Greece: What Can be Done?

Crisis as Opportunity? An end to open-ended austerity and decay

By Prof. James Petras
Global Research, June 16, 2012
16 June 2012

Region: Europe
Theme: Global Economy, History, Poverty & Social Inequality

Introduction

Greece faces the unenviable choice between accepting the terms of "the Troika" and facing the continuation and deepening of a socio-economic crises, which includes five years of negative growth, over 23% unemployment, an astronomical rise in poverty (from less than 15% to over 40%) and mounting suicides, or a rejection of the "memorandum", and a likely cut-off of Eurozone funding and capital markets with virtually few reserves to cover salaries, pensions or public services.

While the immediate cost of a break with catastrophic conditions imposed by Eurozone bankers may be high, it opens up the possibility of transforming the internal and external relations and structures which led Greece to ground zero.

Crisis as Opportunity ?

The prolonged and unending downward spiral of the Greek economy and living standards, the disastrous and destructive policies pursued by the formerly dominant two parties (PASOK and New Democracy) has conclusively demonstrated that Greek "capitalism" and EEC integration has been an unmitigated disaster; tried tested and failed to meet the minimum standards of human existence. Only dogmatic true believers in the innate virtues of 'capitalism' and the EEC can continue to prattle about the "need" to continue the same "austerity" policies which have devastated the lives of 80% of the people, closed half the business establishments in the country and fails to provide jobs for half of the young labor force (under 30 years of age).

The profound crises demonstrates the need for basic changes in the organization of the economy, the urgency for new political leadership and the desire for a new political system responsive to the vast majority.

The old ruling oligarchies are totally discredited. The existing links to the EEC only bleed the economy: providing loans which deepen debt and which pass through the economy to overseas bankers. EEC 'integration' is in fact a great suction pump which depresses the economy and living standards in order to extract wealth for overseas bondholders.

No capitalist or politician of the old order provides any redeeming argument. In the past they plundered the economy; in the present they extract and transfer wealth abroad; and for the future they can only promise more of the same.

The basic challenge is not the abysmal conditions of the present but the opportunity that exists for a fundamental transformation. The problem is fashioning a transition from an unmitigated disaster to an equitable, dynamic and participatory economy. The problem facing a transition is the flawed structural and behavioral features of contemporary Greek society, polity and economy. Greece is deeply embedded with the legacy of a culture of pervasive state-party corruption and kleptocracy and bloated expenditures for the military and cliental bureaucracies. Most important Greece is dominated by rent seeking economic elites which pretend to be capitalists, but profit from state and overseas handouts from the Eurozone bankers and states.

To effect a transition requires that we first face the negative legacy of the past an order to see what proposals are viable and necessary.

The Negative Legacy and Debt Default: Greece is not Argentina

Many radical critics of the 'austerity' and debt crises in Greece cite the "Argentine example" of debt default, (over $100 billion dollars) and its ability to fashion a successful recovery and growth model based on 'self-financing'. The critical advocates ignore the profound differences in the economic and social structures of the two countries as well as their respective locations in the regional economies.

Argentina , at the bottom of its crises, was actually in a worse situation than Greece today. Unemployment hovered between 25% – 30% and over 50% in many working class districts, compared to 24% in Greece . Poverty levels in Argentina exceeded 45%; in Greece they exceed 35%. The depression in Argentina led to a negative growth rate of approximately 20% over the 3 year duration, equal to the loss in Greece over the past 5 years.

Despite starting from a more difficult and worse situation Argentina had several strategic advantages.

In the first place, in Argentina the ouster from power of the crises driven ruling elite was affected by a mass popular uprising (December 2001 – January 2002). In Greece , while mass demonstrations have certainly politicized, mobilized and radicalized a part of the electorate, the radical coalition vying for power (SYRIZA), has taken the electoral route. Secondly, the Argentine upheaval was a continuous process as mass unemployed picketers (piqueteros) blocked all roads and transport as a negotiating tool to ensure that resources were transferred from debt payments to unemployed workers' family allowances and in reviving the economy. In Greece the vast army of unemployed has neither the organized capacity to sustain constant transport blockage nor can they count on neighborhood and trade union organizations for anything more than repeated one day work stoppages and marches.

Argentina immediately drastically devaluated its currency – eliminating the dollar peg – from one to one, to three to one and vastly increased the competitiveness of Argentine export products. The center-left regime encouraged the substitution of local products for costly imports. Argentina , unlike Greece was not part of a currency union and could set its own currency rate. Greece , is bound to the euro and will have to convert to the drachma in order to take control over its finances, currency rate and monetary and investment policy tools.

Argentina possessed a substantial industrial – manufacturing sector, idled by the crises, but with the worker-engineering-management capacity to respond to a new stimulus program. In addition, Argentina had a dynamic highly competitive agro-business sector, a world leader in beef, grains and soya, as well as energy (oil) and mineral wealth, which the center-left regime could activate.

Greece , during its 30 year membership in the European Union actually saw its meager and backward manufacturing and agricultural base shrink, in the face of cheap and better imports from developed capitalist countries like Germany , France , Holland and elsewhere. Unlike Argentina , Greece received billions of dollars in "transfers", compensation funds to upgrade its economy and competitiveness and prepare it for full integration (lowering of tariff barriers). However, the "transfers" were not channeled into productive activity either by the two ruling parties or by the 'capitalists' and 'farmers'. The ruling parties used the transfers to build extensive electoral patronage machines; they squandered funds for overpriced state contracts to provide builders engaged in non-productive building projects (including the multi-billion dollar swindle around the Olympic Games). Tens of thousands of unemployed graduates and party loyalists bloated the national, regional and local bureaucracy, increasing consumption, blocking any meaningful productive activity.

Capitalists designed "productive projects and then transferred EU- loans and handouts to local and overseas real estate investments and luxury purchases. The Greek elite transferred loans to London , Swiss and Cypriot bank accounts – while the government signed off as ultimate guarantor.

In the agriculture sector, many property holders were doctors, dentists, lawyers and high officials who used the ownership of a few dozen olive or orange trees to receive low interest loans, import tax free luxury 4 x 4 vehicle imports and to build second or third vacation houses .Many farmers who received loans and grants, purchased land for homes for their married children or for extra room to rent to tourists or to send their sons and daughters to overseas universities.

Most important, the economic elite – bankers, ship owners, construction-real estate – politicians, speculators skimmed off billions from the EEC transfers in the form of illicit loans to cronies and in the form of fees, management charges for credit dealings and pension funding.

The European bankers, government officials and exporters were acutely aware that the "transfers" were being pillaged – but they went along, for obvious reasons of economic and political gain: lucrative interest payments flowed into their coffers; exporters took over Greek consumer markets; bankers and investment houses found willing pension fund manager's 'open' to dubious investments. Even tourists enjoyed the sun and imports which reminded them of home: wiener schnitzel, English ale, Dutch feta. Moreover, Greece spent 15% of its budget on the military, serving NATO goals and bases.

Contrary to superficial appearances, Greece was not ruled by capitalists, small business people and farmers' as some political scientists claim. Greece was ruled by an extensive class of kleptocrats, tax evaders and rentiers who pillaged, borrowed, consumed and invested overseas. Technologically Greece was among the most backward agro-manufacturing countries. Its overseas trained and educated professionals, returned and 'adapted' to the kleptocratic-rentier culture: most held several positions in public-private activities, guaranteeing a mediocre performance and conflicts of interests.

In summary Greece is not Argentina . A Greek default is an absolute necessity to begin the process of transition toward a productive and equitable economy. But the horrendous Greek legacy raises a whole series of new problems and challenges with few economic resources and in the absence of leading productive classes.

The Difficult Road Out of Crisis

Any road map out of the Greek crises will be difficult, complex, and arduous – given the "scorched earth" economy which a left government (LG) will inherit. The first and most basic concern of a LG is to end the policies and especially the agreements with the "Troika" that demand further mass firings of public employees, the reduction in social services, the cuts in minimum wages and pensions. A new LG needs to impose a series of emergency measures to avoid economic bankruptcy.

It is absolutely clear that European bankers and regimes want to punish Greece for transgressions of their "austerity pact". If Greece should succeed in renouncing the austerity pact, the Euro bankers fear that other countries – Spain , Portugal , Italy , Cyprus and Ireland might follow suite.

Greece should suspend debt payments, impose tight capital controls and freeze bank deposits to avoid capital flight, in the face of the Troika cut-off of funding. The LG should convoke a series of emergency commissions to (1) secure alternative sources of emergency financing from several reserve funds with Euro holdings. They must seek loans from Russia, Iran, Venezuela, China and other states not beholden to the Troika (2) make an inventory of available and potential productive enterprises – bankrupt or troubled firms, indebted enterprises – and convert them into state sponsored worker-employee operated co-operatives (3) investigate public debt to determine what can be classified as 'legitimate'(loans channeled into productive employment) or illegitimate (loans that enriched speculators, corrupt contractors, political leaders) (4) investigate and attach overseas holdings of wealthy Greeks who were engaged in multi-year multi-million tax evasion and who accumulated illicit income via unpaid loans and money laundering. Greek auditors should proceed to demand that Eurozone creditors should collect debt payments from the bank accounts of wealth Greeks who laundered and deposited in London, Zurich, Frankfurt, New York and elsewhere.

The principle of the LG should be "those who borrowed the loans and profited, should pay them". The European bankers who lent to corrupt politicians and business kleptocrats must assume the loss, for failing to exercise "due diligence" – oversight into the viability of the activity they were financing. After all private business 'justifies' its profits by the "risks" it takes. In the case of Greece, Euro-bankers' demands that private bank loans and repayments be "guaranteed" by the state (no matter how badly they were managed) risk 'moral hazard': Guaranteeing bankers' profits, irrespective of their 'soundness', encourages a repetition of reckless speculation such as had transpired in Greece over the past 30 years.

The LG should repudiate illegal debts (the vast majority) and renegotiate and roll-over the rest over an extended time frame, pending an economic recovery.

What should be recognized is that past Greek governments (despite being formally elected) engaged in illegitimate activity which prejudiced the sovereignty, productive capacity and livelihood of an entire people.

What is not acceptable is to force an entire people to sacrifice their lives because a minority of Greeks borrowed and didn't invest or pay their debts to overseas creditors. Currently the kleptocratic millionaires are given "cover" and their illicit multi-billion Euro bank accounts and real-estate holdings are protected by the banks demanding payments from the Greek government. Their current demands are based on a savage demolition of living standards for a whole people. For outstanding obligations, the Greek LG can transfer tax debts of Greek tax evaders to creditors, letting them attach the overseas accounts of their Greek clients.

The LG can self-finance a recovery by drastically changing budget priorities: mainly by slashing its military budgets. Greece 's military expenditures as a percentage of its total budget, is one of the highest in the European Union. By eliminating expenditures for NATO operations, overseas military expedition and numerous military bases, a LG can prioritize industrial and service investments.

Greece needs a (1) growth tax – a flat tax on the self-employed – professions, shop keepers, hotels, etc. – to ensure that they pay their share in financing the new economy. While the very rich engaged in mega swindles and evasions, it was also the case that the 50% self-employed sector imitated their behavior at the micro-level (2) a tourist tax – at airports, ferry-docks, tour ships stops – with tight oversight and or replacement of corrupt tax inspectors/collectors and customs officials who take a big cut of proceeds. Incarceration of corrupt officials should be mandatory. (3) A real estate tax which reflects the real value of land and property, especially of unused or uncultivated lands. (4) A tax on financial transactions and an end to tax exemptions for major banks, corporations and so-called property developers.

Exploiting Unused or Underutilized Human Resources

The new government has many sources of 'human capital' – hundreds of thousands of unemployed young educated people who can be mobilized for work in productive activity through selective public investments in priority areas, especially outside of the "greater Athens region".

There are many regions and islands which have the potential to provide income and employment, properly addressed. One of the most salient is in food processing; one of the many perversities of the Greek economy is the production and exports of apples and citrus products to Germany and the import of juices. Another is the failure to link local food and manufacturing to the 14 million tourist sector. Most food and furniture is imported; most vacation packages benefit overseas multi-nationals and foreign transport agencies.As a result the Greek economy and labor force derives a small share of total income from its "leading sector". Greece with 300 days of sun is ideal for solar energy development.

The New Economy Cannot be Built with Kleptocrats of the Past

As mentioned above, Greece had few if any real entrepreneurs, who invested their own profits, invested in research and development and modernized their plant.

Public sector enterprises were overloaded with the unemployed 'party members', many virtually 'no shows'; and many public sector unions engaged in nepotism and multiple-employment at the expense of efficient services, profitability and long-term development strategies. Public sector enterprises require a kind of re-nationalization', to generate revenues and income to finance new jobs in new enterprises. Management of public enterprises should be transferred from the hands of stagnant 'life time job-holders' to dynamic workers – entrepreneurial – engineering management teams looking to broaden the scope and quality of activity within the new economy.

Pension funds and other savings must be mobilized alongside the billions retained by the state's debt default to pay current expenses (pensions, salaries, basic imports etc.), to stimulate the revival of production among enterprises which show a willingness to rebuild the economy and which show a willingness to collaborate in activating production and employment. Public profits should finance worker takeovers of factories and services abandoned by their previous owners, of which there are thousands.

The public sector must take the lead in investing, servicing and producing to create "confidence" among the small and medium size producers. The public sector must take the lead in negotiating with potential lenders and economic partners outside the Eurozone: new markets and financial arrangements will be necessary if the Eurozone cuts off all funding as a consequence of debt default or a moratorium.

The danger is that SYRIZA follows through on the default and has no alternative emergency plan in place to respond to a Eurozone cut-off. In the face of an EU/IMF offensive and lacking an alternative, a sector of SYRIZA (ex. PASOK public sector unionists) may back-track and seek to accept some form of "renegotiated" pact … which would divide and undermine the prospects for a truly viable and radical transformation and condemn Greece to its catastrophic downward spiral.

Conclusion

SYRIZA has been raised to a serious contender for state power by the most devastating capitalist crises to affect a Western European country since WWII. It gained adherence through its dynamic grass roots organizing and the relative cohesion of its disparate components. It's clear and forthright exposé of the corruption and pillage of the dominant parties and its image as a party with 'clean hands' has propelled it forward among a broad spectrum of classes, regions and generational groups. However, the very depth of the crises, the total pillage and emptying of the treasury by the kleptocratic political-business class and the dismantling of the entire productive sector and the transfer of billions of Euros abroad by the millionaire rentier class, has created an immensely difficult terrain from which to launch the necessary transformation. The new government can and must guarantee the sovereignty of the nation by rejecting imperial dictates and end any further degradation ("austerity") of the Greek people.

Emancipation requires that first and foremost the new leadership takes the lead in making sacrifices: cutting out all the perks of office, salaries and overseas commitments. The new social priorities demand severe cuts in military budgets – bases, NATO, arms purchases. The new leaders must tell the Euro-bankers to collect payments from the accounts of the overseas billionaires who borrowed, bled the country and are now sheltered in the same banks.

The Left must move from criticism to practical deeds; from theorizing to creating jobs! Greece with a new government can put an end to open-ended austerity and decay. It can and must change its place in the international economy. In the final analysis, it is Greece 's last best hope.

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: **Prof. James Petras**