Greece and the Economic/Financial Crises in the EU

Mel Rothenberg, March 20, 2015

The crises that unfolded between the new Greek government and the German dominated Euro-zone at the beginning of February is blowing hot and cold. It cooled with the acceptance on February 28 of the Greek negotiating offer by the German Parliament. It seems to have reheated in the middle of March with the Euro spokesmen accusing Syriza of foot dragging in implementing the neo-liberal restructuring of the Greek economy the EU demands. The newly elected Syriza government had asserted at the beginning of February it would not agree to another Troika-style fiscal austerity and neo-liberal 'structural reform' program in return for loans to pay back debt coming due (money to be paid to the IMF and hedge funds). The Troika - the European Commission, the European Central Bank, and the International Monetary Fund- are the three major institutional arms of the European financial oligarchy. They are the bodies that articulate the financial dictates of German dominated western European finance capital. Instead Syriza wanted debt relief, or a 'haircut' for the bondholders, mainly German, French and other western European banks, or at least a new debt regime that reduced the burden of debt servicing to the minimum so that there is enough room for the government to spend to help the poor, the unemployed and bankrupt small businesses rather than Europe's banks and oligarchs. In particular they wanted to implement the promises of their successful, domestic, political campaign on, at least, partially reversing the austerity measures forced on them by the troika.

The immediate background of this crisis goes back to 2008. When the European real estate bubble popped and Europe went into recession in 2008, Greece was forced to apply for a "bailout" from the Troika.

In exchange for 172 billon Euros, the Greek government instituted an austerity program that saw economic activity decline 25 percent, unemployment rise to 27 Percent (and over 50 percent for young Greeks). The cutbacks slashed pensions, wages, and social services, and drove 44 percent of the population into poverty.

Virtually all of the "bailout"—89 percent—went to the banks that gambled in the 1999 to 2007 real estate casino. What the Greek—as well as Spaniards, Portuguese, and Irish—got was misery.

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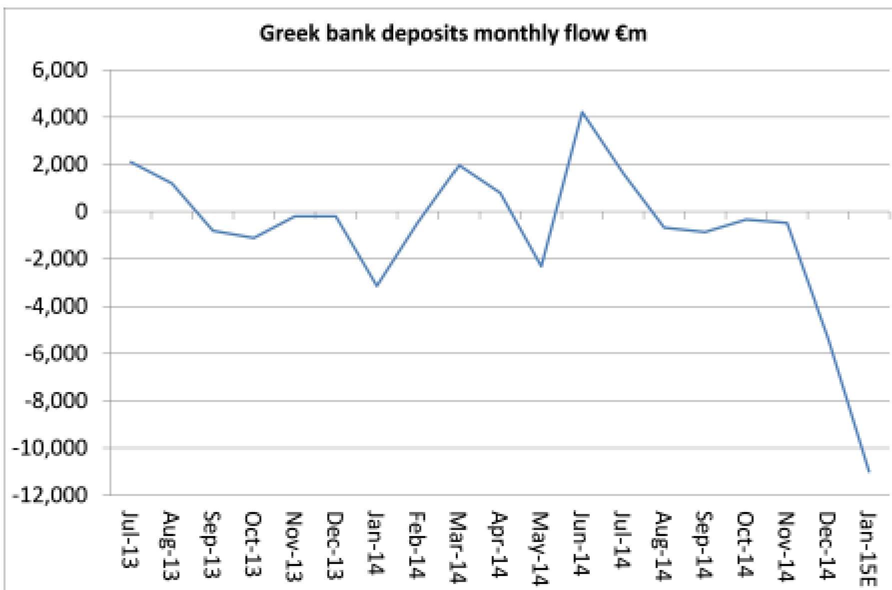
(https://dispatchesfromtheedgeblog.wordpress.com/category/europe/)

The ECB and the Euro leaders responded negatively to the initial Syriza demands saying, whatever the will of the Greek people, that they will concede little or nothing. On the contrary, they threatened cut off any further funding of Greek banks through the Eurosystem just as Greek banks saw their customer deposits disappear abroad as rich Greeks and corporation spirited their money out of the country. The ECB had already blocked normal credit facilities to Greek banks. And the Greek bank deposits started to fall at an accelerating pace.



(For the above chart and interpretation see Michael Roberts Blog, February9, https://thenextrecession.wordpress.com/category/capitalism/)

During the month of February Syriza presented a series of retreats from its original demands, while the Troika more or less held tough, suggesting only that it may be prepared to offer an extension of the existing EU (now around 2 .17 Billion Euros) debt and some reduction of the interest rate if Greece agrees to extend its already extensive neoliberal restructuring of deregulating labor markets, privatizing state companies, and opening up more of the ownership of basic public property to overseas capital.

Finally Syriza at the end of February proposed a basis of negotiation to the Troika (see http://www.bbc.com/news/world-europe-31599838 for a good detailed discussion), which seems to concede much of the Troika's basic demands. In particular they agreed not to dispute central austerity and privatization concessions given by previous neoliberal Greek administrations. The German Parliament on Feb 28 approved the offer, which provides a basis for renegotiating the debt over the next few months, in particular extending the debt payment deadline for four months, and avoiding the EU's immediate pushing of Greece into bankruptcy and default. It is these concessions about which the Troika now accuses Syriza of foot dragging on implementing. Syriza has responded by renewing Greek demands on reparations for Nazi destruction in Greece during the WW2 occupation, which has enraged the Germans.

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By accepting the Troika's conditions Greece can presumably obtain 'fiscal space', because the cost of the EU loans will be reduced and interest payments on these loans probably will be postponed. So servicing costs will fall to below 2% of GDP this year. And if the maturity of these loans is extended significantly, then the public debt to GDP burden, now standing at 175% of GDP, can fall by 20% points, because it will reduce interest payments by 0.5% of GDP a year, money that can be spent by the government elsewhere. (Roberts)

But of course, such concessions are way short of what the Greeks need to turn poverty, unemployment and investment around even if the Euro leaders offer to spend extra funds on infrastructure projects in Greece. And the concessions will still be conditional on Greece agreeing to a new Troika-type austerity program.

THE LONGER TERM IMPLICATIONS

The basis of the agreement to negotiate has generated widespread and sharply differing appraisals among progressive commentators. A sharp difference is whether Greece should seek to remain within the Euro, the view of the majority centrists in Syriza whose views are articulated by finance minister Varoufakis, versus the position favoring exit as advocated by the left faction and expressed by economist Lapavitsas (https://www.jacobinmag.com/2015/03/lapavitsas-varoufakis-grexit-syriza/). It is an important tactical /political question but excessive focus on it obscures much more fundamental strategic issues. As Lapavitsas makes clear there is no fundamental disagreement between the two factions about the character of the economic measures necessary for an effective anti-austerity recovery policy.

The basic policy measures proposed by both factions are an agreement with foreign creditors to reduce and ease repayment, establish a functioning system to collect taxes, and initiate standard Keynesian fiscal policy to increase demand which would also restore some of the lost social benefits and provide some welfare relief to the most impoverished Greeks. The reduction and easing of the foreign debt, which is not repayable under any circumstances, will happen, and the more efficient collection of taxes is agreed to in principle by the Troika. Only in the area of fiscal policy is Syriza's plan in real conflict with the Troika. The European financial oligarchy wants the Greece state to give them the remaining Greek public assets at bankruptcy prices and is insisting on a draconian austerity fiscal policy to force this. Syriza is resisting this deepening of austerity that would flatly contradict its electoral mandate. Further it would like to retain some national control of Greece's basic infrastructure.

The adequacy of Keynesian fiscal measures to renew the Greek economy is a deeper if less precisely drawn issue, which underlies much of the debate within the left internationally. Although we are skeptical that such measures can resolve the underlying Greek economic woes we will not enter more into this debate here. What we do want to emphasize is that until the actual results of the negotiation between Greece and the Euro zone are formulated and agreed to nothing has really been decided. The wording of these interim agreements and proclamations are simply intended to allow the negotiations to go forward, and placate the various factions within the contending forces. We believe we are far from a final resolution of this conflict which may take forms quite different from the initial vision of each side, a resolution which depends on the outcome of a deep and prolonged struggle between the ruling and popular forces engaged.

It is not in the interests or capacity of either European finance capital or Syriza to impose a final solution in the immediate future. There are real and deep unresolved differences within both camps and a final and permanent agreement is not on the horizon. What we are most likely to see is a set of interim truces and muscle flexing by both parties, while many of the truces will fall apart in short order. In any event the Greek economy and the Greek people are in for much pain over the next year as the European financial oligarchs test the strength and staying power of the Syriza government whose popular support, resourcefulness and willingness to stay the course will determine the final outcome.

Even in the case of a debt default the result is not as final or cataclysmic as often pictured. Defaults are always partial and subject to negotiation. Some part of the bond values will be redeemed, as was the case of Argentina's default. While a default would probably result in the formal exclusion of Greece from the Euro-Zone, this will at worst also be partial. Their formal membership in the EU may be "suspended" but certainly trade and commerce will continue. The cost of adjusting to a new currency will initially will be painful but, with competent monetary management, brief.

Further, as the figures noted in Roberts report cited above demonstrate, the economic cost of Grexit to the European financial oligarchy will be substantial but not devastating unless the German/ French ruling circles really mishandle it. The loss of Greece to the European Union, is similar to the loss of Cuba by the U.S. in the 1950's. Politically it is important but economically not of fundamental significance. In particular there is not a real threat at the moment of destroying the EU. As a German/French led imperial bloc, the EU will not simply disintegrate, as there is too much at stake for the European capitalist class. They are too cognizant of their common interests and there is simply no organized revolutionary force with the power to challenge their rule at this historical conjuncture

This does not mean that the political contradictions and stakes involved are not profound. Just as Argentina's successful rebellion against dollar dominance stimulated the formation of the radical South American bloc whose core is Venezuela, Bolivia and Ecuador, a Greek repudiation of neo-liberalism, and neoliberalism's basic program of austerity for the working class with unlimited opportunities for enrichment for capital could inspire similar movements In Spain, Italy, Portugal and Ireland.

The growth of a European mass movement, with staying power and political legs, opposing neo-liberalism is the great threat to the continental hegemony of the German/ French ruling elite. Given the difficulty they have in resolving the Ukrainian conflict, which poses the nightmare threat of a Syrian type civil war in Eastern Europe, and the political challenge from a growing populist, Fascist right the neo-liberal order is terrified of facing a left and democratic challenge to its basic program. This is the threat that Syriza poses, and why the Troika will be relentless in seeking to crush it.

At the same time these same factors restrain the EU from employing the most violent, extreme, and repressive tools to bring Greece to heel. Open military invasion or support for a military coup, or the reduction of Greece to a failed state, and the masses of people to the threat of starvation would only unleash prospects for a Ukraine type civil war in Greece, and possibly elsewhere, and the migration of millions of refugees into central Europe. This is a nightmare that the rulers in Berlin and Paris do not wish to deal with.

If this conflict unfolds without such disastrous consequences, and Syriza survives as an inspiration for a mass left democratic movement in Europe, or even just in southern Europe, it will have profound international consequences. The anti-neoliberal forces in Latin America, Asia, and Africa will be strengthened as the vaunted power of international finance is challenged and the current crises of corrupt, reactionary dictatorships, which dominate, in partnership with neoliberal forces, politics in Africa and Asia will intensify. Oppositional left forces in the U.S. as well as in Western Europe will be strengthened, and trade unions will acquire a new relevance. (One of Syriza's principle demands is the restoration of collective bargaining in Greece, which has been savaged by the imposed austerity regime.) Of course right wing populist forces, deformed capitalist regimes such as Russia, as well as state capitalist regimes such as China may also be strengthened-that is a variety of forces that can separate themselves from the grip of global finance may benefit. No one can guarantee the future is rosy or assured.

The potential impact of an international mass democratic anti-neoliberal, anti-austerity movement in the United States would appear to be great. As foreshadowed by the occupy movement, the current environmental movement, and the rise of a new anti-racist movement, movements whose logic is anti-neoliberal have promise in the U.S. If they could unite around a common political economic program they could become a major political force. There are barriers political, organizational, historical, cultural, racial and class inhibiting this progress. It is the task of progressive political economists to educate and struggle to overcome such barriers.

In any case the future is exciting but dangerous and problematic.