The EU's Avoidable Greek Tragedy

Reiner
Hoffmann

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In June 2017, the Eurogroup of 19 EU finance ministers agreed to pay out the third tranche of €8.5 billion from the Greek bailout package. In total, Greece has received about €300bn from the rescue package until now. But did this incredibly high amount of money reach the Greek population? Did its living conditions improve? Not at all! Quite the contrary. The German Trade Union Confederation asks the all-dominant "Gretchen" question: What ails the European Monetary Union? What changes must occur to make the best use of the billions of euros disbursed in favour of Greek society?

The disbursement of the third tranche was accompanied by the escalating dispute between the Eurogroup and the IMF as to the debt sustainability of Greece. In the first place, the discussion did not address the question of how to make best use of the resources to help the Greek population out of the poverty trap. Predominantly, the arguments concerned the adequate improvement in the primary surplus. In the long run, Greece should be able to pay back its debts out of its own resources. To this end, the Greek state is expected to permanently achieve higher income than expenses – thus attain a primary surplus of 3.5% of GDP by 2022 and around 2% by 2060. Hence, the Troika (a body of representatives of the European Commission, the IMF and the European Central Bank (ECB)) tightened the credit girdle for the next 40 years. Just for comparison: The last time Germany achieved such a primary surplus was in 1995. The Greek government's need for rescue aid results from the repayment due to the ECB and debt repayment to the IMF. Greece has already been able to finance its current expenditures out of its own revenues since 2014.

The IMF will finally participate – despite its serious misgivings, at least provisionally – with €1.8bn. Earlier, it only adopted an "approval in principle" position, because of its conviction that additional structural reforms are needed. The IMF assumes that it will take another 25 years to reduce the unemployment rate (currently 22.5%) to a single digit value.

Back to the point of departure – lazy Greeks or wrong currency structures?

The accession of Greece to the EMU in 2001 was based on geostrategic reasons. Already then, Greece took liberties with the EU's stability criteria by resorting to creative accounting. Between 1997 and 1999, the fiscal deficit exceeded by far the 3% required by the stability pact. National debt amounted to 106% of GDP. During the financial crisis, it increased dramatically by 20 percentage points to 126% (2009). The "rescue program" did not ease but exacerbate the situation. The government's debt today accounts for 180% of GDP.

Why? First, the credo "back to the financial market" must be questioned. Precisely because of its EMU accession– and thus switching from a weak (the Drachma) to a hard currency, Greece was able to finance itself on extremely preferential terms on the financial markets, accumulating its debts. This was not a problem as long as the original interest rates for long-term government bonds ranged up to 4%. However, from the moment when international creditors lost their trust in Greek solvency, its debt burden became its downfall. Interest rates exploded to over 40% and Greece could no longer service its debts, triggering the risk of failure for some financial institutions.

Yet, this is only one reason. Another aspect is the faulty design of the Euro. Countries with weak currencies do not dispose any more of their customary tool of devaluation. They can only resort to a structural devaluation that involves slashing public investments and wage reductions. Thereby, the common currency, designed to unite European member states, has become a highly divisive issue for the continent. Greece is an enforced recipient of transfer benefits. This has serious consequences:

Euro-scepticism through insistence on wrong crisis concepts

The Greek government in Athens receives money from the current program because it adopted additional austerity measures. From 2019 onwards, pensions will be reduced by another 9% and taxes will be raised again. Furthermore, it has extended labour market reforms, including the suspension of comprehensive collective bargaining, of industrial action and of the ban on mass dismissals. This national wage dumping decreed from outside is complemented by the sale of the Greek family silver, an extensive privatisation program from electricity supply to infrastructure – airports, harbours, services of public interest such as hospitals, schools and public transport.

It represents an unconstitutional intervention into Greek sovereignty infringing the principles of international law. Beyond that, it is incompatible with the European Charter of Fundamental Rights, which guarantees the right to collective bargaining and industrial action, protection against unfair dismissal and fair and adequate working conditions. This kind of modern financial colonialism intervenes directly in democratic constitutions in order to serve the neoliberal stability criteria operating within the Eurozone.

However, this concept will not work. A State in permanent austerity will collapse because it cannot invest to support economic growth. At least 77% of the rescue money has been directed directly or indirectly into the European financial sector that already received €670bn of direct state support at the start of the crisis. Conclusion: About €231bn did not benefit Greek society but the financial sector.

As in other countries, the drastic unequal distribution of net assets has been unaffected in Greece. The income gap in the Greek population is rapidly increasing. Numerous households cannot afford energy and heating. Significantly, more than 30% of citizens lack health insurance. Infant mortality has risen by 40%. According to estimates, €20-100bn are stashed away in Swiss banks to avoid taxation – withheld revenues that could support the consolidation of the national budget.

What is to be done?

A generation of young unemployed Greeks is growing up. The EU is not keeping its promise of shared wealth. A scapegoat has to be held liable. For the Greeks, German austerity policy is responsible. Whereas the creditor states blame the “lazy Southern Europeans” for the zero-rate-policy of the ECB that makes saving worthless. European politicians fail to invalidate these worries and contradictions by ignoring them. The gap between bad and good economic policy, between saving and indebtedness and/or investment, must be resolved, if the Euro is to last.

Therefore, in the first place Greece needs debt relief. Loan repayments should be suspended for several years in order to allow for investment and relieve the pressure for spending cuts. The rows must stop and Germany and other traditionally hard currency countries must become more generous.

Second, Greece needs investment in the real economy. The Juncker Program and the European Social and Structural Funds have available plenty of money, for instance an additional tranche of €970m of Structural Fund monies and an extraordinary tranche of €11bn shifted from the EU budget. Greece fails to draw down this money sufficiently, because its administration lacks capacity and scale – part of the Troika-program includes a radical downsizing of the state apparatus. Small and medium-sized businesses need a “help-desk” to support their investment projects. The Eurogroup proposed the establishment of a national development bank to coordinate and realise development activities, to improve technical support and investment advice from the European Investment Advisory Hub. These are important concrete measures, which must be put into effect as soon as possible.

Third, the design of the Euro requires a radical restructuring. The European Stability Mechanism established an unacceptable financial colonialism based on the interaction between institutions (namely the ECB, the IMF and the Commission). De facto, it is not democratically legitimised and lacks accountability to any parliament. Consequently, a joint monetary governance, a fiscal union, is required.

Finally, a progressive policy, based on innovative solutions, is vital. Eurogroup ministers should act in the interests of European citizens and not in favour of their national large corporations or international investors. From an economic point of view, the basic question regarding the rescue credits is who can afford to wait for money: The creditors or the Greek people, who are at risk of poverty. Waiting for repayment is comparably cheap given incredibly low-interest rates. Therefore, the trade unions' answer is obvious: Immediate suspension of debt repayment and use of the primary surplus for the benefit of the Greek population are the prime orders of the day. Brexit must not be followed by a Grexit!