# Greek Austerity, Privatization Programs Won't Be Enough

For sale is the country's 1/6th interest in OTE, Europe's largest telecom company, its one-third interest in the Post Savings Bank, all of its interest in the country's two largest port operators. It will also reduce its ownership shares significantly in Thessaloniki Water, DEPA (energy), OPAP (gambling), Athens Water, and COPR (power). Greece also intends to sell one-third of its interest in AteBank.

Taken together, it will fall far short of the amount needed to close the deficit, reduce its national debt, or pay off the $155 billion borrowed under the bailout from the European Union (EU) and the International Monetary Fund (IMF). At the moment, Greece's annual deficit is 15 percent of its Gross Domestic Product, or about $50 billion. Its national debt is about 150 percent of its GDP, or about $450 billion. And due to the austerity measures already imposed on its citizenry, GDP isn't increasing — it's declining, at about three percent a year.

Greece also boasts the EU's second lowest Index of Economy Freedom, and "suffers from high levels of political and economic corruption," according to Wikipedia.

In fact, when Greece joined the eurozone (17 nations inside the European Union), there was substantial doubt that it qualified under the economic criteria at the time. But sufficient accounting "adjustments" were made to allow Greece to become a member and remain one without sanctions. The financial meltdown of 2008 changed all that and exposed Greece's economic situation for what it was: a disaster. The new Greek government, installed in 2009 and headed up by Socialist George Papandreou, revised the country's deficit from a previously estimated six percent of GDP to 12.7 percent, and further revisions brought the number to 15.4 percent. By hiding the real fiscal situation from the EU in the beginning, Greece was very happy to overspend recklessly. With below-market interest rates (to make the transition to the euro easier), bank deposits and loans expanded dramatically.

Here is how that process worked:

> The European Central Bank accepts Greek government bonds as collateral for their lending operations. European banks [then] buy Greek government bonds [paying interest of 3 percent] and use these bonds to [borrow] from the ECB [at a cost of 1 percent] — a highly profitable deal.
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> The banks buy the Greek bonds because they know that the ECB will accept these bonds as collateral for new loans. [Thus] Greek debts are monetized, and the Greek government spends the money it receives from the bonds to secure support among its population.

Or at least it used to until the real size of the fiscal black hole became apparent, which forced Greece to secure a bailout from the EU and the IMF, complete with draconian austerity requirements. As noted here, so-called austerity programs are always counterproductive, reducing incentives and raising anger and frustration among the citizenry.

Nevertheless, the IMF warned Greece that unless the austerity programs already agreed to as a condition of the first bailout weren't "reinvigorated," then Bailout II "will not remain on track," said Poul Thomsen of the IMF. Papandreou has reiterated his commitment to bring the deficit down to a mere 7 ½ percent of GDP by firing more government workers and going after tax-evaders more aggressively. In addition, tax hikes on an increasing range of products and services such as soft drinks and gasoline are in the mill, and moving the VAT (value-added-tax) bracket up is also being considered.

Pushback against the EU's pressure tactics is being reflected in declining support for politicians who have favored the continuing attempts to bind the EU together politically, as expressed by German Finance Minister Wolfgang Schaeuble: "During the crisis, it was almost exclusively European taxpayers that ultimately bore the risk of investors' decisions. This is unacceptable [now]. It was right to stop financial markets from disintegrating in the past but it would be wrong to cushion their losses in the future. "

Greek citizens agree. In a recent poll, 80 percent of respondents said they refuse to make any further sacrifices in order to get more assistance from the IMF. And support for Papandreou's party is fading with support shifting to his opposition party in the same poll.

The same thing is happening in Germany. Head EU cheerleader Chancellor Angela Merkel's party, the Christian Democrats, has slipped 20 points in a recent poll conducted in Bremen, Germany.

And so the remaining avenue is that of debt restructuring, which is being resisted mightily, especially by the European Central Bank which just happens to own $50 billion of Greek debt. With austerity programs being resisted and default of Greek debt off the table, there is now a sense of "crisis" among European leaders, according to Frank Furedi, a writer for *Spiked*:

> With the Greek economy in a state of disintegration, European leaders know that there is no alternative but to restructure Greece's debt. They may use the euphemism of "re-profiling debt" to avoid acknowledging the scale of the problem, but the spectre of insolvent nations haunts Europe.
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> Just a few weeks after pouring billions of euros into bailing out Portugal, it is evident that the medicine is not working and the Eurozone is in big trouble. Inevitably, there is talk of reorganizing Europe's monetary union as more and more people have lost faith in the existing bailout strategy.

As the "crisis" broadens to include other nations in the Eurozone, it is encouraging to note that there is finally some significant resistance being felt by the unelected EU rulers. May such resistance continue to grow!