Greek Debt Default All but Certain

When Greece accepted the invitation to join the European Union in January, 2001, below-market interest rates allowed Greek banks to expand greatly their loan portfolios, and the economy grew rapidly. The financial crisis of 2008 revealed that the Greek government had overspent, running up huge deficits, while successfully hiding them from the oversight of the EU. With a national debt of 150 percent of its GDP, or about $450 billion, the Greek government turned to the EU and the International Monetary Fund (IMF) for assistance. The EU offered its assistance to the tune of $155 billion, conditioned upon the installation of severe austerity measures, including tax hikes and the selling of some of the country's major assets, including OTE, Europe's largest telecom company and the Post Savings Bank.

All these austerity measures accomplished, however, was to deepen the country's recession, reduce tax revenues, and arouse the citizenry to noisy and sometimes violent public opposition. When the Greek government went back to the EU for further assistance earlier this year, EU members (especially Germany and France) balked.

The result was predictable. Prime Minister George Papandreou reshuffled his cabinet, promising he would make good on his commitment to continue increasingly severe austerity measures. Unions and others affected by the proposed cuts in government spending camped out 24 hours a day around the government offices. And taxpayers in Germany continued their grousing about being asked to fund, once again, the profligate Greek government's spending habits. A spokesman for the Greek government, Ilias Mosialos, noted the fine line that Papandreou is walking between trying to persuade the EU and the IMF that his government will be able to meet their demands for austerity, while placating irate citizens' anger at the increasing repression:

> We will continue to listen to the messages of Greek society. We need to decisively implement government policies and the big structural reforms. We will seek systematic results by meeting economic targets. We want to give hope to the average Greek family.

The average Greek family, however, has little say in the matter, nor has it had anything to say since the EU takeover began in 1958. In an interview with James Lucier in 1999, author, journalist, and historian Hilaire du Berrier explained that "these countries that have [joined the EU] will see that their sovereignty is being taken over because [the EU] is to take precedence over their native parliaments, laws and constitutions. So the once-independent countries [like Greece] are becoming provinces." He added:

> When the proponents of European integration first set up that European movement at the end of the World War II, they told Europeans it was just a common market in order to drop trade barriers and eliminate customs duties. Then when they got the European countries in so far they couldn't back out, they told them it was to form a Republic of Europe — a country, a supernation, with a parliament in Strasbourg and Brussels and a central bank in Germany. Now they have gone so far that [these] nations are committed to this new money — and are being told that it is a political move and they are [now] going to be governed by a central parliament.

The rating agencies have taken notice and are threatening to downgrade further Greece's already tenuous debt. Fitch reduced Greece's credit rating to "junk" status, and warned that it could reduce the rating further if the financial situation isn't resolved. Standard and Poor's also carries Greek debt as "junk," and warned "that any attempt to restructure the country's debt would be considered a default." Moody's has a Caa1 rating on Greece's sovereign debt, "which implies a 50 percent chance of a default within three to five years."

According to today's *New York Times*, the Papandreou government

> won a crucial vote of confidence early Wednesday, with all 155 lawmakers of the Socialist Party expressing their support for his beleaguered government, above the absolute majority of 151 votes required by Greece's 300-seat Parliament.

This is only the first step. Passing austerity measures to keep the money flowing from the IMF is likely to be extremely difficult in light of resistance from the public. Pepe Egger, lead analyst for the Western Europe division at Exclusive Analysis, said,

> The heart of the conflict is that if you ask the Greek people would you like to halve your pension and cut your salary and dismantle the welfare state because some banks and politicians have mismanaged your state finances? The majority would say no. But clearly there aren't that many alternatives to that.

When default happens, what will it look like? According to Andrew Lilico, an economist with Europe Economics:

- Every bank will instantly become insolvent,
- The Greek government will then nationalize every bank,
- The government will prohibit withdrawals from those banks by depositors,
- And martial law will be declared to keep those depositors from rioting in the streets.

In the broadest relief, then, here is how the game of neutralizing national sovereignty is played: Offer the people and banks and the government below-market interest rates, encourage them to spend beyond their means, install draconian austerity measures to keep them from defaulting, and turn their country into a de facto "province" of the regional government. Use repressive measures, by force if necessary, to keep the citizens from revolting. The international banks wind up being protected by those taxpayers who have never had any say in the matter. The game is over. The EU wins. The taxpayers lose.

Photo of Alan Greenspan: AP Images