Greece default closer amid warnings of "social explosion"

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Leaders of the political parties comprising the Greek coalition government will meet the premier, Lucas Papademos, later today to give him their reply to demands for sweeping austerity measures in return for a further €130 billion in bailout loans.

If agreement to the demands, imposed by the so-called troika—the European Commission, European Central Bank and International Monetary Fund—is not forthcoming, Greece could default on its loans as early as next month.

Speaking after extensive talks with Papademos on Sunday, leaders of the three government parties said they had not accepted demands for the cuts.

The measures are believed to include a 25 percent cut in the minimum private sector wage and a 35 percent reduction in supplementary pensions. In addition, 100 state-controlled enterprises could be closed, leading to immediate jobs losses and the sacking of 150,000 public sector workers by 2015.

While no final agreement has been reached, Papademos said the coalition partners had agreed to some "basic issues," including spending cuts this year equivalent to 1.5 percentage points of gross domestic product, or about €3 billion.

Clearly fearful of the political consequences, however, members of the coalition are voicing opposition over the extent of the latest "troika" demands.

Emerging from the talks, Antonis Samaras, leader of the centre-right New Democracy Party, said: "They're asking for more recession than the country can take." Samaras warned that the wage cuts would deepen the slump which has already lasted for five years.

George Karatzaferis, the leader of the right-wing Laos party, the junior partner in the coalition, was the most explicit on the possible consequences. "I am not going to contribute to a revolution that will humiliate us and that will burn Europe," he said.

Last week, the Laos party leader warned of a "social explosion" in Greece as a result of the cuts. In a letter to European Commission President Jose Manuel Barroso, he said the next round of austerity measures would cause an economic collapse and social unrest "of a kind that Europe has not seen for decades."

Karatzaferis added: "Reform cannot happen at gunpoint, especially when it requires the participation of the complex structure of an entire society. It is a time bomb for the entire western world."

Socialist Party Finance Minister Evangelos Venizelos is trying to get agreement on the cuts on the basis that the alternative—bankruptcy—would be worse. "Yes, it is terrible to be forced to cut pensions and wages, but what we are trying to avoid is indescribable," he said in response to criticism of the proposed measures.

The cut in the minimum wage would see a reduction from about $1,000 per month to $750, approximately the same level as in Portugal. This will have a devastating impact on wide layers of the population in conditions where consumer prices are relatively high. Petrol, for example, retails for about $8 a gallon. Unemployment in Greece is already 20 percent, businesses are closing every day and homelessness is on the rise.

The cut in wages is being promoted on the grounds that it is needed to improve competitiveness. These claims are disputed, however. “The effect on competitiveness is very small but the social impact is huge,” economist Yannis Stournaras told the *New York Times*.

The latest cuts are part of a €4.4 billion package of reductions that the “troika” insists must be met at once. Unless agreement is reached, Greece will move one step closure to default on a €14.5 billion bond repayment due on March 20. A default could trigger a crisis throughout the euro zone, with contagion spreading almost immediately to Portugal and Italy. Despite the injection of funds into the financial system by the European Central Bank, which calmed market turbulence in January, interest rates on Portuguese bonds have remained at or near record levels.

The deepening Greek crisis has been accompanied by warnings from European officials of the disastrous consequences of a default. Such statements are partly aimed at placing the maximum possible pressure on the parties in the Greek government. They are also a reflection of the fear that the financial crisis could rapidly spiral out of control.

The head of the euro zone group of finance ministers, Jean-Claude Juncker, told *Der Spiegel* that the possibility of bankruptcy should encourage Athens to “get muscles” when it came to implementing the austerity measures.

In addition to the crisis over long-term measures, the issue of how much of a “haircut” bondholders should take on their investments as part of Greece’s debt restructuring has yet to be settled.

Deutsche Bank Chief Executive Josef Ackerman warned at the weekend that failure to agree on a voluntary debt rescheduling for Greece would open “a new Pandora’s box” in the euro zone crisis. “We are in a make or break situation,” he said.

A default by Greece would not only reverberate throughout Europe, but could have a major impact on American banks and financial institutions which, while not heavily involved in direct loans, face large payouts on credit default swaps if bankruptcy is declared.

The depth of the austerity measures being demanded is a warning to the working class of social devastation that will be imposed by the financial aristocracy in Europe and internationally.