Greece: Fiscal servitude and the mirage of recovery

Mihalis Yianneskis

Summary

- In 2015, the Greek people voted for a left-wing government and provided it with a clear mandate to abolish the country's fiscal servitude to the neoliberal policies of the EU institutions
- Four years later, the country is still held at ransom and continues to mortgage its wealth, while the living standards of the majority of its citizens are continually eroded
- A mirage of recovery is presented to the Greek people, while the *status quo* remains essentially unchanged
- The main events and factors that led to the impoverishment of the Greek people, as well as the future prospects for the country, are considered

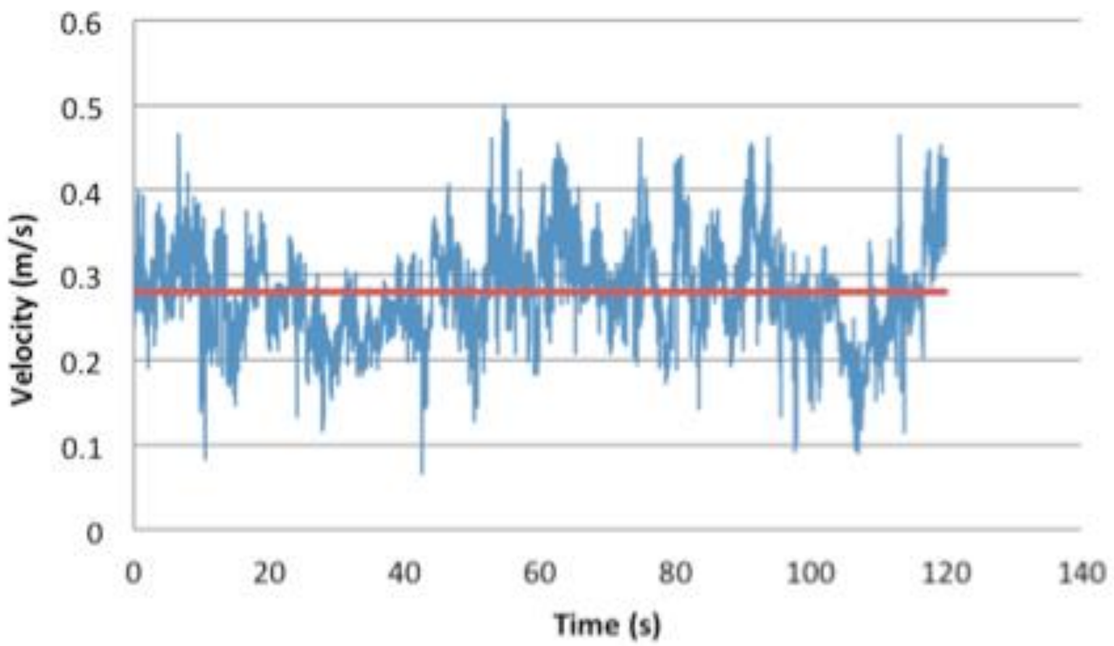
Background

- Realisation of the shenanigans inherent in financial mathematics and financial engineering

- Based on c. 150 articles written for Greek websites and newspapers

Engineering vs. 'Financial Engineering'

Variation of turbulence velocity (L) and of stock market index (R) with time



Maths advanced, any assumptions based on laws of physics and proven by experiment

Maths just as advanced, but assumptions uncertain, simplistic, exclude real-world factors
and can only be tested *a posteriori*, after an event

Outline

- The “haves” and “have-nots” in Greece and the 2015 hopes
- Greek debt in global and EU context
- Austerity, rise of fascism and nationalism
- Prospects and lessons for the future

The unchanging prospects for the "haves" in Greece

- Crisis? What crisis?
  A visitor's tour of central Athens -
  A totally misleading view of the situation

- Enormous outflow of capital abroad, especially until capital controls were imposed
  Bank deposits fell by € 130 billion between 2010 and 2015

- Used, for example, to purchase luxury flats in London

- Constitutional protection of shipowners' income/"voluntary" taxation

The three pillars of the Greek “haves”

- Black economy and tax evasion
- Political clientelism
- Corruption

“Non-participation in corrupt activities will be perceived as anti-social behaviour”

(C. Tsoukalas during talk in LSE in 1990s)

- These “three pillars” are elite-driven and guaranteed to produce state indebtedness – the Greek debt crisis should have been no surprise

The bleak prospects for the “have-nots” in Greece

- Greek GDP fell by 45% in 7 years

$ billions

- Greek household disposable income dropped by 25% after 2008

- Unemployment rose from 8% to 28%

Household income drop - 1

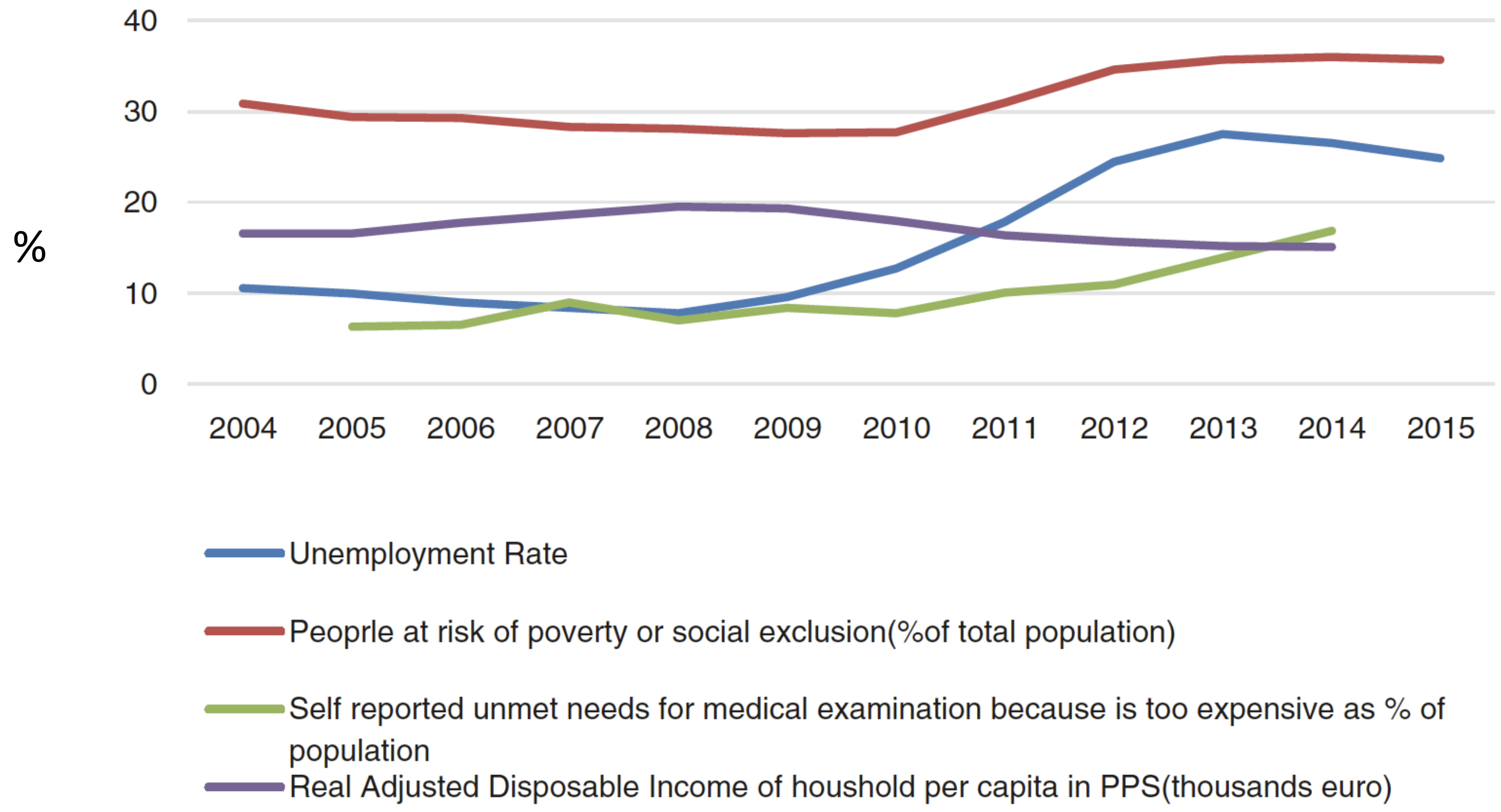


Fig. 5.3 Evolution of main indicators concerning living standards in Greece, 2004–2015 (*Source* Own calculation from Eurostat)

Fouskas and Gökay (2019)

Household income drop - 2

- For most Greeks, “employment” means a € 400/month job
  - If you can get one (and if you get paid eventually)
  - If you are not considered too old to be fully “utilised”
- “Red” (Non-Performing) Loans = 45% of bank assets in 2017
  - Distress funds acquiring NPLs at a small fraction of their value
  - Resulting in auctions of people’s homes
  - Now done online to forestall anti-auction demonstrations
- Little or no protection via an extremely slow and bureaucratic judicial system with
  - surprisingly heavy sentences for minor offences,
  - suspended sentences for far more serious ones,
  - and bribes of appeal court judges

The failures of Greek capitalism and politicians

- Shift to quick-profit services at the expense of industry and agriculture

- Rapacious and inefficient state machine serving clientelism

  E.g. jobs for votes, rüşvet, the “favour bank”

- Politicians’ connivance and acquiescence to haughty attitude of EU turned Greece into a laboratory of EU economic, political and social developments

- Political elite neutralised parliament, losing its best bargaining chip by

  accepting governance by foreign laws and

  being unable to change terms imposed on country’s finances

“Hope is Coming” and the Greek Referendum

- Spring of 2015: massive demos demanding no capitulation to EU demands

- The 2015 Greek referendum
  - A thunderous 61% “No” to the EU terms, despite a well-orchestrated “project fear” of leaving the EU or Eurozone, and that
    - Leaving the EU was never intended
    - Leaving the Eurozone possible only by leaving the EU

- KKE’s (Communist Party of Greece) *faux pas* of a “Different No” to the EU:
  - Amounted to nothing but around 6% of non-valid votes
  - KKE proved ineffectual during Greek crisis

The ‘somersault’ and the short-lived ‘red lines’

- ‘Grexit’ would almost certainly have caused chaos and instability in the EU, ***but***
- EU could see that most Greeks were not willing to leave either the Union or the Eurozone, while SYRIZA performed a political ‘somersault’
- Hence, EU was able to impose fiscal servitude to ensure the banks did not bear the costs of their reckless spending
- ‘No to EU terms’ without ‘No to the EU’ proved ineffectual
- The ‘red lines’ of SYRIZA proved short-lived:

  “We shall tear-up the Memoranda (Bail-out agreements)” – Ended up agreeing to a new one

  “No homes in the hands of bankers” (for a while)

EU priorities for the bailouts

- Saving the banks
  - European bank “stress tests”: highly optimistic, but “worse than useless”
  - Around 93% of Greek bailout funds used to pay back debt and help save German, French and Greek banks
  - Bailout costs borne by Greek taxpayers and pensioners
- Saving the Eurozone (in crisis in the wake of 2008)
- Opportunity for EU to set an example of enforced adherence to fiscal rules
- Golden opportunity for hedge funds and multinationals

The EU methodology to “save” Greek economy

- Fiscal austerity, deregulation, privatisation

- Shifting private debt to the public sector (as done globally in 2008)
  Protecting banks, shareholders and bondholders

- Enforcing brutal reforms through informal, unaccountable, mechanisms
  E.g. the Eurogroup and the Eurogroup Working Group

- Improve “competitiveness” (abolish workers rights and protection of wages and pensions)

- EU policing adherence to fiscal rules

Bail-outs vs. bail-ins

- Two ways to “save” a bank: Bail-outs (favour capital), bail-ins (favour state/labour)
- Bail-in: saving a bank through “haircut” of shareholders’ and depositors’ assets
- Bail-out: saving a bank through public funds (paid via tax rises and wage, pension and welfare cuts)
- But even with bail-ins balance can be shifted in favour of capital:

  Example - the Cyprus Marfin Popular Bank collapse in 2013:

  Initially proposed ”haircut” of all deposits, even those under € 100,000 <u>guaranteed</u> by EU rules

  (all depositors affected, wealthier ones to much lesser extent)

  Forced by parliament to honour protection of € 100K deposits

  (wealthier customers covered most of the cost)

Whence the intransigence of the EU hegemon?

- Hegemony of German industrial export capital in EU – Germany main creditor in EU
- A highly unstable market - Remember 1992/the run on the pound and the .com crisis, worsened by
- The advent of Derivatives, “*financial weapons of mass destruction*” (Warren Buffett)
- A prime culprit for German intransigence in 2015: Deutsche Bank, the biggest German bank

    In 2015 Deutsche Bank held derivatives worth $ 67 trillion

    Equal to the global GDP and 20 times higher than German GDP at the time

    Enormous risk for German and EU economy

    Cf. Lehman Brothers at 2008, that held derivatives worth $ 31.5 trillion

- Total global value of derivatives in 2015: $ 630 trillion

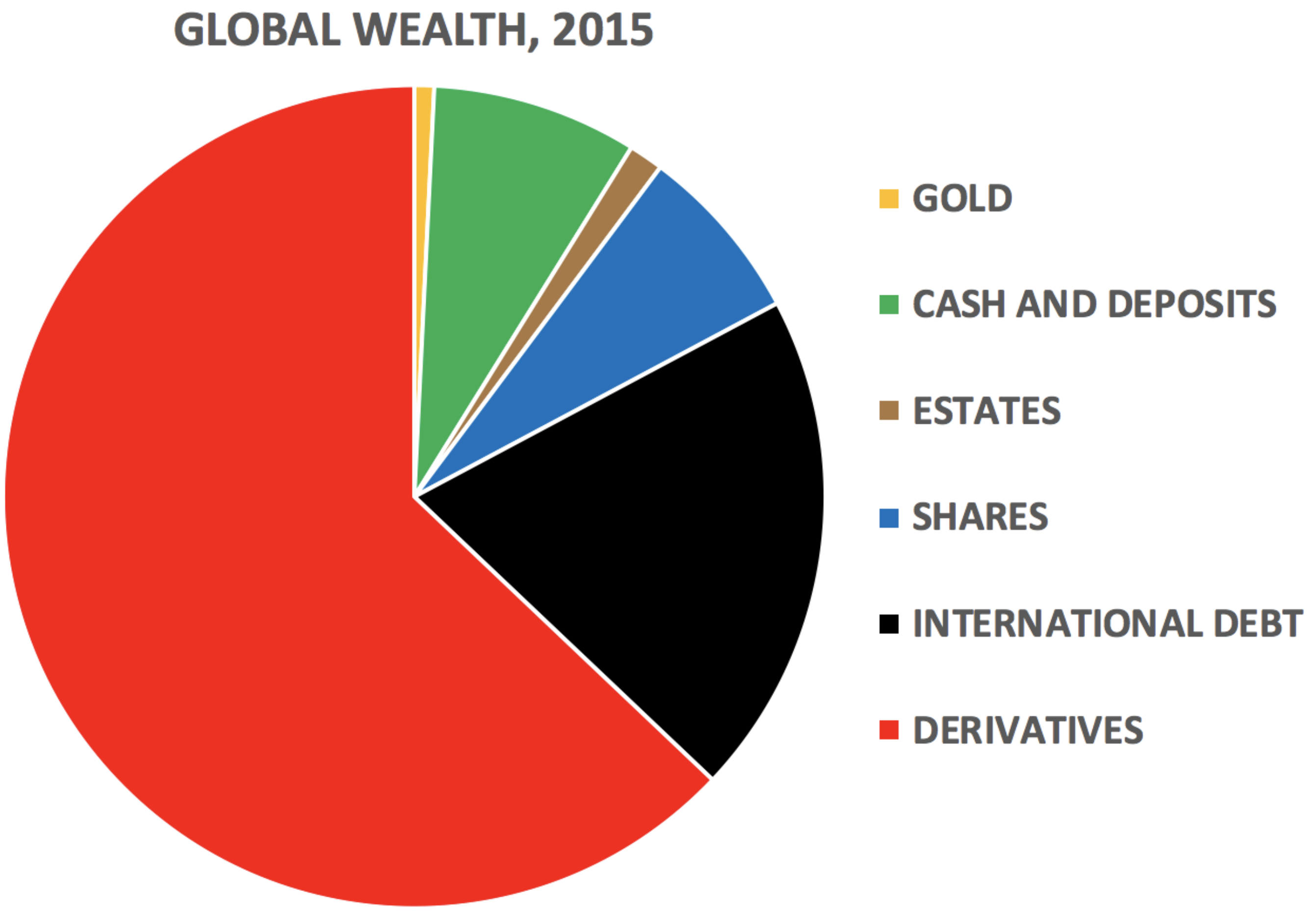
    Other estimates of global derivatives varied from $ 1,200-1,400 trillion

The derivatives ticking bomb in context

Derivative = a contract that derives its value from the performance of an underlying entity (e.g. asset, index or interest rate)

Ownership of a derivative does not mean ownership of the underlying asset etc.

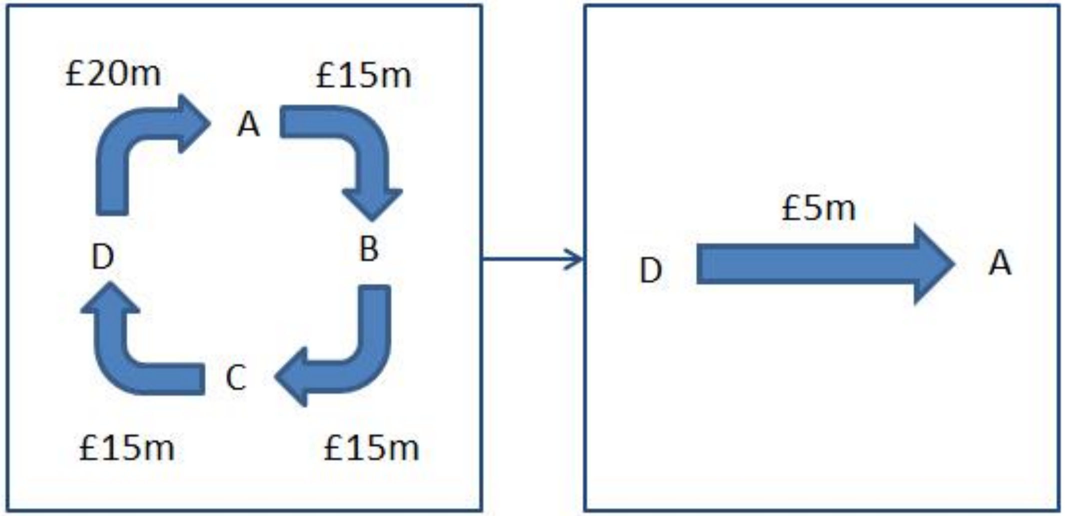
Used for speculating and hedging purposes



Outlook improves, if you cook the books

- “Compression”
- Derivatives’ global value reduced to $ 542 trillion by 2017

Inherent assumption reminiscent of that behind
Credit Default Swaps, that led to the 2008 crisis



Presenting a £ 65 million risk as 93% lower

Greek debt in the global context

- 0.7% owns 50% of wealth – Who calls the shots and runs World Bank …
- … mocks the poor: Globally the number of people in “extreme” poverty (living on less than $ 1.9/day) “unacceptably high” but dropping
- The icing on the cake: the billionaire stealth plan to suppress democracy
  Driven by James McGill Buchanan, Nobel laureate, Pinochet adviser
  Formulated Public Choice Theory (= the rich should not pay taxes)
- *Par excellence* example of global influence: BlackRock –
  The shadowy superpower with $ 5.1 trillion at its disposal
  Influences investments of $ 15 trillion worldwide

Greek debt in the EU context

- Greek debt (c. € 350 billion) =

  0.5% of Deutsche Bank derivatives bubble

  1.8% of EU GDP

- The EU approach: Treat the headache (Greek debt)

  while allowing the cancer (market bubble) to fester

The mathematical alchemy of the technocrats - 1

- Selective training: many economic theories not taught at universities
- Predictions tuned for desirable answers, theory before facts
- Models do not incorporate important factors
- Whoever pays the ~~piper~~ economist, calls the ~~tune~~ “expert opinion”

The mathematical alchemy of the technocrats - 2

- “Financial Engineering”:

  Profit maximisation via explosion of derivative trading

P.s. An ironical coincidence: in financial mathematics,

the sensitivity of the value of derivatives is assessed

by quantities known as “*the Greeks*”

Belated admissions of the truth

- Size of the derivative bubble is unknown

  "Every set of statistical data on derivatives … has been designed for a specific analytical use … such data cannot be easily combined" (Bank for International Settlements)

- Jeroen Dijsselbloem, chair of Eurogroup in 2015, admits threat to Eurozone of the possibility of a Grexit in 2015 (interviewed by Der Spiegel in 2018)

  "The Eurozone would sink into chaos beyond imagination if we allowed a country or more to leave ... The whole eurozone would be more fragile"

- Rubbing salt to the wound

  IMF: privatisations are a "*fiscal illusion*" that "*can harm a country's economy*" (IMF Fiscal Monitor, October 2018)

Privatisations, austerity and their raison d’ étre

- The curious EU fixation with VAT rates in the Greek islands

  German interests in hotels along Turkish coast?

- Generic drug market

  Greece as a useful “price setter”

  Greek generic drug pharmaceutical industry in tatters

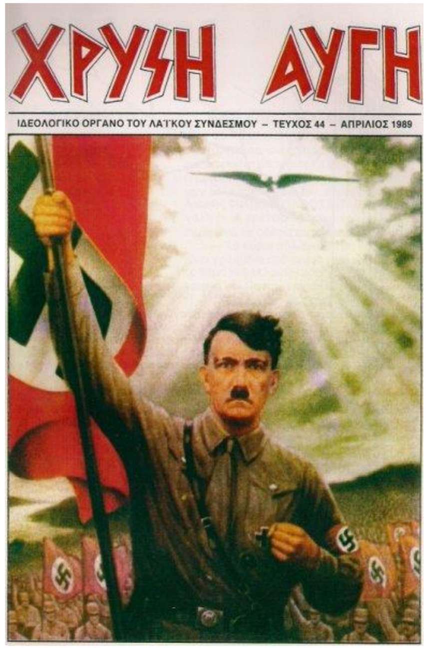
- Greek airports – many handed over to German company Fraport

- Many more examples - even archaeological sites up for grabs

- Unsurprisingly, austerity bred fascism

Rise of fascism and nationalism

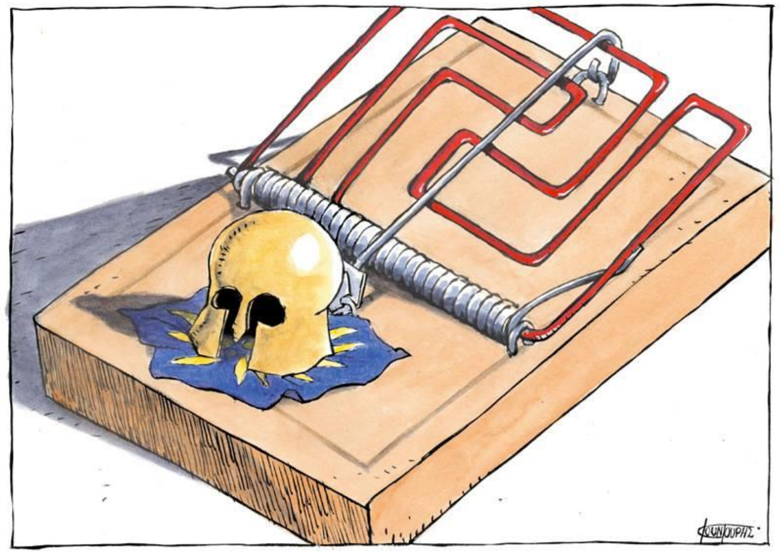
- Stateless elites promoting a fake “patriotism”
  Right-wing “Populism”, a misnomer for creeping racism and fascism
- Advent of neo-Nazi Golden Dawn



- Scapegoating the migrants, turning a blind eye to
  the bankers and shipowners
- Golden Dawn trial (ongoing, started April 2015)
  Piles of evidence pointing to a criminal organisation
  Plethora of videos with Nazi salutes, anthems, symbols and the like
  Defence changes tuck from “we are not Nazis”, to “freedom of speech”

The Macedonian issue and the nationalist trap

- FYROM was recognised by Greek state as “Socialist Republic of Macedonia” 60 years ago (1959)



- 1990s: Nationalistic feelings inflamed by opportunistic politicians for political gain

- 2010s: The culprits of the 1990s Macedonian crisis play the nationalistic card again

- Mass media propaganda helps stir up nationalistic hysteria
  E.g. the 1.35 million “invisible” demonstrators in Athens

- The resurrection of the Macedonian issue provides a new springboard for the fascists

The prospects for “growth”

- Hydrocarbons in the Aegean and the Adriatic Seas
  - Energy Charter – the little-known first ISDS scheme -
    - States have paid $ 52 billion to investors until now
  - The “Carbon Bubble”

- “Green growth” and the Renewables Bubble
  - “Renewable” biomass – only renewable element is the subsidy
  - EU/state subsidies galore
  - Small companies eventually absorbed by big interests

- AirBnB – Immense growth in AirBnB lets, resulting in unaffordable rents for locals
  - At the same time evictions and homelessness rise sharply

- Tourism – High growth, but much of the income ends up in foreign hands

The mockery of austerity policies

- A mockery foretold

  Leaks from EU institutions on 1 July 2015 in major European papers:

  Even with IMF's highly unrealistic predictions of 4% growth,

  Greek debt would not be sustainable by 2035

- The mirage of the technocrats:

  Record budget surpluses in the country with the weakest economy

- Governmental "generosity" in pre-election period

The invisible end of austerity

- No more “Memoranda”, but
  - Austerity earmarked for many years to come by existing agreements
  - Compliance with fiscal targets a *sine qua non*
- Greek debt-to-GDP ratio worsened dramatically, despite fiscal severity: From 110% in 2008 to 180% in 2017

The political horizon

- Elections due by September 2019 (with MPs changing party affiliations constantly)
- Conservatives (New Democracy) - Clear lead in the polls, though not sufficient for majority government – Overt overtures to far right, covert ones to neo-Nazis
- SYRIZA – overtures to the centre and centre-right with ministerial appointments etc.
- Left fragmented, no alliances emerging that might ensure parliamentary representation
- KKE (Communist Party of Greece) only Left party likely to be represented in the next Greek Parliament
- Nazi Golden Dawn: polls show steady support, overtures to New Democracy

Politicians undermine the struggle …

- A missed opportunity:
  The people delivered, the government faltered

- Leaders and intermediaries prove ineffectual once more

- Elections without social movements ensuring adherence to pre-electoral commitments: a lost cause

- Fragmentation of Greek trade unions along party-political lines

- The Greek example shows what the Left must avoid doing at all costs

… while the inherent instabilities intensify

- Capitalism’s structural problems intensified, especially since 2008
- Fault lines in global power structures shifting and intensifying
- Elites destabilised and disoriented as well,
  with the globalisation project currently facing a bumpy ride

Rekindling the struggle

- Substantial mobilisation and protests from 2012-mid 2015,

  hiatus after the capitulation following the referendum

- New social movements and initiatives rekindle the struggle:

  Supporting those impoverished and in need through social solidarity structures: Pharmacies, clinics, kitchens, food banks, movement against auctions/repossession of homes, refugee solidarity and support structures

  Fighting the corporate media misinformation onslaught through

  independent news media, journalism and documentary making

Further Information

Buchter, H. (2015). BlackRock. Eine heimliche Weltmacht greift nach unserem Geld. Frankfurt: Campus Verlag. - See also https://www.nytimes.com/2016/09/18/business/dealbook/at-blackrock-shaping-the-shifts-in-power.html

Davis, A. (2018). Reckless Opportunists – Elites at the End of the Establishment. Manchester: Manchester University Press.

Earle, J., Moral, C. and Carl-Perkins, Z. (2016). The Econocracy: The Perils of Leaving Economics to the Experts. Manchester: Manchester University Press.

Fouskas, V. K. and Gökay, B. (2019). The Disintegration of Euro-Atlanticism and New Authoritarianism. London: Palgrave Macmillan.

IMF Fiscal Monitor, October 2018 https://www.imf.org/en/Publications/FM/Issues/2018/10/04/fiscal-monitor-october-2018

Lapavitsas. C. (2019). The Left Case Against the EU. Cambridge: Polity Press.

MacLean, N. (2017). Democracy In Chains: The Deep History of the Radical Right's Stealth Plan for America. New York: Penguin Random House.