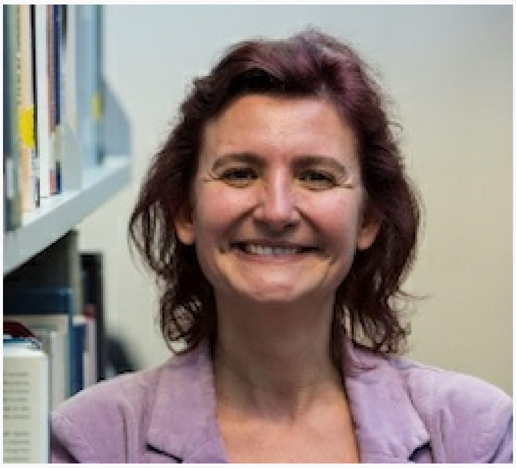
Why Europe Needs A Debt Conference

Ozlem Onaran

24 June 2015



Özlem Onaran

After yet another summit on the Greek debt on 22 June, there are signs of an "extend and pretend" deal until winter. There is vague talk of a "debt relief" in the future, although it is unclear how much of the debt the Eurozone governments are willing to write off. Most importantly what are the conditions they impose in return?

According to the current proposals of the Greek government, even if there are elements of a left austerity with redistributive concerns, the primary budget surpluses imposed on them are too high to secure economic and social recovery; further privatizations are expected; the demands regarding minimum wages and collective bargaining are postponed, and the type of cuts in the pension system continues to be the sticking point.

But even if a deal is reached, there are other inconvenient facts about the increase in the public debt in Greece since 2010. The Truth Committee on Public Debt – an independent committee of experts from 11 countries set up by the President of the Hellenic Parliament, Zoe Konstantopoulou – has published its preliminary report on 18 June 2015. The report provides evidence that the Greek debt is largely illegal, illegitimate, and odious.

The programmes were based on clearly wrong assumptions; however this was not a mistake, their unsustainability was predictable and the main goal was the rescue of banks and private creditors. Particularly revealing is the testimony of Panagiotis Roumeliotis, the former representative of Greece at the IMF, on 15 June 2015 at a public hearing answering the questions of the Truth Committee. The IMF knew that the Greek debt was unsustainable and according to its own rules should not have agreed to a loan agreement without a debt restructuring in 2010, but the European governments and banks influenced the decision. Papandreou's government helped to present the elements of a banking crisis as a sovereign debt crisis in 2009. In 2013 the IMF admits that "a delayed debt restructuring also provided a window for private creditors to reduce exposures and shift debt into official hands".

Since the first Memorandum in 2010, private creditors managed to offload their risky bonds issued by the Greek state. In 2015, 80% of Greece's public debt is held by public creditors: fourteen Member States of the Eurozone, the EFSF, the IMF, and the ECB. Only less than 10% of the funds have been destined to the government's current expenditure. The conditionalities imposed further neoliberal reforms, which was not only an aim in itself, but also helped to create the illusion that they were designed to secure the future debt repayment.

However, the wage and pension cuts and fiscal consolidation led to lower GDP, tax losses, and higher public debt. Our estimates show that the fall in the wage share alone has led to a loss in GDP by 4.5%, and a 7.80% point increase in the public debt/GDP ratio. The fall in wages alone explains more than a quarter (27%) of the rise in the public debt/GDP ratio in this period. The conditionalities of the memoranda have not only been counterproductive in terms of its aims regarding debt sustainability, but also engineered a humanitarian crisis.

Philippe Legrain, advisor to the President of the European Commission Barroso in 2010, who spoke at a public hearing at the Greek Parliament on 11 June 2015, writes

> *Why would Eurozone authorities be so cruel and foolish? Because they don't really care about the welfare of ordinary Greeks. They aren't even that bothered about whether the Greek government*

> *pays back the money that they forced European taxpayers to lend to it, ostensibly out of solidarity, but actually to bail out French and German banks and investors. German Chancellor Angela Merkel and other Eurozone policymakers just don't want to admit that they made a terrible mistake in 2010 and have lied about it since.*

The report of the Truth Committee demonstrates that the debt claimed today from Greece can be considered illegitimate, in the sense that it has not benefited the population but a small minority of private creditors, especially the large Greek, German and French banks. This debt is unsustainable not only from an economic, but also a human rights perspective, as Greece is currently unable to service its debt without seriously impairing its capacity to fulfill its basic human rights obligations regarding the right to work, a life with dignity, social security, health, education, and housing. Loans have been contracted in violation of the Greek Constitution and the EU law, and can therefore be classified as illegal. The debt may also be classified as odious, since lenders knew that the conditionalities attached to their loans violated fundamental human rights.

The report also confronts the myth of excessive public spending before the crisis. The increase in debt since the 1980s was not due to excessive public spending, which in fact remained lower than the public spending of other Eurozone countries, apart from excessive and unjustified military spending, marked by widespread fraud with contracts benefiting the armament industry of the creditor countries. The other reasons of the rise in public debt were the extremely high interest rates, loss of tax revenues due to tax evasion and illicit capital outflows, and finally the recapitalization of private banks.

On 21 June 49 SYRIZA MPs requested a plenary of the Parliament to discuss the report of the Truth Committee on Public Debt. Whether there is a deal or not, there will be people in Greece who will not forget these inconvenient facts and seek justice. Who owes whom after years of destruction? This concerns not just the people of Greece but also Europe. Europe needs a debt conference. In 1953, as a result of the London Debt Agreement, half of German debt was written-off. The winners of the financial crisis do not have interest in a debt conference, but the people of Europe have the right to learn that their taxes were used to bail out banks. The people in Ireland, Portugal, Spain, and Latvia need to see the truth that their governments imposed on them the similarly wrong austerity measures.

The bill must eventually be sent to the private banks. Until then the people of Greece have the right to refuse to pay the debt. It is time that the Greek people have a clear discussion about what the debt means, and what are the options outside this straightjacket. Greece needs policies to achieve decent jobs with decent wages for both women and men, structural change, sustainable development and a caring society for both the young and the elderly. Solutions to these problems are incompatible with payment of the debt and austerity policies likely to be attached to further agreements.

A unilateral debt default surely requires capital controls, but despite the scaremongering, the Greek people need to be reminded that most countries had capital controls until the massive financial deregulation of the late 1970s and 1980s. To counterbalance the blackmail of the ECB, the Greek government can introduce IOUs for internal payments. Will this lead to an exit from the Eurozone? Staying in or exiting the Euro cannot be a taboo, and exit is a possible outcome of confrontation, but it is not the only outcome.

After default, the ECB would cut the supply of liquidity, since the government bonds held by the Greek banks would cease to serve as collateral, but according to Willem Buiter of Citi, European authorities could recapitalize the Greek banks, and the ECB could continue funding the banks until a political decision is reached to avoid being the institution to pull the plug. But this approach sees the transition period from the perspective of the bankers; from the perspective of the Greek government, the more important issue is to take control of their banks rather than leaving it to the ECB.

The degree of financial contagion to the rest of Europe after a Greek default is yet to be seen, as the calm in the government bond markets seem to be more fragile than the ECB and the European governments hope for. But the political contagion of a Greek default, as people choose dignity over blackmail, is what the people of Europe can hope and prepare for. The political and financial contagion will mutually reinforce each other in the medium run as more questions are asked by the people of Europe about the legitimacy of the so called bail out programmes.

Have something to add to this story? Share it in the comments below.