European powers discuss possible bankruptcy of Greece

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Shortly after the Greek government bowed to the dictates of the “troika”—the International Monetary Fund (IMF), European Central Bank (ECB) and the European Commission (EC)—to impose another new round of massive cuts in social spending, it is clear that neither these austerity measures nor the latest tranche of the “rescue packet” will resolve the crisis gripping the country. On the contrary, the recession is worsening and leading European powers are thinking aloud about the prospect of Greek state bankruptcy.

For the first time, a leading member of the ECB has not ruled out an orderly insolvency by Greece. “It is one of the scenarios”, Dutch central bank chief Klaas Knot said in an interview with the newspaper *Het Financieele Dagblad.* “The news from Athens, however, is not encouraging”, Knot added. “All efforts are directed towards avoiding this, but I am now less inclined to exclude a bankruptcy than I was just a few months ago.”

The rating agency Moody’s has also responded by downgrading the creditworthiness of eight Greek banks by two points. Greek Finance Minister Evangelos Venizelos has responded by ordering that the finance authorities must review all international transfers of over €100,000. Clearly, the government fears the impending insolvency of the banks would lead to a massive outflow of money. This fits in with Moody’s downgrading of the banks, which it justified by pointing to their declining deposits.

According to the newspaper *Ta Nea*, *Ethnos*, Venizelos told parliamentary deputies that even he would not exclude an orderly bankruptcy of Greece, with an average “haircut” of 50 percent. This would mean creditors would have to forgo half of their claims. Greek government bonds are already trading below half of their nominal value. Should there be no further aid packages, a disorderly insolvency of the country was possible, said Venizelos. This is the first time that a leading government minister has broached the possibility of a default.

Former IMF chief economist Kenneth Rogoff also reckoned with a “dramatic payments failure”. “Creditors would probably see just 30 or 40 cents from every euro of nominal debt, perhaps even less. That is inevitable”, he told the *Frankfurter Allgemeine Zeitung.*

The markets reacted nervously to the growing threat of a Greek state bankruptcy. The Dax fell below 5,000 points, later stabilising at about a 3 percent loss. The Eurostoxx slipped by 1.9 percent to 1,960 points.

The debate over a Greek bankruptcy has several causes. Firstly, it is clear that neither the government cuts nor the EU bailout will stabilise the Greek economy. Both measures are primarily aimed at directly funding the banks.

Instead of rescuing the economy, the initial austerity measures carried out by the Greek Social Democratic government almost brought it to a standstill. After cutting public sector wages by about 30 percent, reducing the minimum wage to €600 and drastically increasing the price of heating oil and electricity by 50 to 100 percent, Greece experienced a decline of 5.5 percent in its economic output.

This recession and the consequent decline in tax revenues, together with rising interest rates for government bonds, mean that despite the recent bailouts Greek debt is ballooning and the government will not be able to satisfy its creditors. Once again, Greek workers are being asked to pay; the government intends to cut an additional 30,000 jobs and trim the wages of the remaining workers once again.

The IMF, the ECB and the European Commission had made such cuts a condition for paying the last installment of the first rescue package for Greece of €8 billion. But those benefiting from this package are not the workers of Greece, who have often gone for months without receiving their wages, but only the banks, who fear for their loans. The bailout means they can exchange their bad Greek government bonds for fresh EU cash. According to reports, 97 percent of the aid is being used to repay loans and interest rates to financial interests in the EU. In contrast, the cuts will drive Greece further into recession and thus aggravate the crisis.

Another reason for the growing prospect of bankruptcy is the fact that the second aid package agreed to by the EU governments on July 21 has as yet only been ratified by

France, and is meeting with growing resistance in the German elite. Venizelos's scenario of a disorderly bankruptcy refers precisely to the eventuality that this package fails to be ratified by the national parliaments.

In Germany, the issue will be decided in parliament on September 29, but it is very uncertain if the Merkel government can command an outright majority. In recent weeks, government officials expressed scepticism about further aid for Greece. In mid-September, Free Democratic Party leader and German Economics Minister Philipp Rösler had already said that he considered an orderly bankruptcy of Greece as one desirable option, and as economics minister he was already working on the appropriate tools. The chair of the Christian Social Union, Horst Seehofer, even went as far as demanding Greece's exclusion from the eurozone.

Finance Minister Wolfgang Schäuble (Christian Democratic Union—CDU) had already had his ministry run through various scenarios for the euro crisis, including a plan B for the eventuality of a Greek bankruptcy involving plans to shore up exposed German banks.

In its communiqué on Thursday, the G20 summit of leading industrial nations sought to pacify panicky stock markets worldwide by making its own pledge to bail out the banks against the risks of a state bankruptcy. It says: "We commit ourselves to take all necessary steps to ensure the stability of the banking system and financial markets as necessary".

A Greek bankruptcy would not only mean the loss of investors' deposits, it would also put enormous pressure on all other EU countries. It is likely that the interest rates on their bonds would soar, bringing further state bankruptcies. At the very least, it would call into question whether these countries remain in the eurozone.

The "stability of the banking system" could only be secured by handing over billions to the financial institutions, which would result in social attacks in every European country along the lines of those in Athens. In Greece itself, the bankruptcy would have the most egregious consequences. All public work contracts and social services could be declared null and void in an instant. Those still qualifying to receive salaries, pensions or unemployment benefits would be entirely redefined and made subject to the bankruptcy rules.

Regardless of whether a bankruptcy was orderly or disorderly, all social achievements and jobs would be at stake. The austerity measures already introduced by the government have led to a social catastrophe. In the last months, one third of all commercial enterprises in Greece have been forced to close, and another third cannot pay workers their wages. State workers or those in quasi-governmental companies often wait months for their pay. For example, the workers at the Acropolis have not been paid a salary for 22 months.

There are hardly any textbooks left in schools because the publishers refuse to deliver them due to the debts of the state. The university system has practically collapsed. Along with youth unemployment of at least 30 percent, this is leading to a massive exodus of young Greeks.

The bankruptcy of the Greek economy is now being seriously considered by leading European authorities. Such a bankruptcy would involve handing over billions more to the exposed banks, extending the cuts to all European countries, naked misery in Greece and growing national tensions.

Such a programme is incompatible with democracy, and the political implications of a Greek default on its debts are also being aired.

In a summary of various scenarios for the eventuality of Greece failing to pay its debts, the BBC puts forward two alternatives. The first envisions Greece staying in the euro, with the following result: "Political turmoil: The Greek economy may face total collapse, with banks closed and the government unable to pay for basic public services. This is likely to cause massive civil unrest and a collapse of the government. Greece has already seen rioting and the takeover of government offices. The CIA has warned of a possible military coup."

The second alternative put forward in the BBC report deals with the eventuality of Greece exiting the euro. The consequence: global financial meltdown.

At the start of this week, the business magazine *Forbes* published its own article entitled "After The Greek Default, Could Civil War Be Next?" The article warns its readers: "After the bankers it will surely be the turn of corrupt politicians to bear the fury of the mob. 'Thieves, thieves!' angry rioters love to chant, spoiling for a fight. Sneaking out the back door of Parliament may not be so easy next time. Firing on the crowd will only hasten a descent into armed insurrection.

"Once the mob tastes blood and has martyrs to avenge, next to be targeted will surely be 'The Rich'—at least those that haven't been prudent enough to beat a timely escape...."