The Greek agony

Peter Schwarz
10 March 2012

In his novel *1984*, George Orwell coined the term "Newspeak" for an ideologically charged language that stands reality on its head. The word "haircut" as applied to the write-down of Greek government debt should be added to the vocabulary of Newspeak.

What is publicly presented as the financial markets' "sacrifice," a "waiver" by private creditors, giving up over half of the value of their Greek bonds, is in fact a financial gift to the banks.

The debt swap agreed Thursday night by nearly 86 percent of the creditors will not prevent the bankruptcy of the Greek state. It merely postpones it by shifting the cost of such a bankruptcy from the private to the public sector, on which about three-quarters of the Greek debt will fall.

Indeed, the International Swaps & Derivatives Association ruled Friday that because some private bondholders were forced into the debt swap, the restructuring constituted a "credit event," triggering payouts of $3 billion in credit default swaps on Greek bonds. This underscores the fact that the deal has not resolved the European and global financial crisis, but set the stage for its intensification, beginning with a new speculative assault on the debt of Portugal, Spain, Italy and even France.

The haircut reduces Greek government debt to private creditors by a maximum of €107 billion. At the same time, the Greek debt to public creditors rises by €130 billion. This is the size of the second Greek financial package from the European Union and the International Monetary Fund. Although it is often called a "rescue fund," it is not a cash gift, but new loans that Greece must repay with interest.

This €130 billion package will not benefit the Greek budget, and certainly not the Greek population. Rather, it goes directly into the coffers of private financial institutions. Thirty-five billion euros are earmarked as a "sweetener" to induce international creditors to accept the haircut, €23 billion goes to rescue Greek private banks, and €35 billion is allocated in guarantees to the European Central Bank so that it can continue to provide Greek banks with liquidity. The remaining money will be used to repay outstanding loans and interest.

The haircut does not reduce Greece's debt, but increases it. The targeted reduction of total debt to 120 percent of Greece's gross domestic product (GDP) by 2020 is to be carried out purely through austerity measures, which will set back the living standards of broad sections of the population by decades.

For private investors, on the other hand, the haircut is a good deal. In return for their Greek bonds, which were last traded at only 30 to 40 percent of their nominal value, they will receive new bonds worth roughly 50 percent, backed by international guarantees covering their redemption and repayment.

Among experts, the real meaning of the haircut is no secret. In the *Financial Times* on Thursday, US economist Nouriel Roubini called it a "myth" that "private creditors have accepted significant losses in the restructuring of Greece's debt, while the official sector gets off scot free."

Roubini concluded, "The reality is that most of the gains in good times were privatised while most of the losses have been socialized."

The editorial in *Financial Times Deutschland* on

Friday reaches a similar conclusion. It writes: “Those who believe that the participation of private creditors means the burdens of the Greek rescue have somehow been distributed more fairly are mistaken. It is not the private investors who are paying for the major part of the Greek rescue package; that has fallen to the public sector, the tax payers in Europe. The private investors are—in comparison to a bankruptcy of Greece—still well served by this deal.”

Many economists now regard the eventual bankruptcy of Greece as only a matter of time. But by then, the major international financial investors, including Greek millionaires, will have safely stashed away their money elsewhere.

The Greek people, who are already suffering most from the cuts, will be the first to pay for the consequences of bankruptcy. Next, the financial losses will fall on the budgets of those states guaranteeing the EU loans to Greece. These governments will take the situation as an opportunity for further cost-cutting and austerity measures, so as to meet the strict requirements of the Fiscal Pact, adopted by the EU summit in Brussels last week.

The Greek debt “haircut” is part of an international offensive against the working class whose aim is a massive redistribution of income and wealth from the bottom to the top.

Ever since the hedge funds and banks drove the world economy to the brink of collapse in 2008 through their irresponsible speculation they have used the crisis to destroy the social gains achieved by the working class over the previous century. First they bailed themselves out with hundreds of billions of euros from the public purse, then they forced the heavily indebted countries to claw back this money from the general population through austerity measures.

Greece is meant to serve as an example. The European Union and the governments that set the tone in Brussels are pushing for more cost-cutting measures, although this will bring ruin and force people into abject poverty. They are pursuing the same course in Portugal, Spain, Italy, Ireland and other countries with fiscal problems. Even in Germany, the economically strongest country in the EU, a huge low-wage sector has been created and mass layoffs are accumulating.

While the standard of living decreases in the general population, share prices once again reach record levels. Financial executives are pocketing massive sums. The forty best-paid American hedge fund managers last year took in over $13 billion.

The working class of Europe must confront this offensive as a united force and defend all of its rights and past achievements. Workers must not allow themselves to be pitted against each other—German against Greek, French against Spanish. They must break with the establishment parties and trade unions, all of which defend the European Union and the national governments and support their austerity programmes.

Even the most elementary democratic and social rights can be defended only on the basis of a socialist programme that is directed against the dictates of finance capital. The bourgeois governments must be replaced by workers’ governments to radically reorganize economic life so as to meet the needs of society rather than the profit interests of the financial aristocracy. The European Union must be replaced by the United Socialist States of Europe.

Peter Schwarz