Greece: Same Tragedy, Different Scripts

By Walden Bello, July 14, 2010

Cafés 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 plunges into its worst economic crisis in decades.

The global media has presented Greece, tiny Greece, as the epicenter of the second stage of the global financial crisis, much as it portrayed Wall Street as ground zero of the first stage.

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

Narratives in Conflict

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

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

This penance comes in the form of a European Union-International Monetary Fund program that will increase the country's value-added tax to 23 percent, 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.

Although the welfare-state narrative contains some nuggets of truth, it is fundamentally flawed. The Greek crisis essentially stems from the same frenzied drive of finance capital to draw profits from the massive indiscriminate extension of credit that led to the implosion of Wall Street. 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*: Periods of frenzied speculative lending are inexorably followed by government or sovereign debt defaults, or near defaults. Like the Third World debt crisis of the early 1980s and the Asian financial crisis of the late 1990s, the so-called sovereign debt problem of countries like Greece, Europe, Spain, and Portugal is principally a supply-driven crisis, not a demand-driven one.

In their drive to raise more and more profits from lending, Europe's banks poured an estimated $2.5 trillion into what are now the most troubled European economies: Ireland, Greece, Belgium, Portugal, and Spain. German and French banks hold 70 percent of Greece's $400 billion debt. German banks were great buyers of toxic subprime assets from U.S. financial institutions, and they applied the same lack of discrimination to buying Greek government bonds. For their part French banks, according to the Bank of International Settlements, increased their lending to Greece by 23 percent, to Spain by 11 percent, and to Portugal by 26 percent.

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 debt "disappear," thus making the national accounts look good to bankers 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, Greece is suffering from it right now.

Hijacking the Narrative

There are two key reasons why the Greek narrative has become a time-worn cautionary tale of people living beyond their means, rather than a case of financial irresponsibility on the part of bankers and investors.

First of all, financial institutions successfully hijacked 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. As the centerpiece of this strategy, the banks seek to persuade the public authorities to bail them out once more, as the authorities did in the first stage of the crisis in the form of rescue funds and a low prime lending rate.

The banks were confident that the dominant Eurozone governments would never allow Greece and the other highly indebted European countries to default because it would lead to the collapse of the euro. 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 toward servicing the Greek debt to them. Promoted as rescuing Greece, the massive 110-billion-euro package, put together by the dominant Eurozone governments and the IMF, will largely go toward rescuing the banks from their irresponsible, unregulated lending frenzy.

The banks and international financial institutions played this same old confidence game on developing country debtors during the Third World debt crisis of the 1980s, and on Thailand and Indonesia during the Asian financial crisis of the 1990s. The same austerity measures — then known as structural adjustment — followed lending binges from northern banks and speculators. And the scenario played out the same way: 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.

No doubt the authorities are preparing similarly massive multibillion-euro rescue packages 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, which 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 don't want to honor what governments told their citizens was an essential part of the deal: the strengthening of financial regulation.

Governments, from the United States 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, the lack of new stimulus programs and tough banking regulations will result in a double-dip recession, if not a full-blown depression. Unfortunately, as the recent G-20 meeting in Toronto suggests, governments in Europe and the United States 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. These ideologues believe that a deep recession and even a depression is the natural process by which an economy stabilizes itself, and that Keynesian spending to avert a collapse will only delay 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 July 8. In an earlier and much larger protest on May 5, 400,000 people turned out in Athens in the biggest demonstration since the fall of the military dictatorship in 1974. Yet, street protests seem to do little to avert the social catastrophe that will unfold with the EU-IMF program. The economy is set to contract by 4 percent in 2010. According to Alexis Tsipras, president of the left parliamentary coalition Synapsismos, the unemployment rate will likely rise from 15 to 20 percent in two years, with the rate among young people expected to hit 30 percent.

As for poverty, a recent joint survey by Kapa Research and the London School of Economics found that, even before the current crisis, close to a third of Greece’s 11 million people lived close to the poverty line. This process of creating a "third world" within Greece will only be accelerated by the Brussels-IMF adjustment program.

Ironically, this adjustment is being presided over by a Socialist government headed by George Papandreou voted into 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 TINA, as Margaret Thatcher famously put it: "there is no alternative."

The Consequences of Compliance

Faced with the program's savage consequences, an increasing number of Greeks are talking about adopting a strategy of threatening default or a radical unilateral reduction of debt. Such an approach could be coordinated, says 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 for 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 annual economic growth rate of 10 percent 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 percent of the government budget yearly to foreign creditors, the Philippines in the mid-1980s entered a decade of stagnation from which it has never recovered and which condemned it to a permanent poverty rate of over 30 percent. Squeezed by draconian adjustment measures, Mexico was sucked into two decades of continuing economic crisis, with consequences such as the pervasive narcotics traffic that has 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 of 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 no time for cynicism. Rather, it's a key moment for global solidarity. We're all in this together now.