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"Connecting the debt crisis with the question of the crisis in the financial system and neoliberal policies. The Troika intervention. The ECB and the Banking Union"

Before I get into the main question of this session, I would like to give you some basic figures of the Greek economy today. I will mainly focus on the issue of debt, even though the rest of the figures are relevant to my conclusions at the end. I included these very basic data on the evolution of Greek public debt for two reasons:

1. Because it is in itself a very revealing picture of the failure of the economic adjustment program imposed on the Greek economy. Let us remember that the erruption of the 'debt crisis' in Greece, placed in April 2009, started from the decision of the European Council (27/4/2009) to put Greece into the 'excessive deficit procedure'. At that point, the Greek debt was estimated at 125% of GDP. Given the institutional framework of the Euro and the operation of financial capital, the result was that the Greek government bonds became the subject of speculation, which led to a sharp increase in the cost of government borrowing and led to the agreement of the first MoU in spring of 2010. The Greek debt today amounts to 322 bn euros or 175% of GDP.

and

2. Because the economic debate today (with the new and improved "success story" and the return to the financial markets) evolves around the assumption that primary budget surpluses are a) a positive thing per se, irrespective of their economic and social cost, and irrespective of the phase of the economic cycle b) sustainable, c) the way to ensure debt sustainability and lead the economy out of the crisis.

This last point, included in the internal logic of the conditionality terms of the MoUs, is now part of the argument that the process of internal devaluation has reached a point where the automatic mechanisms of the supply-side (i.e. the improvement of the current account balance following labour market deregulation [the improvement is mainly due to the lack of demand for imports due to the fall of economic activity, rather than a real improvement in the export capacity. In other words, as it is mentioned in the reports of the IMF, it is due to cyclical, rather than structural reasons and thus likely to be reversed when the economic situation improves], foreign investments, privatizations etc.) will start to work.

In this process the Troika officially estimates that the Greek debt will be sustainable by 2020 [given the assumption – among other – that primary budget surpluses will rise from 0% of GDP this year to 4,5% until 2016 and then remain at that level].

This, then is one of the three main myths of the economic orthodoxy of the crisis:

- **That excessive sovereign debt** can be repaid through **primary budget surpluses**
- **That austerity** can be **expansionary** and a basic pillar of a way out of the crisis
- That reducing unit **labour costs** is the main way for **restoring competitiveness**

Kicking the can down the road

Could the problem of the Greek debt be resolved earlier? The answer is that it could and that it should. The debt crisis, not only in Greece, but in the rest of Europe is not an isolated event. It is strongly connected to the systemic crisis of the capitalist system and more specifically it constitutes a facet of the global financial crisis in the concrete conditions of the architecture of the Eurozone as well as in the context of the neoliberal transformation of the European economies after the crisis of the '70s.

It is in this sense that both analytically and politically SYRIZA has put so much emphasis in fighting the case against the so-called "Greek exceptionality", a view widely shared by the Greek (and European) political and economic elites, not only in the neoliberal camp, but also within the modernisers of the Greek socialdemocracy as well as by influential policy makers, intellectuals and important parts of the media, around Europe.

According to this view, the Greek fiscal crisis resulted from government profligacy and populist politics, and this is why austerity, expenditure cuts and so on, is an appropriate response. Greece has been living for too long beyond its means with an oversized public sector while the various rent-seeking redistribution coalitions have marginalized the (potential) production coalitions which could increase the size of the pie. SO, within the dominant discourse, the crisis represents an opportunity to carry out the reforms that should have been implemented long ago - to recalibrate the economy in order to marginalize the former groups and enhance the latter.

In this sense, the approach followed by the European elites to face the debt crisis was a combination of a strategy of "devide and rule" in the "exceptionalist way" I described, and one of "kicking the can down the road", which means that, on the one hand the 'rescue' policy aimed to minimise the cost of the "rescue-packages" for the rest of the Eurozone countries, shifting the main burden to each economy through austerity, and on the other hand, it refused to admit to the need for any drastic measures that would involve it actually acting as an common economic space, until the point when this became inevitable : [This is more or less how the deadlocks created by the policy of 'rescue' soon led to failures in fiscal adjustment and made the debt restructuring in Greece inevitable]. In this sense, the debt crisis served as a lever for a "shock doctrine" type of pushing the neoliberal project forward, which in the case of Greece was particularly accentuated.

Unfortunately I do not have time to expand on the various impasses and dangers of this approach in a number of fronts, so I will just make some comments regarding the economic consequenses. We seem to be in a situation of what might evolve into a long-term fluctuation around the bottom (or an L-shaped type of recovery). This constitutes a strong possibility for a number of reasons:

- Due to the need for servicing excessive debts, flows are going the wrong way
- Problems accentuated by the European architecture (no fiscal transfers, breakdown of monetary transmission mechanism (lower interest rates of ECB do not translate to lower interest rates in the economy, the role and scope of the ECB, the idea of a Banking Union not moving forward)
- Danger of disinflation
- German strategy of keeping their surpluses and South being in balance because they have low demand, euro is high because Germany has surpluses)
- High unemployment equilibrium
- The markets can't kick start the economy out of a high unemployment equilibrium

- Neoliberal project destroys the capacities and institutional tools for policy against a stagnating economy

Conclusions

It is on the opposite of these grounds that our political approach regarding the debt crisis (as part of the systemic crisis) is based. Servicing the Greek debt in today's terms presupposes the use of huge amounts of annual state budget for paying interests and amortization, decreasing considerably the ability to exercise pro-growth economic policies or financing the welfare state. In the Greek case what should be made explicit is that the Greek society is unable to service the debt, but also that, as I mentioned above the financial flows in this times should be exactly the other way round so that we do not have a Latin-America type of phenomenon with negative net transfers.

In this sense a big part of the debt should be written-off while the servicing of the rest should be made conditional to a growth clause, meaning that the interest-rate will be a function of the growth rate. It is a vital condition in order to make the debt sustainable that the real interest-rate is smaller than the growth rate.

As we have often argued, similar measures were taken in the case of the German debt regulation after the World War 2, with the London Treaty in 1953. [The aim of this treaty was to prevent repeating the disastrous misjudgments of the Treaty of Versailles (1919), with its notorious "economic consequences"].

But the other very important question is the question we are facing for a productive reconstruction of the European countries. The significant difference in our approach of an economic recovery program is that we are not talking about a "more dynamic and sustainable capitalistic growth", but about a model that bears in its core the questions of production relations through new forms of organisation of the productive process, through the protection and the upgrade of labor, the fair distribution of wealth, full employment, the configuration of alternative models of consumption and the protection of the environment.