Europe on the brink as Greece staggers towards default

Chris Marsden
3 November 2011

The G20 summit beginning today has been thrown into desperate crisis over the increasingly likely failure of Greece to meet the terms of the latest tranche of loans from the European Union, International Monetary Fund and European Central Bank.

Tuesday saw massive losses on global stock markets, after Prime Minister George Papandreou's surprise decision to call a referendum on the eurozone rescue plan agreed last week. Yesterday's limited recovery did little to assuage growing concerns of a possible Greek default spreading contagion to Italy and throughout Europe.

World leaders fear a "no" vote would force Greece into an exit from the euro. The universal response was threats and blackmail.

German Finance Ministry spokesman Martin Kotthaus threatened that it was still an open question whether the next €8 billion of emergency aid for Greece could be paid out before a referendum was held. "The tranche has not yet been paid. That is the situation today. How things proceed is yet to be seen," he said.

France's European Affairs Minister Jean Leonetti said there was no question of the euro zone renegotiating Greece's bailout package. "The decisions that were made [last week] cannot be renegotiated," he said. "The referendum raises a fundamental question: do you or do you not want to remain in the eurozone. Because if you do not accept the accord, then that means not staying."

European Commission President Jose Manuel Barroso called for "national and political unity in Greece" in support of the bailout measures, threatening: "Without agreement of Greece to the programme supported by the EU and IMF, conditions for Greek citizens will become much more painful, particularly for the most vulnerable."

US President Barack Obama's spokesman, Jay Carney, warned that Europe needed "to implement the very important decisions they made last week to provide a conclusive resolution to it."

China, which Europe has been courting as a potential source of investment, called on EU leaders to persuade Greece to "drop the referendum idea."

"Another of our meetings has been hijacked by Greece because of Papandreou's move to call a referendum," a senior G20 official said.

German Chancellor Angela Merkel and French President Nicolas Sarkozy summonsed Papandreou for a private grilling, before he meets similar treatment by the entire G20. The talks were also attended by Christine Lagarde, managing director of the IMF.

The Greek loan package was bound up with broader measures supposed to restore confidence in the euro zone economies, centred on strengthening the European Financial Stability Facility (EFSF), to a nominal package of one trillion euros in guarantees for bailout loans.

That plan already appears to be unravelling. Yesterday the EFSF was expected to issue 10-year bonds to fund Ireland's bailout, but the deal was halted due to a lack of buyers.

One investor told the *Financial Times*: "This is a fund that is supposed to have the fire-power of €1 trillion, yet it can't even raise €3 billion. That is very worrying."

The European Central Bank was forced to intervene and buy an estimated €1 billion to €2 billion of Italian bonds by mid-day in London. Italy last night also held an emergency cabinet meeting to discuss the budget cuts being demanded of it in the face of hundreds of billions of euros in debts. It is being charged an unsustainable interest rate of over six percent on borrowing—the highest rate since joining the euro.

Papandreou's government could fall. He is under pressure to call his referendum by December 11 at the latest, and he would likely lose. "Original thoughts that the vote will be held in January are out of the question," an IMF official said. With the €8 billion withheld until after this date, the government would be unable to even pay its wages bill.

Through his brinksmanship, Papandreou hopes to perform a political sleight of hand. There is still a great deal of unclarity, but several sources state that the referendum will be posed as whether or not to support Greece's membership of the EU and the euro zone, not the bailout. Papandreou said yesterday it would provide "a clear mandate and a clear message in and outside Greece on our European course and participation in the euro."

Even if the bailout is made the subject of the referendum, Papandreou seems intent on calling the bluff of the opposition parties and the trade union bureaucracy, forcing them to line up behind his plans. He knows that behind their pose of opposition to the austerity measures, the reality is that all the major parties in Greece are united in their determination to make workers pay for the economic crisis.

But his move hardly comes with a guarantee of success. On Friday, Papandreou faces a confidence vote in Greece's parliament that he could easily lose. PASOK's majority is down to two, after one MP quit. Another six MPs are calling for him to resign.

There are already moves by the opposition parties, led by New Democracy and PASOK dissidents, in support of early elections, which now seem more probable than Papandreou's referendum being held.

With no party enjoying popular support, the likely outcome would be a government of national unity. This could easily encompass the fake left groups, particularly Syriza, and might stretch to the Greek Communist Party (KKE).

However, whether or not Papandreou's desperate gamble succeeds and he holds on to power a little longer, or some new combination led by New Democracy comes to office, the result will be the same for the Greek working class: a further descent into social misery. An escalation of the class struggle is inevitable.

The measures agreed with the "troika" are massively unpopular and have been met with mass protests and repeated general strikes. They involve devastating attacks that include lowering the income tax threshold from €12,000 to €5,000, raising value-added tax from 19 to 23 percent and the retirement age from 61 to 65, slashing pensions by between 20 and 40 percent, wage cuts of 30 percent and further job losses.

It is in this light that the extraordinary decision Tuesday by Papandreou and Defence Minister Panos Beglitis to sack the heads of the armed forces must be judged. The decision was taken at an extraordinary meeting of the Council of Foreign Affairs to replace New Democracy appointees to the heads of the army, navy, air force and the general staff.

General Ioannis Giagkos, chief of the Greek National Defence General Staff, is replaced by Lieutenant General Michalis Kostarakos. Lieutenant General Fragkos Fragkoulis, chief of the Greek Army General Staff, is replaced by Lieutenant General Konstantinos Zazias. Lieutenant General Vasilios Klokozas, chief of the Greek Air Force, is to be replaced by Air Marshal Antonis Tsantirakis, and Vice-Admiral Dimitrios Elefsiniotis, chief of the Greek Navy General Staff, by Rear-Admiral Kosmas Christidis.

Initial efforts to dismiss the move as routine quickly gave way to questions over whether Papandreou was attempting to forestall a coup. The *Daily Mail* was the most forthright major publication to speculate that the government "was trying to head off a coup d'état." In May a CIA report concluded that a coup was possible in Greece, if the government lost control.

Moreover, if Papandreou's aim is to ensure the loyalty of the armed forces, then he can use them against the Greek working class to just as deadly effect as his political opponents.

Open discussion on military repression and even the imposition of military rule by the ruling class is a warning to workers throughout Europe. As was shown with the rounds of social cuts imposed internationally after the outbreak of the global economic crisis, the principle governing the actions of the ruling class is: where Greece goes today, Italy, Spain, Portugal and the rest of Europe follow tomorrow.