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# Greece: Driven into Crisis

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Neoliberal order reigns in the world. Stock markets are recovering from the crash in the fall of 2008. Private banks are no longer weighed down by bad loans that were added to public deficits. The latter were rising anyways because the economic crisis had sent tax revenues on a downward slide. Add further bailout money for financial companies and fiscal stimulus and you get a veritable fiscal crisis of the state.

Workers in Greece protest government attacks on wages and benefits.

Meanwhile, rating agencies like Moody's and Standard and Poor's cast judgement on the viability of fiscal deficits and public sector cuts, as if their assessments of the financial sector had nothing to do with the 'manias, panics, and crashes' that pushed a cyclical recession near depression in the first place. Public deficits between 12% and 13% of GDP in Britain and the U.S. are bad, they say, but not so bad that the austerity measures they consider appropriate can't be left to Number 10 Downing Street and the White House. In the European periphery, however, things are, according to the master evaluators of the world, quite different. Lumped together as PIGS, short for Portugal, Ireland Greece and Spain (or PIIGS, in adding Italy), these countries are charged with notorious wasteful spending and an inability to reign in deficits. Therefore, deficits in these countries, while not exceeding the British-American 12-13% range, are a threat to private investments in government bonds and loans.

### Structural Adjustment for Greece

Consequently, investors have been taking Greece – supposedly the worst in the bunch – to a financial market trial. Financial speculation has driven interest rates on Greek government bonds beyond the pale and socialist Prime Minister George Papandreou, who took over from his conservative predecessor Kostas Karamanlis only in October 2009, into the arms of the International Monetary Fund (IMF) and the European Union dominating governments in Berlin and Paris. This unlikely coalition promised Athens a deal that will offer urgently needed liquidity of up to €45bn, at a slightly lower price than private markets would do. But it will also put a political price tag on its interest rate discount. The Greek government is expected to execute an IMF-style program of so-called structural adjustments (on top of a whole series of radical public sector cuts already taken). These programs, as is known from many other IMF interventions since the dawn of neoliberalism in the early 1980s, include draconian cuts in public spending and the relaxation or suspension of labour protective measures. Unlike other IMF packages, the Greek one will not include enforced currency devaluation. After all, Greece is a member of the Euro-zone. It therefore has no currency to devaluate. Yet, the EU-commission and particularly the German government made it very clear that they will insist on keeping the Greek financial market open to international capital.

This is ironic inasmuch as the IMF, currently headed by Dominique Strauss-Kahn who served as finance minister in Lionel Jospin's socialist government from 1997 to 1999, recently relaxed its long-time opposition against capital controls. An IMF policy paper published in February 2010 declared that countries that have capital controls in place fared much better during the financial crisis than countries that did not have them. Moreover, IMF chief-economist Olivier Blanchard openly plays with the idea of raising the inflation target for central banks to give them more leeway for monetary policies and also to ease debt burdens at least to some extent. Not surprisingly, the European Central Bank (ECB), which has neoliberal monetarist principles enshrined in its statute, rejects this Keynesian brew served by French economists. Blanchard, it should be noted, received the first years of his economics education in France before he moved to the USA. German chancellor Angela Merkel is less concerned with the principles of economics but highly critical of the French appetite for EU-level macroeconomic policies that could counter-balance the ECB and its monetarist policies. Worse still, France's current finance minister, the conservative Christine Lagarde, recently complained about Germany's ongoing export-offensive that hampers domestic production and employment in deficit countries like France, Greece and many others.

Pressure on Germany to reduce its current account surpluses is growing and Merkel has been afraid that the role of German exports as a key factor behind the Greek crisis might be debated in a EU-only rescue package. Bringing the IMF in, even with its mild though still disturbing deviations toward Keynesianism for Germany, became a means to stifle any possible united front of EU countries against German exports. Greece, other small EU countries, the EU Commission and the European Parliament – the latter two meant to represent EU countries according to their population size – do not play an independent role in the political quarrels about Greece's escalating fiscal crisis. EU policy is a matter of France and Germany, the UK if she shows an interest, and the ECB; all other European actors are more or less pawns in the game.

This doesn't mean, however, that the governments in Berlin, London and Paris are the kings and queens in the game: they are the rooks, knights and bishops. Big money – still located in finance – is king. Stock markets are the queen. The game they are currently playing has two goals: making money from speculation against Greek government bonds and securing previous investments by forcing whatever coalition of EU-governments and international organizations to funnel credit through Greek coffers into their private hands. The game against Greece, likely to be followed by similar ones against the remaining countries on the PIGS list, takes advantage of macroeconomic imbalances within the EU and a political design that helped to amplify these imbalances since the Euro was introduced in 1999 and the last cyclical crisis hit Europe in 2001.

## Germany and the Euro

The major reason for these imbalances lies in the way West Germany was integrated into the capitalist world economy after World War II. Based on favourable exchange rates, access to U.S. markets, an inflow of Dollar-investments and an effort to re-establish the Deutsch-mark as the dominant regional currency, German industries successfully took an export-oriented growth path on which they have stayed ever since. This export orientation was sustained even further by a cross-class consensus (notably with German unions and the social democratic party) on monetary stability and wage bargaining meant not to disrupt

German competitiveness. This consensus was forged by hyperinflation and currency reforms after Germany's two lost world wars and that helped to keep inflation permanently below the level of other countries, even during the inflationary climate of the 1970s. A structural competitive edge formed that helped to keep German exports up and imports down. After the Bretton Woods system of fixed exchange rates collapsed in 1973, Germany's trading partners, namely the European ones, repeatedly devalued their currencies to regain some competitiveness.

Gross Domestic Product
Growth (in %)

Public Deficit
(in % of GDP)

Current Account Balance
(in % of GDP)

Ger

UK

Gr

P

Ger

UK

Gr

P

Ger

UK

Gr

P

2001/5

0.6

2.5

4.1

0.9

-3.5

-2.3

-5.5

-3.9

2.8

-2.0

-11.5

-8.6

2006

3.2

2.9

4.5

1.4

-1.6

-2.7

-2.9

-3.9

6.6

-3.3

-12.8

-10.4

2007

2.5

2.6

4.5

1.9

0.2

-2.7

-3.7

-2.6

7.9

-2.7

-14.7

-9.8

2008

1.5

0.6

2.0

0.0

0.0

-5.0

-7.7

-2.7

6.6

-1.6

-13.8

-12.1

2009

-5.0

-4.6

-1.1

-2.9

-3.4

-12.1

-12.7

-8.0

4.0

-2.4

-8.8

-10.2

Source: European Commission, Ger=Germany, UK=United Kingdom, Gr=Greece, P=Portugal

Devaluations certainly don't help economically less advanced economies to catch-up to the advanced economies by improving their technological capacities or addressing industrial policy, but they at least provide some breathing space. This space was taken away with the European Monetary Union (EMU) and the adoption of the Euro. Unprotected against German export industries, which combine economies of scale, advanced technologies and comparatively low unit labour costs, the weaker economies of the Euro-area saw a massive deterioration of their current accounts since the introduction of the Euro in 1999. For a number of years, increasing deficits in peripheral countries could be financed by capital imports that also spurred middle-class consumption and a boom in housing. The dependence on capital imports, though, neither triggered domestic growth nor generate adequate tax revenue. Even more than in the capitalist centres, the threat to turn the foreign capital tap off was effectively used to avoid the slightest increase in taxes by the national and international ruling classes. As a result, current account and public deficits developed in tandem. This model of peripheral accumulation completely collapsed when financial panic hit Wall Street, the City of London and their outlets around the world in 2008.

The noose has further tightened around accumulation in the European peripheries. Recovering from the crash and recession is the top priority of monopoly and financial capital. Bailout money and fiscal stimulus were the first measures toward profit restoration. While exit from expansionary policies in the capitalist centres is still being discussed, attempts to squeeze a few bucks out of peripheral countries have already started. The fiscal crisis in Greece receives more attention than any other since the world economic crisis began. It should not be forgotten that the IMF delivered rescue packages to twenty countries, ranging from the neoliberal poster children Estonia and Latvia to bugbears like Serbia and Belarus, since the crisis first hit. Notwithstanding some Keynesian gestures at the top of the IMF, these packages are models of good old neoliberalism.

And why not? Driving countries into liquidity shortages, providing urgently needed short-time credit and forcing them to permanently open their markets to Western corporations, spurred world economic growth and massively boosted private profits over the last three decades.

The neoliberal tricks, however, might not work this time. Economists are already warning that the €45bn rescue package for Greece may be insufficient to meet payments on all outstanding debt and that the targets for spending cuts being demanded will, instead of guaranteeing Greece's solvency, lead to further economic collapse in Greece.

**Neoliberalism, Financial Bailouts and Public Sector Austerity**

In terms of the world economy, there is still considerable scepticism whether the exits from fiscal stimulus and cheap money now being mooted by the G20 group of lead capitalist states won't trigger another round of crisis instead of paving the way to increased private spending. Ironically, the Greek government and big capital are facing the same problem: both depend on injections of public money. Big capital takes it wherever it gets it, while Greece has to accept credit conditions imposed by the IMF and a handful of other EU-governments.

The economic problem is still the same: throwing uncovered public cheques toward preserving overaccumulated private wealth. In order to overcome the continuing world financial crisis, this overaccumulated wealth needs to be written off. The dominant opinion in ruling financial and industrial circles, however, has been to avoid the economic and political fallout from a deepening of the crisis that such a write-off would bring. At least so far. Instead, the strategy has been to blow up public deficit bubbles like the economic authorities blew up internet-, housing-, and resource-bubbles in the past. The difference is that the private sector bubbles of the past that led to the financial crisis could always rely on public sector bailouts. Now the bubble and the bailout are both expected to come from the same public purse. The neoliberal solution being called for by the Germans, the Greek government, the EU and the G20 is now to demand a 'long war' on the public sector.

Milton Friedman's verdict that there is no free lunch may be more applicable to his own followers than to the supposedly spendthrift social democrats against which he threw it in the 1960s. Ultimately, public spending relies on tax revenue; another truism from neoliberal textbooks. From Athens to Wall Street, the economic crisis eats its way from private balance sheets into the households of the general public. The fiscal crisis of the state becomes, on top of increasing pressure on employment and wages, a conflict over the size and distribution of the tax burden. Political responses to this conflict vary widely: from American tea-baggers, who are violently anti-government because they can't cope with their own dependence on government money, to Greek workers on strike the day their government asked the IMF and EU-partners for help. These conflicts over public sector austerity and financial bailouts are only likely to build, certainly in Europe, over the coming year. •

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