Shock therapy for Greece

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Some of the measures will be “painful” and “we will have do without pleasantries,” declared Greek Prime Minister Georgios Papandreou. This was the grim message delivered by the head of government in a televised address to the Greek population on Monday.

Under orders from the European Union, the Greek government plans to announce a “shock therapy” budget next month aimed at reducing the country’s soaring budget deficit. Papandreous’ declaration that in the course of the next three months his government will implement measures which have been postponed for decades puts his regime on a collision course with the working class.

Greece faces the threat of sovereign default, with a budget deficit expected to amount to 12.7 percent of the country’s gross domestic product (GDP), more than four times the deficit-to-GDP ratio allowed under the European Union stability pact for member states.

It is, however, only the most immediately threatened of a number of Eurozone states that are plunging into bankruptcy as a result of the world economic crisis and the massive indebtedness assumed by governments to bail out their banking systems. Greece is just “the tip of the iceberg,” said Norbert Barthle, budget spokesman for the ruling Christian Democratic Union of Germany.

In a front-page article headlined “Debt Fears Rattle Europe,” the *Wall Street Journal* on Wednesday wrote: “Portugal, Ireland, Italy, Greece and Spain, a group traders have disparagingly dubbed ‘PIIGS,” all have huge budget deficit and very low growth prospects, which means their debt is on course to rise further, fast.”

The spreading crisis now centered in Greece has already led to a sharp fall in the value of the euro on international currency markets, and threatens to undermine the European currency.

In his Monday speech, Papandreou pledged to cut the country’s budget deficit to below 3 percent in four years. “We must change or sink,” he said.

In order to meet the dictates of the European Union, the government is intent on reducing the budget deficit to 7 percent in 2011, 5 percent in 2012 and under three percent in 2013. Papandreou has already announced that he intends to slash public expenditure by around 10 percent.

In addition he plans to go ahead with the privatization of state-owned enterprises, radically cut pension provisions and wipe out a large number of public service jobs. He has further announced a freeze on public service workers’ salaries.

In Greece, a quarter of the work force is employed in the public sector and the anticipated job cuts will run into the tens, if not hundreds, of thousands. The government has declared that only a fifth of empty positions will be filled next year.

However, the prime minister on Monday failed to provide specifics on cuts in pensions and other social benefits, and the financial markets reacted negatively, driving the yield on Greek government bonds even higher. Shares on the Greek stock market fell sharply Monday and Tuesday.

A Brown Brothers analyst said of Papandreou’s speech, “It does not appear that he has provided much insight into how he will reduce Greece’s heavy debt burden.”

The response of American finance capital was summed up by Standard & Poor’s announcement Wednesday that it had downgraded Greece’s credit rating from AAA- to BBB+, stating that “measures the government has announced to reduce its deficit are unlikely to stem its rising debt burden.”

There are already signs of growing resistance from the working class and youth in advance of the social democratic PASOK government’s announcement of its austerity budget. Teachers, who will bear the brunt of cuts in the public sector, struck on Wednesday, and some major unions have called a one-day general strike for Thursday.

On December 6, more than 10,000 people, predominantly youth, demonstrated in Athens against police violence to mark the one-year anniversary of the police killing of the 15-year-old student Alexis Grigoropoulos. That event sparked more than a week of mass protests which played a major role in the recent electoral defeat of the conservative government of Kostas Karamanlis and its replacement by the PASOK government of Papandreou.

Implementing a policy of “zero tolerance,” some 10,000 police were mobilized for the December 6 demonstration in Athens. Police attacked the protest and arrested over 200 demonstrators.

Greece’s total debt burden is estimated at €300 billion and is projected to rise in 2010 to 120 percent of GDP. The country is, moreover, plagued by rampant corruption and the plundering of its finances by the ruling elite.

The government’s austerity plans will have particularly severe repercussions for the country’s youth. Youth unemployment in Greece was already at 22.1 percent in 2008, exceeded in the European Union only by Italy and Spain. An additional effect of the job cuts in public service will be further downward pressure on wages.

Papandreou has announced no concrete proposals regarding expenditure for education, but in order to achieve his ten percent cut in budget outlays, further cuts to Greece’s already under-financed and crumbling education system are inevitable. Currently, the Greek state invests just 2.5 percent of its annual budget on education.

In an attempt to placate and contain social opposition, Papandreou included in his speech on Monday a handful of proposals to tax the wealthy. No bonuses are to be paid out to executives of state-owned banks next year, he said, and a tax is to be imposed on bonuses paid by private banks. In addition, he announced plans to increase the inheritance tax and implement a more progressive tax system.

These vague promises are above all aimed at enabling the trade unions, the nominally “leftist” alliance SYRIZA, and the Greek Communist Party (KKE) to collaborate in imposing his austerity measures. These organizations have played a central role in implementing cuts in the past. This is why Papandreou met on Tuesday with the leaderships of all of the country’s leading parties to discuss “the struggle against corruption.”

The initial reaction by representatives from the SYRIZA alliance and the KKE was reserved. As far as these organizations and the unions are concerned, the one-day general strike on Thursday is designed to let off steam and contain popular opposition within the bounds of protest and pressure on the PASOK government.

The perspective of these organizations is based on providing a left cover for the right-wing policy of PASOK. In the recent election campaign, all of these organizations declared that a PASOK-led government represented a lesser evil, and even indicated a willingness to enter into a coalition with PASOK.

In reality, the previous conservative government called for new elections in October because it was unable to implement the demands of the European Union and the financial markets in the face of popular resistance. The ruling elite concluded that this task had to be handed over to PASOK, in cooperation with trade unions and petty-bourgeois parties.

Leading political circles in Europe and sections of the business press are demanding that the European Union bureaucracy assume direct control of the Greek economy should the government prove incapable of stemming the debt crisis.

Papandreous’ speech on Monday was a direct response to the EU summit held last Thursday. European Union Economic and Currency Commissioner Joaquín Almunia greeted the prime minister’s speech as a step in the right direction. However, he added, the government in Athens had to lay out concrete steps in January to guarantee the European Union Commission that it is determined to realise “the rapid consolidation of public finances.”