

## Greece-bashing is hiding the obvious: monetary union urgently needs economic union

by Ronald Janssen

“Bashing the Greeks” has become a very popular sport these days. The main thought on the minds of the financial markets as well as a lot of politicians in Europe is that Greece has only itself to blame for the trouble it is in. After entering monetary union by rigging the statistics, it is argued, Greece went on a huge “spending binge”, making public finances unsustainable. This is now even threatening to undermine the financial stability of European monetary union as such. The more “moderate” version of this sort of thinking suggests that Greece should take its medicine and drastically cut all government expenditure and all wages (in both the public and the private sector). The less “moderate” version simply says that Greece should never have been allowed to join the monetary union in the first place and should now be thrown out of it.

Undoubtedly, Greece does have some “demons” that it needs to tackle, such as the functioning of its statistical office and the transparency of public sector pay. However, the sort of thinking now being developed in Europe is overly simplistic and is a recipe for disaster, not only for Greece but also for workers throughout Europe. Let us examine some of the inconsistencies and contradictions surrounding the case of Greece.

### **Don't blame the speculators, blame the Greek “fundamentals”**

The financial markets' attacks on Greece have not come out of the blue. After all, if Greece is under attack because of its deficit running at 12% of GDP, there are others with a comparably high deficit, such as the UK or the US. And even if the Greek deficit has doubled over the past year, almost all other countries in Europe have done the same to prevent a new Great Depression. So why Greece and why right now? The answer is that, since the beginning of November last year, central bankers and finance ministers have been spreading negative rumours, with the ECB no longer providing liquidity in return for Greek government bonds and the finance ministers of the Euro Group writing a letter which was leaked to

press, urging emergency consolidation measures. This “megaphone diplomacy” focussed the financial markets' attention on Greece. In return, central bankers and finance ministers gained a powerful ally (including the same Wall Street agencies that previously gave triple A's to “toxic assets”) in pushing through their policy agenda: enormous pressure from financial markets to cut deficits, expenditure and wages, not only in Greece but also in other countries.

### **Governments saving banks, not saving themselves.**

There is a major double standard at work here. Governments, realizing that banks were caught in a vicious circle of their own making, massively bailed out the banking sector. In Europe alone, the stunning amount of 3 trillion (3000 billion) euro in state support was mobilized, and this without much in the way of conditions, such as keeping the credit flow to the economy going. In fact, and thanks to central banks pumping liquidity into the banking sector at zero interest rates, banking profits (and bonuses!) are as high as they were before the crisis! Greece - and others are likely to follow - now finds itself in a similar situation: financial markets, fearing a default, are bidding up interest rates, thereby actually increasing the risk of a default. As was the case for the banks, this vicious circle can only be broken by a powerful and convincing European intervention. Europe, however, seems to prefer to leave Greece out on a limb or, alternatively, is only willing to promise help if Greece (which has a socialist government!) implements a standard liberal programme of cutting wages and reducing the size and the role of the state.

### **Rewarding the speculators.**

By showing such reluctance to close ranks with Greece against financial market herd behaviour, Europe is actually rewarding the speculators and boosting their profits. With the price of credit default swaps on Greek sovereign debt soaring, hedge funds are making big bucks on

their credit default positions, even or especially if these are “naked” credit default positions (in other words, without hedge funds actually holding Greek sovereign debt). And the same goes for operations on futures markets, where banks and funds are selling Greek sovereign debt, hoping to pick the papers back up again later when prices have collapsed further. Hidden behind the dogmatic “no bail-out” attitude of financial Europe is the very pragmatic policy of continuing to redistribute income and profits to those who caused the crisis in the first place. This, by the way, is not only true in a general sense. Indeed, there are more and more reports that Goldman Sachs - after setting up, for a big fee, a structure that enabled Greece to hide part of its debt - is now heavily involved in betting against Greece.

### **Greece not doing enough?**

Greece has already announced a tough consolidation programme, promising to cut the deficit this year alone by 4% of GDP. Even Germany, a traditional champion of fiscal consolidation, never went that far in so short period of time. Moreover, Greece is also detailing the measures taken to back up this consolidation effort. These do concern public jobs and wage freezes (for the higher incomes), but also measures to tax the rich (reintroduction of a tax on high fortunes, raising tax revenue on business profits). Nevertheless, this is not enough to appease European politicians and finance ministers. (A related issue is that they may not like a progressive consolidation programme targeting the rich and wealthy). Instead, Greece in their view needs to gush “blood, sweat and tears”. Again, a cynic might observe that if Greece did what it was told and cut everything (much as the American minister Andrew Mellon advised in the Great Depression that all businesses, farmers and workers should be allowed to go bankrupt), it would in any case be plunged into an economic depression. As a consequence, relative debt would still remain high, since what was being gained on the side of the nominator (lower deficit) would be lost on the side of the denominator (falling GDP).

In short, Europe is on a collision course with itself. Europe already seems to have forgotten the important lesson from the financial crisis that casino capitalism urgently needs to be tamed. Instead, some policy circles inside Europe are actually using financial market herd behaviour to push through a neoliberal model that otherwise would be hard to achieve in European democracies. Europe is also completely

losing sight of the fact that the internal market is an integrated and mutually dependent economy. The debt of Greece and some other countries, such as Spain, is held to a large extent by German, French and British banks, implying that any default would be costly for these banks. And if orthodox economists succeed in inflicting a long depression on the South of the monetary union, who will be buying the export goods from those countries forming the European core?

So instead of this simplistic and populist “Greece-bashing”, Europe should urgently develop instruments promoting solidarity between member states against the global casino. We need a common Euro bond limiting speculation on sovereign debt and breaking this cycle of self-fulfilling prophecy organized by the financial markets. We need major European investment programmes, making it possible to offset the contractionary impact of fiscal consolidation plans in Greece and other countries. We need a bigger European budget so that differences in business cycles between member states can be smoothed out without wages having to play the role of the “single variable for adjustment”. We need a European ratings agency to break the monopoly of Wall Street agencies which are too often biased in favour of free markets and against labour. We need a European Central Bank (ECB) that respects the European Treaty and supports member states’ finances in the same way as it supports the banking sector. If the ECB continues to relieve the banking sector by buying and holding their “toxic assets”, then the ECB should also announce that it will continue to take in BBB rated sovereign bonds from countries such as Greece. Finally, we need a European Central Bank which raises its inflation target from “less than 2%” to a range of “at least 3% and maximum 4%”, thereby increasing the potential impact of wage adaptability on the economy without having to resort to deflationary wage cuts.

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