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The Dark Days of the 'Greek' Memorandum of Understanding

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At first, I would like to thank the Dean of the Faculty of Engineering of Aristotle University of Thessaloniki for inviting me to speak in today's conference on the Greek debt. My speech includes a description of the current situation a year after the adoption of the 'Greek' Memorandum of understanding, a presentation of the dark prospects outlined in the discourse on the public debt restructuring and finally, an analysis of the only alternative, which favours the social majority and public interest and is summed up by the claim for suspension of payments and the debt write-off, entirely or partly.

The German journal 'Der Spiegel' publication on Friday 6th of May 2011, which presented the Greek government discussing and pursuing a euro exit, pointed out in the most official way the policies' failures that have been followed thus far in order to solve the Greek debt crisis.

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The term failure refers to the nominal targets of this policy, which focused on Greece's gradual return to the markets, from where the Greek state could borrow again under better terms. This becomes particularly clear, if we examine:

1. Firstly, the current boost of loan interest rates in the secondary market to much higher levels than the ones they were in when the appeal to IMF was announced during the two-month period April-May 2010.
2. Secondly, the public debt rise as part of the GNP percentage, in comparison with 2009 levels, at the end of the implementation of the Memorandum of understanding –i.e. when the implementation of 'chemotherapy', according to the Financial Times terminology, was decided– which the Greek government knew since it signed the unconstitutional Memorandum of understanding.
3. Thirdly, the continuous degradation of Greece economy and big corporations, such as banks, by the credit rating agencies, currently one step before the so-called junk status.

Consequently, the fierce austerity did not ensure Greece's return to the markets, but pushed it further away, it did not contribute to the restoration of credibility as the Prime Minister promised, but undermined it even more.

The burden of responsibility lies completely on the Papandreou government, European Union and International Monetary Fund, who planned and imposed the heavy austerity policy in order to face the crisis, while violating flagrantly the people's command. I underline the estimate that the burden of responsibility lies on the Greek government, IMF and EU because even now, i.e. a year after the unimpeded implementation of the most extreme neoliberalistic and retrogressive choices which have ever been implemented on Greece and abroad, members of SEV (Hellenic Federation of Enterprises) and IOBE (Foundation for Economic and Industrial Research) put the blame on the society and employees once more, in an attempt to shake off their responsibility for the failure of the 'Greek' Memorandum of Understanding.

But is this really a failure? Judging by whether the bankruptcy has been prevented, there is no doubt: the austerity measures imposed by the blackmail 'Memorandum of understanding or bankruptcy' did not prevent bankruptcy, much as it is concealed under the melodious term 'restructuring' or even 'voluntary restructuring' of the public debt.

However, in my view, **the aim of the Memorandum's ratification was not the prevention of bankruptcy**. The aim was to reverse the social conquests and labour rights of decades, with ultimate purpose to improve the private profitability and restore the profit margin to the first postwar era levels: the so-called glorious thirty years, as they are often described, although several crises existed at that time too, whilst of lesser importance, and social contradictions. That was the hidden meaning behind the implied utterances "let's turn the crisis into an opportunity".

Let's try to make a short retrospect on some of the adopted austerity measures. We will examine only the economic aspects, without commenting on the blows that the constitutional order and democratic legitimacy have suffered the last year by the implementation of an unconstitutional Memorandum of Understanding, which flagrantly violates the sovereign rights by forbidding in practice the right to demonstrate via deterrent arrests and other measures. Thus, by examining merely the economic measures, I single out the following:

- Wage reductions both in public and private sector via the abolition of benefits and the slashing of both 13th and 14th salary.
- Anti-insurance law reducing the pensions.
- Rapid reduction in social expenditures, which directly implies the closing down of 1056 schools – an unprecedented event in the history of the Greek state– the dissolution of the public health system, as the borderline function of historic public hospitals indicates, and the shrinkage of the public transportation means.
- Lay-offs of tens of thousands of contract employees in the public (*stricto* and *lato sensu*) sector,[1] who met fixed and permanent needs, by not renewing their contracts.
- Abolition of collective labour agreements and pushing the bargaining burden even lower: from the collective-general to the sectoral level, then to the business level and last to the personal one, where the employer's and managers' arbitrariness rules.
- Abolition of arbitration.
- Increase of working hours in the public sector.
- Reduction in redundancy payments in order to facilitate lay-offs.

[1] *Stricto and lato sensu*: Με την ευρεία και τη στενή έννοια, δηλ στον ευρύ και στενό δημόσιο τομέα

- Increase of indirect taxation and particularly the Value Added Tax and special excise taxes, contemporaneously with the decrease of corporate tax rate from 24% to 20%.
- Facilitation of the multinational public limited companies corporate action via the so-called deregulation of the 'licensed professions'.[2]
- Total selling-off of the public property via the 50-billion euro privatization plan, which was announced by the Troika, and the existence of which the government unequivocally denied at first.

The direct outcome of last year's applied measures, as the general manager of the Bank of Greece highlighted in its annual stock meeting, is **the wage reduction by 14% and the pension reduction by 11%.** And we refer only to the first year of implementation of this devastating (for the social welfare and cohesion) policy. That is the first thing to keep in mind. It should also be noted that general strikes – like the one on 11th May 2011 – along with the independent and aggressive labour struggles, constitute the only rival, which can intercept this descending course and reverse this policy.

The second thing to keep in mind is the fact that **the German and French banks eventually succeeded in getting rid of Greek bonds**, according to a recent announcement of the Bank for International Settlements, which is established in Basel, Switzerland. In other words, after earning millions from the excessive Greek bond yield, the exposed in the Greek bond market financial institutions exploited the commodity option by the European Central Bank and are therefore no longer at risk of any

[2] They are often also referred as 'closed professions'. Despite other possible or logical interpretations, essentially this category included far too many licensed professions (136 in total) and, hence, it was deemed more accurate to use this term.

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restructuring plan: whether it is a 'haircut', i.e. a depreciation of the bonds value, or an extension of debt payment agreement. The Greek banks' dreadful position does not go unremarked here, since a possible Greek bonds haircut will lead to bankruptcy and their immediate sell-off to international competitors. This is a very common development to all states which resorted to IMF, insofar as it constitutes a rule (with most typical example that of Mexico, where not even a single bank was left under national ownership), but an unprecedented event for Greek capitalism. The Greek civil class, which possessed a financial arm even before the foundation of the state, had never before faced the danger of being left without a financial donor.

Therefore, based on the two abovementioned developments (wage reduction and rescue of foreign creditors), it is **quite dubious whether we can talk about a failure of the Memorandum of Understanding.** The failure refers to its nominal pursuits, the reasons the government invoked to justify its implementation, while hiding its ultimate pursuits.

The dark prospects

Therefore, one year since the implementation of the Memorandum of Understanding, the Greek capitalism has exploded in a paroxysm of contradictions. **The common denominator** in all rumoured scenarios – official and unofficial – is firstly the **deeper austerity,** which will lead the 'social question' to a new outburst, and secondly **the dept restructuring**, the conducting of which remains to be seen. What, in other words, remains to be seen is which capital shares will suffer due to loss of privileges. Will the foreign banks suffer or the Greek ones which will be offered to the foreigners for a mess of pottage, as bank system officials would not hope for? Will it be the private

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creditors who will suffer first – as Merkel wishes and has already enforced by the term of 'controlled bankruptcy' in the conclusions of the latest Eurozone Summit – or will it be the states, as Soros and the City prefer, and therefore exert pressure in order for the restructuring to occur in 2013 so that the EU mechanism will be activated? Will the French suffer, who have already begun secret deliberations with the Greek government, which irritates Berlin and produces publications like the one in 'Der Spiegel' or will the German suffer, who have already prepared bankruptcy plans as they have confessed? The cataclysm of scenarios, 'leaks' and prophetic publications over this past time reflects this same battle that takes place on the expense of Greek tax payers' money and the future of Greek employees.

However, whichever is the reaction to the Greek fiscal crisis (and that applies even more to the new lenient 50 or 60-billion euro lending, which will cover the 2012 financial gap), **the debt crisis will not be solved but deteriorated**. The post-haircut total debt volume, insofar as it takes place following our creditors' initiative, will be bigger than the present one, i.e. the restructuring will not solve the dead ends of the debt management, which cannot and should not be served; it will just postpone them for a few years.

The alternative solution

The question is "what must be done"?

The only viable solution for the debt is **the immediate default on payments and the debt's biggest part, at least, write-off**. It is a decision that must be accompanied by a nexus of complementary and mutually supporting policies, such as the Eurozone and EU exit, the nationalization of banks and corporations of strategic

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importance (so that the socially essential production reorganisation can bring employment growth and socially essential goods and services production), the enforcement of barriers to the international capital flows, the significant increase of the unacceptable (even internationally) legal entities' taxation, in order to finance redistributive policies etc.

The international law offers already many examples which legalize the political choice of default based on **the state of emergency**. This is the exact situation Greece now experiences: numerous homeless people crowding into parks and squares, rapid increase of crime rate, suicides having doubled between 2009 and 2010, unemployment rates rising up to 50% within a year due to the closure of businesses and lay-offs etc. This situation will soon deteriorate on account of the euro interest rates increase. The full utilisation of the opportunity to declare a state of emergency in 2002 by the Kirchner government of Argentina confirms that all that is needed for a default is political will. In fact, the rejection of seizure claims regarding Argentina's public property by the constitutional courts of Germany and Italy, following the investors' petition, underlines the legal precedent and the favourable grounds for such a decision.

Hence, I'm entering directly into a short cost-benefit analysis. In Argentina, although everyone predicted that national disaster would follow the default and the disconnection between the national currency and the dollar, the results verified the validity of the decision. Despite the contradictions and mistakes that took place, the economy shrank for only one trimester after these decisions. Six years later, consecutive growth rates reached 63%, which resulted in the creation of the essential terms that would face misery and more specifically lead to the poverty exit of 11 million people in a country of 39 million. Furthermore, the pre-crisis production levels were recovered within three years. These data derive from the *Opinion Pages* of Mark Weisbrot, former IMF executive, which was published just yesterday in The New York Times and spread rapidly around the world, under the title 'Why Greece Should Say No to Euro'. By continuing a short comparative examination of the two 'possibilities', the method of internal devaluation in Greece, which proves to be not only socially disastrous but inefficient as well, will result in the restoration of the pre-crisis production levels within eight years, based on IMF's estimates. However, these estimates are always reviewed for the worse. Thus the statements of Prime Minister's former advisors about "a lost generation", i.e. a recession that will last 15 to 20 years, are anything but random.

In this conflict with the foreign creditors, the constitution of an Audit Commission, which will examine the legitimacy of the public loans, can offer valuable assistance. This proposal concerns a committee formed by personalities of international standing and representatives of social organizations, which will be subject to public auditing at any time and will be accountable. The recent example of the Republic of Ecuador, where following the assistance of such a committee the write-off of the public debt's biggest part was made possible– even the bond debt which is considered to be very difficult to audit – underlines the possibility for an equivalent solution in Greece. The concept of odious debt by Alexander Sack can offer assistance to this process.

It is often argued that the suspension of payments will cause the international isolation of Greece and its exclusion from financial markets. However, the reality does not confirm this scaremongering because:

1. Firstly, both Argentina and Russia, which proceeded to suspension of payments in 2002 and 1998 respectively, re-entered the markets within two years. On the contrary, Greece, which does not proceed to suspension of payments in order not to dissatisfy the markets, remains excluded from them and will continue to be for many more years, as long as this policy is implemented.

2. Secondly, why should the appeal to the markets be considered necessary? In Greece, the suspension of payments discharges the public finance of the unbearable burden, which now makes lending unnecessary for the essential public expenditure coverage.

3. Thirdly, even if a country does need temporary lending, why should it appeal to international and especially to bond loan? Correa in Ecuador and Morales in Bolivia both proceeded to a constitutional amendment in order to prevent future international loans, while being aware that this is a phenomenon that will sooner or later grow into an avalanche. Therefore, the answer is that even if we can we should not resort to international loans again, since it is a matter of time before we are heavily indebted.

4. Lastly, why should we use moral terms and accusations when the prospect of a state's default rises in order to ensure the best interest of its citizens, such as the right to employment, education and health, at the same time that the equivalent private sector practices are considered legitimate, when they ensure the shareholders' interests?

We have recently supported in public this proposal on the occasion of the filming of a documentary under the title *Debtocracy*. While we were still at the editing stage the following question arose: what would we say if the debt crisis broke out in Greece in 2008? In other words, what would we have suggested before the positive and promising precedent of Ecuador? We answered this question by giving a hint in the documentary about the experience of the President of Ecuador in the private sector, where he served before the beginning of his turbulent political journey, in the context of which he resigned from Minister of Finance before becoming president, because he refused to function 'as an IMF employee'. Therefore, we would argue the following: it

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is well known that according to the fundamental ideological assumptions of the four last decades the private sector constitutes the most original laboratory of innovation and meritocracy, productivity and transparency, while on the other hand the public sector constitutes a greenhouse of laziness and corruption, an example of ancient administration and organization methods. So let's apply the private sector methods on public finance and especially on public debt. Let's audit the public debt. Why are auditing and consulting agencies such as PriceWaterhouse Coopers considered efficient to set up the drafting of the new collective labour agreements in Public Corporations and Organizations? Why are other agencies such as Ernst & Young, KPMG and Grant Thornton considered qualified to draft the Medium-term Fiscal and Reform Strategy 2011-2015 and not perform their specialization of auditing on the public debt?

The aforementioned proposals for default, Eurozone and EU exit etc. do not constitute an easy way out. They bear a social cost. This cost, however, is by far smaller in comparison to the one we are paying today in exchange for an uncertain, if not worse future; it is not undemocratically distributed like today, when the burden of the internal devaluation lies on the employees and most importantly, it is not equal to social regression, as the closure of public hospitals, schools and universities indicate.