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The key question behind the Greek crisis

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Greece was bailed out one year ago for 110 billion Euros by the IMF and the member countries of the Eurozone. However the fire-fighting has only been able to bring temporary success and now the principal foundational structure appears to be giving way. Now a second 60 billion Euro IMF and EU rescue package is taking shape, conditional upon accelerated privatisation and tougher tax collection measures. The Greek story foretells the possible future of other mis-structured, mis-managed and bailed-out countries.

The credit-rating companies have already downgraded Greece several times since the huge imbalance of the country came to light. Although these steps themselves deteriorate the country's position by making the debt-financing much more expensive, one can hardly deny that the Greek debt is too large to be repaid. Despite these efforts and the massive sum the country received last year, Greece was not able to substantially improve its overall equilibrium. Here we have to admit that Greece achieved the largest relative improvement in its fiscal balance in the Eurozone last year: the general government deficit was reduced by 5 percent of GDP, while the primary deficit (the deficit excluding the interest expenditures) was reduced by 5.4 percentage points (from 10.3% of GDP to 4.9%). This, however, does not say all that much, since Hungary also succeeded in halving its budget deficit between 2006 and 2008, but still had to enter fiscal rigor.

This, however, does not mean that the country has gained back the trust of the markets. The budget deficit was bigger (10.5 percent) than planned in 2010 and was also more than expected in the first quarter of 2011. The reason for all this is twofold. On the one hand, the economy has not grown at the desired pace, partly because of the decreasing demand that the restrictions inevitably caused and partly because of pervasive tax evasion. On the other hand, fierce social resistance against social expenditure cuts forced the government to slow down the completion of its program.

The IMF and the EU (Ecofin) have urged the acceleration of the structural reforms and privatization and Ecofin emphasizes that no debt-relief steps should moderate the commitment of the Greek government towards the necessity of fiscal consolidation, privatization and reforms aimed at improving economic growth. The European authorities have rejected the possibility of debt-restructuring up till the middle of May when Jean-Claude Juncker said "*If Greece makes all these efforts, then we must see if it is possible to make a soft restructuring of Greek debt*" (IrishTimes.com, May 18th, 2011). Still, he added, he is "*strictly opposed to a major restructuring*". In March 2011 the leaders of the Eurozone agreed to lower the interest rate of the bailout loan to help Greece and ease the situation for the Euro. Now, with the new rescue package on the table, the option of restructuring is muted while the urgency of further harsh austerity measures is in the spotlight.

So the task for Greece is very difficult. The budget has to be adjusted by a sum as large as 8 percent of GDP. The first package of May, 2010, with its expenditure-cutting and pension reform, among other elements, brought only 2 percent. A second round of cutbacks had to be put on the table in April 2011, at a time when the unemployment rate is already around 15 percent and one in five citizens live under the poverty line (60 percent of median income). The new program contains a 26 billion Euro adjustment, mainly a reduction in expenditures and a 50 billion Euro privatization package. A 3 billion Euro adjustment and a 15 billion Euro privatization will be introduced this year.

The government plans, among other things, to cut expenditures on defence by 1.2 billion Euros, public wages and pensions by 2 and 2.5 billion Euros respectively, to introduce a ceiling on public spending and to take steps against tax evasion, from which 11.8 billion Euros in extra revenue is expected by 2013. The problem is that servicing the debt (cc. 140 percent of GDP) through bonds and loans represents a huge burden for the country, equalling about 8-9 percent of GDP per year. The financing of the debt is rendered even more difficult by the rising yield spreads on Greek state bonds. At the end of April 2011, 10-year bond yields were above 15 percent and two or five-year yields were even higher.

This is why the money that will hopefully be gained from privatization will be turned into debt repayment. By doing this however, the government will abandon potential or effective revenue-making items (the telephone-company, power plants, horse racing organization etc.) that otherwise could be a source of future growth and public spending.

The core problem with Greece is the country's low competitiveness and the Euro that does not express this. The value of the euro is determined mainly by the strong economies of the zone, first of all Germany, making the currency overvalued for the poorly structured Greek economy. If the country wants to increase its international competitiveness, it has to decrease the costs of production, labour compensation first of all. Although Greece has made some improvements in this area over the last year (real wages per head and real unit labour costs declined by 7.9 and 3.5 percent respectively in 2010) this was by far not enough. More is needed but it has to be accepted by the people.

The only solution seems to be leaving the Eurozone. That however could result in an even larger crisis and the immediate depreciation of the national currency would push up the national debt (denominated in Euros) even more, without necessarily solving the competitiveness problem. The question is how to produce a "soft landing" from the Eurozone and gain back equilibrium and competitiveness. Because the key competitiveness question is the division of the value-added, GDP, of which labour's share must be decreased in order to raise the profitability of capital. At first glance it is a pure economic question. But as policies are introduced to achieve this goal, i.e. as the redistribution of GDP in favour of capital moves forward, the crucial social dimension of the problem becomes more self-evident.

The Greek government is trying to find a solution within the framework of the status quo. If however, Greek wage earners, pensioners, students, the unemployed and their organizations are not ready to live with the remedy they are told they must accept, the government will find itself at a crossroads: to oppress discontent by force or leave the Eurozone. In the latter case, austerity measures would be necessary, so the original question would repeatedly arise. This catch 22 is unsolvable within the framework of the market economy, unless the debt is restructured, partly forgiven, at the expense of the stronger Eurozone countries. They are hardly ready for it, at least not to the extent that would radically solve the problem. The other possible solution is the modification of the basic features of the capitalist system, the necessity of which is already on the table, e.g. in some professional circles, among civil movements and even, albeit very limitedly, at the highest levels of the global architecture of capitalism.

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