Plan to restructure Greek debt reveals deep rifts in Europe

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After months of speculation and a series of denials by the Greek prime minister and leading international finance heads, the Athens daily *Eleftherotypia* reported in an article Monday that the Greek government "has issued a request to the IMF and the EU to restructure all of Greece's public debt". The article stated that proposals for restructuring will be discussed this June, with a view to implementation in 2012.

The initial request for a restructuring was made by Finance Minister Georges Papaconstantinou at a meeting of European finance ministers at the beginning of April. The Greek government then waited until Prime Minister George Papandreou announced a new round of punitive austerity measures on 15 April. According to the Greek finance ministry, the measures would include some €15.6 billion in spending cuts, and another €10 billion through increased taxes up to 2015.

Much of the budget savings will take the form of further cuts to wages in the public sector, operating expenses at state-owned enterprises, and defence and health care spending.

The government also plans to undertake a series of extensive privatisation measures, including selling off its 20 percent stake in the former telephone monopoly Hellenic Telecommunications SA (OTE), and its 17 percent stake in the power company, Public Power Corporation SA (PPC.AT) next year.

Having already implemented a series of austerity programs at the behest of the European Union, the European Central Bank and the International Monetary Fund, the country is stuck firmly in recession. Greek GDP is expected to decline by four percent this year, and unemployment has already climbed to over 15 percent. This latest austerity budget will only plunge more hundreds of thousands of Greek working people into poverty, intensifying the country's economic and debt crisis.

Forced at gunpoint by the international banks and rating agencies to accept loans from the EU, ECB and IMF at punitive interest rates to finance its debts, Greece is expected to see its debt rise to the level of 160 percent of GDP by 2013. Greece's total debt is already estimated at €325 billion and exceeds that of Argentina, the last major country to default on its debt, in 2001.

The driving force behind plans to restructure Greek debt is the German government, supported by the major German banks. Renewed speculation on the probability of a restructuring of Greek debt was unleashed following comments last Wednesday by the German Finance Minister Wolfgang Schaüble. He said that "additional steps" would be necessary to overcome Greece's huge and growing debt burden.

Schaüble's remarks were regarded as an open call for the restructuring of Greek debt and were immediately seized upon by finance speculators to once again drive up the yields on Greek government bonds.

One day later European Central Bank executive member Lorenzo Bini Smaghi intervened in the debate and replied sharply to Schaüble's comments.

In an interview on Thursday Bini Smaghi told the Italian business daily *Il Sole 24 Ore* that a restructuring of Greek debt would have catastrophic effects for the country, ruin its banks and cripple its economy. As a result of a restructuring, he declared, "The Greek economy would be on its knees, with devastating effects on social cohesion and the maintenance of democracy in that country".

Without explicitly naming Germany, Bini Smaghi concluded by warning, "other countries must avoid pushing it towards a catastrophe".

On Friday the German Deputy Foreign Minister Werner Hoyer answered Bini Smaghi by telling Bloomberg that a Greek restructuring "would not be a catastrophe".

On Monday support for Bini Samghi's warning came from the Bank of Greece Governor George Provopoulos who declared that a restructuring of debt would have “catastrophic consequences” and wreak havoc with Greece’s banking system.

Of particular importance was the intervention of the French Finance Minister Christine Lagarde on the same day. When asked about the possibility of restructuring Greek, Irish, and Portuguese debt, Lagarde retorted, “It would be catastrophic. It would be catastrophic because it means that these countries would be in the greatest difficulty to come back on the financial markets”.

Asked specifically about restructuring Greek debt, Lagarde responded, “No, very simply no, I tell you in the firmest fashion: no. It is not at all in question to speak about restructuring Greek debt”.

According to a report in the German business paper *Handelsblatt*, the restructuring of Greek debt was already the subject of a sharp exchange of words at a German-Spanish business forum held earlier this month.

At a meeting entitled “A Community based on Solidarity—the future of the European Economic and Currency Union”, Jürgen Fitschen, a leading executive member of Germany’s biggest bank, Deutsche Bank, vigorously attacked representatives of the European Central Bank for delaying too long a restructuring of Greek debt. Fitschen declared that financial institutions have enough experience of organising restructurings, so “it was just a question of having enough imagination”.

Fitschen also declared that a restructuring of Greek debt would probably be necessary before 2013, i.e., the date recently agreed by Eurozone leaders as the earliest possible date for such a measure.

At the meeting Fitschen received the full backing of the former German Finance Minister Peer Steinbrück (Social Democratic Party), who declared that the ECB feared any restructuring because it had too much to lose. The ECB had bought up so many government bonds from financially failed states—mainly Greece—that it had turned into “a sort of bad bank for government bonds”, Steinbrück said.

In response to the attacks from Fitschen and Steinbrück, ECB executives at the meeting rejected any restructuring for Greece, arguing that such a measure would merely distract from the structural economic reforms Greece had pledged to carry out.

Commenting on the increasingly acrid debate, the *Handelsblatt* report noted, “In a roundabout way, the ECB officials in attendance implied that some banks were pushing strongly for a rapid restructuring, because they had positioned themselves accordingly. For investment banks and law firms the waiving of debt was a billion dollar business. At the same time a cutting of debt for Greece was not the end of the story, because attempts would immediately be made to apply this ‘business model’ again. ‘The guns are then aimed at the next country’”.

The current conflict over a restructuring of Greek debt reveals a profound rift between the German government, the opposition SPD (in the figure of Steinbrück) and German banks on one side, and the ECB, France, and Greece on the other.

Both French and German banks have large investments in Greek government bonds and would face losses in the event of a restructuring of Greek debt. According to IMF figures from last year, German financial institutions hold some €28 billion ($37 billion) in Greek bonds. Greece’s biggest creditor is France with €50 billion in holdings, including €7 billion held by the Bank of France.

Deutsche Bank is convinced that based on close collaboration with the German government, which gave huge bailouts to the banks in 2008, it will not only be able to limit its losses, but also profit at the expense of its international rivals during the restructuring of Greek debt.

Warnings by the ECB, France and Greek banks of the catastrophic results of such a restructuring for Greece have a significant element of truth. Debt restructuring amounts to acknowledging that the country in question is bankrupt, inevitably threatening a collapse of its banking system.

In the case of Greece, it is already unable to obtain credit. A debt default would have a devastating impact on the living conditions of the working class.

At the same time, the policy pursued by the ECB, the IMF and France—social cuts and bank bailouts that do not touch the wealth of the ruling class but place the full burden of the crisis on the workers—is what has driven Greece into its current plight. Both sides in the official restructuring debate advocate policies that mean ruination for Greek workers and will intensify the crisis of the European Union.