Greece moves to borrow from Wall Street

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8 April 2010

On April 5, Greece announced plans to borrow $5 billion to $10 billion in the US, presenting itself as an "emerging market"—that is to say, a poor country that pays higher interest rates on its debt to compensate for the risk of default.

The classification of Greece as an emerging market is another indication—together with Greece's appeal to the International Monetary Fund (IMF) last month—that the job-cutting and cost-cutting measures applied by the IMF to Africa and Latin America since the 1970s will now come to Europe.

Nikos Mourkogiannis, a London-based economist, commented: "Greece is an emerging market and a Balkan country, and the fact it's a eurozone member is not a contradiction."

Greece plans to raise the funds by issuing bonds in auctions overseen by Wall Street investment banks such as Morgan Stanley. Goldman Sachs was initially slated to oversee the Greek auction, but this fell through amid rumors that Chinese investors said they would not lend to Greece.

It was announced that Greek Finance Minister George Papaconstantinou would travel to the US "after April 20," but he scrapped plans to travel on to Asia after visiting the US.

The move comes as Greece faces increasing difficulties in raising funds on European financial markets. The Greek government's borrowing cost for 10-year bonds hit a high of 7.161 percent on April 6, an interest rate more than 4 percent higher than that paid by Germany. By comparison, Brazil's 10-year interest rate stands at 4.9 percent, Mexico's at 4.8 percent, Poland's at 5.5 percent and Hungary's at 6.6 percent. Two-year interest rates on Greek debt jumped 1.2 percent to 6.48 percent, an unusually large single-day move, suggesting rising fears that Greece will default on its debts.

Greece was able to cover its financing needs for April, but it still must raise €10 billion in May.

It appears increasingly doubtful that Greece will be able to avoid defaulting on its debt, as its interest payments rise in line with the interest rate it pays on its debt, and as cuts in jobs and wages slash the government's tax base.

Wealthy Greeks are increasingly pulling their funds out of the country, further undermining Greek banks. The *Daily Telegraph* wrote yesterday that Greek households deposited €3 billion in February and €5 billion in January in offshore accounts at major European banks, including HSBC and Société Générale. Switzerland, the UK and Cyprus were reportedly the major destinations for Greek funds.

The *Telegraph* quoted CreditSights analyst John Raymond: "The banks themselves are concerned by [capital flight] because they can't get funding elsewhere at the moment. Greek banks won't be able to increase lending volumes if deposits don't increase, and a continued deterioration in their deposit base will lead them to cut back lending even more, stifling real economic growth."

Moreover, doubts continue to rise about the joint European Union (EU)-IMF plans for a Greek rescue package, proposed at the EU's March summit in Brussels. It was agreed there that eurozone governments would lend to Greece at "unsubsidised" interest rates, but the interest rate has now become a subject of dispute. While most eurozone countries are prepared to lend funds at 4 to 4.5 percent, Germany is insisting that Greece pay 6 to 6.5 percent interest—potentially high enough to force a default.

A "senior EU official" told the *Financial Times*: "If you say Greece's whole consolidation effort is endangered" because of the large spread separating the interest rates paid by Greece and Germany, "you have to ensure the spread comes down."

Financial Times commentator Martin Wolf noted the possibility that the IMF, within which the US has an effective veto, might conflict with Germany if it saw German policy as so punitive that even IMF-level cuts did not balance the budget: "What happens if the IMF disagrees with the [European] Commission? Such disagreement seems likely. The fiscal tightening agreed by Greece, of 10 percent of gross domestic product over three years, looks impossible, given the absence of monetary policy or exchange rate flexibility. Maybe no programme would succeed given the unfavourable initial conditions."

Comparing Greece to Argentina, which defaulted on its debt in 2001, Stephen Jen, of BlueGold Capital Management

LLP, said: "The problems of Greece and Argentina might not be identical, but there are a lot of similarities in terms of inflexibility of the currency, capital flight and the risk of austerity measures leading to a sharp contraction in growth."

Greek Prime Minister Giorgios Papandreou has suggested that the EU-IMF bailout plan and re-establishment of European Central Bank (ECB) lending to Greece, together with the end of national strikes organised by the Greek trade unions, signify the end of the Greek crisis. Along these lines, he told *Le Nouvel Observateur*: "I think the worst of the crisis we went through is past, the high point of the crisis in some sense. But there is still a lot of work to do, difficult work. Greece has restored its credibility."

The latest developments, however, have shattered such claims. Moreover, with the workers off the street and back to work, capitalist strategists now feel free to plan further attacks on the population. A default, in particular, would set the stage for the major banks to directly dictate massive cuts in wages and social spending to the Greek government.

One recent poll found that only 34.7 percent of the Greek population supports the policies of Papandreou and his social democratic PASOK party. Even this low level of support arises under conditions where 60 percent of the population expects that Greece's financial situation will improve. However, Papandreou recently reiterated that his policies entailed deepening hardship, saying conditions would "remain painful because restrictions, wage cuts and economic measures hurt, and the entire population will feel it in the coming years."

This underlines the treacherous role of the unions, notably the GSEE private sector and ADEDY public sector unions that are both led by PASOK. While organising strikes to divert public anger against the government, they encouraged the view that Papandreou could be pressured into adopting less onerous policies. GSEE spokesman Stathis Anestis told the *World Socialist Web Site*, "We are willing to accept tough measures on the condition that they are just."

In going to Wall Street, the Greek government's major selling point in attempting to attract investors is the line-up of the trade unions behind its austerity programme and the unions' role in suppressing working class opposition.

The major banks would seek to ruin any country whose working class continued to resist the cuts—as Jacques Delpla of France's Council of Economic Analysis explained in the business daily *Les Echos*.

He wrote: "To reach France's level of competitiveness, Spain must cut labour costs by 20 percent and Greece by 25 percent, or else international private lenders may suddenly cut off credit. At the worst, these countries' populations might refuse to accept such a brutal adjustment of their living standards and the associated radical reforms. A default on the public and private debt would then be inevitable, together with the exit of these countries from the eurozone. The consequences would be dramatic for their populations, with a major recession (caused by the instantaneous reduction of their budget and trade deficits) and generalised insolvency of their banks."

While the trade unions' pro-government perspective has temporarily sidelined working class opposition, international divisions are coming to the fore.

On April 5, Greek Deputy Prime Minister Theodoros Pangalos visited Portugal, which also faces large debts. In an interview with the business daily *Jornal de Negocios*, he attacked Germany for a "moral, racial approach" in blaming the crisis on Greece. He said Germans think Greeks do not work hard enough, which was "ridiculous," given "strong productivity gains in Greek industry and agriculture."

He told the *Jornal de Negocios*, "You are the next victims…. I hope it doesn't happen and the solidarity prevails and we find an exit from this escalation [of borrowing costs]. But if this does not happen, the next probable victim will be Portugal. What happened to us now is because we are in a worse situation, but it could also happen in Spain and Portugal."

Athens' decision to borrow money from Wall Street represents an attempt to counterbalance Germany with the US. During his trip to Washington in March, he praised the March 12, 1947, speech of US President Harry Truman, which called for US support for the right-wing Greek government against a revolutionary armed movement of Greek workers and peasants. The resulting US intervention into the Greek Civil War marked the beginning of the Cold War.

This allusion to Greece as a launching pad for US influence in Europe is highly significant in the current financial and political context. Amid sharpening international tensions and discussion of a possible Greek default—which would involve a political struggle between Greece's creditors over who would be reimbursed—Athens is seeking to protect itself through the involvement of various great powers. This will only heighten the international tensions provoked by the Greek crisis.