The Greek Debt Crisis:

Causes, Management and Possible Solutions

Dr David Rees

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- The causes and history of Greek debt
- Key Greek indicators
- The European Commission's (failed) strategy
- 2015 Quantitative Easing for the EU
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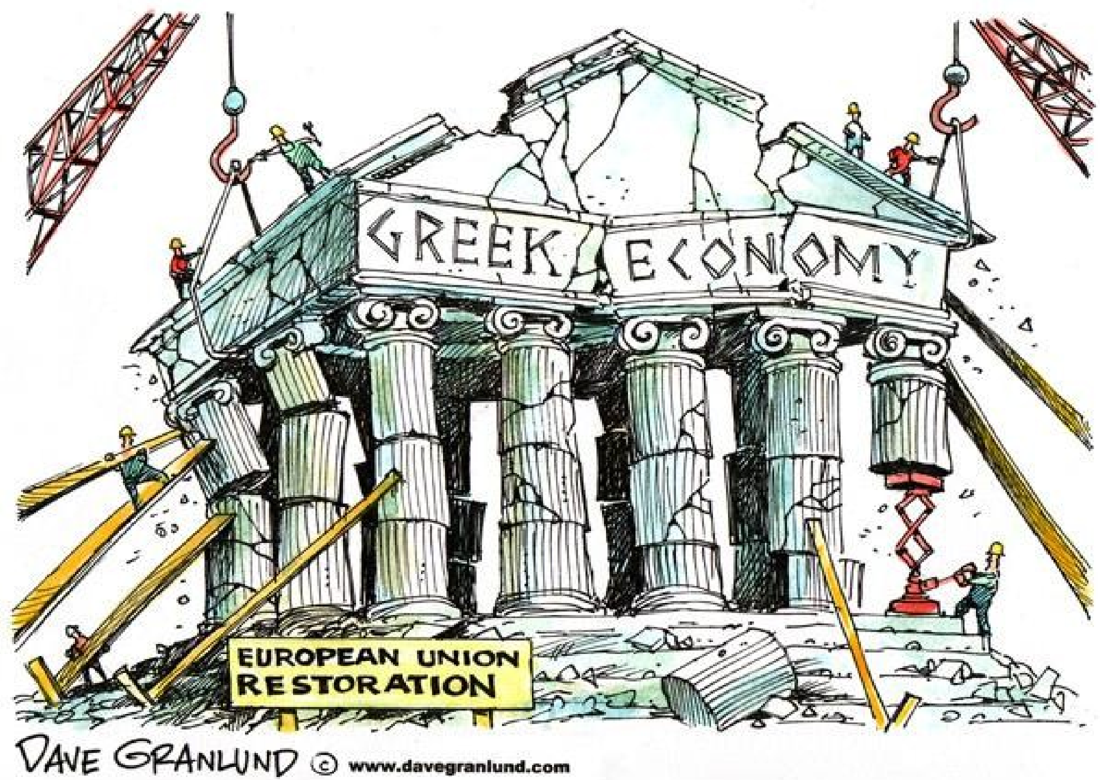
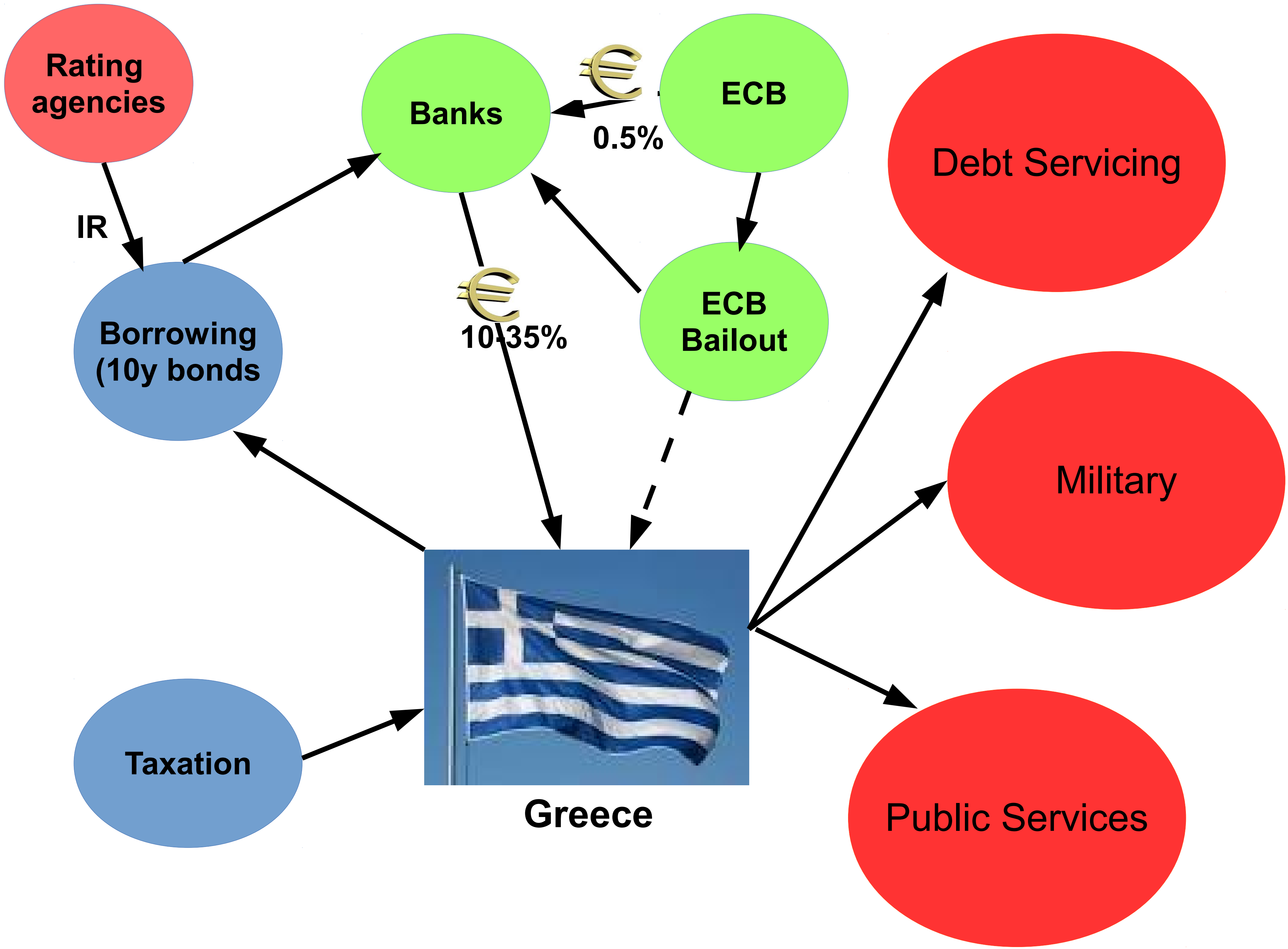
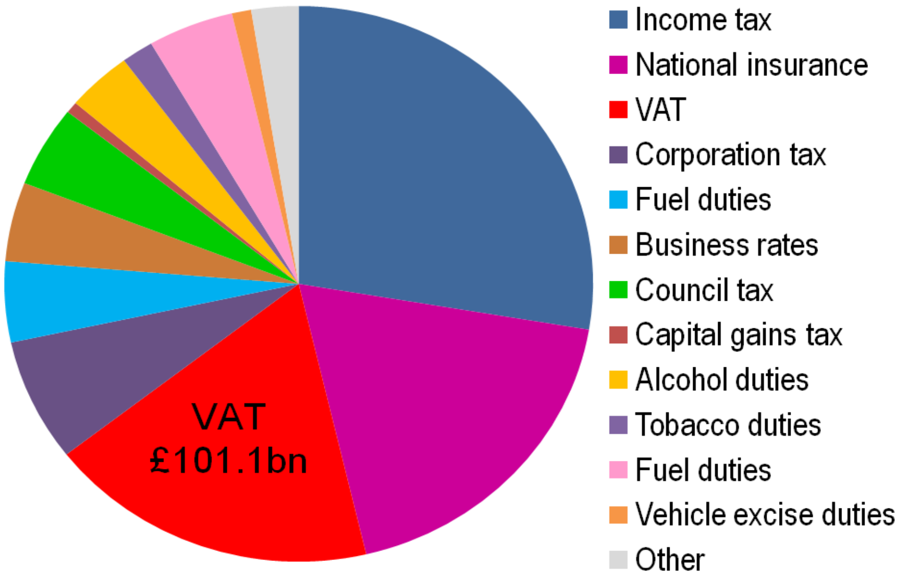
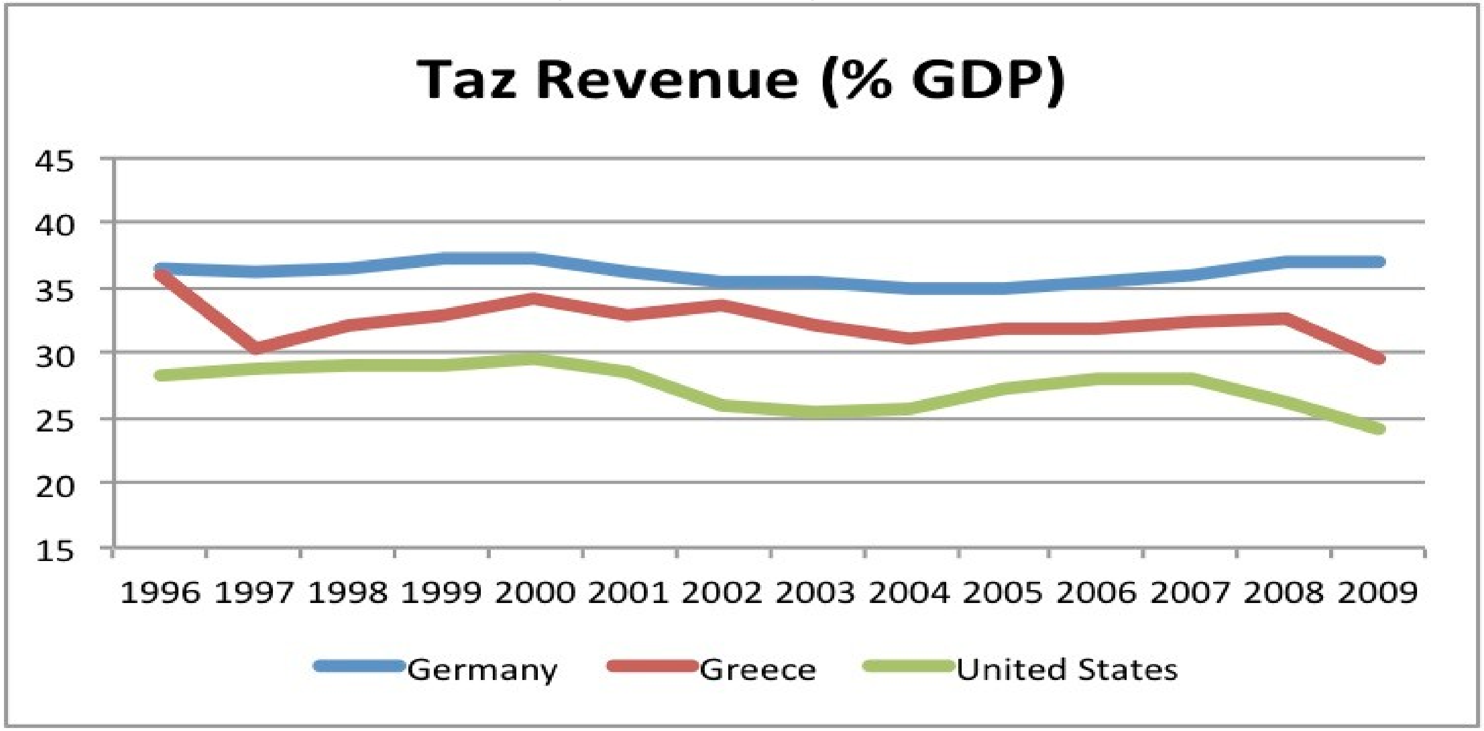



Rating agencies
IR
Banks
0.5%
ECB
10-35%
ECB Bailout
Borrowing (10y bonds
Debt Servicing
Military
Taxation
Greece
Public Services

Greece 2010	€millions
Direct taxes	17,516
Indirect taxes	27,343
Other current receipts	5,060
Sales	5,485
Social contributions	29,751
Total current revenue	**85,155**
Indirect taxes of which VAT	16,005
Corporations, Direct taxes	6,814

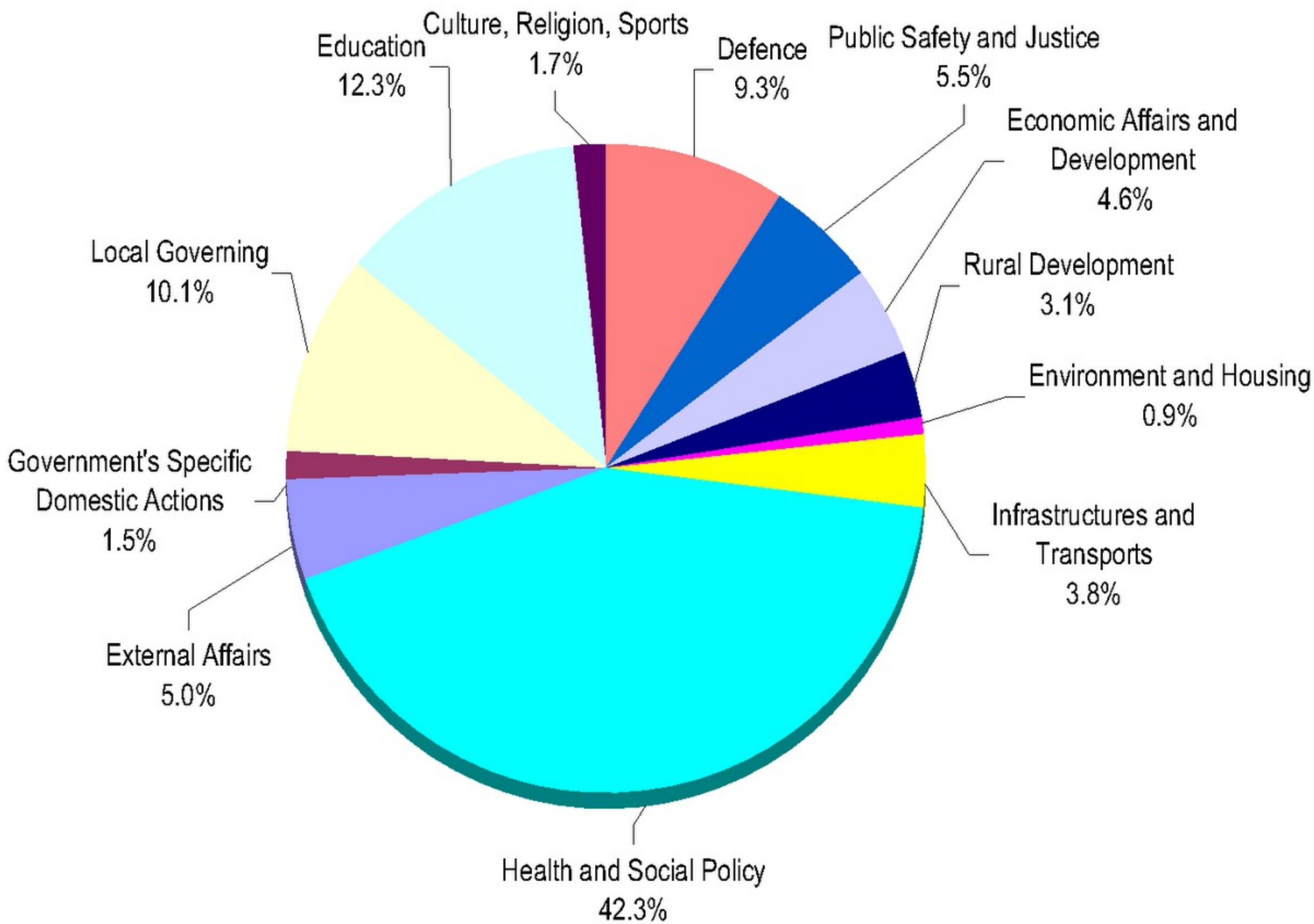


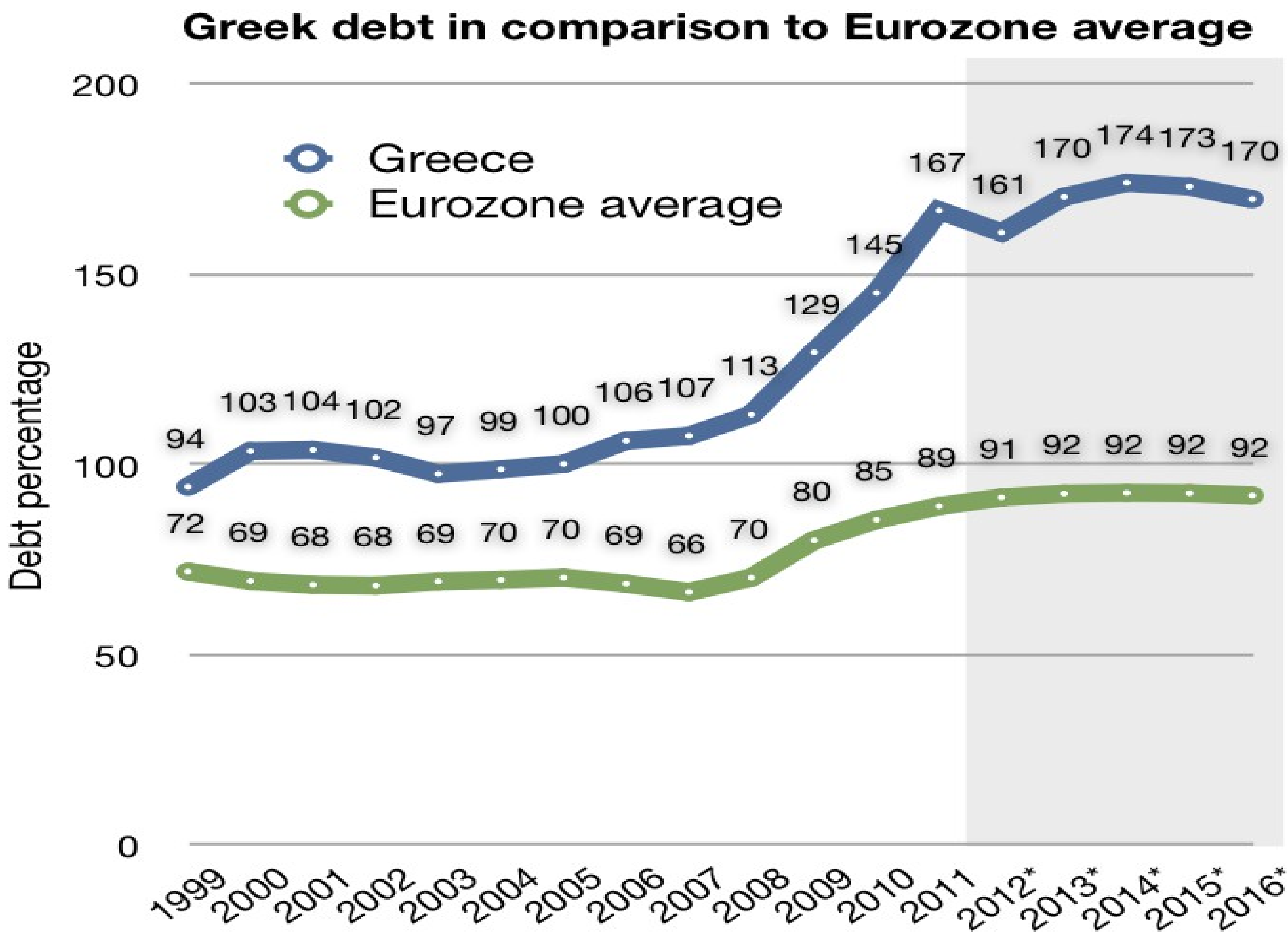
UK tax revenue 2012/13 (£557.2bn)



Tax comparison

Chart 1.2 Composition of State Budget 2009 expenditure (minus public debt expenditure)





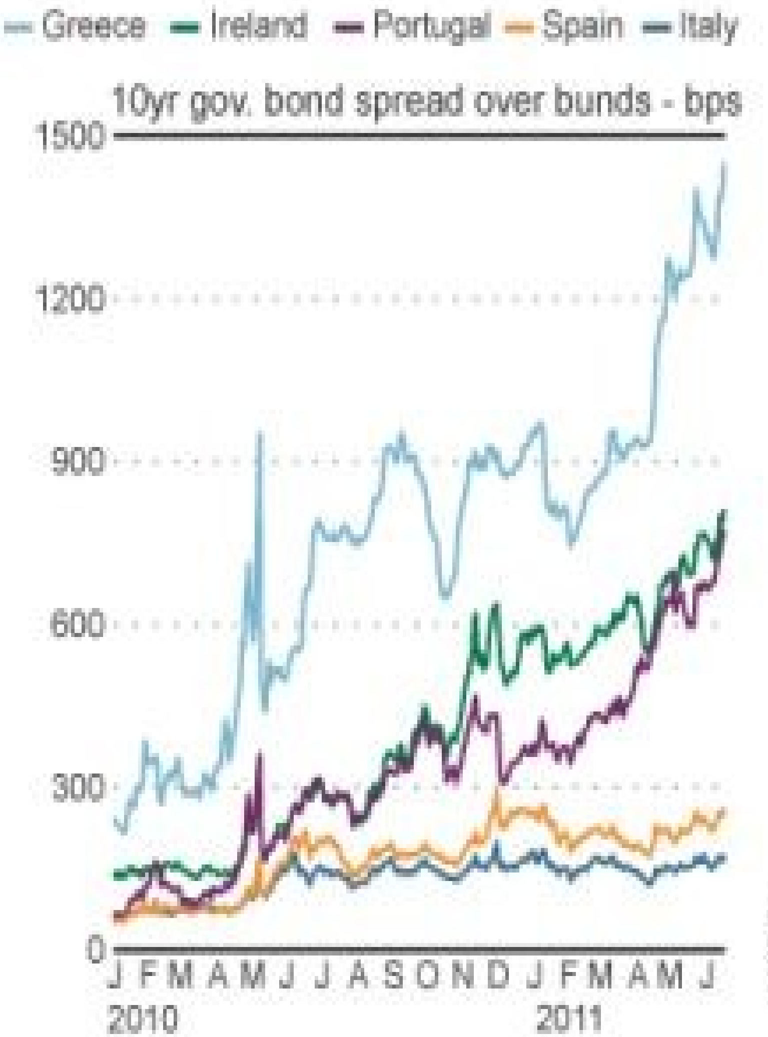
Source: Eurostat

*estimates


Euro-area government gross debt
As % of GDP
2011 forecast
Over 125
100-125
75-100
50-75
25-50
0-25
Other European Union members
Source: European Commission
FINLAND
NORWAY
SWEDEN
ESTONIA
LATVIA
LITHUANIA
DENMARK
IRELAND
UNITED KINGDOM
NETH.
POLAND
GERMANY
BELG.
LUX.
CZECH REP.
SLOVAKIA
FRANCE
SWITZ.
AUSTRIA
HUNGARY
SLOVENIA
ROMANIA
CROATIA
BOSNIA
SERBIA
ITALY
BULGARIA
SPAIN
PORTUGAL
MAC.
ALBANIA
GREECE
CYPRUS
MALTA

Euro zone credit ratings

Country	S&P	Moody's	Fitch	5yr CDS
Greece	CCC	Caa1	B+	1,944
Ireland	BBB+	Baa3	BBB+	794
Portugal	BBB-	Baa1	BBB-	827
Spain	AA	Aa2	AA+	286
Italy	A+	Aa2	AA-	176
Belgium	AA+	Aa1	AA+	153
Germany	AAA	Aaa	AAA	41

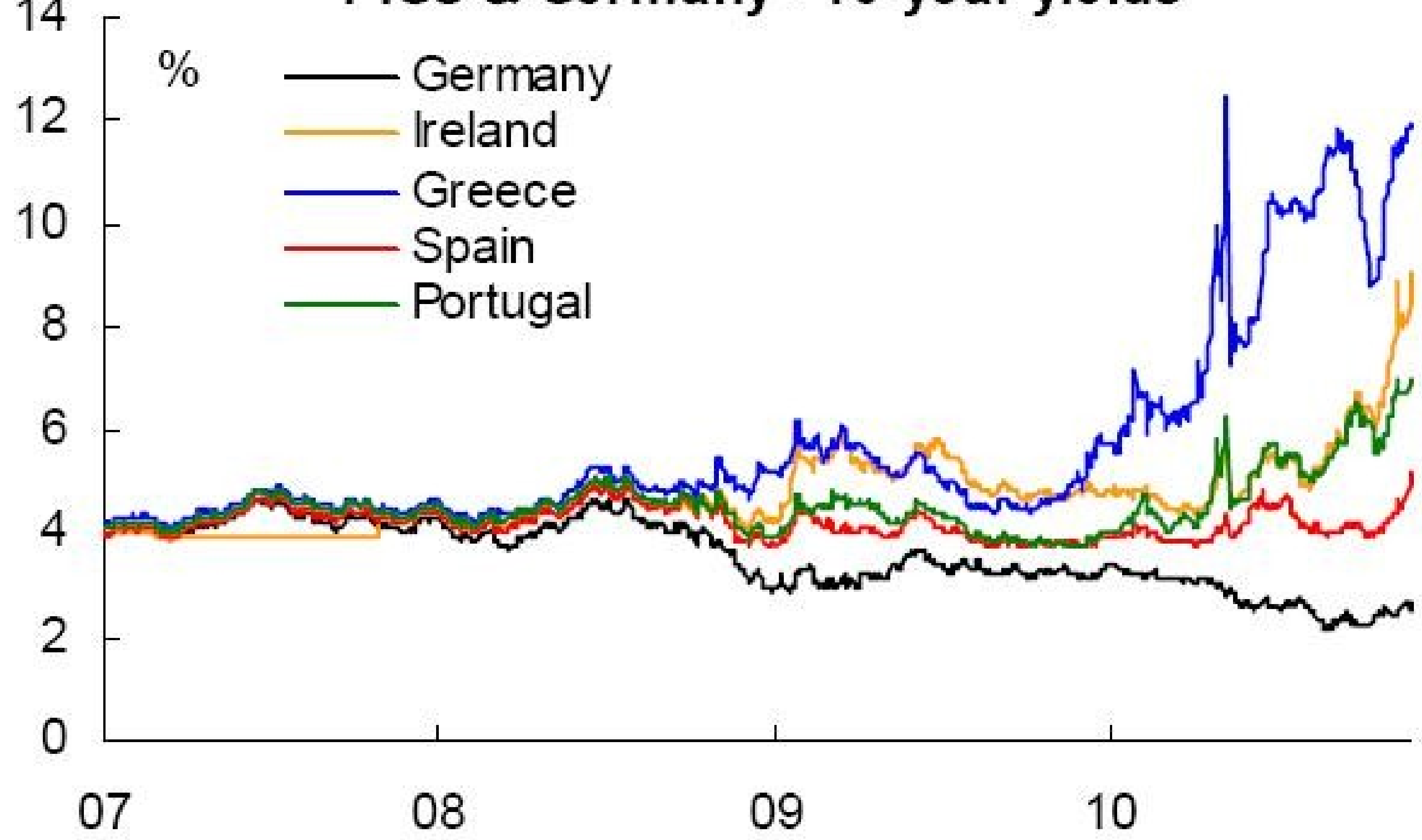


Sources: Thomson Reuters, CMA

Reuters graphic/Scott Barber

REUTERS

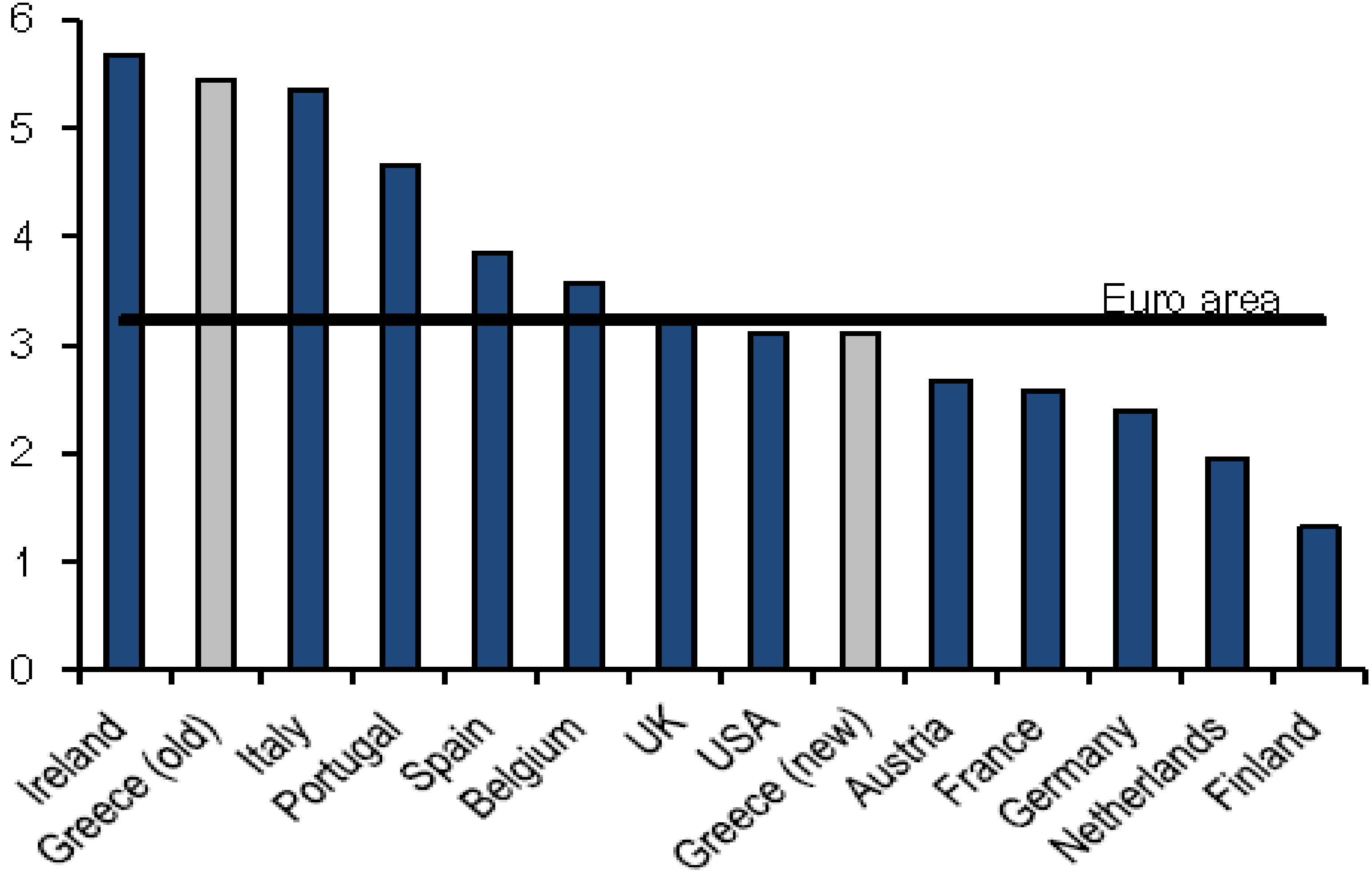
PIGS & Germany - 10-year yields



Source: Bloomberg, Scotia Capital Economics

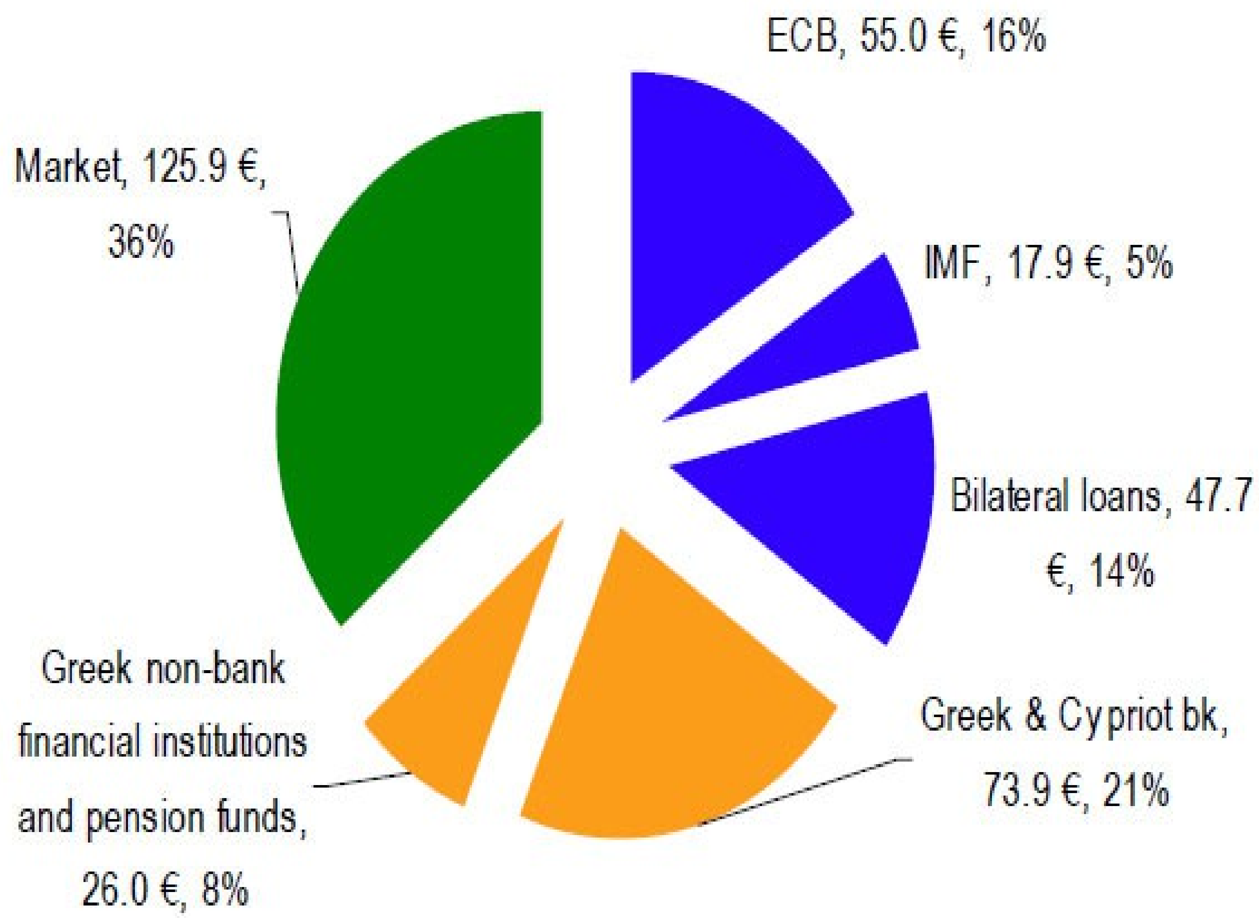
Interest payments as % GDP

2013 European Commission projections, Credit Suisse estimate for Greece



Source: Credit Suisse, European Commission

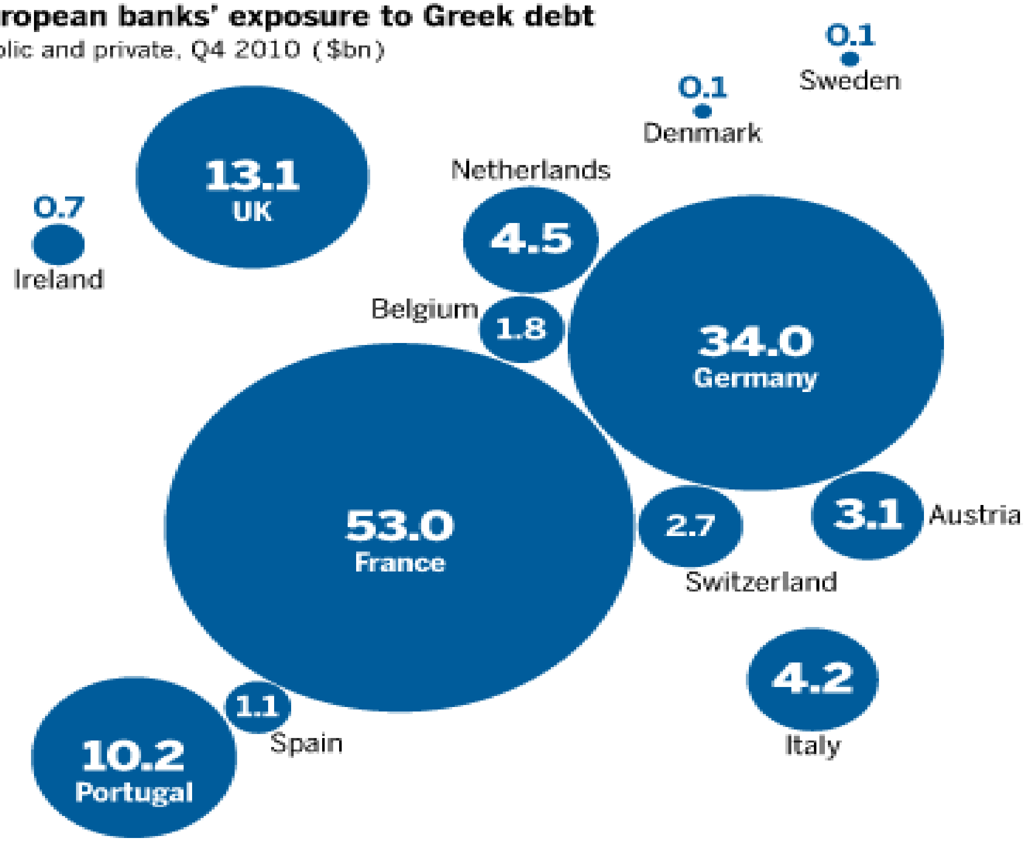
Chart 5: Who owns the Greek debt?



Source: Bloomberg, IMF, UBS

European banks' exposure to Greek debt

Public and private, Q4 2010 ($bn)



French banks under scrutiny

	Crédit Agricole	Société Générale	BNP Paribas
Indirect net exposure to Greece (local subsidiary net customer loan book)*	€21.1bn	€3.4bn	n.a.
Direct net exposure to Greek government bonds*	€600m	€2.5bn	€5bn Dec 31 2010
Share price change, Jun 15 2011 (%)	▼ 0.96	▼ 2.75	▼ 2.28

* Mar 31 2011

Sources: BIS; Moody's; Thomson Reuters Datastream

The story – Part 1

Why did Greece (and other EU countries) get into debt ?
Not (in spite of German newspapers) because of a profligate way of living – although there are certainly some tax revenue problems, high military spending and a high degree of corruption.

The EU had reduced the Interest Rate – which stimulates consumer borrowing and house purchasing and building (which is the objective!). This, typically can cause over-indebtedness and a housing boom (Ireland, Spain, Greece, Portugal).

Following the 2008 crisis, banks find themselves in difficulty, holding toxic sub-prime-ralated credit. The national banks then borrow heavily to bail out the 'too-big-to-fail' banks. The resulting national borrowing increases the annual deficit and national debt. The countries issue bonds onto the market, but banks are short of liquidity to buy the bonds, pushing up the bond IR.

The rating agencies (that gave AAA to the toxic sub-primes!) jump in, lower the country's rating, resulting in higher IR to sell bonds, which leads to higher debt servicing, which leads to more borrowing to service debt, which leads to a lowering of the status given by the rating agencies, which leads to higher IR.... Got it ?

Banks borrow from the ECB at 0,5 % (now less) and lend to countries like Greece at immorally high IR knowing that the country cannot resolve the debt problem. But the French and German lending banks know that they can rely on the ECB to bail-out Greece. The money goes into the banks' pockets. It certainly doesn't go to resolving the financial crisis in Greece.

The story – Part 2

Step in **The Saviour** – the IMF. Go back in history and remember how the IMF operates – under a neoliberal framework – to privatise and hold countries in debt to become 'banana states' or 'puppet states' (Panama, Nicaragua, Chile, Argentina, Haiti, etc.)

This is the Troika: The European Commission, the European Central Bank and the IMF. (that only holds about 5% of Greek debt)

The objective – to save Greece? No. To **impose** classic IMF neo-liberal 'restructuring' on Greece. This is approved by the neo-liberal Germany (Angela Merkel) and is called an **'austerity plan'.**

Restructuring: We lend you the money – you reduce public sector spending (health, education, pensions and sell off public goods, companies and services to the private sector (German, French...) hence **privatising** public **services**.

History: the USA faced the same problem after the 1929 Wall Street Crash. There were two solutions – a Republican 'austerity plan' or a Democrat 'New Deal'. Roosvelt massively won the election in 1932 and 'saved' the USA with the very socialist **'New Deal'**.


GREECE AUSTERITY PLANS
Main measures and targets for Greece's austerity plan demanded by the European Union and the International Monetary Fund in return for bailout aid
Spending cuts
14.27
billion euros
Tax measures
14.08
billion euros
Total:
28.35
bln
Estimated savings/income generated in year (million euros)
2011
2012
2013
2014
2015
Tax Increases
2,020
3,680
156
685
Wage Cuts
770
600
448
306
71
Increased Social Contribution Receipts
629
259
714
1,140
504
Social Benefits
1,190
1,230
1,030
1,010
700
Fighting Tax Evasion
878
975
1,150
Healthcare
310
1,810
(2012-2015)
Cuts in Public Investment
950
Defence cuts
200
333
333
333
Other measures include savings in state-owned enterprises and cuts in subsidies to local governments
The government hopes to raise a total of 50 billion euros from privatisations by 2015
REUTERS

See **[CritCom]** for references / books on why austerity doesn't work and is politically dangerous

The Real News – video on the effect of the Austerity Plan. And what does **Angie** have to say?

Keynes would argue that an austerity plan is the opposite of what one should do in this situation. His solution would be to increase employment.

Austerity means

Lower wages (less income tax revenue for the government)

Reduced spending (less VAT tax revenue for the government)

More unemployment (more costs for the government with unemployment benefit)

Lower profits (or higher bankruptcy) for commerce (less corporation tax revenue for the government) and more unemployment as workers are laid-off.

More expensive goods (linked to higher interest rates) for people who are at the same time getting poorer and poorer

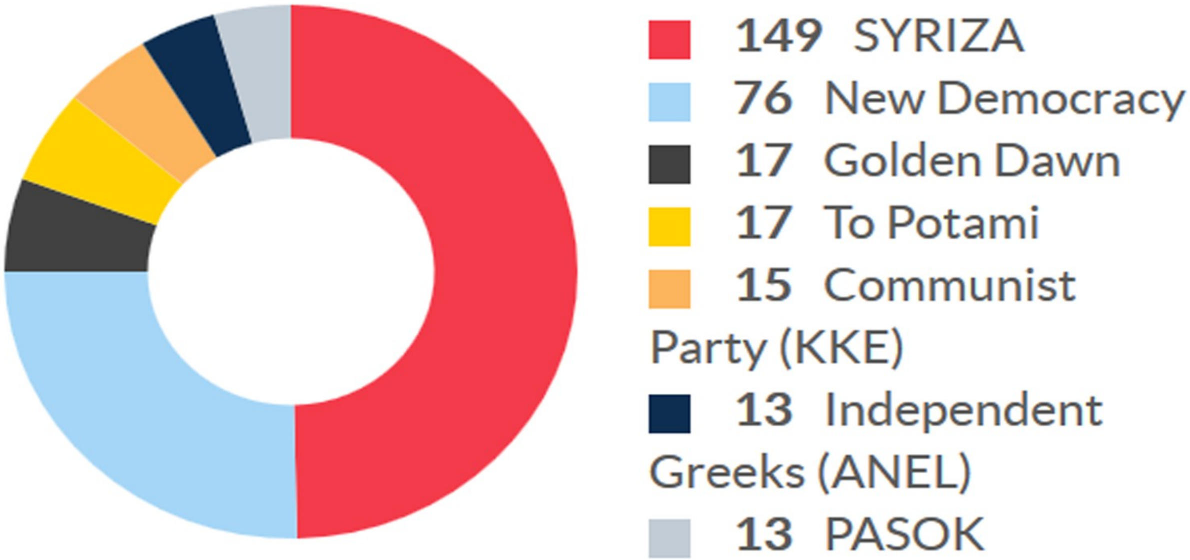
More expensive services as public services are privatised (water, electricity...).

Increasing deficit (due to debt servicing at immoral rates of interest)

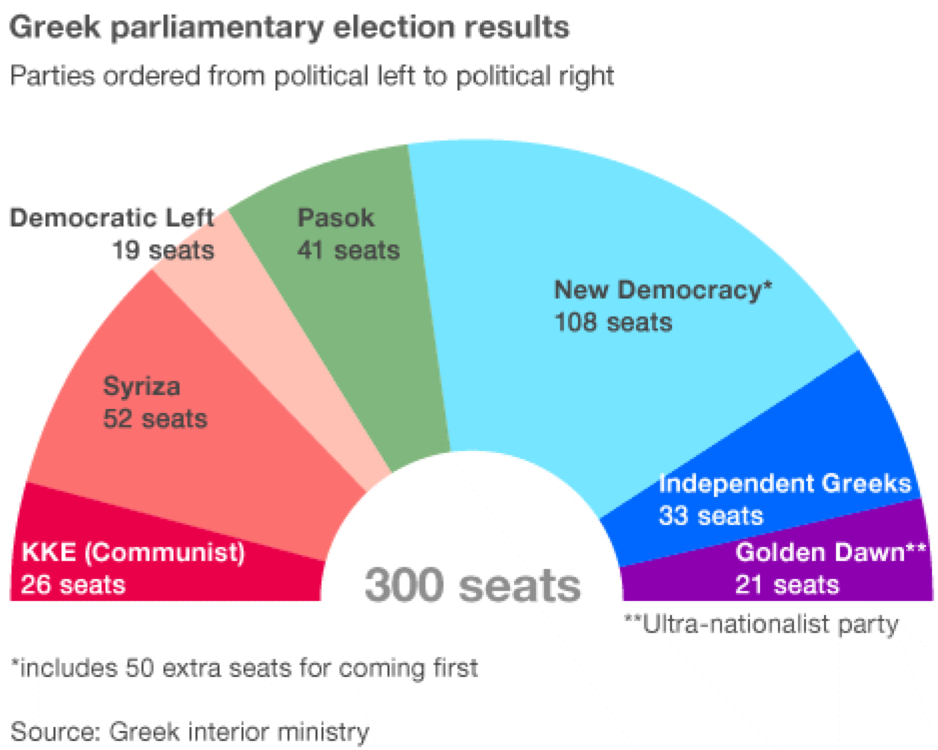
Increasing total debt (due to increasing deficit, lower tax income, higher expenditure)

The result is a negative spiral leading to structural bankruptcy.

New Government 2015



Alexis Tsipras



Previous government

Syriza (left-wing, anti-austerity party wins the Greek elections 36%)

What do they want?

- Stop austerity
- Renegotiate the debt (240bn€) (European Debt Conference)
- Increase the minimum wage
- Confront the humanitarian crisis (healthcare, unemployment...)
- Promote tax justice
- Restart the economy
- Create more employment
- Strengthen democracy
- Scrap tax on heating fuel
- Free medical care for those without jobs and with no medical cover
- Payment by Germany of war reparations (11bn€)
- Change property tax to luxury home tax

What do you think? How can he do it?

NB. The Domino effect – **in Spain**

What solutions ?

- 1. Austerity. Driving Greece into a negative debt spiral. But reforms are still needed.

  So where does the money needed come from?

- 2. Renegotiate debt with lower Interest Rates.

- 3. ***Sovereign default*** (refuse to pay the debt) ***The Icelandic Solution*** and help ***home owners*** (don't let the housing market collapse since it's collateral against loans)

- 4. ***Eurobonds*** (mutualisation of Eurozone debt). Allow cheaper borrowing.

- 5. ***Quantitative Easing*** by the ECB. QE ***In the USA.***

- 6. A European ***New Deal*** - following the Keynesian solution in the USA after the 1929 Wall Street Crash and Great Depression. Put 240€bn into the economy and jobs instead of into the banks.

- 7. Don't impose change – it should be democratic and long-term (as is happening)

Personal ideas for a European rescue plan

1. European protectionism (import barriers) to increase EU industrial production and increase employment. Risk – retaliation in a globalised world – quit WTO. Could be sector-oriented (see 8)

2. Regulate banking (bring back the equivalent of the Glass-Stegall Act. Limit CEO bonuses / pay)

3. **Cancel ECB QE**, break up the Troika, and reverse austerity measures (PIIGS)

4. Eurobonds to provide cheap loans to EU countries (with agreed long-term Keynesian restructuring) but overall increase the Euro IR.

5. Harmonise monetary / (progressive) fiscal and social policy in the EU (complete the EMU)

6. Introduce a **European Financial Transfer Tax** at 0.5% **(£3,340bn)**

7. Change the Maastricht Criteria and Stability Pact to include the criterion of **employment**.

8. Launch a European New Deal to provide jobs and investment
- Green-Energy (solar, hydroelectric, bio, hydrogen, geothermal, methane recuperation)
- European infrastructure (roads, bridges, trains, electronic network, etc.)
- Increase funding for Research and Development, and Education

10. Reduce greenhouse gas emmissions and prepare for **global warming**

9. Promote **EEA European expansion** with the current Neighbourhood partners