Greece

The meaning of the Greek crisis

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Many things have been said about the Greek crisis in recent weeks, most of them obnoxious and confusing [[1]. These histories result in an argument that is aimed for export to all developed countries.

The media has extensively incorporated the official message, which could be divided into 5 chapters: ?

1) Greece cheated to hide "unsustainable" public debt; ?

2) The country is on the verge of defaulting on their debt, as well as other countries in the euro area; ?

3) The European Union can not help but sympathize and even encourage the adoption of austerity measures and ask for the Mediterranean country to be placed under a trusteeship; ?

4) Greece must take austerity measures to reduce its fiscal deficit; ?

5) The crisis in developed countries means the need for a widespread adoption of austerity plans of the same nature.

We therefore need to decode the ideological message intended, as a matter of fact, to all the peoples of the North.

1) Greece cheated to hide "unsustainable" public debt

Yes, without doubt and this reveals a State plagued by corruption and backdoor arrangements between friends. It seems clear today that Goldman Sachs, through the use of complex arrangements (swaps) and credit derivatives, enabled the Greek government to reduce its notional debt by more than 2 billion euros by means of an invisible loan [2]. This practice allowed Greece to enter the Euro zone. There is also evidence that the successive governments since 2001 decided to look the other way on this issue.

But Greece is not the only country in the euro area that has done so. There is a storm of hypocrisy on the matter.

In 1996, Italy used swaps with JP Morgan to artificially reduce its deficit. Afterwards, Berlusconi sold the entrance fees of national museums to a financial corporation for 10 billion euros, which in exchange received 1.5 billion euros per year for 10 years. France, issued bonds in 2000 and included the repayment of the interest at the end of a period of 14 years. In 2004, Goldman Sachs and Deutsche Bank have completed a financial package for Germany called "Aries Vermoegensverwaltungs". Germany thus borrowed at rates well above the market, just to avoid that the debt ended showing up in the public accounts [3].

Placing in context the "unfathomable abyss" of Greece

Greece would have a deficit of 12.7% of GDP, and not of 6% as announced by the previous government, and a public debt of 115% of GDP, but if we compare it to other countries, there is nothing that justifies the panic cries. The cost of servicing the debt, which was 14% of GDP in 1993, is now 6%! The position of the accounts of the Greek State is certainly far from equilibrium, but it is less tarnished when compared to other northern countries.

Neither the European Commission, Eurostat or even the rating agencies, have lessons to give to Greece!

After 2001, the European Commission could not be unaware of the unreliability of the accounts presented by Greece. It only had to look at the accounts of the central government to measure the permanent deficit of the budget of the Greek state, to observe the multiplication of armament orders, to assess the cost of Olympics 2004 and to compare them with the budgetary resources and reserves held by the Greek Central Bank to understand that the official debt (made presentable to join the euro zone) was not that which was announced. It could not be unaware of this situation but in fact did nothing to denounce it. ?

The integration of Greece into the euro area was necessary for the Commission for political and geo-strategic reasons. The top advocates for the acceptance of Greece in 2001 were, France (2nd armament supplier of the country) and Germany. Banks in both countries now hold 80% of the Greek debt.

As regards Eurostat, no lessons to be given either.

According to Bloomberg, Eurostat was perfectly aware of this operation. It is also in the name of good accounting rules that the EU statistical agency dismisses the outstanding public debt, after the billions of euros given to banks without compensation as part of the different bailout programs (SEC decision in June 2009). Eurostat is the same, which allows to avoid the incorporation of the loans of the State into the stock of public debt ("great debt" in France, borrowing Greek and Portuguese). And yet the taxpayers (those who do not benefit from tax cuts to the wealthy) have to pay these sums one way or the other.

As for the rating agencies, how reliable are they?

They have a pretty questionable credibility, as they were the ones who gave a triple-A rating to the subprime securities issued by Lehman Brothers, just 3 days before its bankruptcy.

These same "clairvoyant" agencies are extremely powerful and do as they please on financial markets, including on those unregulated known as OTC (Over The Counter Derivatives) or the toxic markets in which agents buy insurance against the risk of default, CDS (Credit Default Swaps). They are closely related to Anglo-Saxon banks (including Goldman Sachs and Citibank). ?These agencies do not work with a crystal ball, but with the abundant data provided by the issuer of the loan or the intelligence provided by the market of specific financial products. In our case, the agencies have downgraded the bonds after the change in the sentiment of the majority of the market, once the Greek government itself provided new data.

2) Greece is on the verge of defaulting on their debt just like other countries in the euro area

The message has a primary function: that of increasing interest rates (risk premiums) and thus the profits of lenders (including Goldman Sachs and hedge funds). The bonds issued by Greece were traded with an interest rate of 6.40%, which is double what a creditor could expect in this area. It should be noted that this bond for 5 billion euros, received at the moment of its initial issuance, 3 times the initial offer [4]. Beautiful contradiction from the part of financial markets regarding a country considered being "on the verge of default".

The dominant ideology has a tendency to compare the situation of the state budget with that of a household or a business, which makes no sense. One state, unlike a household or a business, always has the possibility to increase its revenue through taxes. It is this fact, coupled with a quite higher life expectancy, the essential difference and the reason that makes this comparison absurd. The U.S. state has existed for 221 years and accumulated debt since 1837, or 173 consecutive years [5].

The second reason behind this alarmist discourse is to prepare public opinion to accept a path towards social regression and austerity. The Greek government also has discretion to conduct a thorough reform of the tax system in order to eliminate tax breaks and social gifts for the wealthy as well as taxing capital income and rent; in short, the freedom to increase its tax revenue in order to eliminate the budget deficit. This is a matter of political choice, which the PASOK (Greek Socialist Party) didn't choose because it agrees with the basic premises of neoliberalism: the Greek world is and must remain a neoliberal economy market! For several decades, the public policies followed by successive governments have increased fiscal deficits and the stock of public debt. Joining the euro area (2001) has only amplified this phenomenon.

3) The European Union sympathizes but cannot do anything except encourage the adoption of austerity measures and ask for the country to be placed in trusteeship;

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The European Central Bank (ECB) does not have the right to lend to states!
Whereas the European Central Bank lent heavily to the banks in 2008-2009 to save them from bankruptcy, it is not allowed to do the same with regards to the public authorities of the Member States. It's a shame.

Is important to note that Article 123 of the Treaty of Lisbon stipulates the rules out the ECB and central banks of Member States from undertaking "direct acquisitions [from public authorities, other bodies or public companies of Member States] of debt instruments".

So, no "direct" acquisition of government debt (and no help to states) but at the same time preferential loans are granted to banks which are required to use as a collateral... securities obligations of States (including the Greek state!). Beautiful hypocrisy the one allowed by this mechanism of the Lisbon Treaty.

The European Investment Bank, which amorality is well known in developing countries [6], cannot finance the Greek deficit? On paper, it's true. But as a matter of fact, it funds many dubious investment projects which increase the deficit and the rising public debt such as the 2004 Olympics whose total cost is still unknown (estimated between 20 and 30 billion euros).

4) Greece must take austerity measures to reduce its fiscal deficit

This is where the proponents of economic capitalism and financial want to arrive at! On the alleged reason of a public debt deemed as unsustainable, the government imposes an unprecedented dose of austerity for its people in the name of fiscal consolidation: an end to stimulus measures, a freeze on civil service salaries in 2010, reduction by 10% of bonuses and 30% of overtime work in the public service, 10% decrease of public spending of which 100 million euros are comprised by reduction in education expenses and hospital costs, 2 years lengthening of the age of retirement which passes thus to 63 years, hiring freezes, reduction of CSD in the public, raising taxes on fuels, tobacco, cell phones, 2 percentage point raise in the VAT... ?

And EU wants some more! It requires structural reforms that affect all jurisdictions, the liberalization of goods, labor flexibility, comprehensive reforms of pensions and health ...

Conservatively speaking, it is a 15% unemployment arte and a contraction of at least 7.5% of GDP, which awaits the Greek people in the short term, according to estimates by Deutsche Bank.

Yet, other internal budgetary solutions exist! ?

The expected savings of the austerity plan are in the order of 5 billion euros. Other choices are however possible! Greece is the country of the EU whose military expenditures are the largest as a share of GDP. They reached 9.642 billion dollars in 2006 [7]. In 2008, Greece spend 2.8% of its GDP on defense and this figure does not include the totality of the military expenditure [8]. This considerable burden on the state budget primarily benefits the defense industries of the U.S. and Europe. ?

Greece also has the world's No. 1 commercial fleet with more than 4 000 vessels that drain each year almost 6 billion euros in VAT rates from the Greek state through advantageous mechanisms. ?

The majority of the large employers have transferred their assets to offshore companies in Cyprus (where they face a tax rate of 10%). The Orthodox Greek church is tax exempt, even though is the National Champion of real state property ownership. ?

Greek banks have received 28 billion euros of public funds under the bailout without any compensation, and now they speculate against the public debt with impunity. Therefore the resources exist to follow a different path! ?

To acquire these resources requires a thorough reform of taxation but the PASOK government, serving the capitalists, decided to leave things as they are. They prefer to make the poor pay in order to stay in the euro area, even though this membership in the name of "free and undistorted competition", is the source of deregulation and loss of national sovereignty.

5) The crisis in developed countries means the need for a widespread adoption of austerity plans of the same nature.

In all developed countries, governments and the media repeat the same message. Whether is in Portugal where the government has launched a vast program of privatization of the public services; in Spain, which is entangled in a housing crisis, and where the rate of unemployment around 20%; in Ireland, whose budget deficit is close to that of Greece,; in Italy, which holds the EU record with a national debt of 127% of its GDP or the United Kingdom whose deficit now exceeds 14.5%. ?

Other European countries are also expected to pass through the mill of austerity plans. Proposed reforms of pension systems and rupture of the health and social security systems are already at work everywhere in Europe.

One thing is certain: the public money, obtained at very low rates by large private banks from the European Central Bank, will not go to households or businesses. Outstanding loans have declined massively in 2009 across Europe. This money will go, and has already gone back to speculation on the public debt and sovereign risk. Today Greece. Tomorrow, Portugal, Spain, Italy, Ireland. After tomorrow, Belgium, France ... The euro area is completely fragmented and reveals his true face: it is a system built for the richest economies on the backs of the poor.

Provisional conclusions and six proposals

?The European Union is political bankrupt: with a common currency but a tax and social competition between its Member States, with a common market, but without a mechanism to transfer resources from the rich to poor; with its neo-liberal dogma that crushes the people, it is unable to provide a response to the crisis for its population.

In return, people are beginning to mobilize and organize the response by themselves: two consecutive general strikes in Greece, with massive manifestations taking place in most major cities; the 93% of Icelanders which refused the payment of the private debts envisaged by the Icesave law [9] ; impressive demonstrations in Portugal; also demonstrations taking place the 23rd of March, which mark the beginning of a third social cycle in France.

The wind is rising throughout Europe and carries the refusal of employees, pensioners and the poor to bear the brunt of the crisis. ?

What is missing in these mobilizations, in addition to break the isolation of struggles, is an outlet, which establishes the links between the social and political responses. Throughout Europe, social movements need to bring elements of alternative programs to address the systemic crisis, choosing to defend and expand the collective rights against the logic of valorization of the capital.

The central question raised by these "crisis pretexts" of the public debts in the North is about a different distribution of wealth.

For that, we must keep two irons in the fire: increasing salaries by levying taxes on dividend and implementing a comprehensive a tax reform. Increasing wages would bring debt relief to households and would open up opportunities for the production of goods and services.

A drastic reduction of working time along the retention of wages and compensatory recruitment is also required. This would address both the problem of unemployment, the financing of social security (by increasing the number of contributors) and the insufficient leisure time and recreation for those who work.

A harmonized tax reform on a European scale would allow to address the existing tax loopholes, as well as restoring a progressive tax on all income (taxes on income and corporate taxes); to reduce or abolish indirect taxes which strike especially the poorest (VAT, taxes on petroleum products). Any effort for reform has to establish a special tax on financial income and wealth of the creditors of the debt, without forgetting the taxation on other capital income and pension tax.

A cleansed fiscal policy would also cancel the many social contribution exemptions for enterprises; increase employer contributions, and thus ensure sustainable social protection for all as well as a good standard for retirement and pensions.

Finally, the financial system has proven its adverse social effects. We must expropriate the banks and other financial institutions, transfer them to the public domain and place them under citizen control.

There is also the need for a citizens' audit of public debts, to measure their legitimacy or illegitimacy (what have they financed?).

Let's put these proposals into discussion to determine a list of demands.

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[1] The headlines have been full of racist comments, such as the title of the article of Le Monde of the 6th of February, "Bad Greece puts the Euro under pressure" using the acronym PIIGS (Portugal, Italy, Ireland, Greece and Spain). The acronym was termed by the liberal magazine The Economist.

[2] "With the complicity of Goldman Sachs, Greece has improved the presentation of its accounts, but the gain has been marginal. The transactions made in 2001, lowered the Greek debt by 2.3 billion euros, bringing it from 105.3 to 103.7% of GDP over the period concerned." http://www.irefeurope.org/content/l...

[3] http://www.lexpansion.com/Services/...

[4] AFP dispatch of March 4, 2010

[5] "Let us compare the budget of government to that of a household", by Randall Wray, http://contreinfo.info/article.php3...

[6] http://www.amisdelaterre.org/-Banqu...

[7] Global military spending www.julg7.com

[8] http://www.nato.int/docu/pr/2009/p0...

[9] View Bonfond Olivier, Jerome Duval, Damien Millet "Whew! Icelanders have said massive 'no', http://www.cadtm.org/Ouf-les-Island...

