# European Union prepares for Greek state bankruptcy

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The European institutions have clearly changed course in relation to Greece. Instead of the "rescue" of the country, they are now discussing its bankruptcy, and reducing the risk of contagion. The euro rescue fund, supposed to guarantee Greece's solvency, is being used to secure the creditor banks against the consequences of state bankruptcy.

The change of course has happened gradually, under the pressure of intense fluctuations on the stock exchanges and financial markets, the threat of bank failures and growing opposition to the austerity measures of the Greek government. But it follows unmistakeable class logic.

The fear of an uncontrollable chain reaction had previously prevented the EU from risking a collapse of Greece. They feared the bankruptcy of the largest creditor banks, which in turn would have drawn more banks into the abyss—like Lehman Brothers in the US after its bankruptcy in September 2008. Other heavily indebted countries such as Portugal, Ireland, Spain and Italy are also threatened with being cut off from access to credit if Greece, a member of the euro zone, goes bankrupt.

Under these circumstances, Greece's billion-euro rescue packages serve to gain time. They have not benefited the Greek state, and certainly not the Greek population, but went directly into the coffers of the creditor banks, which received their loans repaid in full with all interest due. The European Central Bank also bought large quantities of Greek government bonds on the open market, thus relieving the risks banks faced from their additional papers.

The Greek rescue packages have been linked to drastic cost-cutting measures, which from the outset ruled out Greece's mounting an economic recovery. Even to a layperson, it was obvious that the recession caused by the austerity measures would nullify any budgetary savings.

The purpose of the austerity measures was not so much to restructure the budget, but to ruin the working class. Under the dictates of the so-called troika—the European Central Bank, the European Commission and the International Monetary Fund—the Greek government has cut pensions and incomes, destroyed tens of thousands of public sector jobs and driven the self-employed into bankruptcy by raising taxes, while the rich elite have hoarded their wealth in foreign bank accounts.

Meanwhile, protests against these measures are increasingly threatening the Greek government. This month alone there have been several general strikes and protest actions. The unions, which are working closely with the government, are finding it increasingly difficult to keep the resistance under control.

The representatives of the troika have concluded from this that the time has come to abandon Greece. State bankruptcy would mean that the government had no funds to pay salaries and pensions, as well as for other public spending. Just as US automotive firms exploited bankruptcy procedures to wipe out their financial obligations to the workforce in one stroke, the Greek government could effectively annul its existing contracts and legal arrangements. The question then would not be how many jobs would be eliminated and how far salaries were being cut, but who has a job at all.

Greek state bankruptcy would also be used to intimidate workers in the other European countries. It would represent an unequivocal threat, showing what awaits them if they do not accept the austerity measures being imposed by their own governments.

In Greece itself, state bankruptcy would provoke violent social unrest. But the EU expects to be able to isolate this with the help of the unions, who have so far refused to organise any international solidarity with the Greek workers. The Greek military has also spoken out again, and threatened to bring down the PASOK government. Under the rule of the “colonels”, the military suppressed the Greek working class from 1967 to 1974 with a bloody dictatorship.

The main concern of the EU at present is how to prevent a Greek state bankruptcy from bringing down international banks and other European countries. All the decisions and debates of the last weeks and days revolved around this question.

The euro zone governments had already agreed in June to increase the euro rescue fund (EFSF) and expand its powers. Rather than simply provide credit guarantees to ailing euro zone countries, the EFSF may now also buy up government bonds of vulnerable states on the open market and so remove the risks facing the banks.

Increasing the banks’ capital holdings with funds from the EFSF or other public monies is also now up for discussion. This was the central theme at the meeting of EU finance ministers on Tuesday last week. The ministers commissioned the European Banking Authority (EBA) to verify the resilience of the European banks if Greece were to default on its payments.

On Wednesday, German Chancellor Angela Merkel also agreed to this line. If banks urgently needed money, the European states should not delay financial aid because this would be “money reasonably invested”, she said after a meeting with EU President Jose Manuel Barroso and the leaders of the main international financial institutions.

On Thursday, the European Central Bank decided, in turn, to support threatened banks with large amounts of money.

In other words, instead of rescuing euro zone countries faced with bankruptcy, the funds of the euro rescue package and the ECB are now being used to bail out the banks when indebted countries go bankrupt.

Experts believe that the European banks need at least €200 billion to €300 billion of additional capital to survive a Greek state bankruptcy. Like the bank bailout in the 2008 financial crisis, these funds would be recouped again through austerity measures at the expense of working people.

Many politicians and media representatives now regard a Greek state bankruptcy as a certainty.

Spiegel Online commented on the events of last week, saying: “Now the financial institutions are to be supported with taxpayers’ money. That might be cheaper than rescuing countries in crisis.”

And Europe’s leading financial newspaper, the *Financial Times*, published a comment on Thursday under the headline “Save the euro—let Greece default”.

“Given its debt, its budget and current account deficits and its woeful lack of competitiveness, Greece cannot escape the debt trap”, it stated. “Austerity piled on austerity will simply kill the patient.”

To manage the country’s bankruptcy, the *Financial Times* calls for “a co-ordinated recapitalisation of the banks and a quadrupling to €2,000bn or so in the firepower of the European Financial Stability Facility.” The bill for these measures will have to be paid by working people throughout Europe, in the form of further cuts and austerity measures.

The preparations for Greek state bankruptcy mark a new stage in the offensive of the ruling financial elite against the working class. This offensive can only be answered by a common struggle of European workers on the basis of a socialist programme, which focuses on the expropriation of the banks and big corporations and the establishment of the United Socialist States of Europe.