Greece: Same Tragedy, Different Scripts

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Contents

Athens. Cafes are full in Athens, and droves of tourists still visit the Parthenon and go island-hopping in the fabled Aegean. But beneath the summery surface, there is confusion, anger, and despair as this country is plunged into its worst economic crisis in decades.

Greece, tiny Greece, has been presented by the global media as the epicenter of the second stage of the global financial crisis, much like Wall Street was portrayed as ground zero of its first stage.

Yet there is an interesting difference in the narratives surrounding these two episodes.

Two Narratives in Conflict

The Wall Street crash that morphed into the global financial crisis has been traced to the unregulated activities of financial institutions that created ever more complex instruments to magically multiply money.

With Greece, however, the narrative goes this way: this country piled up an unsustainable debt load to build a welfare state that it could not afford. This is a case of a spendthrift that must now be forced to tighten its best. Brussels, Berlin, and the banks are presented as the dour Puritans that must now exact penance from the Mediterranean hedonists for living beyond their means and committing the sin of pride by hosting the costly 2004 Olympics.

Penance comes in the form of a European Union-International Monetary Fund program that will increase the value-added tax to 23 per cent, raise the retirement age to 65 for both men and women, make deep cuts in pensions and public sector wages, and eliminate practices promoting job security. The ostensible aim of the exercise is to radically slim down the welfare state and get the spoiled Greeks to live within their means.

There are certainly some nuggets of truth in the welfare state narrative, but it is fundamentally flawed. The Greek crisis essentially stems from the lack of regulation of finance capital that earlier led to the implosion of Wall Street. That is, it has been created principally by the frenzied drive of finance capital to draw profits from the indiscriminate, massive extension of credit. The Greek crisis falls into the pattern traced by Carmen Reinhart and Kenneth Rogoff in their book *This Time is Different: Eight Centuries of Financial Folly* (Princeton; Princeton University Press, 2009): periods of frenzied speculative lending are inexorably followed by government or sovereign debt defaults or near defaults. . Like the third world debt crisis in the early eighties, like the Asian financial crisis in

the late nineties, the so-called sovereign debt problem of the southern European countries is principally a supply-driven crisis, not a demand-driven one.

It is estimated that, in their drive to raise more and more profits from lending, Europe's banks poured $2.5 trillion into what are now the most troubled European economies: Ireland, Greece, Belgium, Portugal, and Spain. German and French banks hold some 70 per cent of Greece's $400 billion debt. German banks were great buyers of toxic subprime assets from US financial institutions, and they applied the same lack of discrimination to buying Greek government bonds. For their part, French banks, according to Bank of International Settlements cited by Newsweek, increased their lending to Greece by 23 per cent, to Spain by 11 per cent, and to Portugal by 26 per cent. ("Worse than Wall Street," *Newsweek*, July 12, 2010)

The frenzied Greek credit scene featured not only European financial actors. Wall Street powerhouse Goldman Sachs showed Greek financial authorities how financial instruments known as derivatives could be used to make large chunks of Greek "disappear," thus making the national accounts look good to bankers that were always eager to lend more. Then the very same agency turned around and, engaging in derivatives trading known as "credit default swaps," bet on the possibility that Greece would default, raising the country's cost of borrowing from the banks but making a tidy profit for itself.

If ever there was a crisis created by global finance, it is Greece.

Hijacking the Narrative

So the question is: why is the Greek story now being told not as a case of speculative frenzy by global finance capital but as the time-worn cautionary tale of people living beyond their means? There are two key reasons behind this.

The first is the financial institutions' successful hijacking of the narrative of crisis to serve their own ends. The big banks are now truly worried about the awful state of their balance sheets, impaired as they are by the toxic subprime assets they took on and realizing that they severely overextended their lending operations. The principal way they seek to rebuild their balance sheets is to generate fresh capital by using their debtors as pawns. The centerpiece of this strategy is getting the public authorities to bail them out once more, as they did in the form of rescue funds and a low prime lending rate in the first stage of the crisis.

How will they do this? Well, the threat that Greece and the other highly indebted European countries would default was never taken seriously by the banks since the dominant Eurozone governments would never allow the collapse of the euro that this would bring about. But by having the markets bet against Greece and raising its cost of borrowing, the banks knew that the Eurozone governments would come out with a bailout package, most of which would go towards servicing the Greek debt to them. Promoted as rescuing Greece, the massive 110 billion euro package that has been put together by the dominant Eurozone governments and the IMF will largely go towards rescuing the banks from their irresponsible unregulated lending frenzy.

It's the same old confidence game—then known as structural adjustment—that was played on developing country debtors during the Third World debt crisis of the 1980's and on Thailand and Indonesia during the Asian financial crisis of the 1990's, two episodes that followed lending binges from northern banks and speculators: pin the blame on the victims by characterizing them as living beyond their means, get public agencies to rescue you with money upfront, and stick the people with the terrible task of paying off the loan by committing a massive chunk of their present and future

income streams as payments to the lending agencies.

It would not be surprising if similar massive multilbillion rescue packages are now being prepared for the banks that overextended themselves in Spain, Portugal, and Ireland.

Shifting the Blame

The second reason for promoting the living-beyond-one's means narrative in the case of Greece and the other severely indebted countries is to deflect the pressures for tighter financial regulation that have come from citizens and governments since the start of the global crisis. The banks want to have their cake and eat it too. They secured bailout funds from governments in the first phase of the crisis, but do not want to honor what governments told their citizens was an essential part of the deal: the strengthening of financial regulation. Governments, from the US to China and Greece, had resorted to massive stimulus programs to keep the real economy from collapsing during the first phase of the financial crisis. By promoting a narrative that moves the spotlight from lack of financial regulation to this massive government spending as the key problem of the global economy, the banks seek to forestall the imposition of a tough regulatory regime.

But this is playing with fire. Nobel Prize laureate Paul Krugman and others have warned that if this narrative is successful in opposing new stimulus programs and halting the drive for tough banking regulations, the result will be a double-dip recession, if not a full-blown depression. Unfortunately, the message of the recent G-20 meeting in Toronto seems to be that in both Europe and the United States, governments are caving in to the short-sighted agenda of the banks, who have the backing of unreconstructed neoliberal ideologues that continue to see the activist, interventionist state as the fundamental problem. In the view of these ideologues, a deep recession and even a depression is the natural process by which an economy stabilizes itself and Keynesian spending to avert a collapse will only serve to prolong the coming of the inevitable.

Resistance: Will it Make a Difference?

The Greeks are not taking all this lying down. Massive protests greeted the ratification of the EU-IMF package by the Greek Parliament on Thursday, July 8. This was dwarfed, however, by an earlier protest, on May 5, when 400,000 people turned out in Athens in the biggest demonstration since the fall of the military dictatorship in July 1974. Yet, there seems to be little street protests can do to avert what many feel to be social catastrophe that will unfold with the EU-IMF program. The economy is set to contract by 4 per cent in 2010. According to Alexis Tsipras, president of the left parliamentary coalition Synapsismos, this will result in the rise in the unemployment rate from 15 to 20 per cent in two years' time, with the rate among young people expected to hit 30 per cent.

As for poverty, a recent joint survey by Kapa Research and the London School of Economics cited by Interpress Service found that, even before the current crisis, close to a third of Greece's 11 million people were living close to the poverty line. This figure, says the study, indicates that a "third world" is being created within the country. ("Greece: More Poverty than Meets the Eye," IPS, Nov. 13, http://ipsnews.net) This process can only be accelerated by adherence to the Brussels-IMF adjustment program.

The irony of the situation is that the adjustment is being presided over by a Socialist government headed by George Papandreou that was voted to office last October to reverse the corruption of the previous conservative administration and the ill effects of its economic policies. There is resistance

within Papandreou's party PASOK to the EU-IMF plan, admits the party's international secretary Paulina Lampsa, but the overwhelming sense among the party's parliamentary contingent is, as Margaret Thatcher famously put it, "TINA— "that there is no alternative."

The Consequences of Compliance

Is there indeed no alternative? Faced with the program's savage consequences, there are increasing numbers of Greeks who are talking about the option of adopting a strategy of threatening default or a radical unilateral reduction of debt. Such an approach could be coordinated, says Alexis Tsipras, with Europe's other debt burdened countries, like Portugal and Spain. Here Argentina may provide a model: it gave its creditors a memorable haircut in 2003 by paying only 25 cents to every dollar it owed. Not only did Argentina get away with it, but the resources that would otherwise have left the country as debt service was channeled into the domestic economy, triggering an average economic growth rate of 10 per cent yearly between 2003 and 2008.

The "Argentine Solution" is certainly fraught with risk, but the consequences of surrender are painfully clear if we examine the records of countries that submitted to IMF adjustment.

Forking over 25 to 30 per cent of the government budget yearly to foreign creditors, the Philippines in the mid-eighties entered a decade of stagnation from which it has never recovered and which condemned it to a permanent poverty rate of over 30 per cent.

Squeezed by draconian adjustment measures, Mexico was sucked into two decades of continuing economic crisis, with terrible social consequences such as the pervasive narcotics traffic that have brought it to the brink of being a failed state.

The current state of virtual class war in Thailand can be traced partly to the political fallout of the economic sufferings imposed by the IMF austerity program imposed on that country a decade ago.

The Brussels-IMF adjustment of Greece shows that finance capitalism in the throes of crisis no longer respects the North-South divide. The cynics would say, welcome to the Third World, Greece. But this is not a time for cynicism but for global solidarity. We're all in this together now.

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P.S.

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