# Greek strikes, debt crisis intensify fears of economic collapse

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Major banks and investors continued to bid up interest rates on Greek government debt in the run-up to tomorrow's strikes in Greece, prompting renewed fears that joint European-IMF bailout plans might fail. It is widely assumed in financial circles that bailouts will not resolve the underlying economic problems that provoked the debt crisis, and European officials and media are increasingly discussing state bankruptcy or the end of the common European currency, the euro.

The interest rate Greece pays on 10-year loans rose to a record 7.807 percent yesterday, far higher than the rate at which investors believe Greece can safely refinance its debts. Greece must raise €10 billion by the end of May to avoid defaulting on old debts.

At a press conference, Greek Finance Minister George Papaconstantinou said European and IMF officials would arrive in Athens for 10 days of negotiations on a potential bailout. He said that the decision to request a bailout would "depend both on the borrowing conditions and the progress of talks" in Athens. He said he still planned for a "road show" to try to raise funds in the US.

It is increasingly doubtful, however, that Greece can obtain loans on American or Asian financial markets. The *Daily Telegraph* cited Simon Derrick of Bank of New York Mellon: "China is becoming concerned about Europe. Greece is going to struggle to find anybody to buy its debt. There is no road-show in Asia, and it may pull out of its show in the US."

Moreover, financial commentators increasingly anticipate that Greece will be unable to repay its debts, even with European or IMF loans. While a joint European-IMF bailout of roughly €45 billion has been discussed, German central bank governor Axel Weber recently said that €80 billion might be needed. He told a closed-door meeting of German lawmakers that Greece's position was worsening and "the numbers are changing all the time."

In a *Financial Times* column, Wolfgang Münchau wrote: "Greece has a debt-to-gross domestic product ratio of 125 per cent. Greece needs to raise around €50 billion ($68 billion, £44 billion) in finance for each of the next five years to roll over existing debt and pay interest. That adds up to approximately €250 billion, or about 100 per cent of Greek annual GDP." He concluded, "The best thing you can say about the rescue package is that it buys time to negotiate an orderly default."

These comments come as Greek workers prepare for further strikes against the austerity measures enforced by Greek Prime Minister Giorgios Papandreou of the social-democratic PASOK party. After refusing to mount actions against Papandreou for one month, major unions in Greece—the ADEDY public-sector workers' union and the Stalinist PAME union, which is also calling for strikes today—have called strikes for Thursday, April 22. The GSEE private-sector unions indicated they may call for strike action "later this month."

The unions themselves do not oppose Papandreou's austerity measures—the ADEDY and the GSEE leaderships largely consist of PASOK members—and their opposition is based on the bankrupt perspective of pressuring Papandreou to implement smaller cuts. Their decision to call further strikes reflects growing anger in the working class over rising social distress, with wages and social spending collapsing because of Papandreou's cuts. Unemployment rose to 11.3 percent in January, according to the latest available figure—with 69,000 jobs lost in December, in a country of only 11 million people.

The response of financial markets to the rising opposition in the working class is to broaden their assault. As they ruin Greece by charging extortionate interest rates, they are also speculating against other European countries—aiming to realise huge profits on state debts guaranteed by public funds of the larger European countries.

The *New York Times* observed last week that Greek bailout plans encouraged “investors to test Europe’s—and in particular Germany’s—stomach for a rescue of other troubled European economies, beginning with Portugal.”

It added that “it will be difficult for Portuguese politicians to persuade their already-pinched populace that more sacrifices—like public-sector wage cuts or higher value-added taxes—are necessary.” However, the *Times* noted, credit rating agency Fitch had already downgraded Portugal’s rating over “doubts that Portugal can cut its deficit of 9 percent of GDP.”

It added that while the US and UK had low savings rates similar to Portugal and Greece, they could print money to finance debts—whereas the European Central Bank, mindful of opposition to inflation especially from Germany, refuses to print money as a long-term policy.

Such measures drive up Portugal’s borrowing costs, making large profits for investors and allowing politicians to press the population for painful social concessions. Interest rates charged for 10-year Portuguese state debt have risen 0.25 percent over the last week, reaching 4.61 percent yesterday.

Amid warnings of renewed “European contagion,” the IMF released a report yesterday stating that the Greek crisis marked the starting point of a “new phase” of the global crisis.

The IMF reported that banks had lost $2.3 trillion due to the economic crisis, of which $1.5 trillion has already been written down—though this figure could rapidly increase, in the event of significant falls in stock or real estate markets. It noted that “significant pockets” of debt remained, notably in weaker banks—US regional banks, German *Landesbanken*, and Spanish savings banks.

It also drew attention to the immense levels of government debt now underlying world finance, calling for “fiscal consolidation”—i.e., government spending cuts. José Viñals, head of the IMF’s monetary and capital markets department, noted: “Advanced countries have the debt levels that they had after World War Two but without a world war.”

Such figures point to the disastrous mismanagement of the European and world economies by the financial aristocracy. Measures proposed by the authorities highlight the fact that none of them have positive economic and industrial plans to protect economic activity, and instead are heading for a social and political catastrophe.

In line with the IMF report, IMF chief economist Olivier Blanchard granted an extensive interview to *Le Monde* in which he suggested that financial authorities pursue a more inflationary policy, including lower interest rates: “Of course, Greece must tighten its belt to get out of the difficult spot it has put itself in. But lending money at high rates is senseless, because one makes recovery impossible.” He proposed a “higher average rate of inflation” to avoid a collapse of wages and economic activity, and make it easier for countries to repay debts, together with cuts in pensions.

In an interview with *Der Spiegel*, German finance minister Wolfgang Schäuble compared a Greek default to that of Lehman Brothers, which triggered the September 2008 financial crisis. Total outstanding Greek sovereign debt is estimated at €300 billion. He said, “Greece’s debts are all in euros, but it isn’t clear who holds how much of those debts. The consequences of a national bankruptcy would be incalculable. Greece is just as systemically important as a major bank.”

In short, a Greek default would threaten to provoke not only open struggles between Greece’s creditors—major UK, French, Swiss, and German banks—but a broad financial panic.

Asked by *Der Spiegel* why Berlin “gave in” and agreed to help fund a bailout for Greece, Schäuble denied he had “given in” and said he thought Greece’s austerity plan was “credible.” However, he refused to take questions about the risks that Portugal, Spain, or other European countries could face similar troubles, saying that to do so would be “fueling the business of dubious speculators.”

He repeated his earlier proposals to set up a way to expel debt-ridden countries like Greece from the common currency union.