# GREECE ON THE BRINK OF DEPRESSION AND THE MYTHS ACCOMPANYING THE EU-IMF "RESCUE PLAN"

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## *Introduction*

Last year, especially after February 2010, we were reading numerous articles describing the severe economic crisis in Greece, articles that were front-page news in the world mass media in most cases. But the "process" that led to the Greek economic crisis was not new, as it was firstly described in detail in some papers or internet media just in 2009.

In Greece, there is an economic crisis that started to "show up" after the disintegration of the production structure which was process accelerated at the beginning of 80s and at the same time this economic crisis was followed by a corresponding chronic crisis of the Greek political system. This crisis deteriorated with the outbreak of the current global financial crisis of 2007-2008, and it became obvious by the social unrest of December 2008.

After the Olympic Games in 2004, and for the next five years, a steep worsening in the condition of the Greek economy has been observed – but everything was hidden under the explosion of global credit and real estate bubble, until all these bubbles were burst in 2007-2008 global financial crises. In Greece, that was not so obvious even in 2008, but it was after the deleveraging of local real estate bubble in 2009.

This destructive course in the Greek economy, which started in the beginning of 80s, eventually had as a result the bankruptcy of Greece in 2010. This bankruptcy led to the enforcement of the EU-IMF "rescue plan" and the "International Financial Control" is already here with us, as it was again in February 1898, after the bankruptcy of 1893 and the defeat by the Turks in 1897.

## The EU-IMF "rescue plan"

In May 2010, a three-year agreement was signed, describing the mechanism of how Greece would receive €80 billion in loans from other euro-zone members and €30 billion from the IMF. This loan agreement was made under the provision of advice by the English law firm "Slaughter and May" [1] (what a symbolic name for Greece in the following months). This loan agreement has very strict terms, and the demands of the lenders underlie the English legal system. For the first time, the holders of the Greek bonds that would be issued because of that "rescue package" could proceed in the garnishment of the Greek public property (unofficially estimated in 300 billion euros), when the Greek government couldn't pay the loan after 3 years (from the first moment it was obvious that this loan couldn't be paid in 3 years, and now, what a surprise, the lenders are thinking for the lengthening of that loan). This is the main reason, with many other "new-established procedures" that were decided, why this loan agreement has turned into an "occupation" agreement for Greece.

IMF undertook the responsibility for defining the austerity measures and watching the implementation of the plan by the Greek government. As EU admitted, it called IMF to participate in the rescue plan because of its "technical expertise" from previous implementation plans. And that's what happened in Greece too. The classical IMF measures were proposed and implemented.

The Greek government acted very fast, surprising even the EU-IMF officials, to slash and then freeze public-sector wages, raise sin taxes, increase value-added taxes, impose a new levy on businesses, cut pension payments and raise retirement ages for some public-sector workers. That was the very easy part of the plan. The other one was the challenge of economic growth that is necessary for Greece, if the lenders really want to take back the whole value of the Greek bonds they possess. But the IMF "advice" and the plan in general have nothing to do with growth. [2] It is just a plan trying to cut the public deficit of Greece and put an order to the chaos in the financials of the Greek public sector (what a surprise again, recently even the biggest supporters of the EU-IMF "rescue plan" admit that the plan has nothing to offer in implementing growth policies).

On the contrary, the plan kills any probability of growth in Greece for the next 3 years. The economy can't proceed to growth paths, when there are huge tax invasions in the middle class income. And this killing of growth with these austerity measures is certain, when we know that Greece is in recession one year before the implementation of the "rescue plan".

The results of IMF measures were obvious since the first months of their implementation. It's the destruction of the middle class, the pauperization of large proportion of the Greek population and the start of a general disintegration of the Greek society in the name of the reduction of Greek public deficit.

And now officially we know that the Greece's state revenue in 2010 rose 5.4 percent on an annual basis to 51.1 billion euros, missing the initial IMF's target of 13.7%. [3] The targets of the Greek budget for 2011 won't be caught because the additional austerity measures that have been planned won't bring additional revenues. That should be easily known for someone who has studied the theory of Laffer curve. [4] One potential result of the Laffer curve is that increasing tax rates beyond a certain point will become counterproductive for raising further tax revenue because of diminishing returns. And we have already reached that point in Greece many months ago.

Moreover, some weeks ago the very important data of unemployment rate and inflation was published in Greece. That data concluded that we are in the situation when both the unemployment rate and the inflation rate are persistently high, that is stagflation.

The unemployment rate is rising very fast, especially during the last 2 years. The increase of unemployment rate in the last 2 years is one of the biggest after the Second World War. The lows of the last 15 years were in the end of 2008. But since 2008, when the deleveraging of the local real estate bubble was obvious, the unemployment rate doubled. The latest data [5] shows that the unemployment rate was 13,5% in October 2010, against 12,6% in September and 9,8% in October 2009 (we all know that the real unemployment is much higher).

In addition, Greek inflation rose to 5.2% in December 2010 from 4.9% in November [6]. In this explosive mixture we should add the negative GDP trend we have since 2009 (about -4.5% recession in 2010), that will continue in 2011, and of course the present data projection shows also recession in 2012, and not a slight growth as the EU-IMF "rescue plan" tells us. So more jobs will be lost, the income of the citizens will shrink more, and as a consequence the economy will shrink further until recession turns into depression. We are just a few months before this painful process begins. And whatever the IMF had as a prediction for recession, unemployment rate, country's revenues will be proved false, far away from the reality. Even the debt prediction as a percentage of GDP in 2013 will be higher, maybe in 2011. [7] Other recent estimates predict that the Greek public debt as a percentage of GDP in 2020 will be still higher than the one in 2009, and the Greek society will be in ruins, after being under the "rescue plan" for a decade.

**The myth of the "huge Greek Debt"**

During the last year all the mainstream Greek and foreign media were presented Greece as the country with one of the biggest debts in the developed world. But this is only the one side of the truth, when on purpose they focus on the public debt.

In table I, we present an indicative list of countries by total debt. It is the cumulative total of all government borrowings less repayments that are denominated in a country's home currency. The figures here are represented as a percentage of annual GDP.

| Country | **Total debt** | Financial Institutions | Non financial business | Households | **Government** |
|---|---|---|---|---|---|
| | | | | | |
| UK | **469** | 202 | 114 | 101 | 52 |
| Japan | **459** | 108 | 96 | 67 | 188 |
| Spain | **342** | 75 | 136 | 85 | 47 |
| N. Korea | **331** | 108 | 115 | 80 | 37 |
| Switzerland | **313** | 84 | 75 | 118 | 37 |
| France | **308** | 81 | 110 | 44 | 73 |
| Italy | **298** | 77 | 81 | 40 | 101 |
| USA | **290** | 56 | 78 | 96 | 60 |
| Germany | **274** | 76 | 66 | 62 | 69 |
| Canada | **245** | 47 | 54 | 84 | 60 |
| **Greece*** | **230** | | | | **108** |

* 2007

**Table I:** Total debt in **2008** of selected countries, (%) of GDP

**Source:** McKinsey Global Institute (Exhibit 7) [8]

It is obvious that Greece is not the "western" country with one of the biggest total debts as a percentage of annual GDP, but other countries that criticized so badly Greece's debt should consider the real financial situation of their "home" first.

In table II, we present an indicative list of countries by external debt. External debt by definition is the total public and private debt owed to non-residents repayable in foreign currency, goods, or services, where the public debt is the money or credit owed by any level of government, from central to local, and the private debt the money or credit owed by private households or private corporations based in the country under consideration.

| **Country** | **External debt US dollars** | **Date** | **Per capita US dollars** | **% of GDP** |
|---|---|---|---|---|
| Luxembourg | 1,994,000,000,000 | 30 June 2009 | 4,028,283 | 3854% |
| Ireland | 2,287,000,000,000 | 30 September 2009 | 515,671 | 1004% |
| Netherlands | 3,733,000,000,000 | 31 December 2009 | 226,503 | 470% |
| United Kingdom | 9,088,000,000,000 | 30 June 2009 | 147,060 | 416% |
| Hong Kong | 655,100,000,000 | 30 September 2009 | 92,725 | 311% |
| Switzerland | 1,339,000,000,000 | 30 June 2009 | 182,899 | 271% |
| Belgium | 1,354,000,000,000 | 7 October 2010 | 126,188 | 267% |
| Austria | 808,900,000,000 | 30 September 2009 | 97,411 | 212% |
| Portugal | 507,000,000,000 | 30 June 2009 | 47,632 | 223% |
| Denmark | 607,400,000,000 | 30 June 2009 | 110,216 | 196% |
| France | 5,021,000,000,000 | 30 June 2009 | 80,209 | 188% |
| Greece | 552,800,000,000 | 30 June 2009 | 49,525 | 167% |
| Spain | 2,410,000,000,000 | 30 June 2009 | 52,588 | 165% |
| Sweden | 669,100,000,000 | 30 June 2009 | 72,594 | 165% |
| Germany | 5,208,000,000,000 | 30 June 2009 | 63,493 | 155% |
| Finland | 364,900,000,000 | 30 June 2009 | 68,180 | 153% |
| Norway | 548,100,000,000 | 30 June 2009 | 113,174 | 143% |
| Italy | 2,328,000,000,000 | 31 December 2008 | 39,234 | 101% |
| United States | 13,450,000,000,000 | 30 June 2009 | 43,758 | 94% |

**Table II:** Total external debt of selected countries, (%) of GDP [9,10]

From the table above, we conclude again that Greece is not one of the countries with the biggest external debts in the world, but there are some countries in the list that we could make the assumption that they are already “insolvent”. And we have to remember the “principle” of the countries’ lenders of any kind: “The **total debt** is the public and the private one and all that should be paid”. Now they know that the total debt is impossible to be paid by the large “western” countries and they are trying to deal with the “small” problem, which is the public debt of the “western” countries. They are trying to postpone the confrontation of the private debt problem for some more years later. But there will be some day in which the “bill’ has to be paid for every big “western” country.

**Conclusions**

Having in mind all the previous data and the real situation that exists in the majority of the Greek population and not following the beliefs of the corrupted bureaucrats and some of the Greek Nouveau Riche of the last decade, the implementation of the EU-IMF “rescue plan” will bring disaster to Greece. If some people still deny understanding this, they are the same people that denied seeing the coming of the global financial crash of 2007-2008.

In a few days some EU-IMF bureaucrats will come to Greece to see what extra measures should be taken for additional cuts of 12 billion Euros in 2012-2014 [11]. The measures and their results will be the usual ones: slaughter of the weak pensioners and employees with new or increased taxes, elimination of thousands of small businesses via the huge taxation policy, collapse of the internal consumption and a huge amount of new unemployed people.

In 2011 debt servicing and amortization payments will reach the huge amount of 25% of GDP that is continuing the following years especially during the 2014-2015 period, when, more than 70 billion euros annually will be needed to pay back the loan from the EU-IMF (55.2 billion in 2011, 57.9 in 2012, 53.2 in 2013, 70.8 in 2014 and 76.7 billion euros in 2015, taking account that we haven’t a decision for lengthening the EU-IMF loan till now) [12]. It is obvious that all this money cannot be paid.

If Greece wants to move out from this economic death spiral must begin immediately a renegotiation of its whole debt, not only of the EU-IMF one (under the threat of an immediate stoppage of payments in case this is not accepted), aiming at a significant lengthening of the period of its repayment and a corresponding reduction of the present amount of debt (a 40-50% hair-cut is appropriate). This renegotiation must take place in the Eurozone, and in no way after returning to drachma. In this period of time the returning to drachma will be a disaster. Drachma is wanted by the corrupted political and financial elite which have their deposits already abroad and after the returning of drachma they will have the purchase power to buy the wealth of Greece in a bankruptcy cost. Drachma can’t help now for the improvement of the competitiveness of Greece, since there is no production infrastructure during the last years, and there are very few exporting products and services. On the contrary, it accelerates a procedure that leads Greece to a “Third World’ economic condition and of course to the strong economic influence of Turkey.

Then, as we mentioned above, Greece can use appropriately its public property of 300 billion euros so as to handle efficiently the remaining debt and start procedures for growth policies. Of course, this growth should concern its "classical" economic sectors such as tourism, shipping, agriculture and the exploitation of the country's rich mineral wealth.

At the same time we have to co-operate with countries that will give us a boost in our competitiveness in several sectors in the new rising world. This world has already risen in the wider area of Asia. Greece can play a significant role in this new world and can have many benefits when it will find its role there. It's not utopia. Very briefly, Greece should co-operate with Israel in the area of applications in the high-tech industry, co-operate with Russia and China and find its path with their help to Asian challenge, these are just a few examples. But the leaders of this new course must be young Greek people that have a vision and will work hard for it. The older people owe it to them, because during the last years they "managed" to create a Japan-like lost generation of youths in a very short time indeed. [13]

Of course, this new era for Greece won't exist as soon as the corrupted representatives and their "colleagues" of the present political system that brought Greece to bankruptcy won't be punished very strictly. But if this impunity will continue in combination with the new austerity measures that are coming soon, there will be a perfect explosive mixture that when it explodes the social unrest in December 2008 will seem like a walk in the park.  The next days, weeks are very crucial for the "progress" of the EU-IMF occupation.

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