Greek government agrees to deeper cuts in return for expanded bailout

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Greek Prime Minister George Papandreou met with trade union and business leaders Thursday to outline new austerity measures designed to more rapidly reduce the country's budget deficit, in accordance with conditions for an expanded bailout laid down by the International Monetary Fund (IMF), the European Central Bank (ECB) and the European Commission.

The meeting took place even as IMF, ECB and European Union negotiators were holding talks with Greek government officials to reach an agreement on expanded social spending cuts, further layoffs, deeper wage and pension reductions, and additional tax increases. Officials hope to work out a deal this weekend, so that European governments can approve it by May 7 and funds can begin to flow before May 19, when Greece has to pay its bondholders €8 billion.

The crisis talks in Greece followed the intervention Wednesday by IMF Managing Director Dominique Strauss-Kahn and ECB head Jean-Claude Trichet, who met with German lawmakers in Berlin and warned that unless they quickly agreed to an IMF-EU bailout for Greece in the range of €120 billion over three years, the stability of the entire eurozone and the European Union itself would be threatened.

The new bailout package is almost three times the size of a previously agreed plan, and reflects the rapid deterioration of the position not only of Greece, but also of Portugal and Spain. On Tuesday, Standard & Poor's downgraded the sovereign debt rating of Greece to junk bond status and sharply lowered its rating for Portugal. On Wednesday, Standard & Poor's cut the rating for Spain by one notch and warned that further downgrades might follow.

The downgrading of the bonds of Portugal and Spain marks a new stage in the European and international crisis. It means that the sovereign debt crisis, which carries with it the threat of national default, massive losses by bank creditors and a chain reaction financial meltdown, has spread from Greece to other high-debt European countries. From there, it is only a matter of time before it hits larger economies with massive debts and budget deficits, such as Britain, Japan and the United States.

European stock markets stabilized Thursday after two days of losses, reflecting hopes of a quick agreement to bail out Greece, and the yields on Greek, Portuguese and Spanish government bonds subsided somewhat after surging earlier in the week. However, the credit downgrades will result in higher credit costs and a selloff of government bonds by investors, deepening the debt crisis and increasing the likelihood of eventual default.

In the face of the worsening financial crisis, all of the official parties are agreed that the full burden must be borne by the working class.

The Portuguese government responded to the lowering of its debt rating by declaring that it would speed up the implementation of its austerity program, imposing a series of cuts this year instead of in 2011, as originally planned. José Sócrates, Portugal's Socialist Party prime minister, said he would accelerate plans to introduce new road tolls and reduce spending on unemployment and other welfare payments.

"We are absolutely determined to do whatever is necessary to meet the targets we have set for reducing public deficits," he said.

Similarly, the Spanish Socialist Workers Party government immediately responded to its credit rating cut with assurances that it would carry through its austerity program. "We have a very serious plan of fiscal consolidation and of deficit reduction," Maria Teresa de la Vega, the deputy prime minister, told reporters. She continued: "We have adopted an austerity program, we have put in place a labor market reform. We are adopting all the measures needed to meet our commitments. So I want to send a message of confidence to the population and of calm to the markets."

In February, with unemployment already at 20 percent, the government announced a plan to cut €50 billion from the budget over three years. The plan includes cuts in government spending, a virtual freeze in the hiring of civil servants and tax increases.

It also calls for raising the legal retirement age from 65 to 67 and making it easier and less costly to fire workers.

Prime Minister José Luis Rodriguez Zapatero said earlier this month that his government was willing to "make more cuts or demand more austerity" if needed.

The Greek government headed by Papandreou is likewise a nominally "Socialist" party regime. The Greek PASOK, however, like its counterparts in Portugal and Spain, is a bourgeois party that has long served the interests of the ruling class, with the aid of the trade unions to which it is allied.

Now, all of these supposedly "left" parties are overseeing historic and savage attacks on the working class, at the behest of the international banks, hedge funds and speculators and their own national bourgeoisies.

Papandreou told the business and union leaders, "We will do what is needed for the salvation of the country." Following the meeting, union officials said the new austerity plan would cut the budget deficit by 10 percent of gross domestic product by 2012 instead of the 7 percent reduction stipulated in the previous package of cuts.

Steps being discussed reportedly include closing down parts of the Greek rail system, limiting the unions' ability to negotiate collective bargaining agreements, cutting out the two months of pay that private-sector workers get on top of their annual pay packages, increasing the retirement age, and cutting pensions.

Sources close to the talks said other measures being discussed include raising the Value Added Tax—a regressive tax on consumption—by 2-4 percentage points above the current 21 percent rate, and an increase of at least 10 percent on fuel, tobacco and alcohol taxes.

According to the public sector ADEDY union, the measures may also include a three-year wage freeze for public sector workers, the elimination of two of the 14 salary payments they receive annually, and cuts in full-time public sector jobs. Another proposal would permit companies to reduce their work forces by 4 percent a month instead of the current 2 percent.

There is massive opposition in the working class to the austerity measures previously adopted by the Greek government, and these new measures will only increase popular anger and resistance. A port strike is set for May 1 and a one-day general strike has been called by ADEDY and the private-sector GSEE union for May 5.

However, union officials made only the mildest of statements following their meeting with Papandreou and signaled that they had no intention of mobilizing popular opposition to block the new austerity measures. GSEE President Yannis Panagopoulos called the proposals "harsh and unfair" and threatened vaguely to "step up" the unions' resistance.

The Greek corporate elite is well aware that the unions are doing their best to contain and dissipate the opposition in the working class. "The reaction of the unions so far has been mild by Greek standards," said Nikos Magginis, senior economist at the National Bank of Greece.