

# European Commission urges Greek government to press ahead with austerity

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In a statement issued last Thursday, the European Commission recognised that social conflicts were intensifying in Greece following the implementation earlier this year of drastic austerity measures. Despite widespread social opposition, the EC urged the Greek government to press ahead with its extensive program of spending and income cuts.

Following a review of the Greek austerity measures by the European Commission, its spokesman Amadeu Altafaj told reporters last Thursday, “We are aware of the social tensions that exist. This impact from these important reforms is certain, we have no doubts about that”. Nevertheless, the Commission stressed it was necessary for the Greek government to bite the bullet, resist social opposition and continue its program of “structural adjustment”.

The EC review of the Greek economy was a condition for the release of a €9 billion loan to Greece—part of an emergency €110 billion rescue package drawn up by the European Commission, the European Central Bank and the International Monetary Fund. Due to the extent of the economic cuts demanded as a condition for the rescue plan it has been dubbed in the media as a “shock and awe” package.

For his part European Economy Commissioner Ollie Rehn expressed his disappointment with aspects of Greece’s economic development and indicated that further austerity measures may be necessary. Rehn noted that, “[D]espite the significant progress made, challenges and risks remain”. In particular, Rehn identified that the government’s extra income from taxes of 5.9 percent was “well below the annual target of a 15.6 percent increase”. Rehn also warned of continuing liquidity problems in the Greek banking sector.

Money markets reacted negatively to the green light from Brussels for a further €9 billion loan. The price of 10-year Greek debt rose in comparison to German debt,

and Greek bonds are now trading at the same crisis levels of early May, before the EU launched its rescue program and the ECB began purchasing large amounts of Greek bonds.

The declaration of support from the European Commission for the measures undertaken by the Greek government came in the wake of news that the Greek economy had sunk further into recession. According to the Greek statistics service, the economy shrank by 1.5 percent between April and June compared to the first three months of this year. In total the Greek economy declined by 3.5 percent in the second quarter compared to the same period a year ago.

The slump in the economy is first and foremost a consequence of the austerity programs implemented by the government and dictated by the International Monetary Fund and the European Union. The government has slashed public sector salaries by up to 20 percent, drastically reduced retirement benefits and increased taxes. The single most significant tax increase is the rise in value added tax by 4 percentage points to the record level of 23 percent.

Reduced incomes and pensions combined with increased taxation and growing inflation have led quickly to a slump in consumer spending. Fuel prices, for example, have risen by 70 percent since last September. Economic analysts expect the combined austerity measures introduced by the government will reduce average purchasing power by 30 percent this year.

Already there is a rising tide of bankruptcies. The National Confederation of Hellenic Commerce stated that around 17 percent of shops in the middle of Athens have filed for bankruptcy, with “To let” signs proliferating in the centre of the Greek capital. The growing problems for retailers are reflected throughout the business world.

A recent survey by the Athens Chamber of Commerce and Industry revealed that 86 percent of the 523

businesses it questioned reported cash flow problems, while no less than 93 percent had suffered a fall in turnover due to the financial crisis.

Summing up the situation for businesses, Panagis Karelas, head of the Athens Traders Association, stated, “There is a climate of insecurity which has hit turnover and means that Greek business owners, big or small, will not dare to invest in the future. So more businesses are closing and more people are losing their jobs”.

The growing crisis in Greece has resulted in record levels of unemployment, particularly for youth. Official unemployment now stands at 12 percent—an increase of 43 percent compared with one year previously. Hardest hit by the crisis are younger workers; 32.5 percent of all workers between the ages of 15 and 24 were unemployed in May. At the same time these figures disguise huge levels of underemployment—those working part-time but seeking full-time work, plus those who have given up looking for work because of the lack of jobs—and massive regional variations.

In some districts, unemployment has reached up to 70 percent. According to the University of Piraeus joblessness has soared to between 60 and 70 percent in the shipbuilding region of Perama. Significantly the latest unemployment figures also appear before the end of the current tourism season, when a new wave of redundancies is expected.

Tourism accounts for about a fifth of the Greek economy, but receipts have plummeted over the past two years with holidaymakers choosing cheaper alternatives to a crisis-ridden and increasingly expensive Greece. A slump of 10 percent in earnings in the tourism industry in 2009 is likely to be matched this year, leading to further bankruptcies and redundancies in the industry.

The International Monetary Fund predicts that unemployment in Greece will rise to around 15 percent by 2012, while other labour market analysts anticipate that joblessness could soar to an average of 20 percent in the near future.

Additional measures to be introduced by the government, such as its plans to loosen state control of power generation, privatise loss-making state enterprises and liberalise “closed shop” professions will also inevitably lead to a further haemorrhaging of jobs.

The PASOK government led by George Papandreou made clear it is prepared to use the full force of the state in order to implement his policies. At the start of August, Papandreou mobilised the army to function as strike-breakers and conscripted Greek truck drivers in

order to break the strike of truck drivers aimed at retaining their “closed shop” jobs.

The deepening of the recession—the German magazine *Der Spiegel* headlines its recent article on Greece “Entering the Death Spiral”—has led to growing problems for Greek banks and a flight of capital out of the country.

A recent report by HSBC revealed that banks in the country had lost nearly a tenth of their entire deposit base in the five months up to May. Such losses have continued in recent months following the implementation of the government’s austerity measures, reflecting not only the export of their fortunes abroad by wealthy Greeks, but also the running down of savings accounts by ordinary Greek citizens struggling to stay afloat in the crisis.

The deepening crisis for Greek banking and the economy as a whole has in turn led leading bankers to speculate on a complete restructuring of the country’s debt with considerable losses for investors holding Greek debt and a new banking crisis.

Chris Pryce, of Fitch Ratings, declared that Greece was teetering on the edge of junk status. The only way to restore confidence in the economy, he maintained, was to slow down the rate of the country’s decline, but this in turn raised the question of whether the country will accept yet another round of austerity. Many Greeks were away on holiday, he said. “When they get back they will have to face their miserable new world going into the autumn, and then we will see”, he said.

Elected to power last September with the support of the Greek trade unions and based on the promise of redistributing social wealth more equally, the PASOK social democratic government headed by Papandreou has introduced policies that have intensified the social divide in Greece, while plunging the country into recession. From the very start the European Union regarded Greece as a test case for other European nations—this is why it has given such staunch backing to the devastating austerity measures introduced by the Greek government.



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