European Union intensifies pressure on Greece for social cuts

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On Monday, Greek Foreign Minister Dimitris Avramopoulos met for talks with his German counterpart, Guido Westerwelle. Avramopoulos will be followed on Friday this week by Greek Prime Minister Antonis Samaras, who travels to Germany for discussions with German Chancellor Angela Merkel.

These meetings aim to put pressure on Greece to commit to further social cuts while ruthlessly implementing those already agreed upon. In line with the credit agreement drawn up between Greece, the European Union (EU) and International Monetary Fund (IMF) earlier this year, Athens must slash at least 11.5 billion euros from its budget over the next two years.

After meeting with Avramopoulos, Westerwelle made clear that Berlin would oppose any "substantial watering down of the agreements" and would make minimal concessions or none at all. Greece's future lies in the hands of the so-called troika—IMF, the EU Commission and the European Central Bank (ECB)—which are due to publish a report on Athens' compliance with promises to implement drastic austerity.

The report is likely to be published in time for a euro zone finance ministers meeting scheduled for September 14 in Nicosia. This meeting will decide whether to award the next tranche of promised loans totalling 31.5 billion euros. Without this instalment, originally planned for June this year, Greece would be bankrupt within weeks and probably be forced to leave the euro zone.

The date was chosen to follow a sitting of the German Constitutional Court two days earlier, which will rule on the legality of the European Stability Mechanism (ESM). The establishment of the ESM to ensure fresh loans to ailing economies is regarded as necessary to preventing financial turmoil following a possible Greek exit from the euro zone.

In the run-up to the euro meeting, leading European politicians are discussing the prospect of Greek bankruptcy, with leading right-wingers proclaiming such a step to be absolutely necessary. Bavarian Finance Minister Markus Söder (Christian Social Union, CSU) declared that Athens "should be made an example of, to show that the euro zone can also bare its teeth". Such comments also pressure countries like Spain and Italy to make further social cuts.

For the first time, the president of the Federation of German Industry (BDI), Hans-Peter Keitel, has also expressed support for a Greek exit. In a *Business Week* interview, he stressed that in the event of non-compliance with credit agreements, there was "no longer a place for Greece in the euro zone". Such an exit no longer constituted a threat to the German economy, he continued. This is a significant shift in the position of the BDI, which previously declared its wish to keep Greece in the monetary union to protect German export markets.

Keitel has been supported by the parliamentary group of the conservative governing parties. "We want the full implementation of the agreements", Michael Fuchs (Christian Democratic Union, CDU) said in Berlin on Friday. If the troika concludes that the implementation is faulty, Athens should be denied any further aid, he argued, saying, "Then there will be no payment and everything else is in Greek hands."

Finnish Foreign Minister Erkki Tuomioja also recently stated that his country was not only preparing for a Greek exit, but also for the collapse of the euro. "This is something that everyone checks, but that cannot and should not be publicly discussed," he told the BBC. His Austrian counterpart, Michael Spindelegger, is also looking for opportunities to “throw” countries like Greece out of the EU.

ECB executive board member Jörg Asmussen, who until now had said he preferred that Greece remain in the euro zone, told the *Frankfurter Rundschau* that Greece’s fate ultimately lies in its government’s hands. A Greek withdrawal would be “manageable”, he said. His simultaneous announcement of the readiness of the ECB to buy large amounts of government bonds of indebted euro zone countries in order to lower their interest payments apparently aims to limit the impact of a Greek exit from the euro on countries like Spain and Italy.

European governments and EU institutions are preparing for a Greek default and exit strategy. In the first place, however, the threat of driving Greece into bankruptcy is being used to pressure the Samaras government to carry out further austerity measures, as Greece is squeezed like a lemon before being discarded. Greek workers are being impoverished to ensure that Greek and European banks receive their loans, plus exorbitant interest.

Just last Monday Athens paid 3.2 billion euros to the ECB for outstanding government bonds. The ECB had bought the bonds on the open market at 70 percent of nominal value, according to the *Süddeutsche Zeitung*. Now Greece must repay not just 100 percent of the value, but also all accrued interest. It is estimated that the ECB holds Greek government bonds totalling over 50 billion euros.

At the same time, Greek social cuts are hitting hard. In the first seven months of 2012, Athens slashed the budget deficit, excluding debt servicing, to 3.07 billion euros. This is considerably less than the target of 4.53 billion set by the loan agreement with the troika. Nevertheless, Greece’s debt levels continue to rise due to growing interest charges. In March and June alone, Greek government debt increased by 23.2 billion to over 300 billion euros.

Due to rising interest payments and falling tax revenues as austerity measures plunge Greece into depression, Athens must slash its budget by at least another 11.5 billion euros in the next two years to meet the original agreement with the troika. According to *Der Spiegel*, the troika now assumes that this sum is as much as 14 billion euros. Every cent accrued from the cuts goes directly to the Greek and European banks.

Samaras originally planned to ask Merkel and French President Hollande to extend the time period for the implementation of budget cuts by two to four years. After a wave of threats, he has abandoned this proposal. Instead, his cabinet is working to develop more austerity measures.

According to Greek daily *Kathimerini*, the cabinet plans further cuts of 2 billion in addition to the previously announced total of 11.5 billion euros. One third of this sum is to be saved in pensions and wages, and cuts will also be imposed on the already-devastated health and education sectors.

These measures both increase misery and deepen the recession. Since the austerity measures began to be introduced three years ago, Greece’s economy has shrunk by 20 percent. Far from preventing a Greek bankruptcy, the cuts make it more likely.

Bankruptcy and expulsion from the euro zone are not empty threats. Whether this actually happens in September has not yet been decided. Representatives of the Italian, Spanish and French governments fear that a Greek exit from the euro zone could have incalculable consequences for the interest rates of their own government bonds. In addition, many European banks, especially the ECB, continue to hold large amounts of Greek government bonds which they would have to write down in bankruptcy.

These economic debates reflect the political bankruptcy of European capitalism, whether it keeps the euro based on savage attacks on the working class, or forces Greece into bankruptcy and compels it to restore its national currency, the drachma. With Greece deeply indebted and bled dry, a default and return to the drachma would lead to the Greek currency’s collapse on global financial markets, hyperinflation and the pulverisation of wages, pensions and social benefits.