The Greek Debt Crisis:

Causes, Management and Possible Solutions

Dr David Rees

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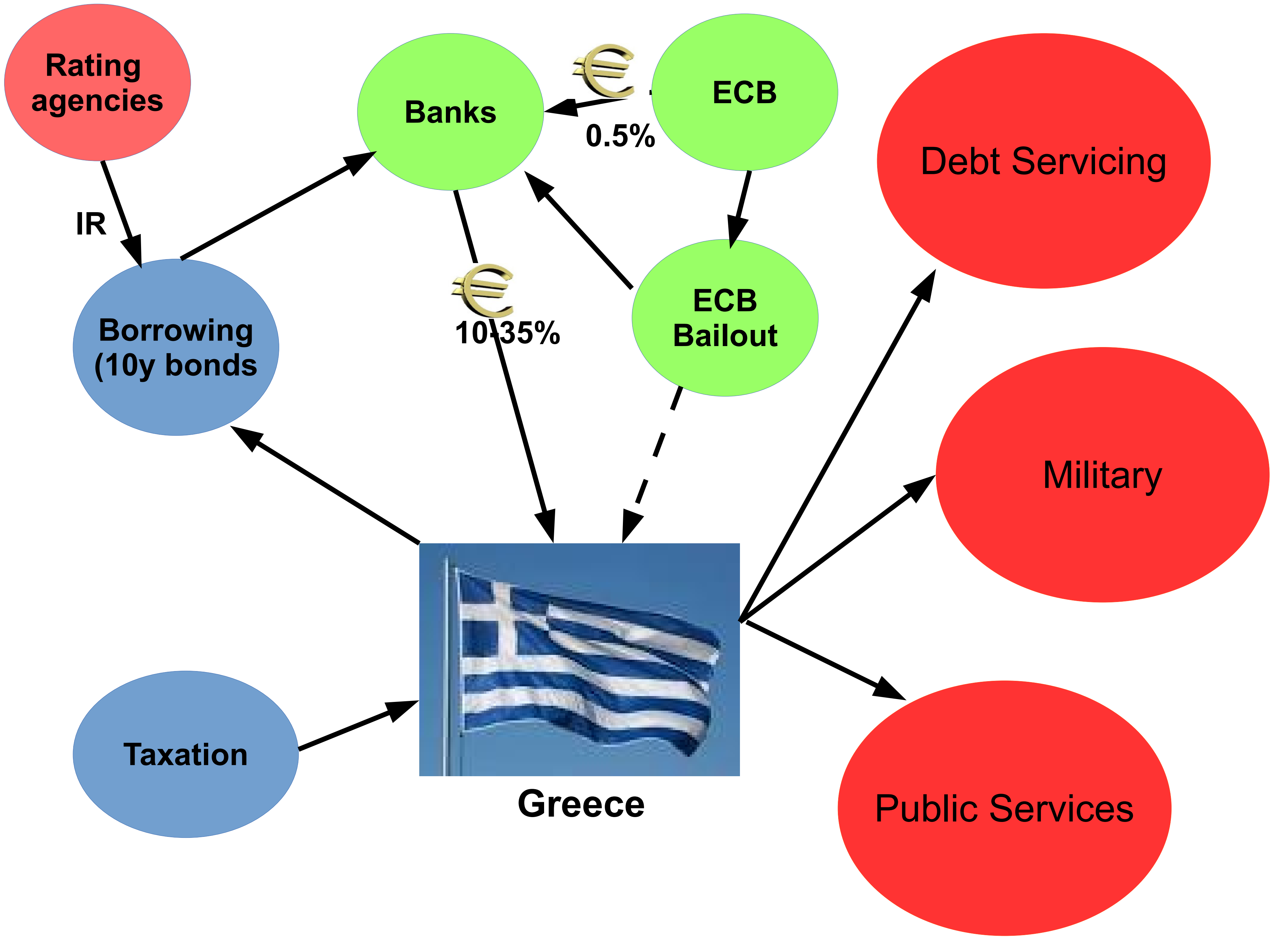
- The causes and history of Greek debt
- Key Greek indicators
- The European Commission's (failed) strategy
- 2015 Quantitative Easing for the EU
- New Greek Parliament
- Possible solutions



Rating agencies
IR
Banks
0.5%
ECB
ECB Bailout
10-35%
Borrowing (10y bonds
Debt Servicing
Military
Taxation
Greece
Public Services

History to understand the present : The Truman Doctrine

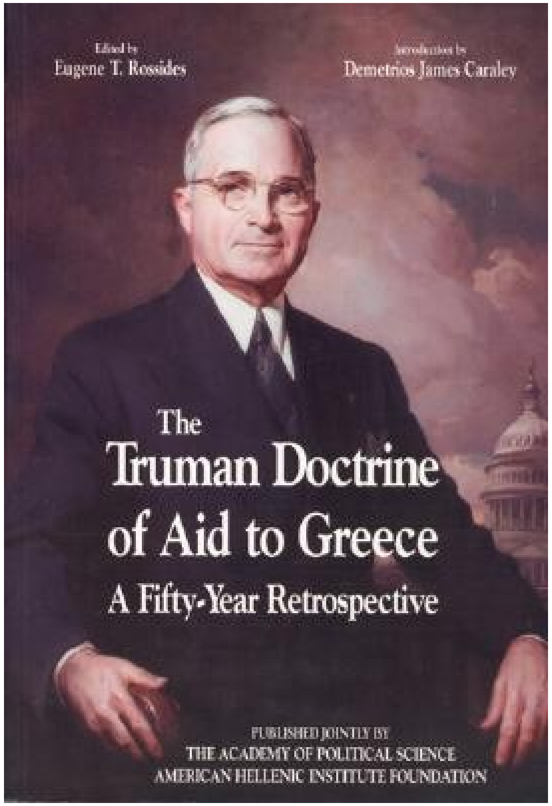
President Harry S. Truman (president 1945-1953) pledged to :
- ***contain communism***
- ***provide anti-communist US military and economic support to any nation***

The Truman Doctrine "set a precedent for American assistance to anticommunist regimes throughout the world, no matter how undemocratic, and for the creation of a set of global military alliances directed against the Soviet Union" (Foner)
The CIA supported the Colonels overthrow of the Greek government in 1967.
Colonel Papadopoulos was a CIA agent. Greek debt quadrupled with loans from the IMF and World Bank to help the colonels maintain control.

Explanation (DR) of IMF restructuring and debt control.

See CIA and overthrowing governments (26m) (Stephen Kinzer,

Recommended reading:
Overthrow – America's century of regime change
The Truman Doctrine of Aid to Greece



Greece

USA Truman Doctrine

CIA help overthrow
government 1967

Regime of the Colonels
1967 1974

Over 10bn$ loans
Quadruples Greek debt

Ends (1974) with
Turkish invasion of Cyprus

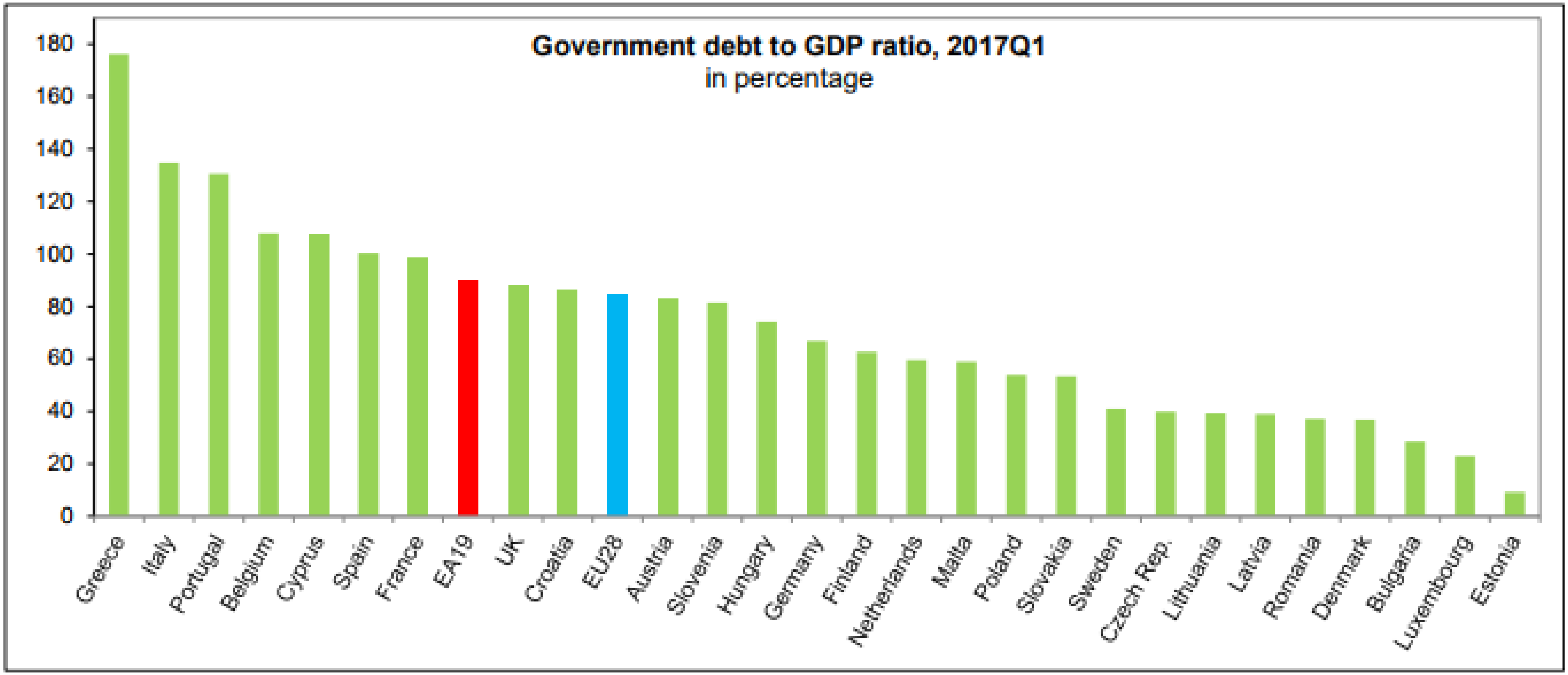
Fails 1999 EMU
membership

2001 joins Euro

Within EMU, Greece cannot devalue. After 2008 Sub-primes crisis, Greece borrows to save its banks and Greek bond Interest Rates increase (next slide) and hence deficit and debt grow due to Debt Servicing

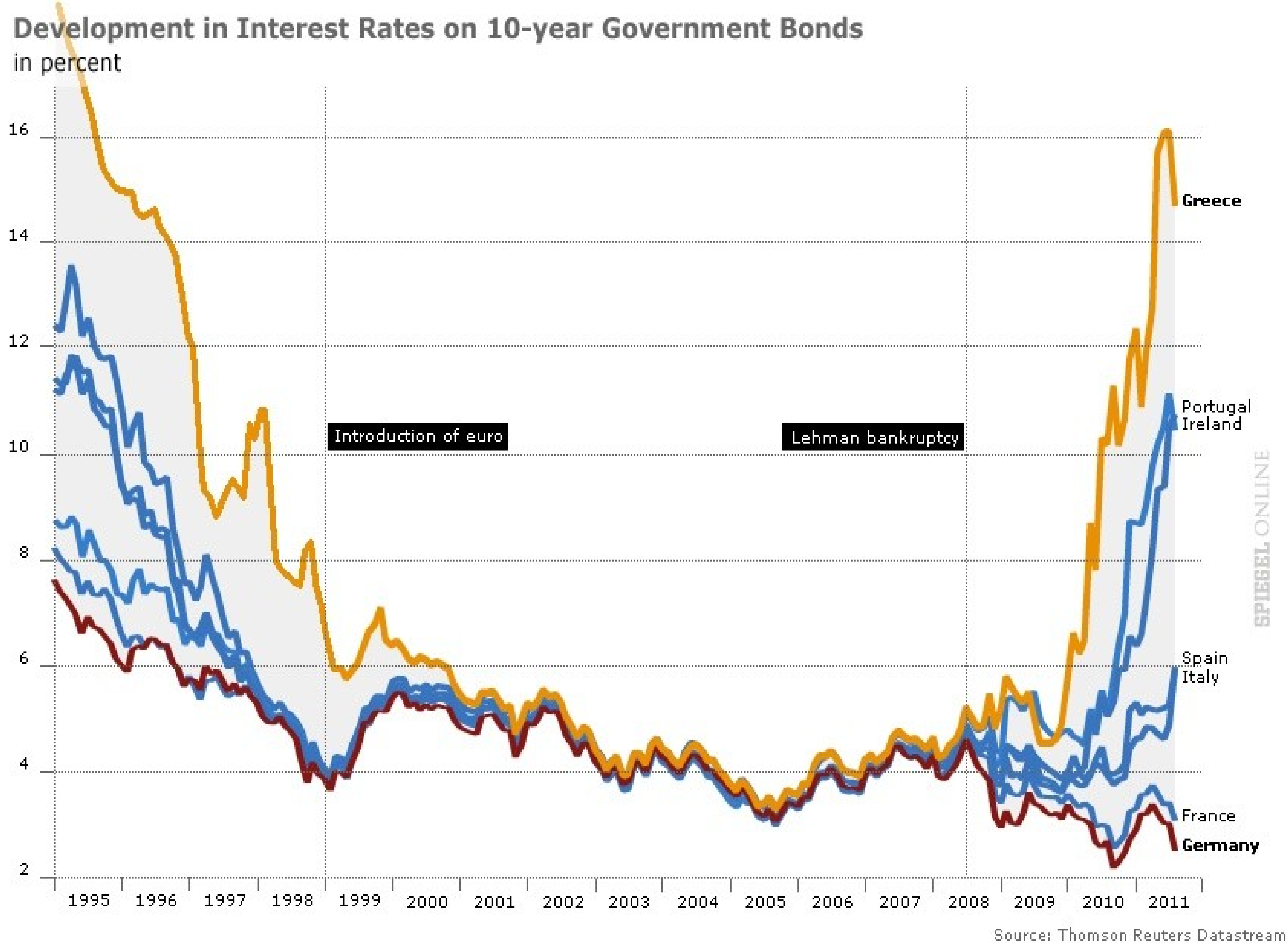
Euro-area government gross debt
As % of GDP
2011 forecast
Over 125
100-125
75-100
50-75
25-50
0-25
Other European Union members
Source: European Commission
FINLAND
NORWAY
SWEDEN
ESTONIA
LATVIA
LITHUANIA
DENMARK
IRELAND
UNITED KINGDOM
NETH.
POLAND
GERMANY
BELG.
LUX.
CZECH REP.
SLOVAKIA
FRANCE
SWITZ.
AUSTRIA
HUNGARY
SLOVENIA
ROMANIA
CROATIA
BOSNIA
SERBIA
BULGARIA
ITALY
SPAIN
PORTUGAL
MAC.
ALBANIA
GREECE
CYPRUS
MALTA

Euro area debt by 2017



Ireland: GDP not available for Q1 2017


Interactive Chart
OVERLAY
INDICATORS
ANNOTATIONS
SETTINGS
1D
1W
1M
3M
6M
1Y
3Y
5Y
YTD
[?] Add a Comparison
Add
GGGB2YR:IND
Open
High
Low
Close
Print
40
30
20
10
until...
Greek debt enjoys historic lows
2007
MAY
SEP
2008
MAY
SEP
2009
MAY
SEP
2010
MAY
SEP
2011
MAY



Development in Interest Rates on 10-year Government Bonds
in percent
16
14
12
10
8
6
4
2
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
Introduction of euro
Lehman bankruptcy
Greece
Portugal
Ireland
Spain
Italy
France
Germany
SPIEGEL ONLINE
Source: Thomson Reuters Datastream

National Bond rates depend on rating agency scores

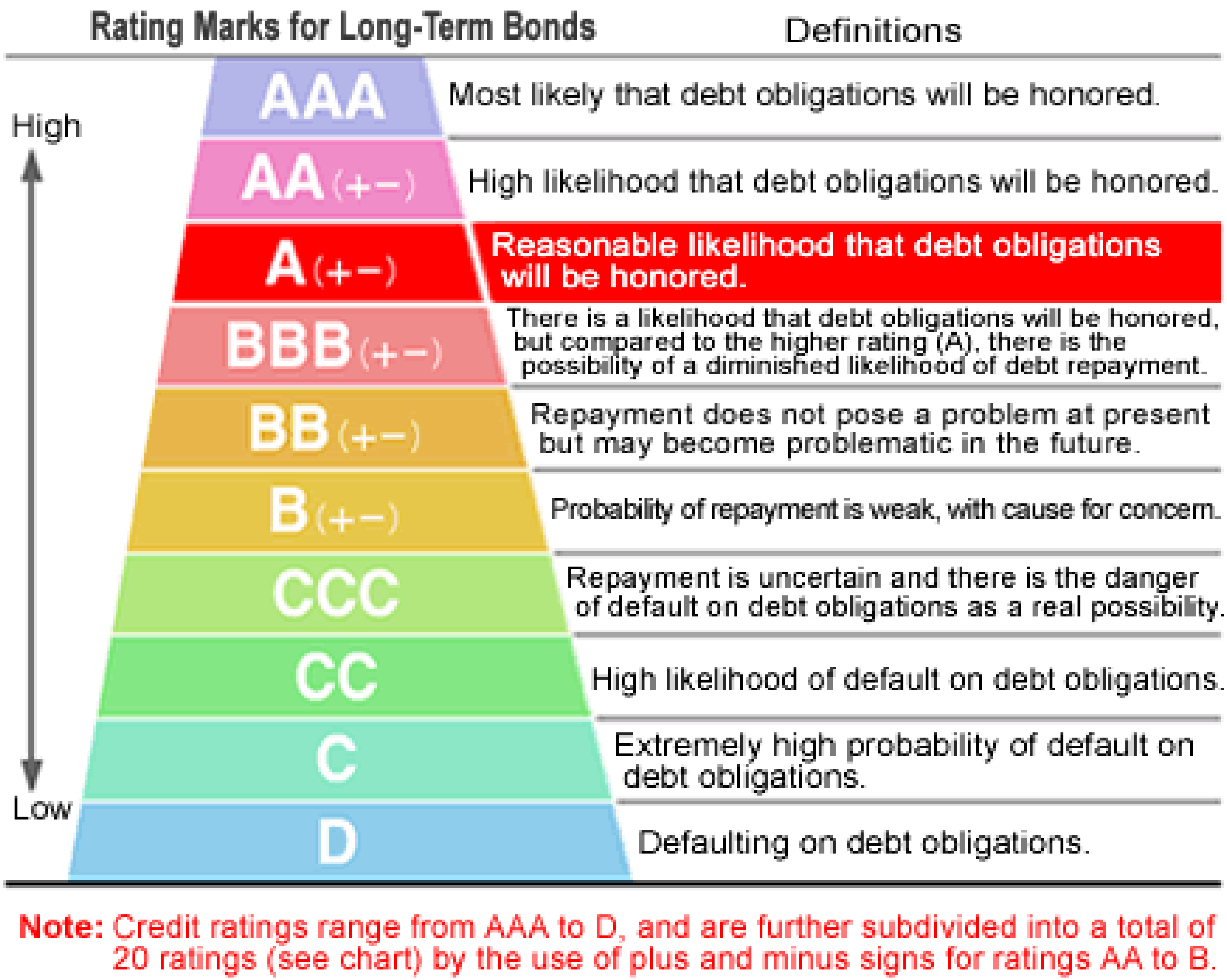
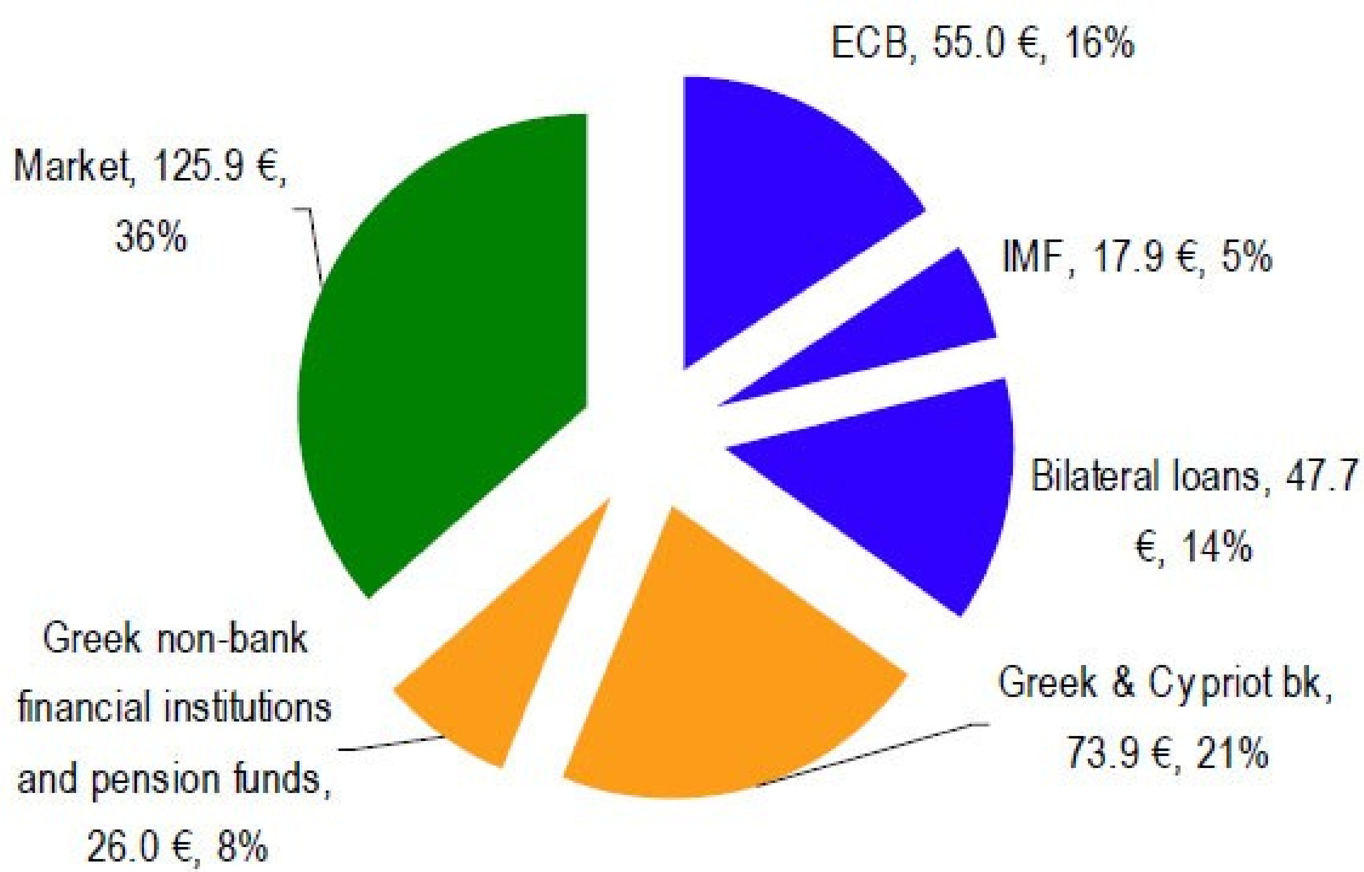


Chart 5: Who owns the Greek debt?

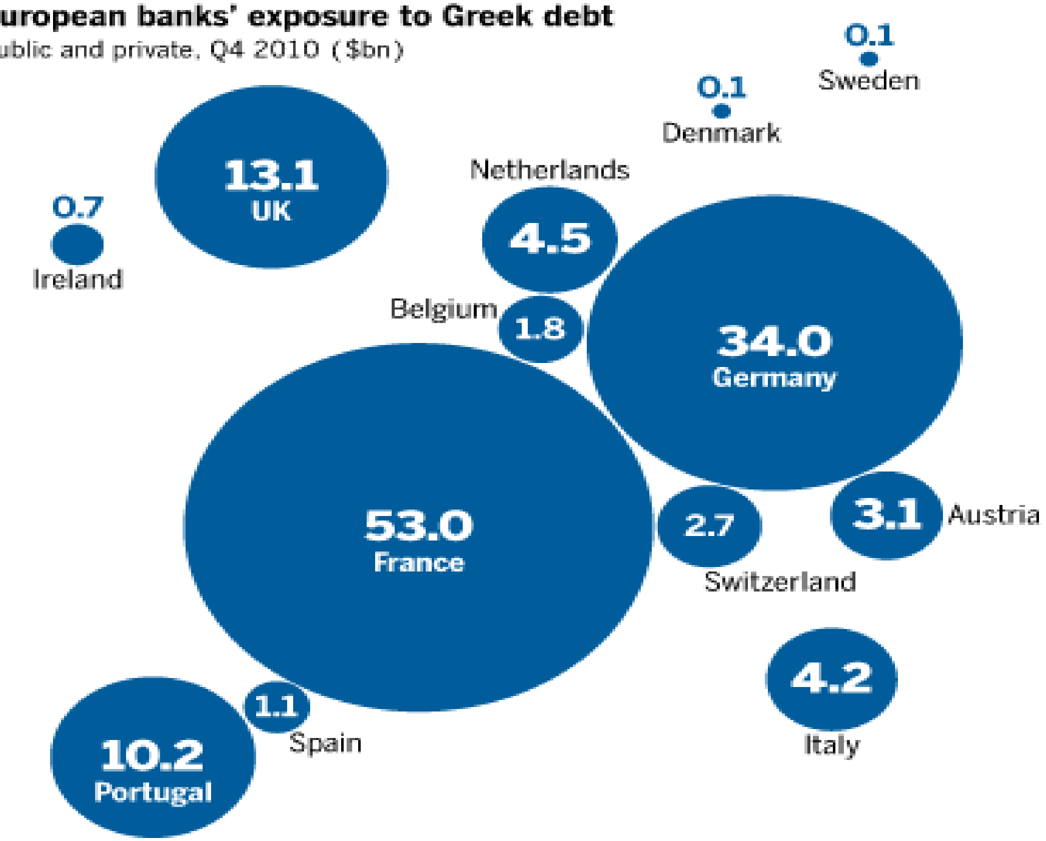


Source: Bloomberg, IMF, UBS

See
'The Eurozone profiteers' (Global Research, Corpwatch, 2013)

European banks' exposure to Greek debt

Public and private, Q4 2010 ($bn)



French banks under scrutiny

Crédit Agricole	Société Générale	BNP Paribas
Indirect net exposure to Greece (local subsidiary net customer loan book)*		
€21.1bn	€3.4bn	n.a.
Direct net exposure to Greek government bonds*		
€600m	€2.5bn	€5bn Dec 31 2010
Share price change, Jun 15 2011 (%)		
▼ 0.96	▼ 2.75	▼ 2.28

* Mar 31 2011

Sources: BIS; Moody's; Thomson Reuters Datastream

SOCIETE GENERALE

BNP PARIBAS

In 2009 three French banks faced losses twice the size of the French economy (source – Bank of International Settlements)
For every 30€ of exposure (lending) they had access to 1€.
If only 3% of loans went bad (106 billion €) then the banks would need a bailout.
These bank loans to Italian, Spanish and Portuguese governments came to 34% of France's total economy (627 billion €)
France would have to borrow six times its total tax revenue to save the banks.
German banks were exposed to 406 billion €

The leaders of France and Germany had a stake of around 1 trillion € in **not allowing Greece to tell the truth** (bankruptcy).
Jean-Claude Juncker "when it becomes serious, you have to lie"

Problem: ECB can't lend to countries. Problem 2: IMF can't lend to bankrupt countries. Solution: borrow money from European and worldwide (IMF) taxpayers to 'bail out Greece' (save the German and French banks)

Operation Offload

By March 2012 German exposure to Greek debt was reduced from 118 billion € to 795 million €. French banks had offloaded 63.9 billion €

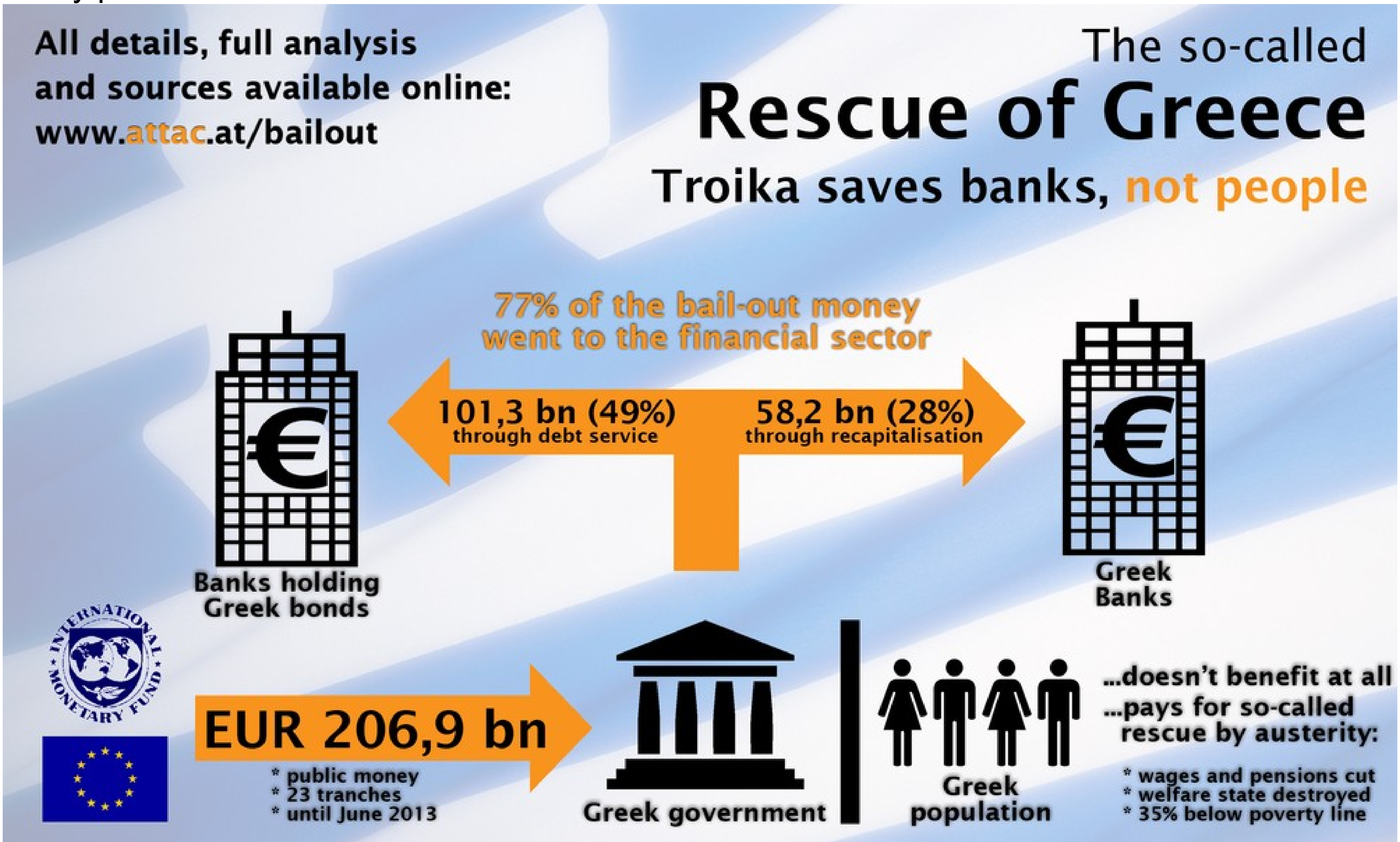
"Europe's banks were managed so atrociously in the years preceding 2008 that the inane bankers of Wall Street looked almost good by comparison. When the crisis hit, the banks of France, Germany, the Netherlands and the UK had exposure in excess of 30 trillion €, more than twice the US national income, eight times the national income of Britain, Germany, France and the Netherlands put together. (leverage of 1:40). A Greek bankruptcy in 2010 would have immediately necessitated a bank bailout by the German, French, Dutch and British governments amounting to approximately 10,000$ per child, woman and man living in those four countries." Varoufakis, 2017.

The purchase of bank debt by the ECB removed all possibility of Greece negotiating with its predatory creditors that had taken on the risk for high IR rewards. As usual – private profit, public loss.

For a critique on the IMF for implementing debt-control, see:

John Pilger – IMF and World Bank are weapons of war (22m video)
Africa Today – The impact of the IMF on Africa (26m video)
The Real News – IMF non-debt relief to Greece (10m video. 2016)
Cross Talk – IMF – Destroyer of Nations? (26m video. 2010)

Greek debt restructuring was inevitable via a 'haircut'
By the summer of 2011 it was decided: the haircut would mainly hit Greek pension funds, Greek semi-public institutions and Greek savers who had bought government bonds, while the loans provided by the IMF and European institutions in 2010 would remain inviolable and be fully paid!



ΤΑΜΕΙΟ
ΧΡΗΜΑΤΟΠΙΣΤΩΤΙΚΗΣ
ΣΤΑΘΕΡΟΤΗΤΑΣ
HELLENIC FINANCIAL STABILITY FUND

Greek bank bailout (50 billion €). The Greek parliament should hold 80% of their banks' equity.
Troika insisted that HFSF (Hellenic Financial Stability Fund) shares were non-voting and the board of directors were foreign directors appointed by the Troika!

Austerity – does it work?

- Austerity. The history of a dangerous idea. Blyth
- The Body Economic. Why austerity kills. Stuckler and Basu.
- Democracy and the Welfare State. The Two Wests in the age of Austerity
  . Kessler-Harris.
- Fear City. New York's Fiscal Crisis and the Rise of Austerity Poli tics
  . Philipps-Fein.
- Austerity. The Great Failure. Blyth.
- End this Depression Now. Krugman.

See **CritCom** for other references / books on why austerity doesn't work and is politically dangerous

Keynes would argue that an austerity plan is the opposite of what one should do in this situation. His solution would be to increase employment.

Austerity means

Lower wages (and less income tax revenue for the government)

Reduced spending (less VAT tax revenue for the government)

More unemployment (more costs for the government with unemployment benefit)

Lower profits (or higher bankruptcy) for commerce (less corporation tax revenue for the government) and more unemployment as workers are laid-off.

More expensive goods (linked to higher interest rates) for people who are at the same time getting poorer and poorer

More expensive services as public services are privatised (water, electricity...).

Increasing deficit (due to debt servicing at immoral rates of interest)

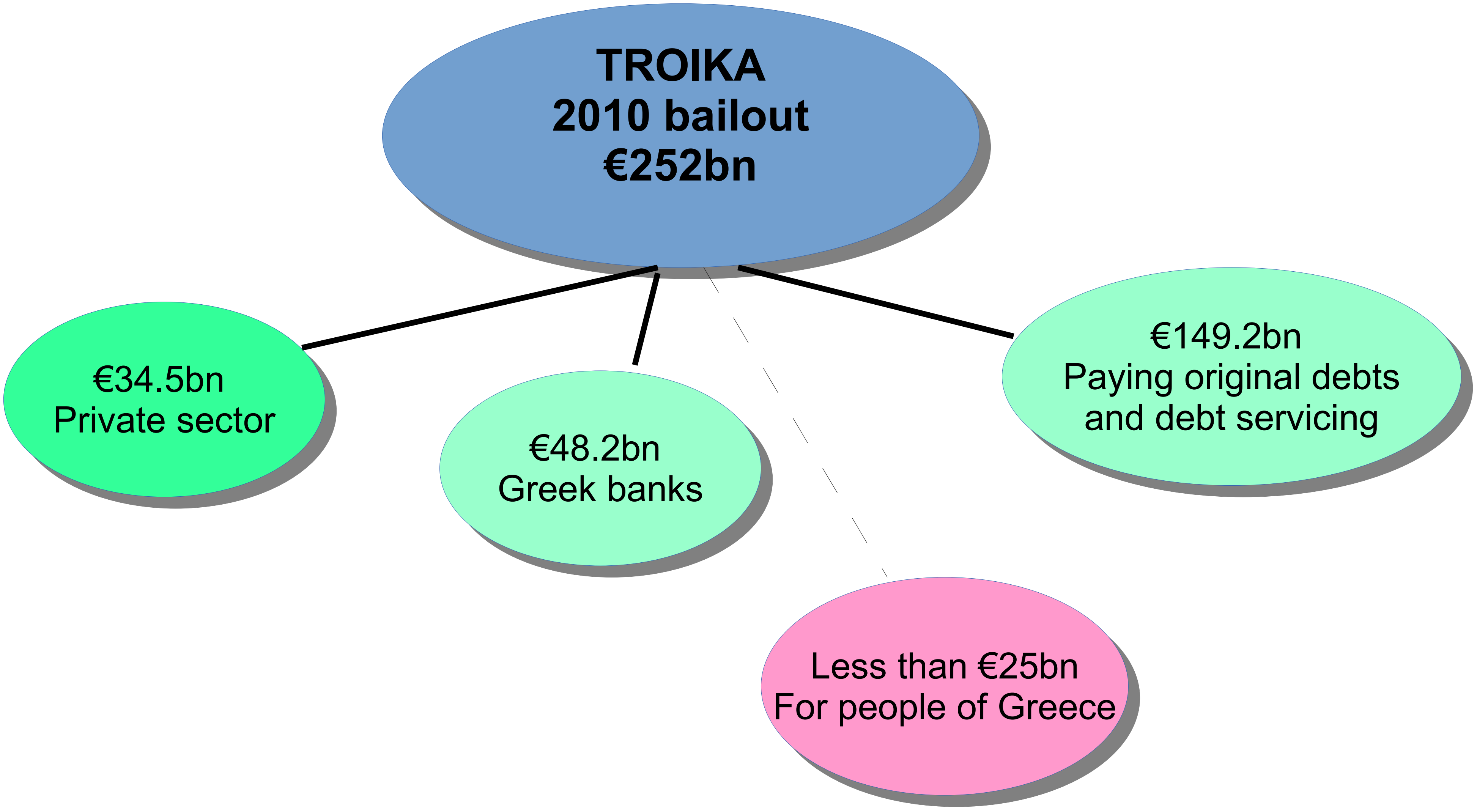
Increasing total debt (due to increasing deficit, lower tax income, higher expenditure)

The result is a negative spiral leading to structural bankruptcy.

Any moratorium on evicting families from their primary residence jarred terribly with the Troika. It had promised bankers the freedom to repossess and auction of all residences, large and small, primary of secondary. It demanded the liquidation of businesses and households in arrears. Varoufakis 2017.

Greek Privatisations

The Troika took over control of the tax office, the customs office, and the newly organised privatisation office.



After the bailout, Greece still owes €317bn. 78% for the Troika
The Troika has bought out private debt and made it public.

Greek government debt payments

	2010	2011	2012	2013	2014	Total
Principal	€19.3bn	€25.5bn	€12.7bn	€16bn	€23bn	
Interest	€13.2bn	€15bn	€9.7bn	€7.2bn	€7.6bn	
Total	€32.5bn	€40.5bn	€22.4bn	€23.2bn	€30.6bn	€149.2bn

Who the Greek debt is owed to, end-2014, after the public purchase of private debt in 2010

	Amount owed
IMF	€27bn
EU	€194.8bn
ECB	€26bn
Other	€69.2bn
Total	€317bn

The story – Part 1

Why did Greece (and other EU countries) get into debt ?
Not (in spite of German newspapers) because of a profligate way of living – although there are certainly some tax revenue problems, high military spending and a high degree of corruption.

The EU had reduced the Interest Rate – which stimulates consumer borrowing and house purchasing and building (which is the objective!). This, typically can cause over-indebtedness and a housing boom (Ireland, Spain, Greece, Portugal).

Following the 2008 crisis, banks find themselves in difficulty, holding toxic sub-prime-ralated credit. The national banks then borrow heavily to bail out the 'too-big-to-fail' banks. The resulting national borrowing increases the annual deficit and national debt. The countries issue bonds onto the market, but banks are short of liquidity to buy the bonds, pushing up the bond IR.

The rating agencies (that gave AAA to the toxic sub-primes!) jump in, lower the country's rating, resulting in higher IR to sell bonds, which leads to higher debt servicing, which leads to more borrowing to service debt, which leads to a lowering of the status given by the rating agencies, which leads to higher IR.... Got it ?

Banks borrow from the ECB at 0,5 % (now less) and lend to countries like Greece at immorally high IR knowing that the country cannot resolve the debt problem. But the French and German lending banks know that they can rely on the ECB to bail-out Greece. The money goes into the banks' pockets. It certainly doesn't go to resolving the financial crisis in Greece.

The story – Part 2

Step in **The Saviour** – the IMF. Go back in history and remember how the IMF operates – under a neoliberal framework – to privatise and hold countries in debt to become 'banana states' or 'puppet states' (Panama, Nicaragua, Chile, Argentina, Haiti, etc.)

This is the Troika: The European Commission, the European Central Bank and the IMF. (that only holds about 5% of Greek debt)

The objective – to save Greece? No. To **impose** classic IMF neo-liberal 'restructuring' on Greece. This is approved by the neo-liberal Germany (Angela Merkel) and is called an **'austerity plan'.**

Restructuring: We lend you the money – you reduce public sector spending (health, education, pensions and sell off public goods, companies and services to the private sector (German, French...) hence **privatising** public **services**.

History: the USA faced the same problem after the 1929 Wall Street Crash. There were two solutions – a Republican 'austerity plan' or a Democrat 'New Deal'. Roosvelt massively won the election in 1932 and 'saved' the USA with the very socialist **'New Deal'**.

The Janssen Report

IMF makes billions of profit on loans to Greece; how usury forces more debt on the people

Video on the IMF profits (5m video)

By 2016, Greece had paid over €3.5 billion in interest and fees to the IMF, averaging 37% of net total income. Ever since Greece entered debtors' prison, the IMF has had an average operating profit of 63%, much larger than that of Goldman Sachs or J. P. Morgan. And where have the IMF's profits come from? Europe's taxpayers.


GREECE AUSTERITY PLANS
Main measures and targets for Greece's austerity plan demanded by the European Union and the International Monetary Fund in return for bailout aid
Spending cuts
14.27
billion euros
Tax measures
14.08
billion euros
Total:
28.35
bln
Estimated savings/income generated in year (million euros)
2011
2012
2013
2014
2015
Tax Increases
2,020
3,680
156
685
Wage Cuts
770
600
448
306
71
Increased Social Contribution Receipts
629
259
714
1,140
504
Social Benefits
1,190
1,230
1,030
1,010
700
Fighting Tax Evasion
878
975
1,150
Healthcare
310
1,810
(2012-2015)
Cuts in Public Investment
950
Defence cuts
200
333
333
333
Other measures include savings in state-owned enterprises and cuts in subsidies to local governments
The government hopes to raise a total of 50 billion euros from privatisations by 2015
REUTERS


Greek austerity plan...
BEST OFFER
YARD SALE
DAVE GRANLUND©
www.davegranlund.com

New Government 2015

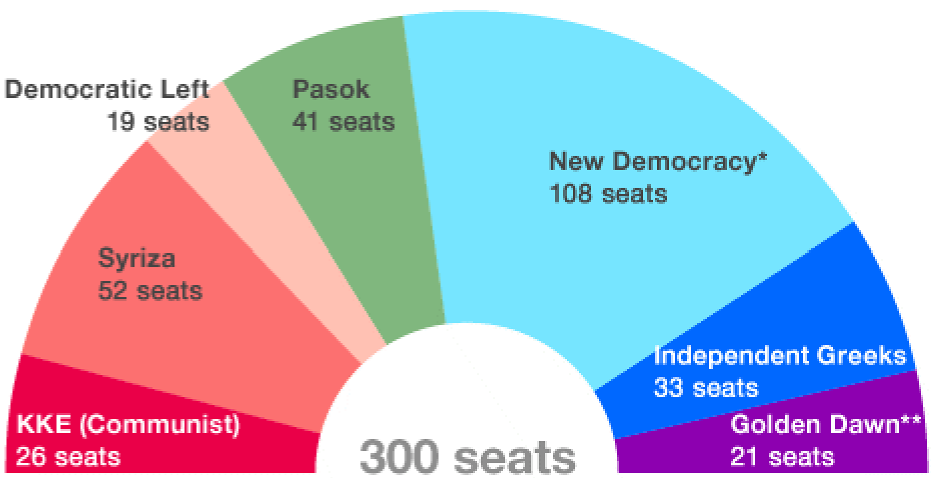
- 149 SYRIZA
- 76 New Democracy
- 17 Golden Dawn
- 17 To Potami
- 15 Communist Party (KKE)
- 13 Independent Greeks (ANEL)
- 13 PASOK

Alexis Tsipras

ΣΥΡΙΖΑ

Greek parliamentary election results

Parties ordered from political left to political right



**Ultra-nationalist party

*includes 50 extra seats for coming first

Source: Greek interior ministry

Previous government

Syriza (left-wing, anti-austerity party wins the Greek elections 36%)

What do they want?

- Stop austerity
- Renegotiate the debt (240bn€) (European Debt Conference)
- Increase the minimum wage
- Confront the humanitarian crisis (healthcare, unemployment...)
- Promote tax justice
- Restart the economy
- Create more employment
- Strengthen democracy
- Scrap tax on heating fuel
- Free medical care for those without jobs and with no medical cover
- Payment by Germany of war reparations (11bn€)
- Change property tax to luxury home tax

What do you think? How can he do it?

NB. The Domino effect – **in Spain**

What does international law have to say?

Pacta sunt servanda – contracts should be respected

BUT not when:

Odious debt ***- debt incurred under a despotic leadership***

Illegitimate debt ***– debt incurred without respecting the welfare of the citizens***

Which is most important?

CHAPTER IX: INTERNATIONAL ECONOMIC AND SOCIAL CO-OPERATION

Article 55
With a view to the creation of conditions of stability and well-being which are necessary for peaceful and friendly relations among nations based on respect for the principle of equal rights and self-determination of peoples, the United Nations shall promote:

higher standards of living, full employment, and conditions of economic and social progress and development; solutions of international economic, social, health, and related problems; and international cultural and educational cooperation; and universal respect for, and observance of, human rights and fundamental freedoms for all without distinction as to race, sex, language, or religion.

Concerning article 55 (which supercedes Pacta sunt servanda)

Since the start of the IMF (Troika) restructuring programme (including the Austerity programme), one Greek in two is unemployed, 30% of the population is living below the poverty line, 40% of the population spent the winter of 2014 without heating.

The Greek debt is clearly odious, illegal and illegitimate – but even so – how can Greece finance the state if no-one will lend it money? Other countries (Spain, Portugal, Germany...) fear that a successful outcome for Syriza would promote leftist/communist parties in other struggling countries – and that even though Greek debt cannot and should not be repayed, it's better to let Greece suffer than to support a government like Syriza.

Examples on sovereign debt default.

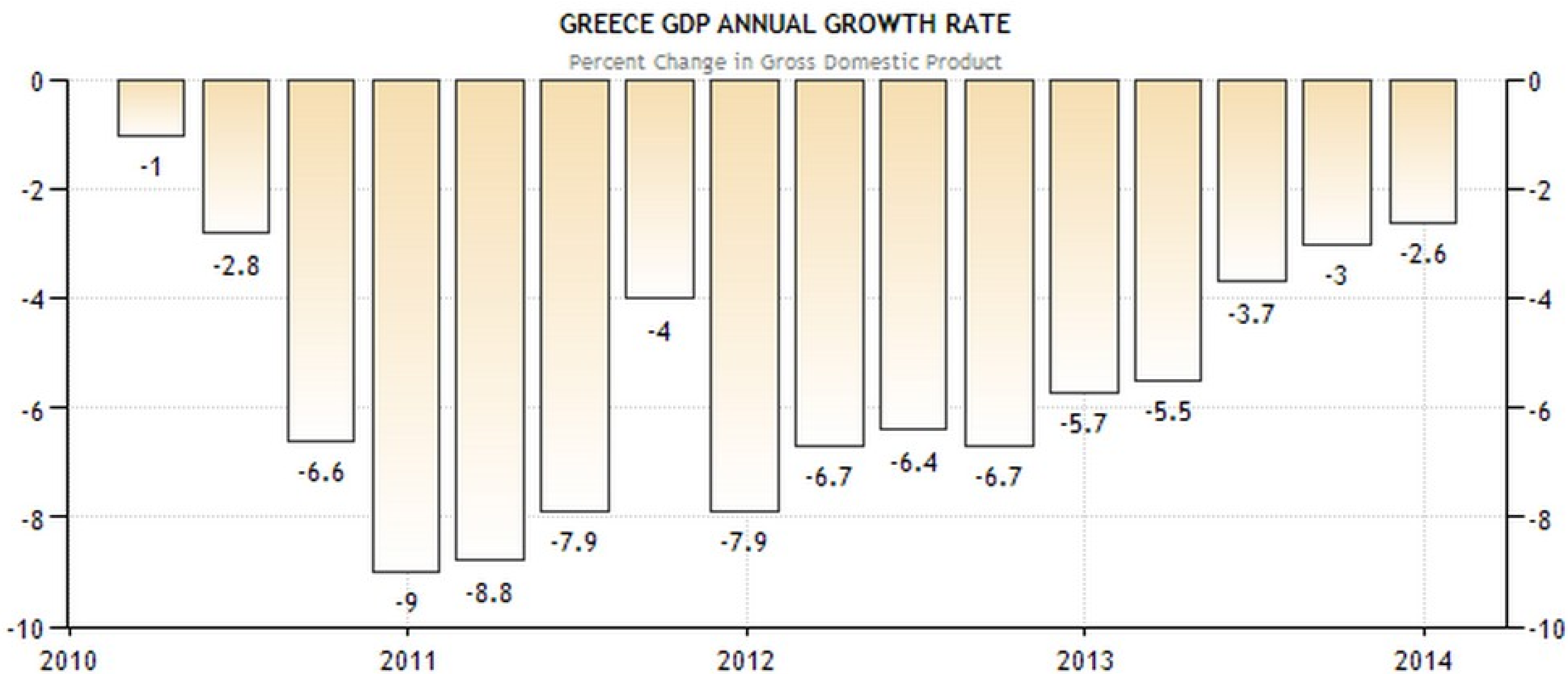
1991. Poland. Lech Valesa takes power. Debt reduced by 50%.

2008. New President Rafael Correia (Ecuador) organises debt audit. Buys back 3.2$b debt for 900$m – overall saves 7$b in future debt and IR.

2008. Iceland. Popular uprising leads to government refusal to fufill its guarantee of Landsbanki.

Results of Austerity by May 2013

- Unemployment 28%, Youth unemployment 65%
- 2009-2013 25% businesses failed, Suicide rate doubled to 5/100,000
- GDP 2009 – 2013 -27%



Source : Varoufakis 2017

From Varoufakis's blog <yanisvaroufakis.eu>

- There are 10 million Greeks living in Greece (and falling fast due to migration). 2.3 million have a debt to the Tax Office that they cannot service.
- 1 million households cannot pay their electricity bill in full, forcing the electricity company to ‘extend and pretend’, thus ensuring that 1 million homes live in fear of darkness at night while the electricity company is insolvent. Indeed, the Public Power Corporation is disconnecting around 30,000 homes and businesses a month due to unpaid bills.
- For 48.6% of families pensions are the main source of income, expected to be cut even further. The €700 pension has been reduced by about 25% since 2010 and is due to be halved over the next few years.
- The minimum wage shrunk (on the Troika’s orders) by 40%.
- Unemployment has risen 160% so that now 3.5m employed people have to support 4.7m unemployed or inactive
- Of the 1.4 million jobless only 10% receive unemployment benefits.
- Of those employed in the private sector 500,000 have not been paid for more than three months.
- Contractors who work for the public sector are paid up to 24 months after they provided the service and have pre-paid sales tax to the Tax Office.
- Half of the businesses still in operation throughout the country are seriously in arrears vis-à-vis their (compulsory) contributions their employees’ pension and social security fund.
- 34.6% of the population live at risk of poverty or social exclusion (2012 figure)
- Household’s disposable income has contracted 30% since 2010
- Health care cuts of 11.1% between 2009-2011 – with a significant rise of HIV infections, tuberculosis, still births.

Wolfgang Schauble, Eurogroup

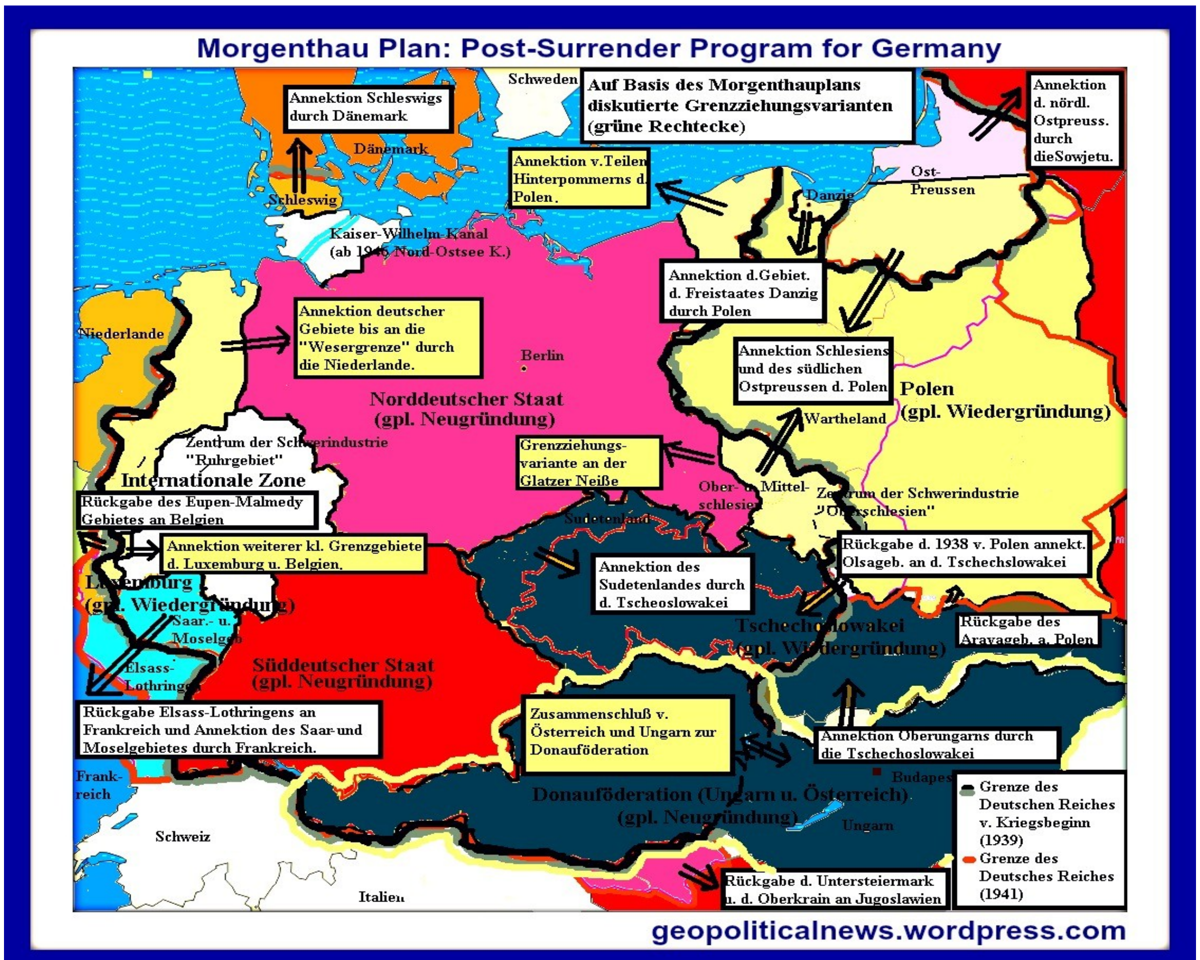
Christine Lagarde, IMF

Yanis Varoufakis, Greek Minister of Finance

Negotiations between Greece and its creditors was run by Wolfgang Schäuble who dominated the Eurogroup. Even though he knew that the debt repayment was impossible, and that austerity was harming Greece not helping it, he insisted on all conditions being met. He perhaps forgot that German debt had been partly cancelled in 1953 (London Debt Accords). For details of the negotiations between Yanis Varoufakis, Greece's Minister of Fiance, and the Eurogroup plus IMF, read Varoufakis 'Adults in the Room'.

"The Council of the Eurogroup are not answerable to any government and does not even exist in European law, that operates on the basis that the 'strong do as they please while the weak suffer what they must', that keeps no minutes of its proceedings and whose only rule is thats its deliberations are confidential – that is, not to be shared with Europe's citizenry. It is a set-up designed to preclude any sovereignty traceable back to the people of Europe" Varoufakis, 2016.

After WWII, the allies wanted to deindustrialise Germany (Morgenthau Plan and JCS1067) and turn Germany into a pastoral, agricultural nation. By the end of the 1940s, 706 industrial plants had been destroyed. James Byrnes's speech the 'Speech of Hope' clearly indicated a change of direction, and support for Germany and its industry, and hence the US pushed the London Debt Accords against the will of the French. (see Dallek, 1995)



Why drive Greece to bankruptcy and not use solutions that economists know would work ?

Greece's humiliation is political:

- Syriza is strongly left-wing, the EU is neo-liberal.
- A victory in renegotiating the debt might encourage other countries (Spain, Portugal, France, Italy, to do the same)
- The message is clear – Germany runs the system – no defaulters
- Germany was too exposed to debt if other countries had debt haircuts

<u>The current 'solution' is (in my mind) :</u>

Economically impossible

Humiliating

Socially disastrous with IMF restructuring

Non-democratic (imposition, Eurogroup, refusal to accept the Greek vote for Syriza)

A sign of a new predatory, debt-control system in the EU instead of the previous solidarity model (see Tim Geithner blog)

Very bad and dangerous for the identity of Germany that is fighting an economic war against other EU members.

What solutions ?

- 1. Austerity. Driving Greece into a negative debt spiral. But reforms are still needed.

  So where does the money needed come from?

- 2. Renegotiate debt with lower Interest Rates (haircut).
- 3. ***Sovereign default*** (refuse to pay the debt) ***The Icelandic Solution*** and help ***home owners*** (don't let the housing market collapse since it's collateral against loans)
- 4. ***Eurobonds*** (mutualisation of Eurozone debt). Allow cheaper borrowing.
- 5. ***Quantitative Easing*** by the ECB (Greece was excluded from EU's QE!). QE ***In the USA.***
- 6. A European ***New Deal*** - following the Keynesian solution in the USA after the 1929 Wall Street Crash and Great Depression. Put 240€bn into the economy and jobs instead of into the banks.
- 7. Don't impose change – it should be democratic and long-term

Personal ideas for a European rescue plan

1. European protectionism (import barriers) to increase EU industrial production and increase employment. Risk – retaliation in a globalised world – quit WTO. Could be sector-oriented (see 8)

2. Regulate banking (bring back the equivalent of the Glass-Stegall Act. Limit CEO bonuses / pay)

3. **Cancel ECB QE**, break up the Troika, and reverse austerity measures (PIIGS)

4. Eurobonds to provide cheap loans to EU countries (with agreed long-term Keynesian restructuring) but overall increase the Euro IR. Link Eurobond loans to democratically-agreed reform

5. Harmonise monetary / (progressive) fiscal and social policy in the EU (complete the EMU)

6. Introduce a **European Financial Transfer Tax** at at least 0.5% **(£3,340bn)**

7. Change the Maastricht Criteria and Stability Pact to include the criterion of **employment**.

8. Launch a European New Deal to provide jobs and investment

- Green-Energy (solar, hydroelectric, bio, hydrogen, geothermal, methane recuperation)
- European infrastructure (roads, bridges, trains, electronic network, etc.)
- Increase funding for Research and Development, and Education

10. Reduce greenhouse gas emmissions and prepare for **global warming**

9. Promote **EEA European expansion** with the current Neighbourhood partners

Reading

- Yanis Varoufakis.
  And the weak suffer what they must. Europe, Austerity and the Threat to Global Stability. 2016
- Yanis Varoufakis.
  Adults in the room. My Battle withEurope's Deep Establishment. 2017
  .
- Interview of 'Adults in the Room' (32m video. EFN)
- Vicky Price. Greekonomics. The Euro Crisis and why Politicians don't get it. 2013.
- Yannis Palaiologos. The 13th Labour of Hercules. 2014
- Eugene Rossides. The Truman Doctrine of Aid to Greece. 1998