Greek collapse, global turbulence loom as Syriza imposes capital controls

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The Syriza government imposed capital controls Sunday and announced the closure of Greek banks after the European Central Bank (ECB) said it would freeze the emergency loans it had been making to keep the country's banks afloat.

The ECB's decision, backing the refusal of the European Union (EU), led by Germany, to soften its demands for even harsher attacks on Greek workers and pensioners than those proposed by Syriza, led Athens to take the emergency measures. A run on Greek banks by depositors mushroomed over the weekend after talks to avert a Greek default broke up and Syriza leader and Greek Prime Minister Alexis Tsipras announced a referendum for July 5 on the EU's package of austerity measures.

The referendum, far from an exercise in democracy, is a cynical attempt to shift the onus for the catastrophe engulfing the Greek working class from Syriza to the population itself, and provide a fig leaf for Syriza's capitulation to the drive by the international banks to reduce the working class to destitution.

The likelihood that Greece will default Tuesday on a €1.6 billion loan payment to the International Monetary Fund (IMF), and that the so-called "troika"—the EU, IMF and ECB—will end its bailout program the same day, has intensified fears of a chain reaction sell-off on global stock and bond markets, a downward spiral for the euro currency and renewed speculation against the sovereign debt of other highly indebted euro group countries such as Spain, Portugal and Italy.

US President Barack Obama called German Chancellor Angela Merkel on Sunday to urge an agreement that would keep Greece in the euro zone. US Treasury Secretary Jack Lew on Saturday called IMF Managing Director Christine Lagarde and the finance ministers of Germany and France with the same message. Lew called for a "sustainable solution" that would include potential debt relief for Greece.

William Dudley, president of the Federal Reserve Bank of New York, called the Greek crisis a "huge wild card." He warned that a Greek exit would establish a "huge precedent" that euro membership was reversible.

Tsipras made his Sunday announcement that Greece's banks would be closed Monday in a brief address on national television. The stock markets will also be closed, financial sources said.

Speculation is rife that the banks could stay closed until next Sunday's referendum, or even longer. The *Financial Times* reported: "Officials said the bank closure would last for several days and would be accompanied by limits yet to be announced on bank transfers abroad and withdrawals from cash machines." There were reports that ATM withdrawals will be limited to €60.

Following the ECB's announcement that it was freezing its emergency loan program to Greece's banks, the Bank of Greece was forced to deny rumours that its governor, Yannis Stournaras, threatened to resign if capital controls were not imposed.

In the early hours of Sunday, Greece's parliament voted to support the government's call for a referendum. To obtain a "yes" vote, Syriza had to pass a 151-seat threshold in the 300 strong parliament. In a roll call ballot after 14 hours of debate, the proposal passed by 178 votes for to 120 against. Two deputies were absent.

Syriza won with the support of the Independent Greeks (Anel), its right-wing coalition partner, giving a total of 161 votes. In addition, the deputies of the fascist Golden Dawn voted in favour of the government.

Voting against the referendum were the conservative New Democracy and the social democratic PASOK, which, after having imposed a succession of austerity programmes from 2010 until Syriza's election in January, were for the immediate acceptance of the new cuts being demanded. Their opposition to the referendum was supported by To Potami (the River), a pro-EU formation, as well as the Stalinist Communist Party of Greece (KKE).

Prior to the vote, Central Committee member Yiannis Gkiokas said the KKE opposed both the proposals "of the lenders and also the proposal of the government of 47 pages that has had details added to it during this whole period."

The talks in Brussels that collapsed Friday centred on Athens receiving €7.2 billion in remaining loans attached to its previous austerity programme. In addition to the €1.6 billion payment due Tuesday to the IMF, Athens must repay Treasury bills worth €2 billion on July 10 and on July 20 bonds worth €3.5 billion are due for repayment to euro zone countries.

There is an extraordinarily reckless character to the actions of the EU, ECB and IMF, which have deliberately collapsed the economy of an EU member state, with incalculable financial and political implications, in order to underscore their insistence that there is no alternative to austerity. In a phone conversation Saturday with Tsipras, Merkel reportedly said the referendum would be over whether Greece would have "the euro or the drachma."

Following the collapse of the talks, German Finance Minister Wolfgang Schäuble told reporters, "Greece will experience acute difficulties." The BBC noted that he then "shrugged his shoulders."

On Sunday, asked by Germany's ZDF television news whether there was a possibility of preventing Greece's default on Tuesday and its exit from the euro, Schäuble replied, "I don't think so. It was incredibly ambitious as it was… and that anything should happen now is really ruled out, but Tsipras knew that yesterday."

Lagarde told the BBC Saturday evening that "legally speaking, the referendum will relate to proposals and arrangements that are no longer valid." She added that if Greece did not make its payment on June 30, it "no longer has access to funding."

In an article on Sunday headlined "Markets' Greek debt crisis calm set to shatter," the *Financial Times* warned: "Escalation in the Greek debt crisis over the weekend is widely expected to trigger a sharp reaction when financial markets open on Monday, shattering the relative calm that has prevailed in recent weeks."

It added, "With the European Central Bank refusing to expand its emergency loans to Greek banks, and creditors rejecting a bailout extension for the country, investors will be urgently assessing whether the fallout will be limited to Greece—or become a global event."

In the hours leading up to the parliamentary vote on holding the referendum, tensions rose as people queued in their thousands to withdraw deposits from ATMs, with the *Guardian* noting that parliamentary deputies themselves were queuing up. Armed police patrolled the various ATMs.

Many people have already withdrawn their life savings and are storing the cash at home. Between Monday and Wednesday last week, some €2 billion was withdrawn (about 1.5 percent of total household and corporate deposits held by the banks as of end-April).

The last time capital controls were imposed in an EU country was in Cyprus, where bank withdrawals were limited to €300.

On Sunday, Greek Finance Minister Yanis Varoufakis released the text of his statement to a meeting of the Eurogroup finance ministers held on Saturday. This made clear the cynical calculations behind the referendum initiative.

Varoufakis said the scale of the austerity being demanded of Syriza was a step too far, threatening the imminent downfall of his government and an eruption of popular opposition. He said if the proposals were accepted and Syriza tried to get them "through Parliament tomorrow, we would be defeated in parliament with the result of a new election being called within a very long month—then, the delay, the uncertainty and the prospects of a successful resolution would be much, much diminished."

Varoufakis warned: "[E]ven if we managed to pass the institutions' proposal through parliament, we would be facing a major problem of ownership and implementation. Put simply, just as in the past the governments that pushed through policies dictated by the institutions could not carry the people with them, we too would fail to do so."

Translated, Tsipras and Varoufakis have posed a referendum as a gun to the head of the Greek working class. If the vote is in favour of accepting the terms of the institutions, then Syriza can claim to have been presented with a fait accompli. If the vote goes against, they will proceed with their own austerity measures in the hope that this will be acceptable to the EU, ECB and IMF.