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Favorite of European banks appointed to head Greek government

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Former European Central Bank vice president Lucas Papademos was appointed to head the Greek coalition government on Thursday, following concerted pressure this week from financial markets, the International Monetary Fund (IMF) and leading European institutions.

On Tuesday and Wednesday international finance markets had indicated their displeasure with Greek procrastination over the appointment of a new head of government with a wave of selling. Following the announcement that Papademos would be taking over as new prime minister, President Karolos Papoulias immediately sought to appease the markets. He issued a statement Thursday in which he pledged that the priority of the new administration would be to faithfully implement Greece’s loan agreements with the eurozone and IMF.

From the standpoint of international finance, Papademos has impeccable credentials for his new job. From the mid-1980s until the mid-1990s Papademos worked as chief economist at the Bank of Greece before taking over as head of the bank in 1994. He retained this post until 2002, overseeing the country’s preparations for membership in the eurozone.

Papademos then left the Bank of Greece to take up the post of vice president of the European Central Bank until 2010. For the past year he has worked as an adviser to the government of George Papandreou. He was educated in the United States and briefly served as senior economist at the Federal Reserve Bank of Boston.

Lucas Papademos is regarded as a safe pair of hands by his banking colleagues—a man who will take his orders directly from the major financial institutions.

Papademos’s appointment came just hours after IMF chief Christine Lagarde called for greater “political clarity” in both Greece and Italy.

The nomination was the result of a deal struck by outgoing Prime Minister Papandreou, the leader of the conservative opposition Antonis Samaras and the head of the ultra-right LAOS party, Giorgos Karatzaferis. Talks in the Presidential Palace in Athens had stalled on Wednesday when a number of deputies from the ruling PASOK administration and the opposition New Democracy opposed the candidacy of parliamentary speaker Filippos Petsalnikos—a man regarded as being too close to Papandreou.

Papademos had also raised his own demands. He requested that any administration he headed be allowed to govern beyond the February 19 deadline already pencilled in for new elections. Papademos also demanded that New Democracy deputies be included in his coalition of forces to ensure a broad coalition to enforce austerity measures. It is not known at this time what concessions were offered to the extreme-right nationalist LAOS party to gain its support for the new regime.

What is apparent from the events of the past several days is that the selection of Papademos was a pre-condition for Greece’s eligibility for immediate financial aid and access to a new €130 billion rescue package from the European Union and the IMF.

Papademos’s appointment was predictably welcomed by both Greek and international business and finance organisations. On Thursday the Athens stock market index was up 3.17 percent, with Greek banks gaining 10.2 percent.

Dimitris Daskoloupoulos, the head of the Hellenic Federation of Enterprises, proclaimed Thursday that the new administration, which he referred to as a “government of national salvation,” was “the last hope for the Greek economy.”

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Reflecting the opinion of European business and finance circles, Fredrik Erixon, head of the European Centre for International Political Economy in Brussels, told Bloomberg: “He’s a skilled and thoughtful banker and he’s got sufficient distance from Greek politics to be seen as someone standing above Greek party political corruption.”

Both the Greek Communist Party (KKE) and Syriza, an amalgam of various pseudo-leftist groups, did not take part in the talks and denounced the appointment of Papademos. In the course of the past two years both organisations have played a key role in demobilising the Greek working class and creating a political climate in which the ruling PASOK government could implement a series of punitive austerity packages.

Seeking to demonstrate its credentials as a responsible constitutional party, Syriza responded to Papandreou’s decision 10 days ago to sack the heads of Greece’s armed forces with a pledge of loyalty to the military. Rejecting the very real danger of a military coup, the organisation warned that the government’s decision “gives the impression that it wants to create a highly politicized armed forces that it can control at a time of political crisis.”

Despite the brief recovery on the Greek stock markets, the economic situation in the country continues to worsen. On Thursday the latest unemployment figures, which drastically underestimate the real extent of the country’s jobs crisis, hit a new record high, rising to 18.4 percent. The number of unemployed reached 907,953 in August, a 10.7 percent increase from the previous month. The unemployment rate for youth between the ages of 15 and 24 has soared to 43.5 percent, twice its level three years ago.

While Greek shares rebounded Thursday, European and American markets remained largely flat. This reflected growing concerns that the epicentre of the debt crisis has shifted from Greece to larger European countries, particularly Italy.

Having installed a technocrat in Greece, financial circles are now insisting that the Italian banker and former EU competition commissioner Mario Monti be installed as new head of government in Italy as quickly as possible. Following the announcement from Italian premier Silvio Berlusconi on Wednesday that he will resign, but not immediately, markets pushed up the interest rates on Italian government bonds to well over 7 percent.

The dominant sections of the ruling class in Europe are intent on imposing so-called “non-political” technocrats. Papademos and Monti have been selected precisely because they are regarded as figures who are committed to carrying out the dictates of the banks, are distant from domestic political circles, and are sufficiently contemptuous of democratic procedures. Nevertheless, their appointment will do nothing to dampen the deepening crisis, which, according to recent reports, is increasingly spiralling out of control.

According to the Banca Italia, Italian investors shifted €80 billion out of the country in August and September in anticipation of state bankruptcy. Greek investors are estimated to have transferred €250 billion in recent months to European “safe havens.”

Only recently, leading financial pundits were complaining that European leaders had opened a Pandora’s box—firstly, by proposing the involvement of private sector investors in a Greek bailout and, secondly, when they speculated on the possible departure of Greece from the eurozone.

The extent to which the debate has moved on in the past few weeks is indicated by the latest column by the financial commentator Noriel Roubini. Writing in the *Financial Times*, Roubini concludes that the financial woes of Italy cannot be resolved even with a massive infusion of European capital to reduce its public debt.

In order to tackle its “large current account deficit, lack of external competitiveness and a worsening plunge in gross domestic product and economic activity ... Italy may, like other periphery countries, need to exit the monetary union and go back to a national currency.” Such a step Roubini is forced to admit would trigger “an effective break-up of the eurozone.”

Meanwhile, French, German and European officials were forced on Thursday to officially deny that there are active discussions over expelling some countries from the eurozone, as reported Wednesday.

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