Emergency bailout plan for Greece: A new stage in world economic crisis

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12 April 2010

The economic crisis precipitated by the crash of Lehman Brothers in 2008 is entering a new stage, as European states hastily organise their first-ever bailout of a member of the European Union. The frantic efforts at the weekend to cobble together a European rescue package for Greece in collaboration with the International Monetary Fund came after intense pressure from rating agencies and intensified speculation by traders betting that the Greek government would default on its debt obligations.

The European emergency plan for Greece represents a substantial reversal of the deal agreed at the EU summit just two weeks ago. At their meeting in Brussels at the end of March, European heads of state agreed to a proposal pushed by the German government aimed at avoiding a bailout of the Greek economy. At the summit, the German delegation, led by Chancellor Angela Merkel, offered a guarantee to the Greek government on condition that it pay punitive rates of interest for the repayment of its debt, while making clear that any assistance would be given only as a “last resort.”

The position imposed by Germany was tantamount to declaring that Europe would not offer Greece terms any more favourable than those currently available on the international financial markets.

The object of the harsh conditions demanded by Germany was to maximise pressure on the Greek government to continue its program of severe spending cuts and austerity measures, aimed at convincing the banks to offer Athens credit at a more favourable rate. Germany also wanted to send a clear signal to other highly indebted European countries—Spain, Ireland, Portugal, Italy—that there would be no easy money from Brussels.

These calculations have been blown apart in the space of two weeks by the intensification of the crisis, which has forced European finance ministers to come up with an emergency package designed to appease the international banks and hedge funds. Faced with the collapse of the Greek economy and the potential breakup of the European currency, the German government has reluctantly signalled its acquiescence to the European plan.

Last week, Greek financial officials travelled to Washington to urge US banks to buy Greek bonds. The social democratic government of Prime Minister George Papandreou appealed for help as an “emerging market”, stressing that it could rely on the country’s trade unions to suppress working class resistance and help impose the austerity measures.

It got a cold shoulder from Wall Street. Papandreou then held a series of meetings with European officials aimed at developing a safety net for the Greek economy.

Following an explosive rise in interest rates on Greek government bonds, peaking at well over seven percent on April 8, the Greek stock exchange suffered a panic selloff, with Greek bank stocks falling precipitously. One Greek newspaper spoke of the Athens market’s “Black Thursday”, while the *Independent* newspaper declared that the Greek financial crisis had gone “nuclear”.

Thursday’s selloff extended to most European stock markets. Fearing a full-scale financial panic and a concerted attack on the euro currency, European Central Bank President Jean-Claude Trichet declared that the EU would not allow Greece to default.

The stock market decline was accompanied by an emerging run on Greek banks by worried depositors. This was on top of a growing movement of funds out of Greece by the country’s wealthiest layers.

At the same time, the Fitch rating agency cut Greece’s long-term foreign and local currency ratings to BBB- from BBB+. It also slashed its credit rating for five banks, including the National Bank of Greece. According to one commentator, the downgrading of Greece on international money markets now puts it on a par with Iraq.

France and Italy issued a call for an emergency package to head off a Greek default. After talks with Italian Prime Minister Silvio Berlusconi on Friday, French President Nicolas Sarkozy announced that the EU was ready to implement an aid plan for Greece.

In a manner reminiscent of the flurry of meetings that occurred on the eve of the Lehman collapse in September of 2008, government heads, finance ministers and bankers worked frantically to come up with something that could be announced prior to the opening of global markets Monday morning.

The main details of the plan as reported to date involve a loan of €30 billion by the EU at interest rates of around five percent. Such a rate is below the seven percent currently being demanded by banks for long-term Greek bonds, but much more than the rate paid by Europe's biggest economy, Germany (three percent).

Pointing out that the future of the euro was at stake, billionaire investor George Soros told Bloomberg Radio on April 9 that the Greeks "have to be given some help from Europe or the IMF at concessional rates.… It is a make or break time for the euro and it's a question whether the political will to hold Europe together is there or not".

The decision to bail out Greece has far-reaching economic and political implications. First, it sets a precedent for other European economies in a similar situation to appeal for financial assistance from Europe's stronger economies.

The fact is, however, that all European nations, including the biggest economies, Germany and France, are saddled with huge state debts and are seeking to impose their own harsh austerity programs in order to recoup the huge sums spent bailing out their respective banking systems. The banks, which received trillions in public funds, are now dictating the terms by which the European working class is to pay for the crisis.

The emergency plan for Greece will bring no relief to the working population. A similar EU-IMF plan has already been imposed on the small EU member state of Latvia. The Latvian government has imposed the harshest austerity program in Europe, consisting of cuts amounting to 10 percent of the country's gross domestic product. The state has slashed the wages of public servants by up to 45 percent, raised taxes, cut pensions and child allowances, and now has the highest level of unemployment in Europe at over 20 percent.

The ruling elite throughout Europe are united in their determination to ensure that the entire burden of the crisis is shifted onto the backs of the working class, but as the economic crisis increasingly spirals out of control, national state interests and rivalries are increasingly coming to the fore. Commenting on the growing divisions between Germany and its European neighbours, *Financial Times* columnist Martin Wolf commented recently, "Is there a satisfactory way out of the dilemma? Not as far as I can see. That is really frightening".

Two things, in particular, have become clear from the developments in Europe of the past two weeks. First, the talk of a global recovery from the crisis that erupted in 2007-2008 is without serious foundation. The world economy remains poised on the knife-edge of a new financial panic and even deeper recession.

Nothing has been resolved. Instead, the insolvency of major banks has been offloaded onto national governments, producing an unprecedented sovereign debt crisis that can easily spread from so-called peripheral countries, such as Greece, to major powers, including France, Britain and the US.

Second, there is no prospect for a coherent internationally agreed strategy to manage the crisis in a non-disruptive and peaceful manner. Instead, the fundamental contradiction between world economy and the nation-state system—a contradiction intrinsic to capitalism—is asserting itself with increasing virulence. Germany's aggressive stance and the growing divisions within Europe are among the most acute expressions of this global development.

These developments underline the urgency for the progressive unification of Europe through the united, revolutionary mobilization of the working class, based on a socialist program for the nationalisation of the banks and major industries under the democratic control of the working class.

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