New fears of Greek default and new austerity demands against Greek workers

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15 December 2011

The unelected government of Prime Minister Lucas Papademos is facing a possible default on the nation's mounting debt as the international banks demand further concessions in return for new loans.

Talks are taking place on the agreement reached at the October 26 summit of European leaders in Brussels for bondholders to accept a 50 percent "haircut" on the face value of their Greek government bonds. A final settlement of the exact terms of the haircut and how Greece will repay its private lenders is a condition for releasing the first tranche of a new €130 billion rescue package by from the International Monetary Fund (IMF), the European Union (EU) and the European Central Bank (ECB).

Greek Finance Minister Evangelos Venizelos has met with Charles Dallara, the head of the Institute of International Finance (IIF), which represents the major international banks. The talks over the details of the haircut, slated to be completed this month, are a month behind schedule. A Greek official said they are not expected to be completed until February.

The *Financial Times* quoted an unnamed source involved in the negotiations, who said, "If that is true about February, we are headed for a bad end. Markets need confirmation of an agreement by early January."

The financial elite are seeking to force Greece to prioritise payment of the private debt it owes to the banks, a massive 200 billion euro, and make the repayment terms more onerous. It is expected that Greece's debt will reach almost double the size of its gross domestic product (GDP) next year if it is unable to reach agreement with the banks.

According to sources, Greece has proposed a debt exchange under which investors would swap their previously purchased government bonds for new ones worth 35 percent of their old value, with a coupon (a periodic interest payment to bondholders) of 4-5 percent. Greece is also reportedly proposing a one-off cash payment equal to about 15 percent of the old bonds' value. A report by *Bloomberg* stated that Greece has also agreed in principle to give private creditors the same priority for repayment of debt as official lenders such as the International Monetary Fund and the European Union.

However, the IIF is demanding a bond swap at 50 percent of face value. It is also insisting that Greece pay double the interest it proposes—a coupon of around 8 percent, plus an estimated €30 billion in guarantees for the principal of the new bonds.

The *Wall Street Journal* said the guarantees sought could come from the European Financial Stability Facility, the European Union's bailout fund. It cited another person with "direct knowledge of the negotiations" who said the demands of Chinese bondholders to be considered state entities were jeopardising an agreement. The Chinese want parity status with the European Central Bank, with full repayment plus the coupon when bonds mature.

The latest review by the IMF of its three-year standby arrangement with the Greek government forecasts a further drastic contraction of the economy. The IMF said Tuesday evening that the situation in Greece had "taken a turn for the worse" since the organization's fourth review in May. The IMF said it had expected 2011 to be an "inflection point when the recession bottomed out, followed by a slow recovery." Instead, it reported, "the economy is continuing to trend downwards."

Greek government officials are anticipating a deficit relative to GDP this year of 10 percent. The economy has already contracted 15 percent since the start of a recession that now enters its fifth year.

The escalating sovereign debt crisis throughout Europe, which threatens the existence of the euro, precludes any improvement in Greece's position.

Greece is already unable to meet existing debt repayments and public deficit reduction targets set under

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previous agreements with the "troika"—the IMF, EU and ECB—including last year's deal that included a €110 billion loan.

Many financial observers have concluded that a Greek debt default is all but inevitable. Ben May of Capital Economics said this week, "There is certainly a risk that Greece may well come to the point it decides it might be best to default."

Over the past three years, the Greek population has suffered cuts in living standards previously witnessed only in wartime. Today, official unemployment stands at 17.5 percent and is nearly 50 percent among youth.

Tens of thousands of workers in the public and private sectors have lost their jobs, while those remaining in employment have been hit with cuts in pay of up to 40 percent. Pensions have been slashed and huge cuts made to health care and other vital services.

In a population of around 11 million, 500,000 people have no income, while another 500,000 have left the country in desperation. The worsening recession has already resulted in 100,000 businesses closing down.

In the face of this crisis, the only response of the financial aristocracy is to demand that the Greek government impose even more brutal austerity measures. Cuts once deemed unthinkable in an EU member state are to be imposed.

Tuesday's IMF report bemoaned the "very large" Greek public sector and called for "the reduction of its size" as part of a "credible fiscal strategy." It continued: "This inevitably will require closure of inefficient state entities, reductions in the large public-sector work force, and adjustments of generous public wage and pension levels."

Following talks Monday between Administrative Reform Minister Dimitris Reppas and representatives of the EU and IMF, a further 150,000 public-sector jobs are to be shed over the next four years. This is in addition to the government's Labour Reserve Scheme, inaugurated by the previous social democratic government, in which tens of thousands of workers will be suspended from their jobs and forced to take a 40 percent wage cut as a precursor to their inevitable firing. The Greek daily *Kathimerini* said of the talks that "there is speculation that the [Labour Reserve Scheme] program… is moving too slowly to be effective and that the government will have to start sacking civil servants."

As well as demanding further public-sector cuts, the IMF insists that far more drastic cuts be made to the living standards of workers in the private sector. Poul Thomsen, deputy director of the IMF's European department and mission chief to Greece, said the previous devastating austerity measures passed by the since-ousted PASOK regime "relied, in our view, too much on taxes." He added that "we have reached the limit of what can be achieved through increasing taxes." Previous attempts at structural reform, he continued, had fallen "well short" of expectations. "Greece might have to accept involuntary redundancies… and address the legacy of too high and inflexible wages."

The "troika" are proposing eliminating pay raises agreed under binding negotiations last year, as well as cutting holiday payments in the private sector.

All of these institutions, acting as instruments of finance capital, are seeking to impose a social counterrevolution. This cannot be accomplished without provoking massive resistance from an impoverished and increasingly militant working class. What is being demanded of the Greek population cannot be carried out by democratic means, but only through savage repression.

This is why the IMF review welcomed "an important shift in the political landscape when the three major political parties combined to form a coalition government to be led by a technocratic PM [prime minister]… the new government and parties supporting it are committed to the programme's objectives and policies."

While welcoming the imposition of an unelected government with no popular mandate, the IMF warned that "risks to the programme remain large, both from external sources (the worsening outlook for the euro area), and internal sources (a relapse into weak implementation)."

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