European countries renew demands for social cuts in Greece

Debt crisis fuels expectations of social unrest

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In the first day of its two-day session, the Eurogroup meeting of European finance ministers in Brussels yesterday renewed calls for sharp cuts in social spending in Greece, as tensions rose between the major powers over whether to fund a bailout of the debt-stricken country. Underlying these tensions is widespread fear of mass opposition in the working class.

Germany and the Netherlands are opposed to the eurozone's February 11 bailout pledge to Greece, made in exchange for a Greek promise to cut its budget deficit by 4 percent of gross domestic product (GDP). Among the cuts proposed to achieve this draconian target were a two-year increase in the retirement age to 63, a public-sector wage freeze, and mass layoffs of private contractors working for the government.

Jean-Claude Juncker, the Prime Minister and Finance Minister of Luxembourg, said that if Athens wasn't "on track" to meet its goals in mid-March, "additional measures would be requested." He added that Greece "should focus on expenditure cuts…but also include revenue-increasing measures."

The *Financial Times* commented that Juncker's statements "made clear that European Union policymakers had turned a deaf ear to Greece's appeals to switch the emphasis from new austerity measures to spelling out a rescue plan that would calm market fears of a Greek default."

Asked if the Eurogroup will demand further deficit-cutting from Greece, Spanish Economy Minister Elena Salgado replied: "This is something that has to be discussed tomorrow."

Noting that Greece's pension system "is not viable," Greek finance minister George Papaconstantinou asked for more time to prepare social cuts: "We are trying to change the course of the *Titanic*, it cannot be done in a day." He added: "Today it is Greece, tomorrow it can be another country. Any European country can be prey to speculative forces."

This warning came amid rising concern over Spain's financial stability. Officials estimated that €70 billion or 12.5 percent of the Spanish housing market's €325 billion in mortgage loans would go bad, and said a government bailout might be needed. The Spanish unemployment rate is now at 18.8 percent, with over 4.3 million workers jobless. The government, facing a deficit of 11.4 percent of GDP, close to Greece's deficit of 12.7 percent of GDP, is proposing €50 billion in budget cuts while increasing the retirement age by two years to 67.

The principal fear in political and financial circles is that their plans will face opposition in the working class across Europe. The Associated Press noted "concerns that leaders in Athens" might "not be able to push through unpopular austerity programs to tame their ballooning deficits."

Greek public sector workers mounted a two-day strike on February 9-10, and a joint general strike by public and private sector workers is scheduled for February 24. The Greek daily *Kathemerini* cited polls indicating that 80 percent of Greeks expect further strikes, and Alco SA polls showed 60 percent opposition to an increase in the retirement age.

The stage is being set for an explosive class confrontation, with political tensions magnified by the question marks hanging over the future of the euro and the European Union. In a comment for the *Financial Times*, former European Central Bank (ECB) chief economist Otmar Issing argued against any help to Greece: "Once Greece was helped, the dam would be broken. A bail-out for the country that broke the rules would make it impossible to deny aid to others."

More than the eurozone countries, the US and UK have relied on massive government borrowing and money-printing to hide the full impact of job and wage cuts and the collapse in underlying economic activity. The UK has used so-called "quantitative easing" to print £175 billion as of November 2009. According to the *New York Times*, the US Federal Reserve had printed over $1.3 trillion as of September 2009, while promising to print $4.8 trillion if need be to prop up the money markets.

For Greece and other eurozone countries, such an option is ruled out, as ECB statutes do not allow it to print euros to assist member governments. David Bloom of HSBC commented: "Greece does not have the sovereign options of the UK and US to print money or devalue its currency."

The *Daily Mail* noted, "Portugal, Ireland, Greece, and Spain are too economically weak to withstand the rigours of eurozone membership. Countries that are highly uncompetitive are normally able to slash interest rates and devalue their currencies to prop up their economies. But this is not possible within the euro," as the countries in question share their currency and interest rate policy with Germany and the other European countries.

The Greek government faces two choices: a drastic assault on the working class that will collapse economic activity, or an exit from the eurozone monetary requirements and the euro—which would likely be followed by a collapse of the new Greek national currency.

Indeed, news reports suggest that the limited adherence to eurozone requirements was largely made possible through financial fraud, from which Wall Street extracted large profits.

The *New York Times* recently carried an article explaining how investment bank Goldman Sachs, one of the main beneficiaries of the US bailout, worked with European governments to loot their economies and falsify economic statistics. To qualify for the euro, countries had to keep national debt at under 60 percent of GDP and yearly budget deficits under 3 percent of GDP.

The *Times* wrote: “In 2001, just before Greece was admitted to Europe’s monetary union, Goldman helped the government quietly borrow billions, people familiar with the transaction said. That deal, hidden from public view because it was treated as a currency trade rather than a loan, helped Athens meet Europe’s deficit rules.”

In Greece, these deals took place both under the 1996-2004 social-democratic government of Kostas Simitis, and the 2004-2009 conservative government of Kostas Karamanlis.

Goldman Sachs used currency swaps, a type of financial derivative, to overstate euro-dollar and euro-yen exchange rates, artifically inflating the sums in euros that Athens was receiving when it borrowed dollars or yen. In return for one such transaction, Goldman received $300 million in fees from the Greek government. The resulting debts were hidden off-balance-sheet and were to be repaid by attacks on the working class.

The *Times* added: “Greek officials essentially mortgaged the country’s airports and highways to raise much-needed money. Aeolos, a legal entity created in 2001, helped Greece reduce the debt on its balance sheet that year. As part of the deal, Greece got cash upfront in return for pledging future landing fees at the country’s airport. A similar deal in 2000 devoured the revenue that the government collected from its national lottery. Greece, however, classified those transactions as sales, not loans, despite doubts by many critics.”

Similar deals were commonplace throughout Europe, the *Times* noted: “In dozens of deals across the Continent, banks provided cash upfront in return for government payments in the future, with those liabilities then left off the books. ... Despite persistently high deficits, a 1996 derivative helped bring Italy’s budget into line by swapping currency with JP Morgan at a favorable exchange rate, effectively putting more money into the government’s hands. In return, Italy committed to future payments that were not booked as liabilities.”

These deals “add to the uncertainty over how deep the troubles go in Greece and which other countries might have used similar off-balance sheet accounting,” the paper wrote.

Bitter divergences are emerging between the major powers over how to impose cuts in working-class living standards. Germany is emerging as the main advocate of a purely deflationary policy of cutting wages and spending; commentators in the US and UK want to supplement social cuts with a policy of printing money. This helps governments pay their bills and, in the longer term, to surreptitiously defraud working people through inflation.

An intensely nationalist atmosphere is being stoked in Northern Europe against assistance to Greece. Thus the conservative daily *Frankfurter Allgemeine Zeitung* wrote: “Should Germans have to work until 69 instead of 67 in the future so that Greeks can enjoy early retirement?” The German Bundestag has drafted an opinion deeming aid to Greece illegal.

The Netherlands’ lower house passed a motion backed by all parties prohibiting the use of Dutch government funds to bail out Greece, including through EU institutions. The right-wing Party for Freedom proposed “chucking Greece out of the EU altogether.”

On the other hand, several British and US commentators are concerned abount the consequences of German opposition to an inflationary, money-printing policy.

In the *New York Times*, Paul Krugman wrote: “if Spain were an American state rather than a European country, things wouldn’t be so bad. ... Spain would be receiving a lot of automatic support in the crisis: Florida’s housing boom has gone bust, but Washington keeps sending the Social Security and Medicare checks. But Spain isn’t an American state, and as a result it’s in deep trouble. ... So the inflexibilities of the euro, not deficit spending, lies at the heart of the crisis.”

Britain’s relation to the euro and the EU is expected to be a major issue in the upcoming UK general election, scheduled to take place by June 2010. British Conservative leader David Cameron recently attacked comments by Business Secretary Lord Mandelson that the euro was a “remarkable success” and that Britain might consider joining the eurozone. Cameron said: “Our deficit and debt are bad enough without the straightjacket of the euro. If I am elected, for as long as I am prime minister, the United Kingdom will never join the euro.”

In a recent article, “Germany growls as Greece balks at immolation,” *Daily Telegraph* columnist Ambrose Evans-Pritchard pointed out that enforcing an austerity policy threatens a broad economic collapse. Constant fears of default would reduce investors’ willingness to lend governments money and drive up interest rates, making it harder to prop up the economy with state deficit spending. He wrote that the danger of a Greek default “setting off a chain reaction is very real, with Britain too in the firing line.”

It might “tip Greece into a debt-compound trap and prove self-defeating. But there is a broader point. If [the Southern European states]—plus Britain soon, and France—squeeze fiscal policy [i.e. cut spending] at the same time, they may bring about Phase II of our depression.”