Greece: Papandreou announces deeper budget cuts

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4 March 2010

Bowing to intense pressure from international banks and the European Union (EU) the Greek government headed by Prime Minister George Papandreou, of the social democratic PASOK, has agreed on a second package of tax increases and spending cuts totaling €4.8 billion ($6.5 billion; £4.4 billion). In justifying his government’s latest austerity measures, Papandreou likened the economic crisis in Greece to a “wartime situation.”

“These decisions are necessary for the survival of the country and the economy,” Papandreou told reporters, “so that Greece can exit the vortex of speculators and defamation, so that we can breathe and keep on fighting.”

Papandreou came to power last October by appealing to mass popular anger against the right-wing austerity policies of his predecessor, Kostas Karamanlis. Now, not six months in power, Papandreou has outlined the most far-reaching attacks on working class living standards.

The measures introduced by the government on Wednesday include an increase in sales taxes from 19 percent to 21 percent, a 10 percent cut in public sector pay, increases in the tax on fuel, cigarettes and alcohol, a freeze on pensions and cuts to holiday bonuses for civil servants.

These measures will have especially devastating consequences for low-income workers, the unemployed, families and pensioners.

Commenting on the new Greek austerity package, Jose Manuel Barroso, president of the European Commission, declared that the plan confirmed that the Greek government was committed to “taking all necessary measures” to cut its deficit.

Following weeks of steady decline in value, the euro rose against the dollar following the unveiling of the new measures. Leading finance houses also gave a guarded approval to the austerity plans. Credit rating agency Standard & Poor’s issued a statement saying that the markets have been overly pessimistic on Athens’ debt position.

On the other hand, share values registered modest declines on the Greek exchange, with investors fearful of the consequences of the cuts for business interests,

The Papandreou government’s new round of cuts follows an orchestrated campaign by the EU, banking interests, and European governments led by Germany to pressure Athens to rapidly agree to additional austerity measures.

On Monday, the EU economic and monetary affairs commissioner, Olli Rehn, declared after meetings in Athens that Greece faced “a crucial moment for the future of your country. No member of the eurozone area can live permanently beyond its means.” In private talks, Rehn had criticised the government for not moving faster to reassure finance markets of Greece’s willingness to cut its deficit and repay its debts.

Rehn’s comments were immediately welcomed by Berlin. “The ball is in Greece’s court now,” a German government spokesman declared.

German Chancellor Angela Merkel on Tuesday night convened a meeting of government ministers to obtain agreement on a possible emergency rescue package for Greece. While officially denying that the German government would intervene to help Greece, European ministers and bankers have been carrying out an intense round of behind-the-scenes negotiations on such an emergency plan.

Both EU and German politicians are concerned that the measures introduced by the Papandreou government will be insufficient to stave off bankruptcy. They fear that any failure by the Greek government to meet its debt payments on time could in turn be followed by declarations of bankruptcy by a series of other exposed European states. Such a development would not only threaten the EU's joint currency, the euro, but also the EU itself.

On the other hand, the EU and Germany are hesitant to publicly announce any plans for a bailout package because they fear that it would lessen the pressure on Greece to implement the draconian cuts demanded by the banks. In addition, following massive bailouts for European banks, any bailout plan for the debts incurred by Greece as a result of the financial crisis would be deeply unpopular with the European and German electorate. Consequently the German government is leading talks to organise such a rescue package out of the public spotlight.

According to one leading finance analyst, the cuts outlined by the Greek government "have boosted the markets because they suggest Greece is serious about cutting its deficit. They also make it easier for other eurozone countries to offer financial support as they can say to their own taxpayers that Athens has taken the measures the EU has demanded."

At the same time, there are deep divisions over the nature of a bailout plan—in particular whether it should be organised by the EU and Europe countries alone, or be based on the resources of the US-dominated International Monetary Fund (IMF)—which would effectively allow Washington a role in the affairs of the euro.

No final decision on a plan had been made as of Tuesday, but a European-based rescue package is the most likely scenario, according to the *Financial Times*.

Merkel on Wednesday expressly welcomed the cuts announced by Papandreou, who will travel to Berlin on Friday for further talks with the German government.

While markets and the EU have reacted favourably to the latest round of cuts announced in Athens, financial strategists agree that they can only serve as a beginning for far more ruthless budget reductions in the near future.

Papandreou could not broach such savage cuts without the political backing of the Greek trade unions. Following the general strike on Wednesday of last week, leaders of Greece's two principal trade union federations made clear that they were prepared to "share the pain." The unions aim to allow workers to vent anger in short strikes, while channeling their opposition to Papandreou's policies along nationalist lines.

In an interview with the WSWS last week, Stathis Anestis, spokesman for the GSEE (General Confederation of Greek Workers), stressed that "the confederations and the trade unions supported the election of this government." He added, "It is not that we wish to strike."

In an interview with CNN on Wednesday, Vasileios Xenakis, international secretary of ADEDY (Civil Servants' Confederation), described the latest cuts as "unbalanced" and warned of a social calamity if trade unions were not included in the negotiating process.

In other words, Xenakis and the Greek trade unions do not reject the cuts. They are instead offering their services in implementing them as a means of defusing social opposition.