Impasse of Greece Debt Negotiations with Troika, Economic Support from Russia and China?

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In a stunning victory on January 25, the leftist Syriza party won Greece's national elections by a wide margin, earning just short of a majority of seats in parliament. Syriza campaigned on a promise to end the austerity measures (privatization, wage constraints, public service layoffs, etc.) that were a condition on 240 billion euros ($339 billion) of European finance to help pay down Greek debt. Syriza promised the electorate they would renegotiate the bailout conditions and reduce total Greek debt, now at 323 billion euros ($456 billion), by up to half. Newly elected Greek Prime Minister Alexis Tsipras made good on that promise by insisting the current bailout package, which ends on February 28, will not be extended on Europe's harsh terms.

"Syriza's victory came like a breath of fresh air and has given the Greek people their dignity and pride back having been fleeced by EU bankers and the establishment," said Cyprus-based author and news commentator Andreas Chrysafis. "The Syriza Party has risen out of the ashes of despair and Tsipras and his group have provided the last glimmer of hope to the people of Greece."

Sixty per cent of Greece's debt is owed to European Union governments, 10% to the International Monetary Fund (IMF) and 6% to the European Central Bank (ECB), all of which are collectively known as the troika. In return, these institutions demanded draconian economic and social reforms that were dutifully carried out by the previous Greek government over the past five years. They included especially severe government cutbacks in health care and education spending, privatizations, the slashing of wages (by 50% in some cases) and pensions, higher taxes, and the mass firing of public servants, including 35,000 doctors, nurses and other health workers. As a result of these cuts, the Greek economy has shrunk, the health care system has collapsed, and infant mortality has risen by more than 40%.

Public protest against the impoverishment of Greeks to the benefit of European creditors is directly responsible for bringing Syriza to power. The party is a coalition of Eurocommunists, social movements and anti-globalization activists. Yanis Varoufakis, Greece's new finance minister, has said austerity "turned this nation into a debt colony." Syriza has promised to restore the minimum monthly wage to 751 euros ($1,060), rehire dismissed public sector workers, restore collective wage agreements, subsidize food and electricity for the poorest Greeks, and reverse privatizations.

Similar European austerity programs, imposed since the 2008 crisis, have devastated Spain, Portugal, Italy, Ireland and Cyprus, subjecting the continent overall to three recessions in five years. Recognizing this failure, the ECB recently initiated a limited fiscal stimulus, similar to the one launched in the U.S. in 2008, but it may be too little too late.

“The Federal Reserve, the central bank of the United States, is a neoliberal entity, but it has acted very differently from the ECB and European authorities since the 2008-2009 world financial crisis and recession. As a result of these differences in policy, euro zone unemployment is more than twice that of the U.S. and the euro zone has had several more years of unnecessary recession,” explained Mark Weisbrot, economist and co-director of the Washington, D.C.–based Centre for Economic and Policy Research, in an interview.

The Nobel Prize–winning economist Joseph Stiglitz also blames the EU for Greece’s predicament.

> “Greece could be blamed for its troubles if it were the only country where the troika’s medicine failed miserably,” he wrote in a February 5 commentary. “But Spain had a surplus and a low debt ratio before the crisis, and it, too, is in depression. What is needed is not structural reform within Greece and Spain so much as structural reform of the euro zone’s design and a fundamental rethinking of the policy frameworks that have resulted in the monetary union’s spectacularly bad performance.”

The structure of the euro zone makes Greece’s problems harder to deal with, according to Stiglitz, because monetary union means “member states cannot devalue their way out of trouble, yet the modicum of European solidarity that must accompany this loss of policy flexibility simply is not there.”

Philippe Legrain, who was an economic advisor to the president of the European Commission (the EU’s executive arm) from 2011 to 2014, agrees with Stiglitz regarding European culpability. In an article this January before the Greek election, he pointed out that the bailout benefited European banks, not Greece, and violated the EU’s own treaty rules. Legrain wrote:

> *Greece’s reckless borrowing was financed by equally reckless lenders. First in line were French and German banks that lent too much, too cheaply…*

> By the time Greece was cut off from the markets in 2010, its soaring public debt of 130 per cent of GDP was obviously unpayable in full. It should have been written down as the IMF later acknowledged publicly. Austerity would then have been less extreme and the recession shorter and shallower. But to avoid losses for German and French banks, euro zone policymakers, led by German Chancellor Angela Merkel, pretended that Greece was merely going through temporary funding difficulties. Breaching the EU treaties’ “no-bailout” rule, which bans euro zone governments from bailing out their peers, they lent European taxpayers’ money to the insolvent Greek government, ostensibly out of solidarity, but actually to bail out creditors…
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> So whatever you think of Syriza’s left-wing politics, it is justified in demanding debt relief from the EU.

The EU does not see it this way. Amply displaying the lack of European solidarity that Stiglitz mentioned, the EU has so far refused to renegotiate the terms of its bailout loans with Greece. Varoufakis has visited seven European capitals since Syriza’s victory, meeting other finance ministers and offering concessions, but he has been rebuffed at each step.

Varoufakis then met the other 18 euro zone finance ministers on February 11 and 16 to present his proposals, which included a retraction of an earlier demand for a debt write-down, replaced by a scheme involving growth-linked bonds that would be used to repay the Greek debt. These bonds would be paid only when the Greek economy started showing growth. Varoufakis also agreed to enact 70% of the EU's austerity conditions. In return, he asked for a bridging loan to meet Greece's debt obligations once the austerity-based loan expired on February 28.

The February 11 and 16 meetings collapsed with no agreement. Austerity is Greece's only option as the EU sees it. The EU finance ministers, led by Wolfgang Schäuble of Germany and his Dutch counterpart Jeroen Dijsselbloem, insisted that Greece renew the bailout agreement before February 28 and fulfill all accompanying austerity conditions. The ministers gave Varoufakis an ultimatum: agree to an extension of the bailout by the end of the week or lose all loans. The Greek finance minister stood firm, rejecting the ultimatum and holding out for a better deal.

If the bailout ends on February 28 (the *Monitor* went to print in mid-February), the Greek government will forgo an additional 7.2 billion euros ($10.2 billion), and will, therefore, not be able to make debt payments due in March, which could force Greece out of the euro zone.

> "The Eurogroup stand was expected... The northern states never wanted to help Greece at all except within the boundaries of the existing harsh bail-in troika loan resolutions, which have destroyed the nation," said Chrysafis. "The Eurogroup acted like a school teacher reprimanding a naughty student who dared to speak out. This is the start of the demise of the EU, which demands absolute obedience to its terms for poisoned loans."

"One reason the EU does not want Greece to leave it, is that the most likely outcome would be that Greece, after an initial financial crisis, would recover more rapidly than the rest of the eurozone, and other governments would also want to leave", argued Weisbrot. "If Syriza succeeds, either inside or outside of the euro, it will likely have an important effect on most or all of the euro zone," Popular sentiment...already, correctly, sees the austerity of recent years as a failure. If Syriza can provide a successful alternative, this will encourage others to demand one.

"The most obvious place for contagion is Spain, where the leftist Podemos party, formed only about a year ago, recently shot up to first place in the polls," he added. "The institutions of the euro zone will have to change their policies to allow for faster growth and more employment or the euro zone could eventually dissolve."

Chrysafis suggested Europe was trapped.

"If the EU fails to agree to renegotiate the Greek debt sensibly, Greece will raise the money elsewhere. Russia has already offered a U.S.$10 billion ($12.4 billion) loan to Greece," he said.

> "EU citizens have had enough of EU incompetence and policies that bring stagnation rather than prosperity. The EU has brought ruin and unemployment to millions of citizens, especially the young, and they simply no longer trust it. I will not be surprised to see the gradual erosion and downfall of the EU in the

next ten years."

On February 10, Greek Defence Minister Panos Kammenos, a member of the right-wing Independent Greeks with which Syriza formed a coalition government, proposed alternative financing solutions from outside the euro zone.

> "We want a deal. But if there is no deal, and if we see that Germany remains rigid and wants to blow Europe apart, then we will have to go to Plan B. We have other ways of finding money," he said. "It could be the United States at best, it could be Russia, it could be China or other countries."

Kammenos added that Greece would prefer to leave the euro if membership means submitting to a "Europe under German domination."

According to Nikos Chountis, Greece's deputy foreign minister, "There have been proposals, offers I would say, from Russia for economic support as well as from China, regarding help, investment possibilities."

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