement in Ecuador". 67-68.
[237] Porzecanski, "When Bad Things Happen to Good Sovereign Debt Contracts". 257-259.

After Guitterez's removal, Correa moved quickly, and in June managed to reappropriate the buyback fund's 1.1 billion dollars and directed it into a new fund for social spending and healthcare. This showed the citizens' that his opposition is not just rhetorical and that it is not just a ploy. It also deeply alienated the World Bank and IMF whose relationship with Correa was already strained[238]. By July the World Bank let Correa know that 100 million dollars disbursement will not be made, effectively forcing his resignation within a month. This sent Correa's popularity and credibility even higher. He instantaneously became a presidential prospect even as he would struggle to form a coalition, particularly with an indigenous movement now cynical of alliances after Guitterez's Betrayal[239].

Over 2006, Correa started to campaign on an anti-austerity, anti-debt, and generally anti-neoliberal platform. He created the PAIS Alliance in cooperation with other civic leaders ranging from traditional left intellectuals, new left activists, labor, and indigenous organizers to be the platform for his candidacy. Correa railed against privatization and promised to convene a constituent assembly as well as to audit public debt[240]. In the runoff, Correa faced frontrunner Alvaro Noboa, the banana billionaire, successfully convincing the electorate of his program, and most importantly his sincerity helped Correa clinch the victory. On his first day in office, he called for a referendum on convening a constituent assembly[241].

---

[238] Porzecanski, "When Bad Things Happen to Good Sovereign Debt Contracts". 259-260..
[239] Jameson, "The Indigenous Movement in Ecuador". 68-70.
[240] Gallegos, Perez, "Political Change, State Autonomy, and Post-Neoliberalism in Ecuador". 145-157.
[241] Gallegos, Perez, "Political Change, State Autonomy, and Post-Neoliberalism in Ecuador". 146-147.

Resolution:

In his inaugural address, Correa railed against a culture of issuing debt abroad that has left the country grossly over-indebted. He also appointed Ricardo Patino Aroca -a leftist economist, debt activist, and member of PAIS- to the finance ministry, who intimated that Ecuador might delay an interest payment that sent Ecuadorian bonds plummeting in the secondary market. Ecuador ended up making the payment in time, and Patino was accused of deliberately manipulating the bond market[242]. Meanwhile, the lack of organized party support in the congress allowed it to become an early center of opposition, especially to the referendum scheduled for March, contesting Correa's mandate to call for it. Things came to a boil in March, as the majority of the congress continued to oppose the referendum, and while all three previous presidents' administrations ended in moments like these, Correa's support was much more solid. Whether the pouring protests in favor of Correa, and his sheer popularity might have swung the vote of the electoral commission or not, cannot be determined, but in either case, they voted to impeach the 57 members of parliament -out of 100- that obstructed the referendum. The referendum was held in April and more than 80% voted in favor of a new constituent assembly[243].

As rumors continued to circle Patino, he finally had to quit the ministry, during his tenure, he settled Ecuador's debt with the IMF and informed them that their presence in Ecuador will no longer be needed. He would not be gone from the scene, however, as Correa delivered on another promise by creating the Integral Auditing Commission for

---

[242] Porzecanski, "When Bad Things Happen to Good Sovereign Debt Contracts". 260-262..
[243] Gallegos, Perez, "Political Change, State Autonomy, and Post-Neoliberalism in Ecuador". 146-148.

the Public Credit (CAIC) and appointed him to lead it[244]. CAIC's directive was to assess the "legitimacy, legality, transparency, quality, efficacy and efficiency" of public debt issued between 1976 and 2006, CAIC was given a year to accomplish this herculean task. By continuing to deliver on his promises Correa managed to maintain public support and in September of that year PAIS -now contesting elections- gained 80 out of 130 seats[245].

The new constitutional assembly mollified indigenous anger and protests as it promised more recognition and rights. Wide agreement with Correa's economic policies and the new assembly's progressive outlook made for a calm third congress for CONAIE in January 2008 that focused on the constitutional demand for a plurinational state. In April, the assembly accepted CONAIE's position and voted to make Quichua and Shuar official languages[246]. The Assembly also passed a series of popular measures such as the end of the military cooperation agreement with the U.S.A that allowed it to occupy the Manta airbase, the suspension of free trade agreement negotiations with the U.S.A., as well as a ban on labor outsourcing, and measures providing for the confiscation of property of bankers involved in the bankruptcy of the financial system[247].

On the economic front, capital flight tax imposed a year earlier at 0.5% was raised to 1% aiming to stem capital flight. Calls within the constitutional assembly to put the CBE under executive control, and tighten regulations on the banking sector aiming to wean it off a fees model of profit won the day[248]. Correa's policies since his election

---

[244] Porzecanski, "When Bad Things Happen to Good Sovereign Debt Contracts". 260-263..
[245] Gallegos, Perez, "Political Change, State Autonomy, and Post-Neoliberalism in Ecuador". 147.
[246] Jameson, "The Indigenous Movement in Ecuador". 69-70.
[247] Gallegos, Perez, "Political Change, State Autonomy, and Post-Neoliberalism in Ecuador". 147-148
[248] Luisa Ana Unda and Julie Margret, "Transformation of the Ecuadorian Financial System: Regulation and Response," *Journal of Financial Regulation and Compliance* 23, no. 1 (2015): pp. 84-102.

centered on improving the provisioning of public services. He doubled poverty assistance programs funding, doubled housing loan credit available, and cut electricity prices for the poor. This created valuable trust and support that he needed as he proceeded to seize the Isaias group conglomerate to recover part of the state's losses due to the failure of Filanbanco during the banking crisis[249]. In September, the new constitution focusing on the state's redistributive role, re-establishment of state control over the CBE, regulation of the banking sector, and plurinationality passed by 63% of the vote, despite fierce opposition from the business class, catholic establishment, and mass media[250]. In regards to economic policy, Article 271 granted autonomous municipal governments a minimum of 15% of permanent revenue and 5% of non-permanent revenue of the central government[251]. Article 290 deals extensively with borrowing, outright forbidding private borrowing and compound interest and stipulates that public borrowing is to be used only as a last resort, and on the condition, it does not affect sovereignty, the rights of people, and nature. It also provides a legal basis for renegotiation and revocation of unlawful debts, as well as the seizure of assets of the guilty party without a statute of limitations[252].

The CAIC report was delayed for months due to the enormity of the task and was finally delivered in November of 2008. The report included many accusations of irregularity, negligence of responsibility, as well as accusing the federal reserve of illegally hiking interest rates. Most importantly, however, it gave Correa the cover to order skipping a 31 million dollars coupon repayment on the 2012 bonds. On December

[249] Verónica Silva, "The Return of the State, New Social Actors, and Post-Neoliberalism in Ecuador," *Latin American Perspectives* 43, no. 1 (January 2015): pp. 4-17.
[250] Gallegos, Perez, "Political Change, State Autonomy, and Post-Neoliberalism in Ecuador". 147-152.
[251] "Ecuador's Constitution of 2008," Ecuador's Constitution of 2008 § (2008). Art. 271.
[252] "Ecuador's Constitution of 2008," Ecuador's Constitution of 2008 § (2008). Art. 290.

12th, a moratorium was declared on the 2012 bonds as they were deemed "immoral"," illegal", and "illegitimate". Three days later, a 30.5 million repayment on 2005 bonds - issued shortly after he was forced out by the IMF- was also put on hold. Correa assured that all obligations to bilateral and multilateral creditors will be met notwithstanding the CAIC report. In January of 2009, shortly before the grace on the 2005 bonds ran out, Ecuador repaid it[253].

In February 2009, 130 million dollars interest payment on 2030 bonds were missed, reinforcing the targeted character of the default and specifying that it is the bonds restructured in the 2000 restructuring deal that are put on a moratorium. On April 20th, the government stated that its objection to the bonds is that the haircut was not as deep as it should have been, and offered a buyback at 70% haircut, by May 15th more than 91% of holders took the offer. Holdouts and some Italian investors were given another option to accept a 65% haircut raising the buyback rate to more than 95%, allowing the government to retire more than 3 billion dollars in debt for just 900 million dollars[254].

Correa had correctly realized that debt as a unifying issue can help meld his Citizen's Revolution and rally Ecuadorians to a common cause. The interweaving of the political and economic was often disregarded by his predecessors to their great peril. Mobilizing both for the constitution and default at the same time not only was an exhausting task but was fundamentally the only way to carry out either of them. A government without the support of the people cannot withstand the possible costs of default, and the government will not have the support of the people unless it carries economic reforms that upset international creditors. The solution to this self-feeding

[253] Porzecanski, "When Bad Things Happen to Good Sovereign Debt Contracts". 260-265..
[254] Porzecanski, "When Bad Things Happen to Good Sovereign Debt Contracts". 265-267.

cycle is to address it on both fronts at the same time to prevent the system from reconstituting itself. Additionally, while some have taken to criticizing Correa, and Patino among others for alleged manipulation of the market or what was framed as intimidation of bondholders, they fail to account for the fact that such behaviors have been perfectly acceptable by financial institutions in Ecuador's case among others. They simply exploited an already declining market to enact a political will through market mechanisms, instead of seeking to impose that will through political means on the market -a proposition that often fails. The repeated failures of national coalitions in withstanding the debt crisis onslaught effectively meant that by the time Correa's coalition is formed, it is almost entirely composed of the various labor and leftist organizations, as national capital was not only responsible for the crisis but unwilling to bear any costs of a future confrontation with international capital. This is partly due to the massive offshoring of capital, which meant that distinctions between Ecuadorian capital and international capital were fading. As such, this new bloc had to politically and legally subdue national capital while it faced international capital in default

Ecuador's highly selective default was not premised on Ecuador's inability to pay as most defaults are, but rather it was anchored in the unfairness of the debt. This allowed Ecuador to splinter the capital alliance, especially in the context of the global financial crisis as no one was willing to give up revenue streams just to attempt to trigger a cross-default. More importantly, the fact that default was an act of will instead of the last resort meant that Ecuador was fully prepared to meet the challenges of default. The global financial crisis and improving foreign reserves meant that Ecuador could withstand reduced capital markets accessibility. The new constitution not only provided a legal basis for the default and safeguards against future crises but also brought back the central bank under state control. The new constitution also functioned to consolidate Correa's relatively recent and incohesive coalition, as it unified the various labor factions into one project that encompassed debt relief, sovereignty, environmental protection, and redistribution of wealth. This popular backing meant that the government had the internal front secured in case of a prolonged default. Correctly articulating debt as the common thread in all of these issues, and that the problem of debt is not an economic issue to be addressed technocratically, but a political issue of struggle and mobilization greatly aided this effort. Twinned together, the constitution and default can be understood as the political and economic foundations of an attempt at a new historic bloc in Ecuador that reflects the new reality of the polity.

V. Conclusions and Analysis

Perhaps it is difficult to write any narrative of a debt crisis without it sounding a bit conspiratorial. The unpredictability of the crises coupled with rather clear outcomes in terms of winners and losers makes conspiracy a great narrative to fill the gap. However, the appearance of conspiracy often does not correlate to the appearance of conspirators. This conspiracy without conspirators is nothing more than the visage of exploitable structural dysfunction[255].

Economic Dysfunction:

This structural dysfunction starts from the moment debt is accrued. While sovereign debt was originally a function of covering temporary deficits, it has increasingly become a central feature of state financing. This rise in debt is accounted for by Streeck's double examination of debts and taxes as inverse corollaries. The failure of neoliberalism to generate the economic growth it promised and ensuing tax cuts to simulate the effects of rising incomes necessitated higher debt stocks. This entailed that the state would continue financing its needs at capital markets sufferance, as capital's relationship with the state moves from taxpayer to stockholder; its ability to influence discourse and decisions increases beyond the need to generate public support. This repositioning of capital as accounted by Streeck is only possible so long as this process is not discussed in such terms[256].

[255] Yanis Varoufakis, *Adults in the Room: My Battle with Europe's Deep Establishment* (The Bodley Head, 2017). Pp. 2-18
[256] Wolfgang Streeck, *Buying Time: The Delayed Crisis of Democratic Capitalism* (London: Verso Books, 2014). Pp. 49-84.

The rise of econometrics and neoliberalism together in the 1970s and 1980s was no coincidence, but rather a necessity. Neoliberalism's central thesis that is subjugating the political to the economic would not have been possible without depoliticizing economics and rooting it in a higher truth. As such, neoliberal economics focused on mathematical modeling as a foundation of economics as "hard" science. This claim that economics is a hard science is perhaps the only deliberate act of deception in this "conspiracy without conspirators" as it formed the ideological bedrock for neoclassical economics -and its heir in neoliberal economics- as it aimed to move the economy from the democratic social sciences to the authoritative natural sciences. This pretense is kept through byzantine mathematical models that are inscrutable to the lay citizen, finishing the transformation of economists into the high priests of capitalism. As the economic management of the polity is removed from democratic political control and into the abjured realm of economic forecasting, decisions regarding the economy are discussed in natural and mechanical terms instead of social or political terms. Within the context of access to easy credit, as lower taxes liberated more surpluses for the financial markets, this meant maximizing -ostensibly sustainable- borrowing to maximize investments instead of using debt as a bridge funding mechanism. This necessarily meant higher exposure to financial and debt crises as sustained high levels of debt meant that debt sustainability in the event of adverse shocks is highly unlikely.

Political Dysfunction:

While debt is an economic representation in a fundamentally unequal power dynamic. International debt heightens this dynamic. While local capital can accrue disproportionate power within the local historic bloc as a stockholder through sovereign debt, it is still fundamentally tied to this polity. That is, while capital has disproportionate economic power, through democratic control over state power or threats to it, labor can still form a check on its power. However, in the case of international debt, this possibility of democratic amelioration of debt conditions is lessened as the lender is solely bound to the polity through the debt obligation and nothing else. They can also call on their states, international institutions and mobilize internationally to oppose such popular checks on capital power.

The onset of an international debt crisis whether due to economic mismanagement or unforeseen shocks means that an economic system will be effectively starved of capital until the crisis abates. This means that at the onset of the crisis, capital factions - both national and international- start at an advantage in any negotiation as to how to apportion the cost of the crisis. Unopposed, a capital alliance will spring out of ideological coherence and practical expediency and impose the burden on the labor faction. The fact that neoliberal reforms significantly weaken labor allows for that process to happen rather quickly. Heightening the appearance of a conspiracy, the suddenness of the crisis coupled with its exploitation by some at the expense of others makes a routine failure of a dysfunctional system appear a sinister machination and a well laid out trap. The quick and austerity-laden solutions to the Greek debt crises in 2010 and 2012 and the Ecuadorian debt crisis of 1982 were hammered out quickly and relatively free of public interference producing that distinct feeling of conspiracy.

As the objectives of international capital and local labor are relatively stable, secured returns for the first and avoiding austerity for the latter, at the onset of the crisis it is only the national capital's objectives that are the independent variable. This variable is determined by which capital faction is dominant in that polity. Industrial capital may be more amenable to an accommodation with labor as it depends on it for the realization of value and hence has a lower threshold for tolerating public unrest. Financial capital on the other hand can tolerate much more public unrest. The ever more complex financial architecture means that financial capital can continue realizing value largely independently of local labor input, as the governing ideology dictates the liberation of central banks from political control and devotes them to the stability of financial markets. Financial capital can rest easy knowing that whatever losses it may incur a bailout can be arranged, while the freedom of movement of capital allows it to escape quickly if the situation deteriorates. This allows it to withstand social unrest to a higher degree while at the same time making it even more entangled in the mass of international capital markets. As such financial capital's dependence on access to international capital markets makes it particularly poised for a capital alliance.

This in turn determines labor's strategy, as while it can ally with industrial capital, it has to subdue financial capital. In fact, in the cases surveyed, labor's success in subduing financial capital was the determining factor for the outcome of the crisis. The Ecuadorian case saw several attempts to form a national alliance from Borja, to Bucaram and Guitterez. Several attempts were pursued but always failed due to the dominance of the fairly coherent financial cartel and its ever-increasing power since financial deregulation. The success of Correa's attempt is anchored in a holistic approach that attempted to address the various structural dysfunctions inborn of neoliberalism simultaneously. While debt levels in Correa's term were near record lows since the

1980s, he correctly used debt as a rallying issue and the tentpole of a full anti-neoliberal rollback that focused on eliminating the structural issues that allowed the former crises to take place. These included reclaiming state control over the central bank, setting constitutional requirements for private and foreign borrowing, and imposing tight regulation on the financial institutions. Correa had previously declared that the bonds were unfair and should be defaulted on even before he became a political figure. However, he waited to act until the new constitution was approved as only by then he would have the entire arsenal of tools with which to impose democratic political control over capital. He also waited for opportune macroeconomic conditions as he prepared to default. A tight borrowing market due to the global financial crisis meant lenders would prefer to recoup some of their money through accepting haircuts rather than losing it all to default, while Ecuador's high foreign reserves cushioned the temporary loss of access to financial markets.

In the Greek case, Varoufakis -another economist- was fully aware that his lack of a central bank and the concomitant lack of sovereign political control over financial markets was the biggest liability. Not only was the bank independent of any democratic control by Greek labor, but it was also functionally a branch of the ECB, an auxiliary of European capital. As such, Greek labor could not entice capital into an alliance nor coerce it into one, dooming its attempt to failure. Varoufakis' attempt to liquidate the banks was not only an ingenious idea to alleviate the debt crisis but also a last-ditch attempt to finally end Greek financial capital's role as a corrupt middleman and replace it with direct German capital. Greece's existence within the EU puts it at a structural disadvantage as European capital is far more integrated than European labor. Nestled within EU structures, the Syriza government was born in a hostile environment, and even with a popular mandate greater than Correa's could not enforce that popular will. Varoufakis' correctly understood that his proposals would not make him allies in the ranks of Greek capital and hence thought to bypass it completely by offering it to German capital as recompense for the debts. However, he perhaps underestimated how valuable Greek capital is ideologically as an absorbent of the crisis. Even as German and French banks were hit by the crisis, it was Greek bankers' failure that meant that everyone could lay the blame at their feet. If Greek capital is to be liquidated, a significant veil would break, and the increasing friction between German capital and Greek labor could be ideologically more poisonous to the EU than a protracted Greek crisis.

More importantly, the Greek case highlights how international debt is permitted to override popular will, not just manifested in sustained protests but also a clear majority in a referendum that opposed the bailout. The overriding of the referendum vote was not an aberration but policy. According to Varoufakis, Schäuble the German finance minister said as much: "Elections cannot be allowed to change economic policy."[257]

In Puerto Rico, the lack of sovereignty created an obvious disconnect between the reality of popular will on the island and the type of agreements being reached in New York. Unlike the Citizens' Revolution in Ecuador or Syriza in Greece, the lack of a sovereign political authority rendered official political participation superfluous as there was no institution to capture on the island that could end the crisis one way or another. Popular participation mostly manifested in continuous protesting, a form very common during Ecuador's sclerotic period too. Lacking access to political sovereignty is bad

[257] Varoufakis, *Adults in the Room*. Pp. 236-237

enough for prospects of debt negotiations, being a close colony of the reigning global hegemon is an unquantifiable disadvantage. For Puerto Rico, default was not a realistic option, it is precluded by the island's place in international politics. As such, relief from the federal government was the only possible option.

Exploitability:

Chief to discerning whether a mechanism is intended or not, that is whether it is a feature or a bug is to ascertain any benefits it has to the system. While debt crises are disastrous events that seem to lay waste to entire economies in their wake, in everyone we find some factions that managed to make gains. These gains could be monetary as with the "Sucretization" that saw the Ecuadorian capital being bailed out at a profit, or the Greek capital that merely got bailed out to the tune of a couple of hundred billion Euros, or Puerto Rican capital that benefitted off the crisis both by bringing island policies closer to its patrons on the mainland and snatching up the island's depreciating assets. The fact that debt crises would favor capital is no surprise since debt itself is an expression of capital's power to foreclose on future labor. As such, the course of least resistance favors capital by default and until default. However, one would be hard-pressed to find evidence that any of these crises were purposely engineered. It would not be right to assume debt crises are a feature then as they fundamentally threaten the process of capital accumulation. It would also be equally wrong to assume it is a bug, a bug this monumental would necessitate a structural response. Such a response was suggested by the IMF before as they proposed a structured process for sovereign defaults.

This proposal, however, was vetoed by the United States[258]. Hence, it is probably more accurate to conceive of debt crises as an "exploit"; an unintentional contradiction that threatens the coherence of the system within which it is encoded, but -unlike a bug- can be exploited by some for gain. As such, the debt crisis represents a break and renegotiation of power relations established by the accrued debt. The most powerful and organized political faction gets to exploit the crisis for political or economic gains or at least shielding from harm. In this understanding, debt crises cease to be problems and become exploitable opportunities since barring successful opposition debt crises can become invaluable tools in passing unpopular measures shielded from political opposition by the obligation of debt.

That is to say, since debt crises bring to the fore an inherent contradiction in the system, this forcibly sheds any illusion of a monolithic system. As horizons for growth dissipate and the situation becomes a zero-sum game, the existing ideological and institutional superstructures' inability to resolve this contradiction erodes their hold on the polity. This corrosion of superstructures prompts factions to conceive of their relationships with other actors without the ameliorative mystification of state and economic ideology, but instead in the crucible of conflicting material interests. The delegitimized state apparatus becomes the battleground as factions attempt to control it in order to fortify their interests and ensure they will not be exploited, and if they can, exploit others.

[258] Joseph Stiglitz, "The Asian Crisis 10 Years Later," *The Guardian*, July 2, 2007, https://www.theguardian.com/commentisfree/2007/jul/02/theasiancrisis10yearslat.

Didactic Dysfunction:

If we are to understand debt crises as “exploits”, this would also account for the didactic dysfunction evident in the cases of this study. While Ecuador saw three debt crises in roughly fifteen years, Greece managed three crises in roughly five years. This stunning recurrence of debt crises in such short periods indicates a serious didactic failure. All of these crises were invariably caused by the discretion of “moral hazard” of the local banking sector. While in Greece, the three crisis episodes were a manifestation of the same debt crisis, in each one the banks were bailed out. In the Ecuadorian case, after being bailed out at a profit in the “Sucretization” the banks went back to exactly the same lending practices causing the first one, causing two more distinct crises afterward. It is also important not to overstate the role Dollarization played in the Ecuadorian crises. The 1980s crisis for example, happened while the vast majority of the Ecuadorian economy was still denominated in Sucres. The 1997 crisis occurred in a semi-dollarized economy, thanks to Ballen’s 1994 banking liberalization laws[259]; and while the 2009 default occurred in a fully dollarized economy, it was not the last resort of an insolvent state or a banking crisis but the active choice of reallocating state resources. In fact, dollarization is arguably the result of the first two crises. The 1994 reforms that opened the door for dollarization were formulated as a response to the crisis of the 1980s to finally bring Ecuador out of arrears. The unstable state of semi-dollarization that resulted contributed to the 1997 crisis, the response to which was full dollarization in 2000[260]. As such, while Dollarization was a factor, it was not the determining factor. Dollarization’s

[259] Beckerman, “Dollarization and Semi-Dollarization in Ecuador”. 1-20.
[260] Ibid.

main importance comes from the limits it imposed on the 2009 default. While it removed the problem of currency mismatch, it cost Ecuador seigniorage revenue, the independence of its monetary policy, and its economic sovereignty.

In each case, the bankers were bailed out, the risky behavior that caused the crisis continued. This is due to a simple behavioral disconnect. Due to its starting advantage, capital can often emerge out of the crisis having made gains, or at least avoided losses. This fortification of capital positions extended by supposedly independent central banks means that capital has no real incentive to reform itself or guard against future episodes.

This fundamental insulation of the banking sector from the consequences of crises that they themselves created disincentivizes any reform. This insulation is not afforded to the banking sector out of conspiratorial arrangement but rather a necessity of neoliberal structures. The centrality of deregulated financial markets to the neoliberal project both to recycle and redistribute wealth and reify the absorption of value chains in the periphery by the financial centers means that an actual crash in the financial market could spell the end of neoliberalism and the social contract it sponsors. As such, central banks independent of political will and accountable only to capital become the safest insurance that such a crash would not happen. These structural safeguards and baffles mean that the default trajectory will be to favor capital unless sufficient political will is exerted to remove these baffles and alter the trajectory. These structural barriers to improvement and reform within a self-reproducing system can only be overcome through intervening in the mechanisms of reproduction both ideologically and economically. That is, simultaneously politicizing debt, rejecting the fictitious premise of separation between the political and economic while also mobilizing political power to regulate, negotiate, and drawdown existing debts.

Limitations and Applicability:

While the model proved useful in analyzing the selected cases, it is still bound by these cases' particularities. As all cases studied occurred after the collapse of the Bretton Woods system and the rise of neoliberalism, the model's viability before that could be limited as some of the core underlying factors such as financial technologies, and ideological hegemony were vastly different. While all the cases are of countries with relatively small populations and areas, it is evident that it is not the size of the population or country, but rather it is the integration and coherence of its economy -and hence capital class- that is the determining factor. In Puerto Rico and Greece for example, while the opposition railed against the Criollo bloc and the bankers respectively, a well-integrated and cohesive capitalist class proved very resilient. In Ecuador on the other hand, despite a relatively small area and population, the country's bountiful geographic diversity allowed for the emergence of regionally-specific economies and as a result regional capital factions. In fact, it was the infighting between these regional factions that was exploited by Correa during his rise. Whether this is a pattern that holds when applied to larger and more diverse countries requires further research.

VI. Bibliography

"48 U.S. Code § 2124 - Powers of Oversight Board." Legal Information Institute. Cornell Law School. Accessed July 20, 2020. https://www.law.cornell.edu/uscode/text/48/2124.

"48 U.S. Code § 2128 - Autonomy of the Oversight Board." Legal Information Institute. Cornell Law School. Accessed July 20, 2020. https://www.law.cornell.edu/uscode/text/48/2128.

"48 U.S. Code § 2124 - Exemption from liability for claims." Legal Information Institute. Cornell Law School. Accessed July 20, 2020. https://www.law.cornell.edu/uscode/text/48/2125.

ABC News. "Polling Booths Open in Greece." ABC News. ABC News, September 16, 2007. https://www.abc.net.au/news/2007-09-16/polling-booths-open-in-greece/671268.

Acevedo, Nicole. "Puerto Rico's New Law Moves to Privatize Power Grid Nine Months after Hurricane Maria." NBCNews.com. NBCUniversal News Group, June 20, 2018. https://www.nbcnews.com/storyline/puerto-rico-crisis/puerto-rico-officially-moves-privatize-power-grid-9-months-after-n885111.

Acevedo, Nicole, and Gabe Gutierrez. "Will Puerto Rico's Debt-Restructuring Deal End the Largest Bankruptcy in U.S. History?" NBCNews.com. NBCUniversal News Group, October 29, 2021. https://www.nbcnews.com/news/latino/will-puerto-ricos-debt-restructuring-deal-end-largest-bankruptcy-us-hi-rcna4051

AFP. "Euro Takes a Wallop as ECB Plays Hardball with Greece." TheJournal.ie. TheJournal.ie, February 5, 2015. https://www.thejournal.ie/ecb-greek-debt-collateral-1920913-Feb2015/.

AFP. "Greece Agrees to Repay IMF Debt by April 9: Lagarde." Yahoo! News. Yahoo!, April 6, 2015. https://news.yahoo.com/greece-agrees-repay-imf-debt-april-9-lagarde-012200543.html.

Agencia EFE. "Crean El Fondo De Ayuda Agrícola Para Levantar Sector Tras María." Primera Hora. Primera Hora, January 6, 2020. https://www.primerahora.com/noticias/gobierno-politica/notas/crean-el-fondo-de-ayuda-agricola-para-levantar-sector-tras-maria/.

Anderson, Jon Lee. “The Dream of Puerto Rican Independence, and the Story of Heriberto Marín.” The New Yorker. The New Yorker, December 27, 2017. https://www.newyorker.com/news/news-desk/the-dream-of-puerto-rican-independence-and-the-story-of-heriberto-marin.

Associated Press. “ECUADORAN LEADER DIES IN PLANE CRASH.” *The New York Times*, May 25, 1981.

Backiel, Linda. “Puerto Rico: The Crisis Is about Colonialism, Not Debt.” *Monthly Review* 67, no. 5 (October 2015): 11–18.

Bates, Diane C. “The Barbecho Crisis, La Plaga Del Banco, and International Migration: Structural Adjustment in Ecuador's Southern Amazon.” *Latin American Perspectives* 34, no. 3 (May 2007): 108–22.

BBC Business. “Greek Central Bank Boss Warns of 'Irreparable' Damage.” BBC News. British Broadcasting Corporation, December 15, 2014. https://www.bbc.com/news/business-30488045.

BBC Europe. “Greece Arrests Journalist over 'Lagarde List' Banks Leak.” BBC News. British Broadcasting Corporation, October 28, 2012. https://www.bbc.com/news/world-europe-20116548.

Beckerman, Paul. “Dollarization and Semi-Dollarization in Ecuador.” *Policy Research Working Papers*, 2643, July 2001, 1–38.

Bloomberg, “Papademos Warns Fellow Greeks Economic Collapse Looms without Sacrifice.” Bloomberg.com. Bloomberg, January 4, 2012. https://www.bloomberg.com/news/articles/2012-01-04/papademos-warns-fellow-greeks-economic-collapse-looms-without-sacrifice.

Brown, Nick. “Puerto Rico Authorizes Debt Payment Suspension; Obama Signs Rescue Bill.” Reuters. Thomson Reuters, June 30, 2016. https://www.reuters.com/article/us-puertorico-debt-idUSKCN0ZG09Y

Brown, Nick. “Puerto Rico Budget to Protect Pension Payments: Governor.” Reuters. Thomson Reuters, May 31, 2017. https://www.reuters.com/article/us-puertorico-debt-budget/puerto-rico-budget-to-protect-pension-payments-governor-idUSKBN18R3C8.

Brown, Nick. “Puerto Rico Go Bondholders Will Not Support Cofina Settlement.” Reuters. Thomson Reuters, June 12, 2018. https://www.reuters.com/article/puertorico-debt-settlement-idUSL1N1TE2DD.

Budgen, Sebastian, and Stathis Kouvelakis. Greece: The Struggle Continues. *Jacobin*, July 14, 2015.

Christodoulakis, Nicos. "From Grexit to Growth: On Fiscal Multipliers and How to End Recession in Greece." *National Institute Economic Review* 224 (May 2013): 66–76.

Chutchian, Maria. "Puerto Rico Financial Oversight Board Lands Deal with Junior Creditors." Reuters. Thomson Reuters, July 14, 2021. https://www.reuters.com/legal/transactional/puerto-rico-financial-oversight-board-lands-deal-with-junior-creditors-2021-07-13/.

Chutchian, Maria. "Puerto Rico board finalizes deal securing bond insurers' support for debt plan" Reuters. Thomson Reuters, July 27, 2021. https://www.reuters.com/legal/transactional/puerto-rico-board-finalizes-deal-securing-bond-insurers-support-debt-plan-2021-07-27/.

Chutchian, Maria. "Puerto Rico bankruptcy nears end as debt plan goes up for approval" Reuters. Thomson Reuters, November 9, 2021. https://www.reuters.com/legal/transactional/puerto-rico-bankruptcy-nears-end-debt-plan-goes-up-approval-2021-11-08/.

Clark, A. Kim. "Globalization Seen from the Margins: Indigenous Ecuadorians and the Politics of Place." *Anthropologica* 39, no. 1/2 (1997): 17–26. https://doi.org/10.2307/25605848.

Coto, Danica. "Puerto Rico Debt-Restructuring Bill Advances amid Criticism." ABC News. ABC News Network, October 27, 2021. https://abcnews.go.com/International/wireStory/puerto-rico-debt-restructuring-bill-advances-amid-criticism-80803915

Creighton, Adam. "GREECE'S DEBT CRISIS: THE PRICE OF CHEAP LOANS." *Policy* 27, no. 3, 2011.

Cueva, Simon, and Julian P. Diaz. January 2019. "The Case of Ecuador." *Macro Finance Research Program*, Working Paper, Becker Friedman Institute, University of Chicago, Il.

D'Angelo, Evelyn. "Greece & the Odious Debt Doctrine ." *Brooklyn Law Review* 78, no. 4 (2013): 1619–57.

"Developments in the Law — The U.S. Territories." *Harvard Law Review* 130, no. 6 (April 10, 2017): 1656–79. https://harvardlawreview.org/2017/04/the-international-place-of-puerto-rico/.

Dharmapala, Dhammika, and James R. Hines Jr. "Which Countries Become Tax Havens?" *Journal of Public Economics* 93 (July 21, 2009): 1058-1068

Donadio, Rachel, and Liz Alderman. "Samaras Takes Office as Greece's Prime Minister, Facing Major Challenges." The New York Times. The New York Times, June 20, 2012. https://www.nytimes.com/2012/06/21/world/europe/greece-poised-to-form-new-coalition.html.

Dreier, Cristoph. "Greek Government Bans Demonstrations in Central Athens." World Socialist Web Site. International Committee of the Fourth International (ICFI), July 19, 2013. https://www.wsws.org/en/articles/2013/07/19/gree-j19.html.

Duany, Jorge. "To Send or Not to Send: Migrant Remittances in Puerto Rico, the Dominican Republic, and Mexico." *The Annals of the American Academy of Political and Social Science* 630 (July 2010): 205–23.

Ecuador's Constitution of 2008 § (2008).

Eggertsson, Gauti B., and Paul Krugman. "Debt, Deleveraging, and the Liquidity Trap: A Fisher-Minsky-Koo Approach*." *The Quarterly Journal of Economics* 127, no. 3 (June 14, 2012): 1469–1513.

Eurogroup. "Eurogroup Statement on Greece." Consilium. The European Council, February 20, 2015. https://www.consilium.europa.eu/en/press/press-releases/2015/02/20/eurogroup-statement-greece/.

Exadaktylos, Theofanis, and Nikolaos Zahariadis. "Quid pro Quo: Political Trust and Policy Implementation in Greece during the Age of Austerity." *Politics & Policy* 42, no. 1 (2014): 160–83.

"Fact Sheet - FAQ Teachers Agreement." Oversight Board. Financial Oversight & Management Board For Puerto Rico. https://oversightboard.pr.gov/debt/.

"Fact Sheet - Support Agreement with Public Retirees" Oversight Board. Financial Oversight & Management Board For Puerto Rico. https://oversightboard.pr.gov/debt/.

Fadulu, Lola. “Hud Delays Disaster Preparation Money for Puerto Rico.” The New York Times. The New York Times, August 3, 2019. https://www.nytimes.com/2019/08/02/us/politics/hud-puerto-rico-disaster-money.html.

“FOMB Approves PRASA Debt Transaction.” The Weekly Journal. The Weekly Journal, October 26, 2021. https://www.theweeklyjournal.com/business/fomb-approves-prasa-debt-transaction/article_29e87640-365e-11ec-99eb-cbfdde5bb0a0.html.

Fuentes-Ramírez, Ricardo R. “The Political Economy of Puerto Rico: Surplus Use and Class Structure.” *Latin American Perspectives*, 3, 47, no. 232 (May 2020): 18–29.

Furman, Jason, Joseph E. Stiglitz, Barry P. Bosworth, and Steven Radelet. “Economic Crises: Evidence and Insights from East Asia.” *Brookings Papers on Economic Activity* 1998, no. 2 (1998): 1–135. https://doi.org/10.2307/2534693.

Fusté, José I. “Repeating Islands of Debt.” *Radical History Review* 2017, no. 128 (May 2017): 91–119.

Gallegos, Franklin Ramírez, and Carlos Perez. “Political Change, State Autonomy, and Post-Neoliberalism in Ecuador, 2007–2012.” *Latin American Perspectives* 43, no. 1 (January 2015): 143–57.

Gill, Stephen, ed. *Gramsci, Historical Materialism and International Relations*. Cambridge: Cambridge University Press, 1994.

Gonzalez, Juan. “Puerto Rico's $123 Billion Bankruptcy Is the Cost of U.S. Colonialism.” The Intercept. The Intercept, May 9, 2017. https://theintercept.com/2017/05/09/puerto-ricos-123-billion-bankruptcy-is-the-cost-of-u-s-colonialism/.

Gow, David. “Eurozone Crisis: Banks Agree 50% Reduction on Greece's Debt.” The Guardian. Guardian News and Media, October 27, 2011. https://www.theguardian.com/world/2011/oct/27/eurozone-crisis-banks-50-greece.

Graeber, David. *Debt the First 5000 Years*. (Brooklyn, New York: Melville House, 2014.) 453.

Harvey, David. “Neo-Liberalism as Creative Destruction.” *Geografiska Annaler: Series B, Human Geography* 88, no. 2 (2006): 145–58.

Henry, Pedro Correa. “Retired Teachers to Gov't: Stand up to Fiscal Board, Protect Retirement Law.” San Juan Daily Star. San Juan Daily Star, July 6, 2021. https://www.sanjuandailystar.com/post/retired-teachers-to-gov-t-stand-up-to-fiscal-board-protect-retirement-law.

Hinojosa, Jennifer, and Edwin Meléndez. “Puerto Rican Exodus: One Year Since Hurricane Maria.” *Centro de Estudios Puertorriqueños*, September 2018, 1–8.

Inman, Phillip. “Ukraine Agrees 'Win-Win' Debt Restructuring Deal.” The Guardian. Guardian News and Media, August 27, 2015. https://www.theguardian.com/world/2015/aug/27/ukraine-agrees-win-win-debt-restructuring-deal.

International Monetary Fund (IMF). “Greece: Debt % of GDP,” *Historical Public Debt Database*. https://www.imf.org/external/datamapper/DEBT1@DEBT/GRC.

International Monetary Fund (IMF). “Greece: GDP, Current Prices” *World Economic Outlook*. https://www.imf.org/external/datamapper/NGDPD@WEO/GRC.

International Monetary Fund (IMF). “Greece: Ex Post Evaluation of Exceptional Access under the 2010 Stand-by Arrangement.” *IMF Staff Country Reports* 13, no. 156 (June 2013): 1–51.

Jácome H., Luis I. “The Late 1990's Financial Crisis in Ecuador: Institutional Weaknesses, Fiscal Rigidities, and Financial Dollarization at Work.” *IMF Working Papers* 04, no. 12 (January 2004): 1–46.

Jameson, Kenneth P. “The Indigenous Movement in Ecuador: The Struggle for a Plurinational State” *Latin American Perspectives*, 176, 38, no. 1 (January 2010): 63–73.

Kakissis, Joanna. “2014 Greece Budget to Contain No Austerity Measures.” NPR. National Public Radio (U.S.A.), November 21, 2013. https://www.npr.org/2013/11/21/246492064/greece-no-austerity-budget.

Kaske, Michelle. “Puerto Rico Board Ends Spat That Threatened Restructuring.” Bloomberg.com. Bloomberg, October 28, 2021. https://www.bloomberg.com/news/articles/2021-10-28/puerto-rico-able-to-move-debt-plan-forward-without-mediation.

Kitsantonis, Niki. “Parliament Approves 2014 Budget in Greece.” CNBC. CNBC, December 8, 2013. https://www.cnbc.com/2013/12/08/parliament-approves-2014-budget-in-greece.html.

Krugman, Paul. “Balance Sheets, the Transfer Problem, and Financial Crises.” *International Finance and Financial Crises* 6 (1999): 459–72. .

Lenin, Vladimir I. *Imperialism, the Highest Stage of Capitalism*. Moscow, Moscow: Progress Publishers, 1970.

Looney, Robert. "Austerity in the Tropics: Is Puerto Rico the New Greece?" *The Milken Institute Review* 16, no. 4 (2014): 66.

Luxemburg, Rosa. *The Accumulation of Capital*. London: Routledge and Kegan Paul, 1971

Maltezou, Renee, and Robert-Jan Bartunek. “Greece Defaults on IMF Payment despite Last-Minute Overtures to Creditors.” Reuters. Thomson Reuters, June 30, 2015. https://www.reuters.com/article/us-eurozone-greece-idUSKBN0P40EO20150630

Martinez, Gabriel X. “The Political Economy of the Ecuadorian Financial Crisis.” *Cambridge Journal of Economics* 30, no. 4 (July 2006): 567–85.

Michael P. Todaro, and Stephen C. Smith. Economic Development (Harlow: Pearson, 2015.).

Moschella, Manuela. “Negotiating Greece. Layering, Insulation, and the Design of Adjustment Programs in the Eurozone.” *Review of International Political Economy* 23, no. 5 (September 22, 2016): 799–824.

Nazmi, Nader. “Failed Reforms and Economic Collapse in Ecuador.” *The Quarterly Review of Economics and Finance* 41, no. 5 (2001): 727–35.

Organization for Economic Co-operation and Development (OECD). “Greece: Details of Tax Revenue” *OECD.Stat.* https://stats.oecd.org/Index.aspx?DataSetCode=REVGRC.

“Oversight Board Sues Pierluisi, AAFAF, Legislative Leaders.” The Weekly Journal. The Weekly Journal, July 2, 2021. https://www.theweeklyjournal.com/politics/oversight-board-sues-pierluisi-aafaf-legislative-leaders/article_765b492e-db70-11eb-8517-a7941822dc2e.html.

Pantojas-García, Emilio. “Is Puerto Rico Greece in the Caribbean? Crisis, Colonialism, and Globalization.” *The Fletcher Forum of World Affairs* 40, no. 1 (2016): 57–71.

Porzecanski, Arturo C. “When Bad Things Happen to Good Sovereign Debt Contracts: the Case of Ecuador.” *Law and Contemporary Problems* 73, no. 4 (2010): 251–71.

“Puerto Rican Emigration, Why the 1950s?” Department of Latin American and Puerto Rican Studies. Lehman College. Accessed July 29, 2020. https://lcw.lehman.edu/lehman/depts/latinampuertorican/latinoweb/PuertoRico/1950s.htm

“Puerto Rico’s Public Debts: Accumulation and Restructuring.” Congressional Research Service. United States Congress, May 18, 2021. https://sgp.fas.org/crs/row/R46788.pdf.

Purcell, Thomas, Estefania Martinez-Esguerra, and Nora Fernandez. “The Value of Rents: Global Commodity Chains and Small Cocoa Producers in Ecuador.” *Antipode A Radical Journal of Geography* 50, no. 3 (2018): 641–61.

Ramzī Zakī, Azmat Al-duyūn Al-khārijīyah: Ru’yah Min Al-‘ālam Al-thālith (Crisis of External Debt: A View from the Third World) (Cairo: al-Hay’ah al-Misṛīyah al-‘Āmmah lil-Kitāb, 1978), 69-72.

Raposo, Ana Margarida, and Paulo Reis Mourão. “Tax Havens or Tax Hells? A Discussion of the Historical Roots and Present Consequences of Tax Havens.” *Financial Theory and Practice* 37, no. 3 (June 4, 2013): 311–60.

Reinhart, Carmen M., and Christoph Trebesch. “The Pitfalls of External Dependence: Greece, 1829–2015.” *Brookings Papers on Economic Activity* 2015, no. 2 (2015): 307–28.

Reuters Staff. “New Sales Tax Bonds Issued under Latest Puerto Rico Debt Restructuring.” Reuters. Thomson Reuters, February 12, 2019. https://www.reuters.com/article/usa-puertorico-bonds-idUSL1N2071K8.

Robles, Frances. “Puerto Ricans Face 'Sacrifice Everywhere' on an Insolvent Island.” The New York Times. The New York Times, May 6, 2017. https://www.nytimes.com/2017/05/06/us/puerto-rico-insolvency-business-owners-anxiety.html.

Rosa, Alejandra, Patricia Mazzei, and Frances Robles. “Puerto Rico Supreme Court Ousts New Governor, and Another Is Sworn In.” The New York Times.

The New York Times, August 7, 2019. https://www.nytimes.com/2019/08/07/us/puerto-rico-governor-wanda-vazquez.html.

Roussille, Nina, and Paul-Adrien Hyppolite. “A More Ambitious Agenda Is Needed to Help Achieve Public Debt Sustainability in Greece.” Kennedy School Review. Harvard Kennedy School, August 17, 2016. https://ksr.hkspublications.org/2016/08/17/a-more-ambitious-agenda-is-needed-to-help-achieve-public-debt-sustainability-in-greece/.

Silva, Verónica. “The Return of the State, New Social Actors, and Post-Neoliberalism in Ecuador.” *Latin American Perspectives* 43, no. 1 (January 2015): 4–17.

Slavin, Robert. “Puerto Rico's Governor Defends Stay Request on Pension Cuts Law.” The Bond Buyer. The Bond Buyer, September 2, 2021. https://www.bondbuyer.com/news/puerto-ricos-governor-defends-stay-request-on-pension-cuts-law.

Stiglitz, Joseph. “Capturing the ECB.” Project Syndicate. Project Syndicate, February 6, 2012. https://www.project-syndicate.org/commentary/capturing-the-ecb.

Stiglitz, Joseph. “The Asian Crisis 10 Years Later.” *The Guardian*, July 2, 2007. https://www.theguardian.com/commentisfree/2007/jul/02/theasiancrisis10yearslat.

Streeck, Wolfgang. *Buying Time: The Delayed Crisis of Democratic Capitalism*. London: Verso Books, 2014.

Suárez-Torres, José, Dolores López-Paredes, John F. Uggen, and Steve Crawford. “Development, Environment, and Health in Crisis.” *Latin American Perspectives* 24, no. 3 (May 1997): 83–103.

ThePressProject, “IMF Leak: European Banks Had Committed to Maintain Exposure in Greek Bonds after First Bailout - but Didn't.” ThePressProject. The Press Project, February 3, 2014. https://web.archive.org/web/20141019030859/http://www.thepressproject.net/article/55653/IMF-leak-European-banks-had-committed-to-maintain-exposure-in-Greek-bonds-after-first-bailout---but-didnt.

Thomas Jr., Landon. “The Greek Debt Deal's Missing Piece.” The New York Times. The New York Times, August 15, 2015.

https://www.nytimes.com/2015/08/16/business/international/the-greek-debt-deals-missing-piece.html.

Torruella, Juan R. “To Be or Not to Be: Puerto Ricans and Their Illusory U.S. Citizenship .” *CENTRO JOURNAL* XXIX, no. I (2017): 108–35.

Unda, Luisa Ana, and Julie Margret. “Transformation of the Ecuadorian Financial System: Regulation and Response.” *Journal of Financial Regulation and Compliance* 23, no. 1 (2015): 84–102.

“U.S. Census Bureau Quick Facts: Puerto Rico.” Census. United States Census Bureau. Accessed July 28, 2020. https://www.census.gov/quickfacts/fact/table/PR/PST045221.

Valdivia, Gabriela, and Marcela Benavides. “Mobilizing for the Petro-Nation: Labor and Petroleum in Ecuador.” *Focaal Journal of Global and Historical Anthropology* 2012, no. 63 (2012): 69–82.

Varoufakis, Yanis. *Adults in the Room: My Battle With Europe's Deep Establishment*. The Bodley Head, 2017.

Varoufakis, Yanis, and Justin Fox. “The Global Minotaur: The Crash of 2008 and the Euro-Zone Crisis in Historical Perspective.” *The Money Series*. Lecture presented at Columbia University, New York, November 9, 2011. https://www.youtube.com/watch?v=iVxaTC7Qp44

Villanueva, Joaquín, Martín Cobián, and Félix Rodríguez. “San Juan, the Fragile City: Finance Capital, Class, and the Making of Puerto Rico's Economic Crisis.” *Antipode* 50, no. 5 (2018): 1415–37.

Walsh, Mary Williams. “Puerto Rico's Power Authority Effectively Files for Bankruptcy.” The New York Times. The New York Times, July 3, 2017. https://www.nytimes.com/2017/07/02/business/puerto-ricos-electric-power-authority-effectively-files-for-bankruptcy.html.

Walsh, Mary Williams, and Alan Rappeport. “White House Dials Back Trump's Vow to Clear Puerto Rico's Debt.” The New York Times. The New York Times, October 4, 2017. https://www.nytimes.com/2017/10/04/business/dealbook/trump-puerto-rico-debt.html.

Wearden, Graeme, Helen Davidson, Katie Allen, Stephanie Kirchgaessner, Helena Smith, and Ian Traynor. “Greek Debt Crisis: Deal Reached after Marathon All-Night Summit - as It Happened.” The Guardian. Guardian News and Media, July 13, 2015. https://www.theguardian.com/business/live/2015/jul/12/greek-debt-crisis-eu-leaders-meeting-cancelled-no-deal-live.

Weissenstein, Michael, and Joel Colon. “'Chatgate' Scandal Plunges Puerto Rico Governor into Crisis.” Time. Time Magazine, July 2019. https://web.archive.org/web/20190716040854/https://time.com/5627187/puerto-rico-ricardo-rossello-chatgate/.

Wolf, Reinhard. “Debt, Dignity, and Defiance: Why Greece Went to the Brink.” *Review of International Political Economy* 25, no. 6 (October 23, 2018): 829–53.

World Bank. “Ecuador: GDP (current USD),” *Data.WorldBank.* https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=EC.

Yan, Holly. “Puerto Rico Governor: Power Could Be out for Months.” CNN. Cable News Network, September 21, 2017. https://edition.cnn.com/2017/09/20/americas/hurricane-maria-caribbean-islands/index.html.

Younger, Stephen D. “The Economic Impact of a Foreign Debt Bail-out for Private Firms in Ecuador.” *Journal of Development Studies* 29, no. 3 (April 1993): 484–503.