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Speculation on Greek default mounts as EU demands still more cuts

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Global Research, February 12, 2012
World Socialist Web Site 12 February 2012

Region: Europe
Theme: Global Economy

Following days of talks in which Greece's governing parties finally agreed to a massive programme of spending cuts, euro zone finance ministers on Thursday upped the ante, demanding an additional €325 million in cuts in exchange for a loan of €130 billion ($170 billion). Without the new loan from the "troika"—the European Commission, European Central Bank (ECB) and International Monetary Fund (IMF)—Greece will default on its debts of more than €350 billion on March 20. On that date it is required to repay bonds of €14.5 billion it previously sold.

With speculation mounting of a possible forced exit from the euro, the unelected governing coalition led by Prime Minister Lucas Papademos is pledging to meet whatever requirements are demanded of it in a parliamentary vote expected to be held Sunday.

The latest cuts have deepened popular opposition. Following a one-day general strike Wednesday called by the private and public trade union federations, the GSEE and ADEDY, a 48-hour general strike began on Friday. Workers walked off the job, closing government offices, schools, courts, museums and archaeological sites. Public transport ground to a halt and in Athens' Syntagma Square several demonstrations were held.

The Finance Ministry was occupied following an occupation of the Health Ministry the previous day. Massive numbers of riot police attacked protesters with tear gas and batons. Demonstrators were surrounded, kicked and punched.

The social democratic PASOK party, the conservative New Democracy and the fascistic Popular Orthodox Rally (LAOS) agreed a €3.3 billion ($4.3 billion) cuts programme Wednesday, but Finance Minister Evangelos Venizelos was told at a meeting of the euro zone finance ministers in Brussels that this was insufficient.

The finance ministers demanded that the Greek parliament approve an additional €325 million in cuts by Sunday. They also demanded guarantees that the austerity measures be implemented regardless of the result of upcoming elections. Asked what would happen if the parliament voted down the deal, Jean-Claude Juncker, the chair of the euro group, declared, "The answer is quite simple, it will not reject it."

The measures already agreed include a €1.1 billion cut in health spending and the sacking of 15,000 state employees this year. A total of 150,000 public-sector jobs are to be wiped out over the next four years.

Huge wage cuts are to be imposed, with the federal minimum wage, upon which 300,000 people depend, reduced by 20 percent from €750 ($975) to €600 ($780). For workers under

25, the minimum wage will be cut by an additional 10 percent. Wages in the private sector are to be reduced by 20 percent. All pay is to be frozen until the unemployment level is reduced from its current 19.2 percent to below 10 percent, which could take decades. Workers will no longer be entitled to permanent contracts at state-owned companies and banks.

Unemployment benefits are to be slashed from €460 ($600) to €360 ($470) a month. Supplementary pensions will be cut by 15 percent. These are only the initial cuts. The agreement envisages that up to €13 billion in spending cuts will be imposed by 2015, almost double the €7 billion originally pledged.

In contrast, Greece's banks will be "recapitalised" to the tune of €40 billion.

Such is the scale of the social counterrevolution being imposed in Greece that sections of the governing parties are attempting to disassociate themselves from the attacks being made.

On Friday, LAOS leader Georgios Karatzaferis announced that he would not vote for the deal agreed with Greece's creditors. Seeking to divert protests in a nationalist direction, he said, "Greece can survive outside the EU but cannot survive under a German boot."

Last week, Karatzaferis made clear his political concerns when he declared, "I am not going to contribute to a revolution that will humiliate us and that will burn Europe."

Karatzaferis' gesture does not translate into an attempt to block the proposed measures. His statement was followed by the resignation of all four LAOS cabinet ministers. But two of these, Transport Minister Makis Voridis and Deputy Merchant Marine Minister Adonis Georgiadis, said they would still vote for the loan agreement on Sunday.

Also resigning was Deputy Foreign Minister Mariliza Xenogiannakopoulou of PASOK.

The fear within the Greek ruling elite of a revolutionary movement of the working class is expressed most clearly with the resignation of several other MPs, including figures closely connected to the trade union bureaucracy. The unions are the key to any effort to contain rising social and political opposition and cannot be tainted with directly endorsing the measures.

On Thursday, Yiannis Koutsoukos, deputy employment minister and former leader of ADEDY, stood down, alongside the New Democracy MP Yiannis Manolis, who is responsible for the party's trade union work.

Calling the latest strike, Ilias Iliopoulos, the general secretary of ADEDY, warned, "The painful measures that create misery for youths, unemployed and pensioners do not leave us much room… We are moving to a social uprising."

In response to the resignations, a Greek government spokesman commented that the government would not alter a thing. He said, "Whoever does not agree with the government policy will be replaced."

The government has a majority of 236 of the 300 seats in parliament, of which 16 are LAOS MPs. But despite the government's pledges and the parliamentary arithmetic, there is little confidence among the global financial and political elite that Greece will not ultimately be forced to default.

The Fitch credit rating agency warned that a default was "by no means completely out of the question."

Many commentators have concluded that Germany's demands are so extreme and its stance so intransigent that it has already decided to push Greece out of the euro as a step toward the two-track Europe openly endorsed by French President Nicolas Sarkozy but so far officially opposed by German Chancellor Angela Merkel. "The Germans want the Greeks out. That is the clear message," the *Guardian*'s Larry Elliot commented baldly.

If that is indeed the aim of Berlin and Paris, it is a potentially suicidal strategy. It is premised on a calculation that the possibility of contagion has been lessened by the vast sums made available by the ECB to prop up the European banks and guarantee the debts of Portugal, Italy, Spain and other troubled economies, and that defaults by Greece and others can be managed and leave behind a viable inner core of nations still trading in the euro.

But Jens Sondergaard, European economist at Nomura, cautioned: "You cannot surgically remove Greece from the euro zone. Threatening to do so is playing a dangerous game. The bad cocktail of bank deleveraging, low growth and fiscal austerity that worries investors who could invest in the debt of countries like Spain or Italy is still there."

Fitch Managing Director Tony Stringer warned: "There is likely to be panic both in the Greek banking system—potential for rapid deposit flight, people withdrawing funds to transfer offshore—but then equally the spotlight will turn to other peripheral sovereigns such as Portugal, Ireland and potentially Italy and Spain again."

The original source of this article is World Socialist Web Site

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