Austerity and debt – What can we learn from Greece?

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While the Greek government should look at Ecuador, could the governments in our region look at Greece for inspiration?

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The contemporary Greek tragedy of high sovereign indebtedness and the ensuant "austerity" measures have very few historical parallels. Ever since the debt crisis erupted, the infamous troika --- the International Monetary Fund (IMF), the European Central Bank (ECB) and the European Commission — its principal lenders spared no time in prescribing austerity measures as the panacea for all evils and linked it to bailout.

These measures included above anything else deep budget cuts and steep tax increases. Additionally, it also warranted an overhaul of the Greek economy by streamlining the government, ending tax evasion and making the country an investor's paradise. Even if we desist from reading the sub-text, we can't ignore the impacts of these so-called austerity measures.

Austerity and debt

A study by the German Institute for Macroeconomic Research (IMK) affiliated with the Hans Böckler Foundation reveals some genuine benefits of the so-called austerity measures. First, there has been an unprecedented and drastic increase of poverty.

The poorest families lost nearly 86% of their income, while the richest had to part only 17-20%. Why not? Isn't it common sense that the poor are poor because they are lazy! And, they don't like to work and live off state-subsidies while the rich strive hard for each and every penny! Again, the tax burden on the poor increased by 337% while upper-income classes registered an increase by only 9%. The report also indicates around 25% income reduction of the Greek families, deep wages cuts, surge of unemployment, forced early retirements, etc.

There is no doubt that the poor, the low-income groups, the low-pension earners and even the unemployed had to suffer disproportionately, thanks to Troika's prescription.

The bailout that the Greeks received for being such obedient pupil of the Troika was hugely insufficient to take care of the country's need. Greece's economic problems have only exacerbated. The economy has contracted by a quarter in the five years while unemployment is ticking above 25%. The bailout amount was utilised to pay-off Greece's outstanding external debt rather than strengthening the economy. And further loans are required to pay off the earlier ones.

The rules of indebtedness and bailout are such that the biggest chunk of money from the lenders directly goes back to them. Leonidas Vatikiotis, a Greek economist alleges that 92 % of the 255bn Euro loans received by Greece between 2010 and 2014 would go back into the vaults of the banks and the creditors, with only the remaining 20bn Euro remaining for the Greek budget to cover the country's financial needs.

According to Jubilee Debt Campaign, the IMF has made a profit of Euro 2.5bn by lending to Greece since 2010. If Greece repays the IMF fully, the latter's profit could almost double to Euro 4.3 bn by 2024.

Let us look at the Troika's macro-economic management. In 2009, at the onset of the issue, Greek external debt stood at 113% of the country's GDP. With the Troika's intervention and the imposition of the infamous Memorandum in 2010, the debt figures soared to 175% of GDP in 2014.

This is not the only shock in the whole story! The European Commission proclaim that: "Since May 2010, the Euro area member states and the International Monetary Fund (IMF) have been providing financial support to Greece through an Economic Adjustment Program in the context of a sharp deterioration in its financing conditions.

The aim is to support the Greek government's efforts to restore fiscal sustainability and to implement structural reforms in order to improve the competitiveness of the economy, thereby laying the foundations for sustainable economic growth." While in reality, the Troika loans were mostly used between 2010-2012 to ensure sustainability of the private banks of the major European economic powerhouses, starting with the French and the German banks.

Hypocrisy, fraud, and tyranny — these three words aptly defines the Troika's act. The banks had lent to an insolvent state and the Troika came to the formers rescue. These avaricious banks could dump their risks on the shoulders of the Greek people with the active help of this sorcerer's apprentice.

Greek reply

Three months back, hope arrived in Greece when Syriza was elected on the basis of its anti-austerity program. This radical left party faces numerous challenges on its way to break with Europe's austerity policies.

In this David versus Goliath story, uneven forces test their strength. While the Greek government endure a terrible liquidity crisis, the Troika seizes this chance to arm-twist the new government and reassert its authority.

The Greek government has also resorted to a number of confusing announcements, sometimes contradictory. Instead, of refreshing rains in this bleak and arid scenario, the Greeks confront the Troika hanging like Damocles' sword. While the long winter nights stretches longer, the Troika seems hell bent on punishing the Greek electorate for choosing the "outcast Syriza."

Debt audit

This spring certainly brought some hope for the Greeks as we witnessed for the first time in Europe an initiative for debt audit with citizens' participation. A committee was created by the Greek parliament whose first session was inaugurated by the speaker Zoe Konstantopoulou on April 4. The committee composed of 30 members — 15 from Greece and 15 outside — would establish illegal, illegitimate, unsustainable and odious debt.

The major challenge is to analyse the Greek debt contracted from the mid-90s till date. It is important to verify the debts and ascertain their nature — illegal, illegitimate, odious or unsustainable. The Troika or its components — ECB, EU, European Stability Fund and 14 European countries lending money to Greece since 2010 — holding around 80% of the Greek public debt are for sure not very happy with this development.

Although the final call about the repudiation of illegitimate, illegal, or odious debt rests on the Hellenic government and not the commission. The latter could help them by auditing the debt and bringing out the truth to the Greek population and the government. The results can also help in creating an international public opinion which would certainly be very important in confronting the creditors.

The Greek government can look at the Ecuadorian experience for inspiration. The findings of the Ecuadorian debt audit commission set up in 2007 helped its president Rafael Correa to repudiate and renegotiate the terms of a large part of the debt deemed as illegal, illegitimate, odious, and unjust.

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P.S.

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