Europe: What the Greek Memorandum Means

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James Galbraith and Daniel Munevar ▪ August 24, 2015

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It is a lie from the first line. “Greece has requested support from its European partners. . . .” Thus begins the “Memorandum of Understanding for a three-year ESM programme” (MoU), which sets the conditions with which Greece must comply in order to avoid being ruled in default on its debts.

The reality is that the Greek prime minister, Alexis Tsipras, was bludgeoned into accepting the terms that follow in this long and depressing document, under threat that the banking system of his country, entirely controlled by the European Central Bank, would otherwise be demolished, and that he would be forced to manage a disorderly exit from the euro, for which his government did not feel—and for which in fact it wasn’t—decently prepared.

For what purpose, this supposed support? The document continues: “to restore sustainable growth, create jobs, reduce inequalities, and to address the risks to its own financial stability and to that of the euro area.” Let us take these up in turn.

“*Restore* sustainable growth.” In reality Greece has not enjoyed sustainable growth under the euro, which is to say, not since 1999 at least. Growth in the entire period before 2010 was built on unsustainable debt, followed since then by deep and ongoing decline.

“Create jobs.” Here the record of the previous memorandums, in force since 2010 and highly similar to the present one, is not reassuring. Under their guidance, Greek unemployment has reached 29 percent overall and around 60 percent for the young, with no sign of improvement so far.

“Reduce inequalities.” The cynicism is to weep. The Memorandum sharply increases taxes on the poor, reduces them in several respects on the rich, and cuts pensions at the very bottom of the scale. Meanwhile farmers and dairies and small professionals such as pharmacists will be swept away by north European agribusiness and chain stores.

As for risks to financial stability, there are two. The first is the state of the Greek economy, in which some two-fifths of bank loans are non-performing. The memorandum does nothing about these loans, except to establish a creditor-controlled “liquidator” for Greek businesses and homeowners. As the economy gets worse, of course the liquidations will increase.

The second risk arose from the actions of the ECB since January, when the new Greek government came in. In violation of its charter, which is to promote financial stability, the ECB responded by prompting a run on Greek banks, in anticipation of confiscation of deposits. To undo this damage, depositors are now being told that all Greek bank deposits will be covered by insurance. This would be reassuring—except that what will happen when Greece falls out of compliance with the Memorandum remains unclear.

The second paragraph continues: “Success requires ownership of the reform agenda programme by the Greek authorities.” But then: “the government commits to consult and agree [with the creditors] on all actions relevant [to the MoU] before these are finalized and legally adopted. Moreover, compliance with terms will be reviewed, not every year, but every quarter—twelve times over three years. Ownership is where, exactly?

Next, “The recovery strategy takes into account the need for social justice and fairness. . . .” In this paragraph, the Memorandum promises to attack tax evasion and “rent-seeking” while providing 50,000 new jobs, universal health insurance, and a guaranteed minimum income. Terrific, except that tax evasion and rent-seeking are presented as the small-scale activity of petty players—not the oligarchs who specialize in both—while not a single new euro is provided for any social goal. Apparently the new jobs, health care and guaranteed income are

to be financed by cutting somewhere else in the Greek budget. Where, exactly, the document does not say.

Following this pabulum, the Memorandum sets out the four pillars of policy for “sustainable recovery.” These are said to be “restoring fiscal sustainability,” “safeguarding financial stability,” promoting “growth, competitiveness and investment, and establishing “a modern State and public administration.” Of the four, a glance reveals that only one—the first—has macroeconomic content, and that is the declared target of a “primary surplus” of 3.5 percent of GDP. This fantasy goal is to be achieved, in the main, by raising value-added tax, cutting pensions, and enforcing tax collection more sternly. It is the opposite, in short, of a sustainable recovery strategy.[1]

The other three “pillars” consist of the following major features: (a) forced bankruptcies and foreclosures; (b) “labor market reforms” obscurely described as EU “best practice” (and specified, later in the document, to be decided by the creditors themselves), plus “ambitious privatization”; and (c) “independence” of the tax administration and of the statistical services, which again means that the creditors and not the Greek state will be in control.

“Success will require the sustained implementation of agreed policies over many years.” Never mind that there is no agreement here, only dictation. This statement, which begins the fifth major paragraph, concedes that there is no standard for success. Continued actual stagnation and failure in Greece will be passed off as either unsustained effort or insufficient passage of time. This means that long-term private investment in the local Greek economy is discouraged from the start, since failure to meet the targets will trigger further tax increases and cuts in demand.

Skipping ahead a bit, one gets to some of the ugly details. As “prior actions,” to be enacted by Parliament before funds are disbursed, the Greek government is required to raise taxes specifically on farmers; raise the tonnage tax on shipping (which will, as Yanis Varoufakis observes, convince the shipowners to move their base to Cyprus); cut subsidies for heating oil in half; and (as if by magic) cure the ills of Greek tax collection. The latter will be tricky, given that income taxes on farmers and on rents are magnets for increased tax evasion. In addition, “the authorities commit to legislate in October 2015 credible structural measures” to raise another 1 percent of GDP in taxes by 2018. If the courts rule against any measure, the government will “take offsetting measures as needed to meet the fiscal targets.” Nothing in the Greek constitution, in other words, can stand in the way.

Long sections of the Memorandum deal with pensions and health care. Pensions must be cut by 1 percent of GDP by 2016. Health contributions will rise. Access to the “basic, guaranteed contributory, and means-tested pensions” will come “only at the attainment of the statutory normal retirement age of 67” (raised from 60 for women and 65 for men over the course of the last two bailout deals). By 2019, the “solidarity grant” to the lowest-income pensioners, known as EKAS, will end. Meanwhile the government will again start collecting fees in hospital surgeries from the poor, and will take measures that target the remaining Greek pharmaceutical companies in ways that will favor multinational producers—ignoring the fact that Greek consumers today benefit from some of the lowest drug prices in Europe.

On privatization, the Memorandum sets out a long list, from gas and electricity and water to transport and public assets, including airports and ports. The document specifies that they will be sold or auctioned or in some other way opened to private businesses, who will (as a general rule) raise fees and defer maintenance, since there is no other way to make money in a collapsing country. Here is specified the absurd 50 billion euro asset fund—a target so high that it has the practical effect of assuring that every euro actually earned from fire sales will paid to creditors or used for bank recapitalization, with nothing for growth or investment.

What does Greece get for this? Some 86 billion euros will flow in—and right back out again, to be recorded as payments on the debt and bank recapitalization. So Greece gets, for now, to stay supposedly current, as new debt replaces the old debt coming due. And yet, the Memorandum says nothing about restructuring or debt relief, nothing about the sustainability of the debt in the long run. That will be decided and judged, we hear, in October, when the IMF will decide to join the program, or—more likely—to walk away.

Yanis Varoufakis has annotated the Memorandum in full detail, and it is not our purpose here to duplicate his work. Rather, let us consider the larger implications of this document.

In Greece the prospect is for the liquidation of everything. As taxes rise and purchasing power falls, it would take an act of god to keep most businesses afloat or homeowners in their homes, once the tourist season ebbs and the weather grows cold. A double death spiral will likely follow: on one side, tax revenues will ebb, bringing on further cuts in pensions and public payrolls; on the other, more businesses and homeowners will default on their loans, deepening the troubles of the banking system. The economy, or what remains of it, will go toward cash and barter, with multinationals moving in on utilities, ports, airports, hotels, and other cash-cow operations. Ultimately, the ECB will be forced at some point to shut the banks—and no doubt reopen them, if deposits remain guaranteed, under foreign control. Otherwise, in the ultimate liquidation, the deposits will simply disappear.

Political consequences are already in motion. The old governing parties, who brought on the disaster, will continue to implode. But now Syriza, which rose on a wave of rebellion and hope, has also split, with a new anti-euro politics taking over on the left, as it has on the extreme right. These two forces will contest, for a while, over the disaffected and destroyed population. If the new Popular Unity party wins the confidence of the 61 percent who voted no in the July referendum then the September snap election would take Greece out of the Memorandum and out of the euro. But this is unlikely; Greeks remain (in spite of everything) attached to the euro, and the snap election was called to deny a new opposition time to gel. More likely, before new political space opens in Greece, the full consequences of the Memorandum will first have to be felt.

Europe is another matter. For Europeans, the Greek Memorandum now stands as a symbol of what Europe has become, and the prospects for reform at the European level now seem very bleak. Spain's Podemos—which offered a Syriza-like model of anti-austerity within the Euro—has lost support following Syriza's defeat. In countries with elections coming later—Portugal, Ireland, France—the political consequences will continue to unfold, but it seems likely that somewhere, over time, an anti-euro campaign will catch on. Britain, which does not have the euro, is less directly involved, but the tarnish of the euro can't fail to rub off, a bit, on the larger structures of the European Union.

For the rest of us, it is a moral question. Outside progressives have long seen the European Union as a constructive force in the world—a middle way, so to speak—and its creature the euro as a symbol of a European social model, which we were brought up to admire. To read the Greek memorandum is to lose those illusions. And so when the next uprising comes, it would be wise to have thought through the inevitable question: which side are you on?

James Galbraith and **Daniel Munevar** assisted the Finance Minister of Greece, Yanis Varoufakis, on a variety of matters in the spring of 2015. Galbraith is a professor at the University of Texas at Austin; Munevar is a former senior adviser to the Finance Ministry of Colombia, and a graduate of the University of Pinar Del Rio in Cuba and of The University of Texas at Austin.

1. As a reasonable estimate, based on past experience in the Greek case, each percentage point of fiscal adjustment cuts about 1 percentage point off of the steady-state level of GDP.