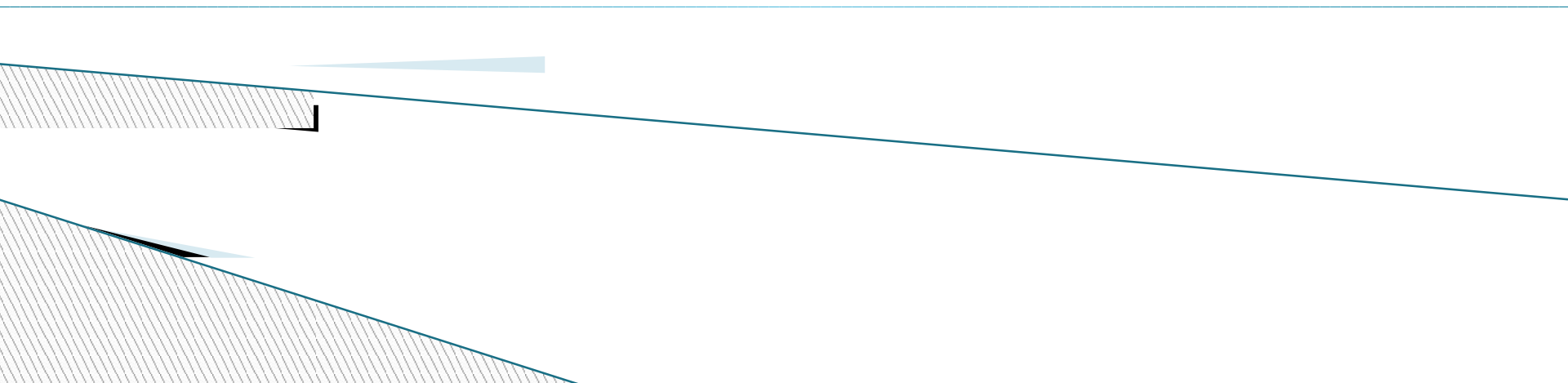# A Greek crisis or a European disaster?

Dimitris Pavlopoulos
Vrije Universiteit Amsterdam

A historical letter…

If this shock approach were adopted I believe that it should be announced publicly in great detail, to take effect at a very close date. The more fully the public is informed, the more will its reactions facilitate the adjustment. Herewith the sample proposal:

2. A commitment by the government to reduce government spending by 25 per cent within six months, the reduction to take the form of an across-the-board reduction of every separate budget by 25 per cent, the personnel separations to take place as soon as possible, but

7. The removal of as many obstacles as possible that now hinder the private market. For example, suspend, with respect to newly employed persons, the present law against discharging employees. That law now causes unemployment. Remove the obstacles to establishing new financial enterprises. Eliminate as many controls over prices and wages as possible. Wage and price controls are not measures to cure inflation. They are one of the worst parts of the disease.

In addition, the most important step is to free international trade so as to provide effective competition to Chilean enterprises and to promote the expansion of both exports and imports.

Sincerely yours,
Milton Friedman

Augusto Pinochet Ugarte
General of Army
President of the Republic

Solutions for the 'Greek' crisis

Shock-therapy includes:

2.5% of GDP public spending reduction (€6 billion) in 2011, 5% in 2012-2014 (€12 billion).

30% reduction of public sector.

20% reduction of pensions.

Horizontal salary-reduction €150-300(?) in the public sector. In some cases 50% reduction.

- €660 for a newly-higher teacher.

- Abolishment of employment protection:

  - no collective employment agreements (CAO).
  - no minimum wages.
  - Flexible labour at the will of employers.

Solutions for the 'Greek' crisis

Health care:
330 hospital-clinics less, 4.000 hospital beds less.

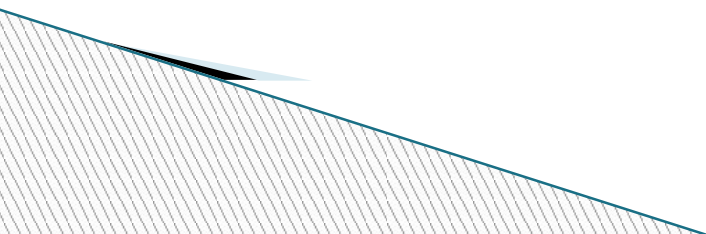- Education:

- 1056 primary schools and high-schools closed.
- Severe cut-down in higher education funding.

- Privatizations:

- Everything... Energy, railways, water...
- At the lowest stock-market value.
  - Deutsche Telecom bought 10% of Greek Telecommunications for €400 million. In 2008 30% costed 3.8 billions...

Aims of the 'shock-therapy'

Internal devaluation:

Greece needs a primary surplus to repay debt.

Competitiveness needs devaluation…

…but this is not possible in the Eurozone.

Plus:

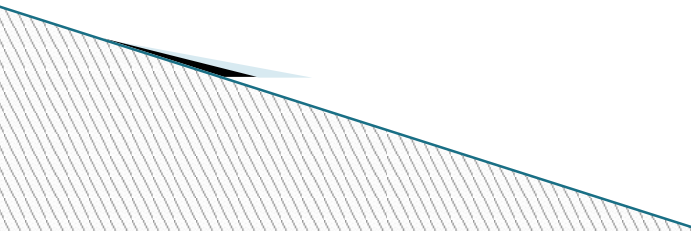Austerity and internal devaluation will give 'confidence' to the market.

'The idea that austerity measures could trigger stagnation is incorrect,'… *'confidence-inspiring policies will foster and not hamper economic recovery'*, Jean-Claude Trichet
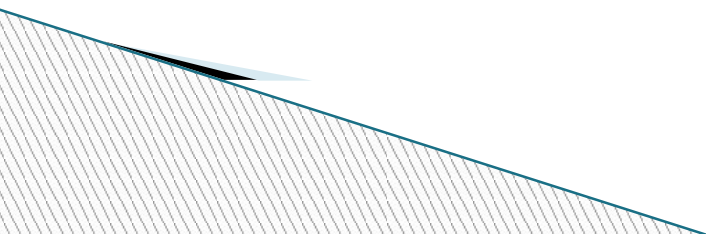
One more quote…

'*the next time you hear serious-sounding people explaining the need for fiscal austerity, try to parse their argument. Almost surely, you'll discover that what sounds like hardheaded realism actually rests on a foundation of fantasy, on the belief that invisible vigilantes will punish us if we're bad and the confidence fairy will reward us if we're good. And real-world policy — policy that will blight the lives of millions of working families — is being built on that foundation.*'

P. Krugman, 1/7/2011, New York Times

Results of the 'shock-treatment'

It's the 3d 'treatment' since May 2010.

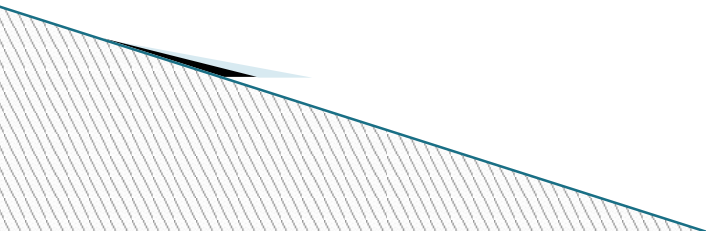They promised growth in 2011. Instead…

  3.5% (or more?) GDP reduction in 2010.

  5.5% (or more?) in 2011.

  16.4% unemployment. 40% for people <30.

  65.000 companies closed. 73% reduction in constructions.

Their response: more 'shock-therapy'!

No chance of succeeding...

Drop of aggregate demand.

1% reduction of public spending leads to 1.7% of Greek GDP (Margolis, 2011).

'Every euro spend in health care produces 30% profit' (Pomp, 2011).

- Southern Europe cannot compete with Germany.
- So, is the target to become China?
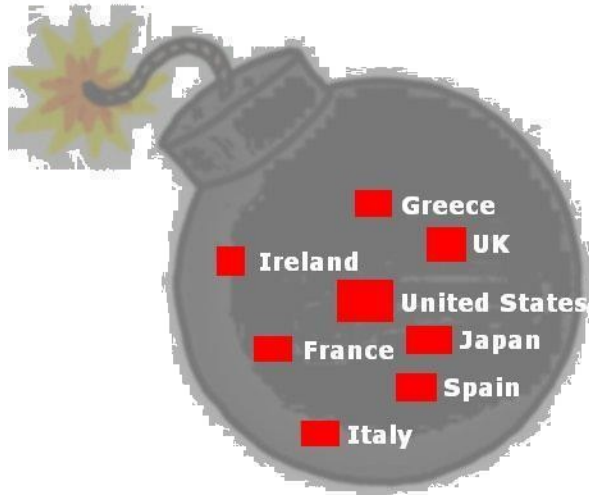
How did it all start…

'Subprime' loans.

Toxic financial products.

Speculation…

Reasons:

- Lack of regulation in financial economy.
- Banks produce money as debt.
  - Bonds market: 4 x world GDP!
  - Derivatives market: 10 x world GDP!

...and became debt crisis

'Solution' van de crisis:

Pump money to the banks

€16 trillions in the US!

€5.3 trillions in Europe!

€110+ billions in Greece!

Eurozone: the epicentre of the crisis.

- 'Common currency area' but only 'currency'...
- Countries have no monetary independence.
- 'Common area' for banks and speculators.
  - Greek banks borrow with 1. 5% from the ECB and lend with 4.5% to the Greek government!

'Solution': austerity!

Ireland: €10 billions.

Italy: €45 billions.

Spain: €20 + €4.9 billions.

Greece: €30 + €6.4 + ...

The Netherlands: €18 billions...

Aim: equalized budget, competitive economies. Through:

· Budget cuts in education, health care, welfare state.

· Flexible employment and lower wages.

· Lowering company taxes.

Once again bank subsidies...

'*The bail-out was about protecting German and - above all – French banks from debt write-offs.*'... '*In this way, one understands that in reality it was about saving the banks and the rich Greeks...*'

Karl Otto Pohl (Spiegel, 18/5/2010)

Before the '*Bail-outs*':
- Not-to-be-paid debts in the hands of banks.

After the '*Bail-outs*':
- Not-to-be-paid debts in the hands of tax-payers.

We haven't seen the crisis yet...

"*The advice that we are receiving -- that European banks do not have enough capital -- is to be taken very seriously*," Merkel
 French banks are short of cash…
 Italy's interest rates are rising…

The real crisis is still to come…
Within weeks or months.
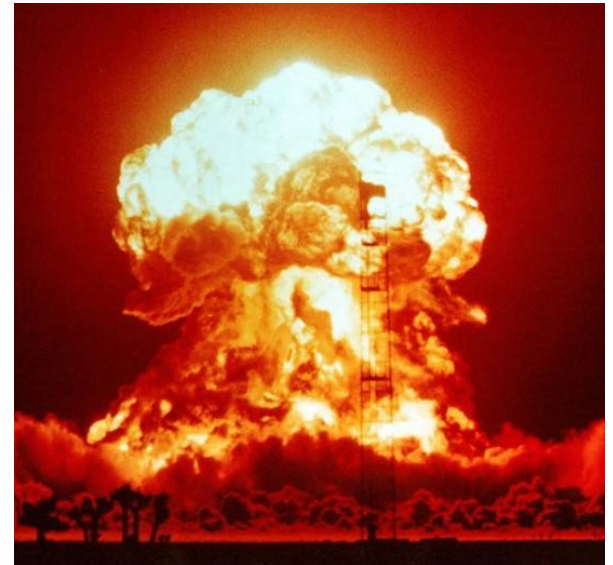
What is there to be done...

Solution for whom?

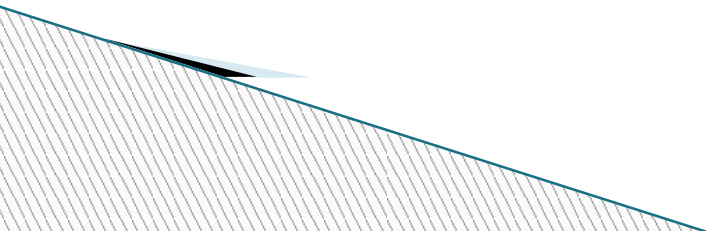the elites?

or the people?

Some preliminary aspects of a solution for the people:

Massive debt write-offs.

Getting control of the banking system. Full nationalization. Strict regulation.

Reverse austerity. People's needs above banking profit.

Question the EU itself: *is this the European project we want* ?

Some more history...

4/12/1944, Syntagma square – Athens.

The political dilemma is now the same.