Greece defaults on debt as Syriza offers alternative austerity package

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1 July 2015

Eurozone finance ministers rejected Tuesday yet another offer from the Syriza-led government in Greece to impose austerity measures in return for a new €30 billion bailout from the European Union (EU).

Without any additional funding, Greece missed repaying the latest tranche of its loan from the International Monetary Fund (IMF).

The latest maneuver by Greek Prime Minister Alexis Tsipras came after a morning dominated by rumors that his government was discussing abandoning all opposition and fully adopting the demands of the EU, the European Central Bank (ECB) and the International Monetary Fund (IMF) (the "troika") that it had earlier rejected.

The Greek daily *Kathimerini* claimed that Tsipras was ready to fly to Brussels to discuss a new offer from EU President Jean-Claude Juncker. He reportedly had phoned Juncker, ECB head Mario Draghi and European Parliament President Martin Schultz, while Syriza MPs were ringing his office urging acceptance of any deal offered.

Juncker had apparently held out the possibility of debt relief, but only if Tsipras campaigned for a "yes" vote in the upcoming referendum on the demands from the troika and agreed to terms first set out in a November 2012 agreement.

Shortly after, German Chancellor Angela Merkel said that she has not heard of any changes since the ultimatum delivered on Friday that had prompted Tsipras to announce a referendum for July 5.

Tsipras's offer shows that his call for a referendum on EU austerity over the weekend, like his call Tuesday for a "no" vote in the referendum, is a cynical political maneuver. Tsipras has already said that, even if the "no" vote won, he would use it to continue negotiating with the EU. Yesterday, less than 24 hours after supposedly throwing down the gauntlet, he was taking out his beggar's cap and seeking to negotiate EU loans in exchange for austerity policies opposed by the Greek people.

Since coming to office earlier this year on the basis of popular hostility to the austerity demands of the European banks, Syriza has sought repeatedly to reach an agreement that preserves the framework of the bailouts. This strategy, which reflects the interests of sections of the Greek bourgeoisie and petty-bourgeoisie, is continued in the call for a referendum.

"From the first moment, we made clear that the decision to hold a referendum is not the end but the continuation of negotiations for better terms for the Greek people," the Syriza government said in a statement. "The Greek government will until the end seek a viable agreement within the euro."

The proposals for a new bailout, made in a letter from Tsipras, were yet another effort by Syriza to outline an austerity program savage enough to be agreeable to Greece's creditors, but containing a measure of debt relief to ensure the long-term viability of Greek capitalism.

It involves borrowing an additional €30 billion, covering a two-year period, from the Eurozone's €500 billion European Stability Mechanism, bypassing the IMF, and allowing for some debt relief. Though unspecified, the proposal would mean accepting the vast bulk of austerity measures demanded by the EU. An EU source told Reuters that the Greek proposals were "closer" to what was being demanded of them.

Malta's Prime Minister Joseph Muscat later reported that Greece was willing to suspend Sunday's planned referendum if an agreement was reached, or to "ask the people to vote 'yes' instead of 'no'."

Tsipras asked for a brief extension of the current rescue program, which expired at the end of the day, to cover the period up to and slightly beyond the referendum—under conditions where ECB figures were suggesting bank insolvency may come within a matter of days.

The *Financial Times* noted that Eurozone officials some months ago had suggested allowing the current bailout to expire so that the Greek government could negotiate a new program, including the possibility of debt relief.

"But while such a plan was discussed, it was decided that Athens was running out of cash too quickly to begin a series of negotiations over a new program—talks that usually take weeks, if not months, to conclude… Officials are increasingly worried Greek banks could collapse in the coming weeks, and a new program would need to be in place before July 20, when a €3.5 billion bond is due to the European Central Bank," it wrote.

Tsipras in effect offered the EU a means of short-circuiting this process.

European governments have responded to each of Syriza's appeals by intensifying demands for a deeper assault on the working class. They are well aware that Syriza is committed to the defense of capitalism and is opposed to any effort to mobilize the working class against the austerity demands. They also want to make Greece a model for similar measures throughout Europe.

On Tuesday, Merkel told German MPs that there would be no renewed discussions with Greece until after the referendum. "The programme runs out this evening, precisely at midnight. And I have no other reliable information [on anything else]," she said.

Jeroen Dijsselbloem, the president of the Eurogroup, announced a teleconference of finance ministers to discuss the Greek proposal that evening, while Tsipras, Varoufakis and the Greek negotiating team assembled in Athens.

After just one hour, the finance ministers rejected Tsipras's appeal for the extension of the existing funding for Greece's banks from the ECB.

Some ministers suggested that debt restructuring was also impossible. However, a Greek government source said that talks would resume today "to allow finance ministers to examine the proposals of the Greek government."

A report drawn up by the troika that was leaked yesterday to Britain's *Guardian* concluded that Greece would face "an unsustainable level of debt by 2030 even if it signs up to the full package of tax and spending reforms demanded of it."

Even in rosy scenarios projecting 15 years of supposedly "sustained strong growth," the IMF's baseline estimate was that Greece's debt would still be 118 percent of GDP in 2030. These scenarios were all predicated on a third bailout program of €35 billion—€5 billion more than requested by Tsipras.

Concern that EU policies are financially unviable has already prompted an intervention by the United States. US Treasury Secretary Jack Lew urged Tsipras, IMF head Christine Lagarde, Schauble and France's Emmanuel Macron to find "a sustainable" solution in order to safeguard the global economy. Similar concerns have been expressed by US President Barack Obama in discussions with Merkel.

Gary Hufbauer of the Peterson Institute for International Economics told *Voice of America*, "The US is concerned that the chaos in Greece could be infectious and will lead to doubts about Portugal and Spain and Italy and cause trouble, and will cause disunity in Europe's resolve with respect to Russia over the Ukraine situation."

In addition, the *Financial Times* noted on June 23 that Greece's debt burden of at least 175 percent of GDP "does not make Greece the riskiest borrower for bond investors." It cited Ukraine as the most dangerous investment, then included both in a list of 11 countries "currently at serious risk of defaulting according to global credit rating agency Moody's." These included Venezuela, Ecuador, Argentina, Grenada and Puerto Rico.