
Corporate Watch
False Dilemmas
A critical guide to the Euro Zone Crisis

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A critical guide to the Euro Zone Crisis by Corporate Watch

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Key Messages

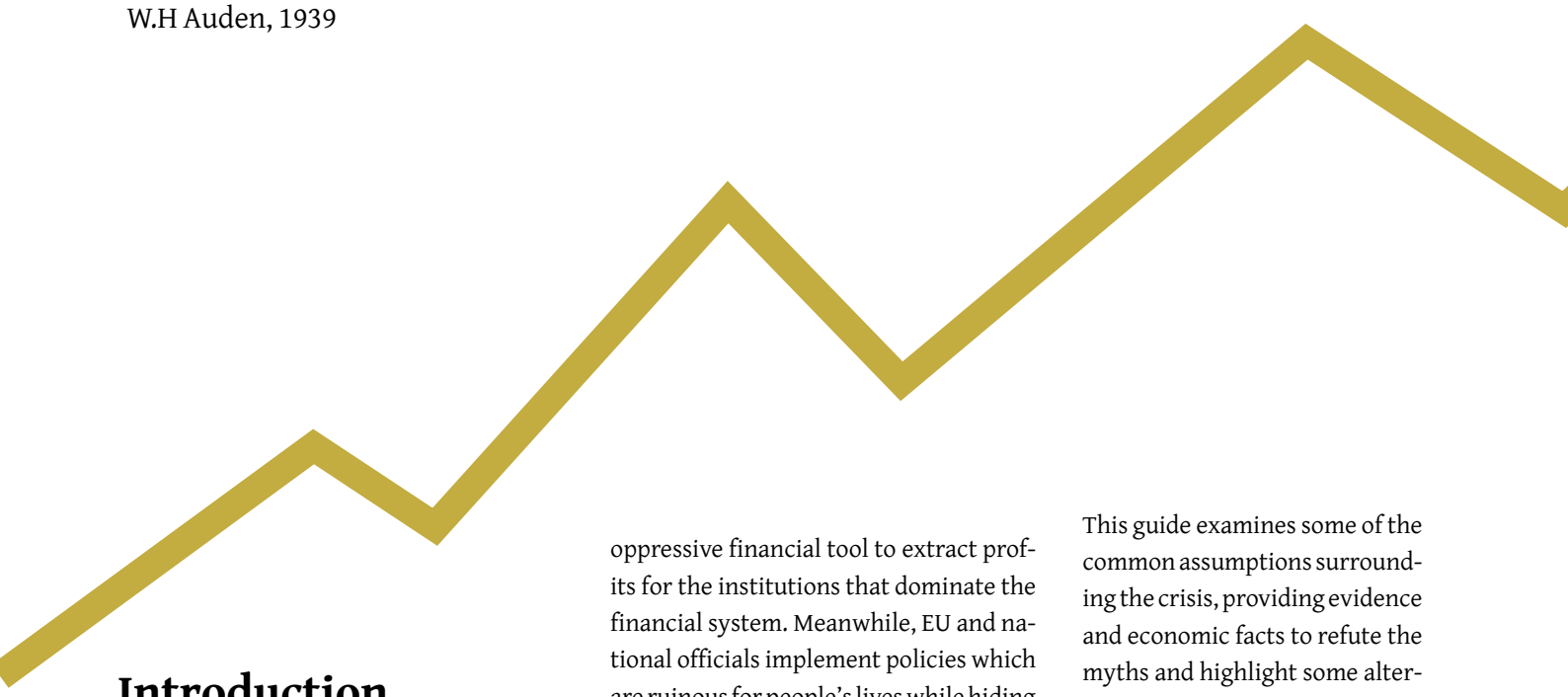
Based on myths and false dilemmas, the mainstream narrative around the crisis still dominates discussion. Breaking away from this, this guide shows that:

- The process of European integration facilitated a transfer of wealth and power from poor to rich countries through debt instruments and trade relations. Economic imbalances between countries were widened due to the euro area structure and the response to the crisis.
- Private sector debts were nationalised creating huge problems for public finances; yet myths were spun to justify a 'solution' that involved ever increasing amounts of sovereign debt whilst imposing widespread unemployment and dramatic reductions in living standards.
- A step towards social and economic justice would be for these debts to be cancelled and those responsible both nationally and internationally to bear the burden of cancellation. This guide compiles arguments and evidence to challenge debt repayment.
- While banks and other financial institutions are responsible for countries' indebtedness and have helped create the crisis, at the same time they have profiteered from it in numerous ways, such as betting against countries' default, and then benefiting from the latter's bailouts.
- Future profitability is ensured by reorganising the institutional landscape to promote private corporate business opportunities. This report shows who is profiting from the crisis and reveals how and why grassroots mobilisations are rising up against the European establishment. This guide argues for opposition to the EU that is not based on discrimination or prejudice, to reclaim the space that has so far been dominated by far right movements.
- The crisis has cast aside any pretence of democracy; the kind of changes instituted are only possible with broad, general use of force, violence and appeals to nationalism and xenophobia. The guide documents the far reaching impacts of austerity politics and presents the main social, economic and political arguments to counter it.

Contents

In the nightmare of the dark
All the dogs of Europe bark,
And the living nations wait,
Each sequestered in its hate;

W.H Auden, 1939



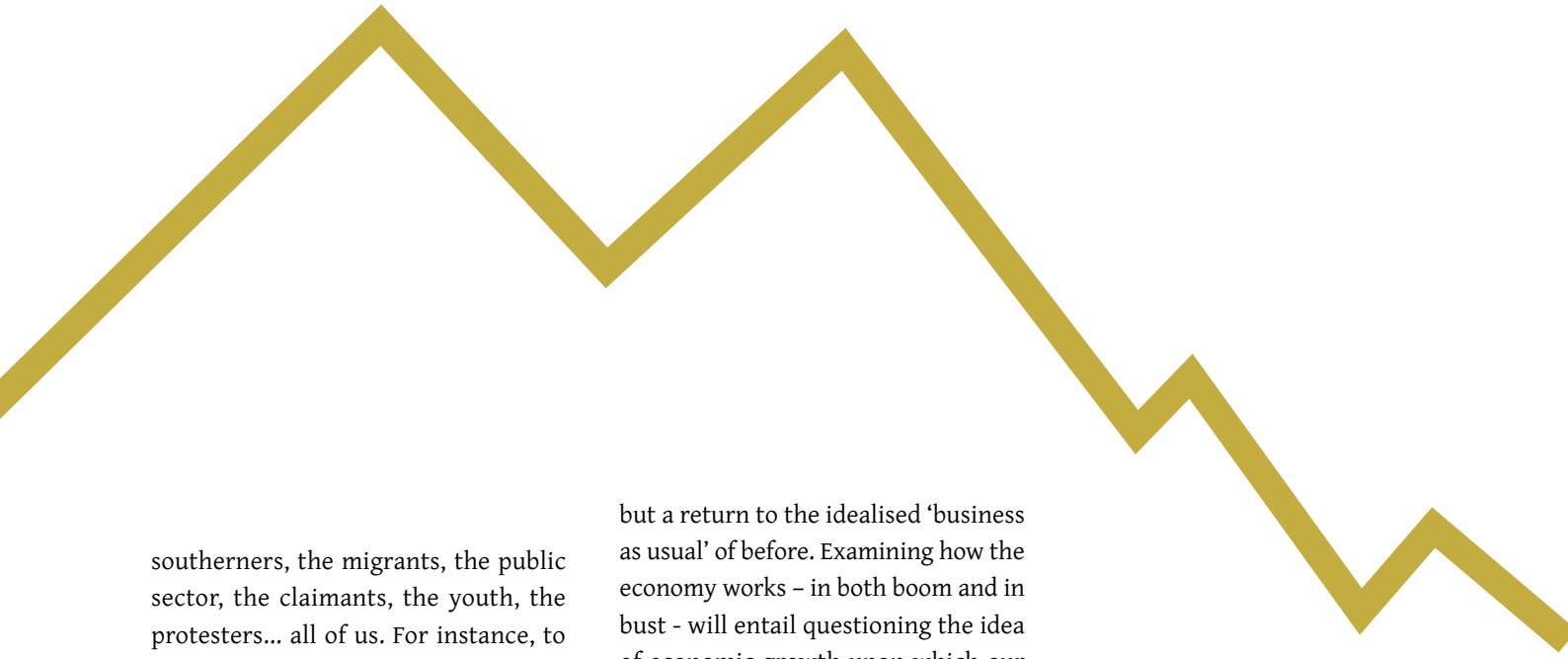
Introduction

This guide provides a comprehensive overview of the key features and events of the euro zone crisis. Aiming to provide a window into this complicated topic, it brings together all the relevant issues so that those with or without prior knowledge of this issue can understand the many dimensions of the crisis. We explain the key events and themes, critically examine the official narratives and debates, and explore what alternative perspectives are out there. Much has been written and debated about the euro zone crisis, yet amidst so much media and official obfuscation, it often seems too complicated to get to grips with.

We hope to show how debt has been used as a lever to pass through extremely socially harmful policies, euphemistically called fiscal adjustment, by holding entire countries to ransom. Debt has been used as an oppressive financial tool to extract profits for the institutions that dominate the financial system. Meanwhile, EU and national officials implement policies which are ruinous for people's lives while hiding under the pretence of working in the 'public interest'. This is despite the fact that it is clearer than ever that their interests are diametrically opposed to those of the 99%. The horrific consequences of prioritising debt repayment over all other concerns amplifies the urgent call heard throughout Europe: "we do not owe, we will not pay". Debt resistance in Europe, and around the world, shows we have both the imagination and the means to refuse payment, and find an alternative.

The main argument presented in this guide is that the euro crisis is distorted by what can be called 'false dilemmas' which are put forward by the media and official accounts, and which polarise discussion. The false dilemmas are presented as opposites: 'austerity or default', or 'euro versus drachma', 'unemployment versus immigration'. They serve to frame the public discourse in such a way that distorts the reality, and manipulates people's interpretations and activities.

This guide examines some of the common assumptions surrounding the crisis, providing evidence and economic facts to refute the myths and highlight some alternative and critical perspectives of the situation. Those who created the crisis and baptised it as a *sovereign debt* crisis, eagerly ignored the fact that from 2002 to 2010 Spain, Portugal and Ireland had less of a sovereign debt problem in relative terms than Germany and France.[1] Highlighted at every stage in the guide is concrete information to understand the magnitude of what is at stake. What we often call a 'debt crisis', it is at the same time a lot more than this. The crisis is a time where everyone is pitted against each other, and where every community is divided. Harsh distinctions are made between 'local or foreigner', 'employed or unemployed', 'violent or non-violent'; this constitutes a divide-and-rule strategy to exculpate those who caused and continue to gain from the crisis, by blaming the



southerners, the migrants, the public sector, the claimants, the youth, the protesters... all of us. For instance, to facilitate privatisation, private sector employees are turned against public sector employees while the rights and working conditions of both deteriorate. Such false dilemmas obscure the reasons for the poverty and misery that many are experiencing, at the same time pushing us all further down the economic and political dead end.

However, in this respect, the crisis is not only a moment of conflict but also of possibility. This breakdown and abrupt end of a previous order opens up new spaces for contestation that shape the future. 'False Dilemmas' is chosen as the title of the guide in order to encourage a critical perspective on the crisis, to expose the falsity of these 'opposites' and to go beyond them.

Many solutions to the crisis have been proposed and this guide tries to carefully explore some of their implications. Too often, the public outcry produced by the crisis appears to hanker after the 'good old days', demanding a return to the era of growth and jobs. However, the guide tries to carefully explore some of the unfortunate implications of this, including the degree to which this too is a false dilemma since it proposes not a solution, but a return to the idealised 'business as usual' of before. Examining how the economy works – in both boom and in bust - will entail questioning the idea of economic growth upon which our crisis-ridden economic system is based. Although a deeper account and explanation for the recurrent booms and busts is not the object of this guide, the perspective taken is that the contemporary economy has been transformed into a financialised, debt-based economy. It has been aptly summarised by political philosopher, George Caffentzis, as an economy which, in times of boom *and* bust, "you are not only exploited, but you are expected to take out loans to be further exploited."[2] Imagining a return to a pre-crisis era fosters delusions that the marginalisation and pauperisation that are imposed in the name of that return are somehow justified.

In this respect, it is foolish to believe that the crisis and the austerity that is imposed in its wake are temporary. Such that, when it is all over, if only demands of 'job creation' are sufficiently heard, we would win a small victory. What kind of a victory would this be? Particularly given that any eventual economic recovery the authorities await to eulogise will have been fuelled by the disenfranchisement and dispossession of various groups of people or by the violent beatings of those who resisted.

Furthermore, history shows that the benefits of economic recovery are invariably not experienced by all.

Proposed solutions to the crisis that rely on boosting consumption, or on more credit to get the economy moving, have to be investigated. We must not only look into what effects these actions may have but also, more importantly, why people's everyday livelihoods and ability to fulfil their needs is tied up to the health of the capitalist economy, and whether this could be otherwise. As the crisis pushes people to internalise the deterioration of daily life that has been imposed from above, our primary objective is to counter these 'divide and rule' tactics, and all the everyday violence they impose.

1 IMF, World Economic Outlook, 2014

2 Caffentzis, G, "Dealing with Debt", Red Pepper, Feb March 2014

The structure of the report addresses three key levels: the supra-national level, in which we examine cross-border institutions; the national level, in which we examine the actions of governments and regulators; and thirdly, the grassroots level, to convey aspects of how people have responded. Furthermore, the guide attempts to do three things: explain the conventional narrative and the myths it cultivates; present the facts and evidence to refute them; and, subsequently, to provide alternative readings and analyses. All these concerns are reflected in the way in we have structured the guide:

Part 1

Background economics and institutions. This highlights who the key players in the EU are and gives a basic background of what the EU is, how it works, and what its rules are. It also includes a discussion of the economic topics considered important to understanding the issues at stake. It covers the basics of why and how states borrow money, and explains debt, deficits, bonds and how the **central banks** work. This part provides a foundation for what is discussed later in the guide.

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Part 2

Why has all this happened? This part reflects on what is meant by causes, and how different readings provide for very different interpretations of the problem. The most commonly proposed causes, the ones used to justify austerity, are evaluated and debunked to move onto other more plausible claims. Three issues are singled out as important: first, the role that tax has played in the crisis dynamics; second, that the euro crisis is a continuation of the global financial crisis that erupted in 2007, when the US housing market collapsed, and should not be addressed in isolation to it; third, that EU integration has since its inception facilitated the imposition of free market principles, and that specific policies relating to European monetary integration led to structural economic imbalances and to the ever-widening inequalities between countries.

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Part 3

What have the authorities done? Here we look at the different measures the authorities have implemented, which themselves have contributed to the ever deepening nature of the crisis and the violent restructuring of society. This part is made up of five chapters. First, we deal with the bailout funds, covering where all the bailout money comes from and why anyone would invest in a bailout, revealing how the bailouts benefit those who provide the funds and not those who receive them. Second, we cover the austerity packages, giving some examples of the changes implemented across Europe. A semi permanent 'state of emergency' spurs officials to implement unpopular reforms, feasible only with heavy repression. We review the opinions of various economists, and the mounting evidence to quash the case for austerity. Third, we look at the interventions of the European Central Bank (ECB), whose undemocratic and completely opaque workings has shielded it from the trenchant critiques other authorities have received. We examine the different measures and actions the ECB has taken in helping out private finance and its critical role in imposing austerity. Fourth, we detail the overall changes occurring in Europe, characterised by generalising the austerity of the crisis-stricken countries through the new EU governance laws. Fifth, we cover the various new regulating bodies created to deal with the fallout of the crisis and what, if anything, they have achieved.

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Country overviews

Greece, Ireland, Portugal, Spain, Cyprus. This smaller section features summaries of the main events and features of the crisis for each country.

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Part 4

Who profits from the crisis? This part shows how at each stage, governments, the ECB, the IMF, private financial institutions and other corporations are profiting from the widespread misery brought upon communities. This serves to highlight some of the underlying hypocritical claims such as the authorities and the media calling for 'necessary crisis measures' or even the claims that countries are being 'saved'. All the chapters in this part serve to show the only things being saved are the power of those that govern, and opportunities for financial gain enabled through the actions described in Part 3.

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Part 5

Groundswell. Having focused on the background, the economic issues and the authorities, we now turn to the social movements and their actions. At first we often heard the tired trope of the crisis countries being victims of their own mismanagement, and austerity was something they deserved. To this story was added the line that these countries now suffer from a humanitarian crisis, as if destroyed lives were caused by something akin to a natural disaster. Contrary to these narratives, we try to show something of the spirit of people's responses to the new face of neoliberal Europe that is being trialled. It is on this new face that people in the crisis countries, but not only there, have waged war with the European establishment. An explosive mix of factors have led to the most violent rupture with normality on a personal and collective level. Some of the reforms imposed are simply unenforceable, and people have refused to implement or obey them. It thus has only been through creating a climate of vast uncertainty and insecurity, and by chipping away at people's morale through enforcing poverty and violent repression of protest, that the decreed changes are bulldozed through. The first chapter consists of excerpts of statements, and details of activities by groups across Europe during this crisis. There is no analysis here, just voices from different places, which give some indication as to how the struggles and conflicts are currently playing out. This is extended in the second chapter: Turbulence in Greece. Here, the situation in Greece is analysed in more depth in order to illustrate how diverse and all-encompassing the grassroots mobilisations are. The third chapter, Details of debt resistance focuses on certain specific arguments regarding debt and its repayment that have emerged from the social movements. We expose here some of the most often used arguments and legal documentation to affirm that we do not have to pay these debts, and to lend support to the main slogan across Europe "We do not owe, we do not sell, we will not pay".

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Conclusion

The guide ends by taking stock of how the failure of European integration was seen as a major cause of the crisis, and yet the solution pushed through has been to impose greater integration in the interests of the most powerful. To relieve the banks from their debts, the authorities have created a sovereign debt crisis, to which their only solution is more debt and more money to the banks. This guide tries to dispel any illusions that the EU might reform into anything other than an authoritarian institution imposing socially harmful policies.

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Glossary

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A Glossary of useful terms can be found at the end; throughout the guide we have used bold to highlight jargon which is explained within the glossary.

Finally, readers should be aware of an emphasis throughout the Guide given to the situation in Greece. We regret we have not been able to provide equal weight to Portugal, Ireland, Spain and Cyrpus. However, Greece may serve well as a case study of processes now taking place at the European level, and this guide provides some necessary tools, ideas, and explanations that enable us to keep developing critical explanations and reactions to the current state of affairs. If we are successful in our aims, then the information and arguments presented here will prove useful for campaigns, social movements, civil society organisations, and anyone wishing to radically challenge the status quo.

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Summary of main points

The EU is made up of a web of institutions; the main ones are the Commission, the Parliament and the Council of Ministers. It is grounded legally in a series of Treaties.

Setting up the euro zone was a lengthy process, that was from the beginning a corporate-led vision. The common currency imposed a single **monetary policy** (e.g. decisions about interest rates) decided centrally, but fiscal policies (e.g. decisions about taxes) decided nationally.

Monetary policy for all countries is decided by the European Central Bank (ECB), which is prohibited from lending directly to governments. Instead, governments borrow by issuing bonds bought and traded in financial markets.

Restrictions were put in place regarding targets for the size of debts (at 60% of GDP) and deficits (at 3% of GDP). These targets were enshrined in the **Maastricht Treaty** and further entrenched through the **Stability and Growth Pact**. No euro zone country ever fully complied with these targets, however, only some were berated about breaking them.

The crisis led to the creation of the **Troika** – comprised of the Commission, the ECB and the International Monetary Fund (IMF) – three institutions that are unaccountable, opaque and fundamentally undemocratic. They dictate the bailouts and the conditions that must be implemented in order for the recipients to receive the money.

Part 1

Background economics and institutions

Part 1 provides the background information to make the rest of the report easier to understand if you are not familiar with the issues. It is a resource to look through now, refresh your memory or to refer to later.

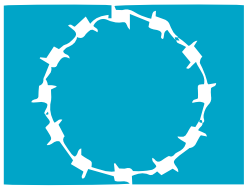
It is divided into two chapters; the first lays out the bare bones of the institutional arrangements of the EU, dotted with critical facts along the way. Aiming to make technical information more understandable we start from basic details about the EU and the euro zone – how it was set up, the basic rules that govern it and the basic institutions that make it up. The second chapter summarises key economic concepts helpful in understanding what is at stake and is being discussed in the crisis. It builds from simpler concepts to more complicated ones looking at what the deficit is, how the government borrows money, what the different types of debt are and how the European Central Bank works. This chapter provides basic background information to some of the central themes that arise frequently in the crisis such as details of monetary and fiscal union, and trade imbalances in the euro zone.

This section is not attempting to replicate textbooks or provide advanced economic analysis. Instead it provides tools to see through conventional economics and make the details of the crisis more accessible.

"The Troika acts like a governor and visits it's colonies in the south of Europe and tells them what to do." Derk Jan Eppink, a conservative Belgian MEP

Chapter 1
Introducing the actors

Who is who in the EU and the euro zone?



Despite the euro zone crisis dominating headlines for so long, the EU remains a rather daunting web of institutions. Given the amount of coverage the European crisis receives, little is written about the 'who's who' of the EU.

The European Union (EU)

With a combined population of over 500 million inhabitants (7.3% of the world population), the EU generated 16,242 billion (i.e. over 16 trillion) US dollars worth of goods and services in 2010 (Gross Domestic Product, GDP), which represents an estimated 20% of global GDP.

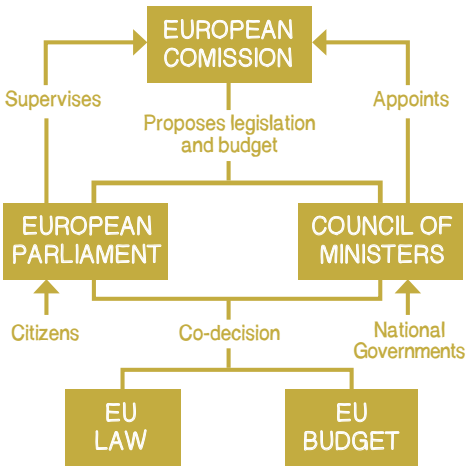
The EU is a political and economic union of 28 member states: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, The Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the UK.[3] Its origins lie in the post war idea of supranationalism to act as a buffer against communism. Reconstructing a strong, economically successful western Europe was seen as a way to safeguard against the strengthening USSR.

The foundations of the EU were secured through a series of treaties in the post war period. In 1951 the Treaty of Paris was signed by France, West Germany, Italy, Belgium, Luxembourg, and the Netherlands. Based on international law, it established the European Coal and Steel Community (ECSC) whose aim was economic reconstruction. This was followed by the Treaty of Rome in 1957 which officially created the EEC (European Economic Community). This aimed to create a customs union and common market of goods, services, workers and capital between member states.[4] Significant treaties of modern-day Europe are the **Maastricht Treaty** (also known as the Treaty of the European Union) and the Lisbon Treaty. Passed in 1993, the Maastricht Treaty formally replaced the EEC with the European Union, and paved the way for the creation of the euro. The Lisbon Treaty, which came into force in 2009, amended the Maastricht Treaty by introducing changes to voting structures, weakening the ability of individual countries to voice objections and abolishing the ability for national vetoes in numerous policy areas. As the pro-business approach to policy-making was streamlined, the Lisbon Treaty was pushed through national parliaments without addressing the EU's real problems such as lack of accountability, waste and lobbying.

These fundamental treaties that govern the EU have been shaken up and re-written in the wake of the crisis; the recent changes are examined in depth in Chapter 11. For a deeper critical analysis of European integration see Chapter 7.

To summarise: the EU is based on a set of treaties, which form the basis for all the legislation that trickles into national law, such as regulations, directives and recommendations. The EU operates through a system of seven institutions, the most significant of which are the Council, the Parliament and the Commission. These bodies basically run the EU, but a series of other institutions, such as the European Central Bank (ECB) and the Courts of Justice, are also crucial cornerstones of how the EU works.

Diagram of EU structures:[5]



a) **The Council of Ministers** is also known as the Council of the EU, often abbreviated to the Council. It is the decision-making legislative body of the EU, made up of ministers from EU member countries. Different groups of ministers meet depending on the topic or configurations. For example, the finance ministers of EU countries meet at the Economic and Financial Affairs (Ecofin) Council, and the foreign ministers of EU countries meet at the Foreign Affairs Council. Its remit is to legislate and coordinate member state policies, to develop common foreign policy and to draw up the EU budget together with the Parliament.[6] The Council Presidency rotates between each member state every six months. Until December 2012 it was held by Cyprus followed by Ireland, then Greece.

The Eurogroup: a sub group of the Council of Ministers is made up of the finance ministers of the euro area, with the participation of the President of the ECB and the Commission's Vice-President for Economic and Monetary Affairs, and sometimes, national leaders. The Eurogroup is where the political decisions of the euro zone finances are taken. The President from 2005 to 2013 was the Luxembourgian Prime Minister Jean Claude Junker; in 2013 he was succeeded by Dutch Finance Minister Jeroen Dijsselbloem. The Eurogroup usually meets the day before the supposedly monthly Ecofin (the council of Finance Ministers of the 28 EU countries) meeting to pre-agree a euro zone stance on Ecofin decisions. The Eurogroup prepares and follows up on the EuroSummit, a meeting of the heads of states of euro zone countries, the Commission President and the Council President.

Confusingly, the Council is different to the European Council:[8] an EU institution comprised of the heads of EU member states, the Commission President and the Council President, whose mandate is to lay out political direction and settle issues when the Council of Ministers reaches an impasse. Its current President, former Belgian prime minister, Herman Van Rompuy, on accepting his post in 2009, said, "Every country should emerge victorious from negotiations".[9] A few years later however he has proven the most staunch blackmailer for threatening to kick Greece out of the euro if it attempts to renegotiate deals with its creditors.[10] The European Council has the power to propose the European Commission President, which is then finalised by the Parliament, and also to appoint the president of the European Central Bank.

b) **The European Commission** is the most powerful EU institution. It is the executive body of the EU, responsible for proposing legislation and implementing decisions.[12] Its mandate is to uphold the so-called 'common interest'. It is structured as a cabinet government, where each of the 28 member states have one commissioner as a cabinet member. The Commission is run by 23,000 civil servants based in Brussels and Luxembourg. Each member is appointed for a five year term, subject to approval by the Parliament. Its current president is Jose Manuel Barroso, former Prime Minister of Portugal. The president of the Commission is proposed by the European Council (the Heads of States) and is then agreed by the parliament.

Shady Commission?

According to the European ombudsman 66% of complaints received are against the Commission, and almost all of them are about the lack of transparency and dodgy lobbying relations. In relation to managing the crisis, Barroso told the G20 in Mexico in 2012, *"frankly, we are not coming here to receive lessons in terms of democracy or in terms of how to handle the economy because the European Union has a model that we may be very proud of".*[13] *Meanwhile, in April 2012 Barroso was "absolutely sure Spain would be able to meet its economic challenges", but less than two months later, Spain requested emergency financial 'assistance'.*[14]

Even more confusingly, the Council is NOT the same as the Council of Europe either. This is an international organisation made up of 47 member states; it is entirely separate from the EU, and cannot create binding laws. Its purpose is to promote cooperation between all European countries, yet it maintains quite a distinct position from the EU. This organisation has stated that the implementation of austerity measures is often linked to bodies "whose character raises questions of democratic legitimisation", such as the troika of the IMF, the European Commission and the ECB and that "budgetary cuts in social expenditure risk further deepening the crisis and undermining social rights."[11]

"When it becomes serious, you have to lie" Eurogroup president Jean-Claude Juncker, May 2011[7]

c) **The European Parliament** is the only EU institution whose members are directly elected, although turnout for elections for Members of the European Parliament (MEP) is less than 50% in many member states and is declining. It sits in Brussels and Strasbourg. MEPs are elected every five years and each country has a set number of seats according to its population. The system of proportionality favours smaller (by population) countries, as an MEP from a smaller country represents fewer citizens than an MEP from a larger country.[15] MEPs receive a monthly salary of 7,000 euros and retire at 63 with a full pension paid for by the European Parliament, as well as many other perks and travel services. The Parliament has limited power; for example, it often debates or rubber stamps decisions already made by the Commission, and is criticised for being a talking shop despite being the only elected body. Currently there does not seem to be any real intent to make the Parliament any more democratic. Certain crucial areas regarding the euro zone crisis remain outside its domain, such as the Task Force for Greece and the Fiscal Compact (see Part 3 for more details).

The Parliament decided – after almost four years – to conduct a review of the **Troika** in order to address concerns about how the Troika operates, called the 'report on the enquiry on the role and operations of the Troika (ECB, Commission and IMF)'. Headed by an Austrian 'Merkelite' and a French social democrat, it basically whitewashed the issues by avoiding the 'hard questions' regarding why things happened the way they did, and accepting much of the Troika's reasoning.[16]

The peculiarities of the ECB

The ECB is an unusual type of **central bank**, backed *not* by a single state but by several. These states guarantee the obligations of the European Central Bank and use their ability to levy tax domestically to increase the capital base of the bank. All 28 EU countries contribute to the ECB capital: the euro zone countries contribute 70% of its capital and the non euro zone countries 30%. Amounts contributed indicate the relative power of each country. Besides being located in Frankfurt, Germany supplies 19% of capital to the ECB, followed by the UK 14.5%, France 14.2% and Italy 12.5%.[19]

The other main peculiarity is that it does not act like a national central bank. The charters of the ECB forbid buying government debt directly, i.e. in the **primary bond market.** This means if a state really needed the money, the ECB is prohibited from acting as a **lender of last resort**. In the euro crisis, when governments had trouble financing themselves through the bond markets, the central bank did not step in and lend to them at cheap rates. Instead it pushed for international bailouts. This is unlike other central banks, such as the Federal Reserve in the US, which can, in theory, lend both to the banking sector and to the government in times of distress.

Mr. Trichet said: "There is no 'crisis of t

d) **The Court of Justice** is located in Luxembourg and is comprised of one judge from each member state, appointed by their governments for six year terms. The role of the Courts is to ensure that member states comply with EU law. Under the new Fiscal Compact (explained fully in Chapter 11) the Court will have a role in imposing fines for states which deviate from permanent austerity.

e) **The European Central Bank (ECB)** is the central bank of the EU, and is responsible for **monetary policy** (e.g. setting interest rates). It is head-quartered in Frankfurt and is run by a president (currently Mario Draghi, who replaced Jean Claude Trichet) and a board composed of the heads of the national central banks (for example the head of the Central Bank of Italy, France, Austria etc.). The ECB is an opaque and undemocratic institution that does not disclose minutes or internal memos, yet wields an extraordinary amount of power over policy and positions. This is especially true since its participation in the Troika, whose main concern is imposing drastic fiscal measures. Draghi's speech in July 2012 pledging to 'do whatever it takes' to prevent the euro zone splitting up was a promise to offer cheap money to banks indefinitely.[17]

So opaque we will sue you!

Bloomberg News is suing the ECB under freedom-of-information rules for internal memos and minutes that would reveal how the ECB was complicit in pushing Greece into the 240 billion euro bailout, and so demonstrate the ECB's responsibility for the social catastrophe that ensued. These memos would shine a light on the knowledge the ECB had at the time, the options that were available to the EU authorities and, potentially, prove that the consequences could have been avoided. This opacity is typical of the ECB: around the time the euro was being created, it was an open secret that Goldman Sachs was offering expensive debt-hiding services to Greece and others. The ECB claims it cannot reveal the secret files in order to prevent 'market risk'.[18]

The unwillingness of the ECB to directly lend to governments is a key factor in the development of the euro crisis. The ECB chose to rigidly stick to this principle, using it as a justification to allow for the extraordinary austerity measures, new EU governance laws and the setting up of *several* alternative bailout funds to provide finance to the governments. The ECB has become not only the enforcer of monetary policy, but of policies concerning wages, labour, privatisation and liberalisation.

Why is this rule so sacred? The ECB is mandated to be 'independent' – i.e. free from electoral influence, and to maintain price stability. This translates as its arbitrary inflation target of 2% per year. Buying bonds in the primary market could be seen as 'monetising' the debt, which may prove inflationary – a problem rated much worse than mass unemployment, mass migration or deflation.

Furthermore, were the ECB to fund governments directly, any losses it incurred by taking on the debts of governments which could not be repaid would then be shared among all countries who had paid in capital to the ECB. These issues highlight some of the thorniest problems of a monetary union without a fiscal union.

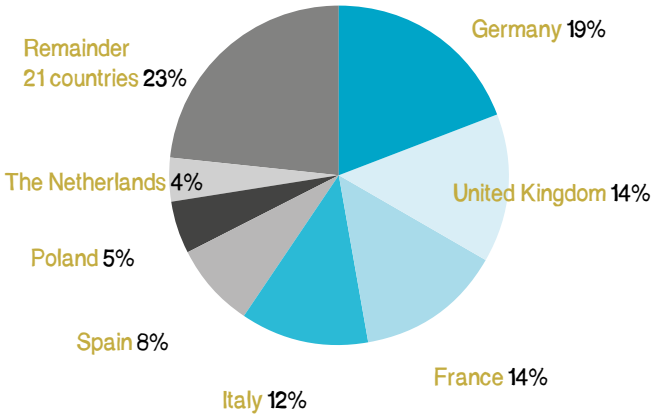
he euro.'"[22] June 2011

Despite the ECB's claim to remain independent, the reality is quite different. Looking into the history of European central bankers shows frequently revolving doors between central and private banking. Both Jean Claude Trichet (previous ECB president) and Mario Draghi (current president) are members of the Group of Thirty (G30) international banking club. This is a body similar to a financial lobby group despite operating in full public view. It is comprised of public and private sector members (including central bankers as well as chief executives from the biggest private banks). The current ECB president is a former chief executive at Goldman Sachs, and now promotes private financial sector interests via this group. "It is taken very seriously when member states try to influence the decisions of the [European Central] Bank. But why no one seems to have asked whether private lobby groups could have undue influence on the top layer of the Bank is puzzling".[21]

Research on Money and Finance gives some information on the ECB

The ECB was established in 1998 as the central bank in charge of the single European Currency. The ECB manages the European System of Central Banks (ESCB or Eurosystem), which comprises the ECB and the National Central Banks (NCBs) of all members of the EU, including those that have not adopted the euro. The ESCB formulates and implements monetary policy, with the primary objective of maintaining price stability. Although monetary policy is decided by the ECB, policy implementation is undertaken by the NCBs on the behalf of the ECB. Monetary policy implementation is carried out using three main instruments: standing facilities, open market operations and reserve requirements. The Eurosystem can thus be considered as a kind of European interbank market for NCBs in which central banks with surplus reserves lend to others that are short of reserves. At the same time, NCBs are also linked to domestic **money markets**, allowing domestic banks to have access to a continental pool of **liquidity** through the ESCB.

Capital contributions to the ECB including euro and non euro countries



Source: ECB, contributions per capital key %

ECB: How independent are you?

The **Shadow ECB Council** is an unofficial panel, independent of the ECB and Eurosystem set up in 2002, and consists mainly of representatives of financial institutions, but also of academics and consultants. It convenes monthly, a week before the official ECB governing council meetings, to formulate what the Shadow Council's members think the monetary policy decisions the ECB ought to be. In essence, they publish their opinions on what they think the ECB should do, rather than predicting what they think the ECB will actually do. However, the "normative perspective can [...] give an early indication of shifts in the balance of opinion in the expert community, as can be seen by comparing the historic recommendations of the Shadow Council against subsequent decisions undertaken by the ECB Governing Council." [20]

The euro is much, much more than a currency. The euro is the
German Chancellor Angela Merkel, September 2011[29]

The EU budget

The three main institutions of the EU (the Commission, the Parliament and the Council) agree a budget, which for the period 2007 – 2013 stands at 864.3 billion euros. Although this sounds large, it is a very small amount in relation to the size of the EU economy (about 1% of EU27 Gross National Income).[23] The budget's largest item is agriculture, through the controversial Common Agricultural Policy, and the second largest is via the EU structural funds.

The corporate push for adopting the euro

The European Roundtable of Industrialists (ERT) is a lobby of the 50 largest European corporations.[25] Since 1985 it has been pushing for the adoption of a common currency. In 1987, five member corporations, Solvay, Fiat, Philips and Rhône-Poulenc and Total, created the 'Association for the Monetary Union of Europe' (AMUE). This group quickly grew to 300 members including European and American banks, such as Goldman Sachs and Morgan Stanley.[26] From 1989 they gradually and successfully pushed for the EU's 1995 Madrid Summit to agree that the euro would be adopted with the criteria and on the dates set by the forthcoming Maastricht Treaty. During the 1990s they conducted over 1,000 conferences to promote the euro. The European Commission created a group of experts to advise on the adoption of the euro, whose members comprised of AMUE and other businesses. The group of experts was commissioned by the Commission to carry out studies about the impacts of introducing the common currency. Morgan Stanley was startlingly frank regarding the businesses case for a single curreny, stating in 1998, "If we abolish the national currency as a safety mechanism, governments will have to focus on real changes for the countries to become more competitive: less taxes, flexibilisation of the labour force and a more welcoming environment for business".[27]

There are 18 current members of the euro zone: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain, and Latvia, which joined in 2014.

The euro zone

The European Economic Community was replaced by the **Maastricht Treaty** in 1993. The Maastricht Treaty lays out the convergence criteria necessary for European Union member states to adopt the euro. The euro was created in three stages:[24]

Firstly, when a committee of central bank governors met under the Commission President Jaque Delors in 1988 and proposed concrete steps for the formation of euro. The objective was to completely liberalise the movement of capital, fully integrate financial markets and increase cooperation between the central banks. This began in 1990.

Secondly, national central banks were to be made independent, so they could participate in the formation of the European System of Central Banks in 1994. Monetary policies were coordinated across countries, and the European Central Bank was established in 1998. The European Council decided to adopt the **Stability and Growth Pact** in 1997 which was a stricter version of Maastricht, and intended, among other things, to strictly limit government borrowing to 3% of their GDP and the maximum amount of debt to no more than 60% of their GDP (explained below). Other criteria included inflation rate targets (no more than 1.5 % higher than the average of the three member states with the lowest inflation), **exchange rate** restrictions (prohibiting devaluation for two years during the run up period to joining the euro) and long term interest rate targets.

Thirdly, the euro currency was introduced and the **Stability and Growth Pact** came into force in 1999. On the 1st January 1998 the countries that initially chose to join irrevocably fixed their exchange rate conversion rates (meaning the amount one currency was valued in terms of another), and surrendered control over monetary policy to the European System of Central Banks (ESCB). The currency was born electronically on 1st January 1999 and began circulating in coins and notes side by side the national currencies in 2002.[28] National currencies were gradually removed from circulation after the euro was introduced.

What do these criteria mean?

In essence, these put restrictions on fiscal policy and applied uniformity in monetary policy. The Maastricht Treaty was made stricter with the Stability and Growth Pact by including measures allowing for sanctions to be imposed on countries which did not conform to fiscal targets. In theory at least, this set up a system to enforce the debt and deficit rules (the Excessive Deficit Procedure).[30]

guarantee of a united Europe. If the euro fails, then Europe fails."

Let's take the example of Ireland: in 2007, before the bank bailouts, public debt was 47.2 billion euros and the country's GDP was 188.7 billion euros, making a debt to GDP ratio of 24.9%, well within the Pact's criteria. Five years later, after a deep recession (which shrank GDP) and after the government agreed an international bailout (which increases debt), the GDP had declined to 161.6 billion euros and the public debt had increased to 190.4 billion euros making a debt to GDP ratio of 117.7%, well over the Pact's criteria.[31]

However, long before the crisis, these treaties and legislation were deemed 'dead', because they were unenforceable and often meaningless. Although the Pact was instigated by Germany and France in 1997, by 2003 they themselves fell foul of these rules. During 2002-3 Germany and France were stuck in a recession and were flagrantly breaching the rules. Despite the Commission's recommendations of large penalties and fines, it reconsidered, and judged that imposing financial penalties when mired in economic problems is not sensible. The Commission gave a year's grace and they were asked to bring down their deficits. When Germany and France were allowed to break the 3% rule *again* in 2004, it was obvious that the Stability and Growth Pact was effectively useless, and rifts emerged between euro zone countries, since other smaller countries had been forced to follow the rules more closely.[32] France and Germany are not the only offenders: for most of the history of the euro zone, major as well as smaller euro zone countries have held deficit or debt levels exceeding the allowed amounts. Indeed many countries have had recommendations given to them, yet sanctions have not yet been imposed through the **Excessive Deficit Procedure (EDP)** process.[33] However, both politically and economically these restrictions on debts and deficits have proved disastrous.

In 2002-3 the Commission ruled for France and Germany that imposing financial penalties when mired in economic problems is not sensible.

Other Important Groups and Institutions

The European Investment Bank (EIB) is the European Union's development bank. It is owned by the EU's member governments, and provides various types of loans funding extractive industries and large infrastructure projects. It has received little attention during the chaotic years of the euro zone crisis, despite it coming to the fore as a possible saviour on more than one occasion. It is gradually repositioning itself to encourage private investment into large scale infrastructure projects by promoting 'investment bonds'.

The European Bank for Reconstruction and Development (EBRD) is not an EU institution, but is similar to the World Bank. It was established by several countries to finance market-based economic transition in the post-Soviet era. It is based in London.

The Troika comprises the International Monetary Fund, the European Commission and the European Central Bank. It is an unaccountable and unelected group that formed to administer the bailout packages of the euro zone sovereign debt crisis. None of the three institutions are democratically elected, they are profoundly opaque and have no legal let alone popular mandate to rule, yet have positioned themselves as the authorities dictating 'crisis management'.

Chapter 2
Basic background to relevant economics

People are often put off from economics because of the impenetrable jargon in which it is discussed, which creates the impression that it is not possible for a lay-person to fully understand. Sometimes, this is the result of treating economics as separate from the states, markets, property rights and enforcement mechanisms that govern capitalist societies. As a discipline, economics contains opposing schools of thought and different traditions with long standing ideological disagreements. Much of the 'common sense' that governs economic policy-making has been justified in economic theory, sometimes retrospectively. A few basics of market economics are explained below to help readers get to grips with the current debates.

[disclaimer]

1) Starting with the numbers

The more economically successful a state is, the larger the size of its national economy. This is measured through GDP (Gross Domestic Product) - the value of all the goods and services produced within a year.

- USA = 11.08 trillion euros
- UK = 1.77 trillion euros
- Portugal = 177.3 billion euros
- Bolivia = 17.73 billion euros
- Sierra Leone = 1.85 billion euros

Comparing countries to large corporations is quite startling: 41 of the 100 largest economies are corporations, with Walmart earning 311.83 billion euros a year and Royal Dutch Shell earning 272.53 billion euros in 2012.[34]

The amount of debt in the economy is often many times the size of GDP. Taking on large amounts of debt is not the exception but the norm. In fact, the greater the economy, the greater the amount of debt it is in. This has been greatly enhanced in recent decades by the liberalisation of the financial sector.

- The UK's total debt (that is the debt of all households, companies, banks and the government) is about five times the size of its GDP.
- Globally, the amount of outstanding tradable debts (e.g. bonds) is close to 73.89 trillion euros.[35]

When national economic activity is contracting the state is trying to raise money in a hostile environment. Apart from taking on more debt, which frequently occurs during a crisis, another option the state often deploys is to cut back on government spending. The size of the cuts vary from country to country. In Greece the austerity packages between 2010 and 2014 are close to 63 billion euros, amounting to 34.5% of its 2014 GDP.[36] This is extremely severe. In comparison, the UK's austerity package, announced in 2010, amounted to 7.7% of its GDP in 2010, i.e. 137.27 billion euros (the majority of which - 100.83 billion euros - are spending cuts).

2) The economy

What do economists mean by 'the economy'? Usually, the economy means the activities relating to the way things are produced, exchanged and distributed. It refers to the money generating activities, kept intact by the state, by means of legislation, such as strict property relations, and the enforcement of 'law and order' via the judicial system and police.

To help with data collection and categorisation, an economy is split up into distinct sectors, such as the government, monetary authorities, financial institutions, non-financial institutions, and the household sector. These categories are not watertight and are sometimes subject to political debate.[37]

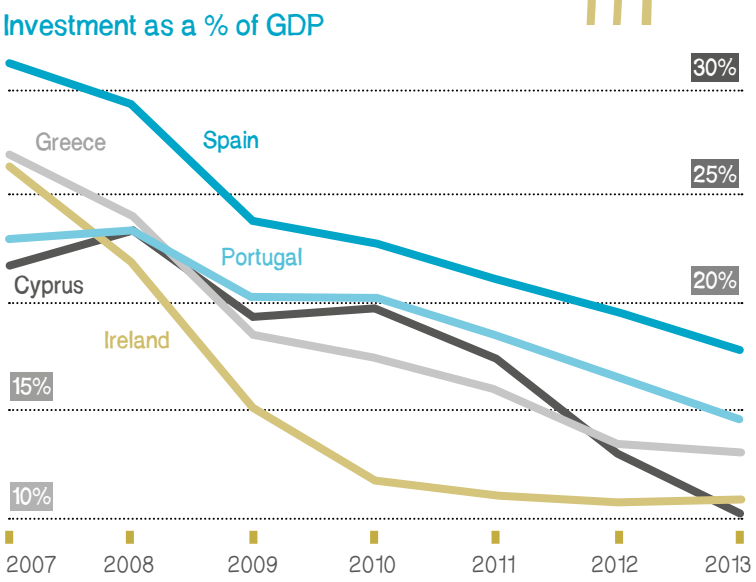
In any case, economic activity as usually defined by economists includes official transactions only, not informal economic transactions, the undeclared economy or unpaid work. The main economic indicator is Gross Domestic Product (GDP). The GDP of a country is the value of all goods and services produced in a given year. Calculating this is far from an exact science. One way of doing it is counting all the amounts spent in the economy within a given year. This means adding up all the different sorts of expenditure made, such as the amount spent in total on consumption, the amounts the government spends, the total amounts invested in the economy, and the difference between what was spent on imports and earned from exports.

This can be shown through a simple equation:

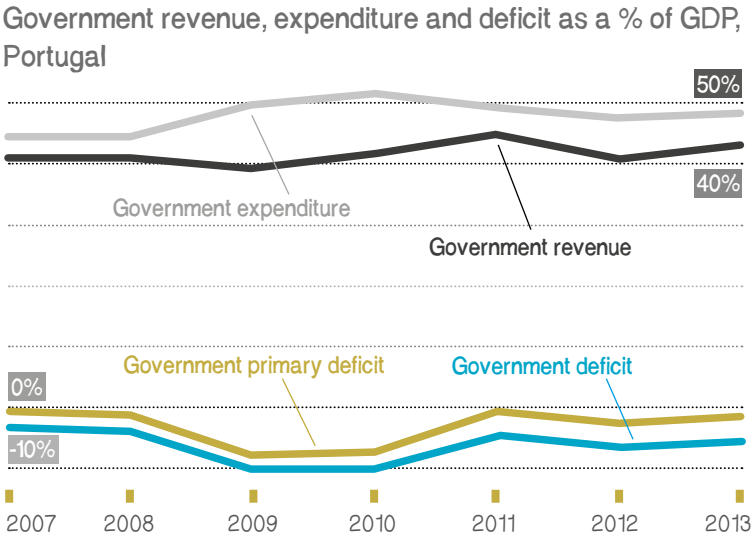
$$GDP = C + I + G + (X-M)$$

where GDP is the sum of all individuals and companies spending on consumption of goods and services (C), and investment (I), all government spending (G), and the net amount spent on goods from abroad, i.e. amount earned from exports (X) minus the amount spent on imports (M).

The relative size of each component varies from country to country, often dramatically. As an example, the UK's consumption is roughly 70% and its investment is over 15% of its GDP. However, in countries undergoing rapid GDP growth the amount spent on investment can be much larger. Similarly, if an economy is focused on exporting, as oil-rich countries sometimes are, (X-M) is a high, positive number. For example, Saudi Arabia's exports are 62% of its GDP, whereas imports are 31% of GDP, making net exports (X-M) 31% of its GDP. In the USA however, net exports are minus 4%, as it imports 18% of GDP and exports 14%.[38]



Source: IMF WEO



Source: IMF WEO

3) G for Government, T for taxes

Taxation is a way for the state to acquire money that has already been created by its residents. It taxes people, companies, capital gains (e.g. profits made from inflation in **asset** markets), land, and consumption through Value Added Tax (VAT). It uses this money on government expenditure which ends up being spent on – among other things – infrastructure, public sector wages, education, nuclear weapons, subsidies to big corporations, bailouts to private banks, and public debt repayments.

If a government spends more than it has collected from taxes, it is in deficit. It then needs to borrow to cover the difference, adding to its stock of debt. If the taxes collected cover the government's expenditure for the year it means it has a surplus. Even so, if old debt needs repaying within the year and the amount the government spends on this is large, it may be that overall the government has a deficit for that year. The surplus or deficit without taking into account debt repayments is called primary **fiscal deficit / surplus.**

These can be seen in the lines in the graph: the difference between the two top lines is represented by the bottom one. If we do not account for the payments made on debt servicing then the deficit is smaller, it is called the primary deficit and is the line above it.

Each year the government lays out its annual budget, outlining how it plans to spend and collect money. What is agreed and what ends up happening can be two very different things. A section of the annual budget is devoted to the country's debt, the amount spent on paying off the interest on that debt, and the amount the government needs to raise that year to cover the debts of previous years.

The current debate around debts and deficits wrongly implies that it is ultimately through the fiscal surplus that all that accumulated public debt will be repaid; as if the relatively meagre amounts generated by viscous austerity, such as a fiscal surplus of 1 or 2 billion euros will make a dent in the forever increasing pile of public debt that runs into the hundreds of billions. Sovereign debt is not repaid all in one go: repayments are scheduled over the course of months, years and decades. Sovereign debt requires being able to forever 'kick the can down the road', i.e. perennially refinance debts. The system works by maintaining sufficient confidence that the state can refinance those debts on a rolling basis forever, or else, be able to repay in full and on time the debts that are due.

The government's budget lays out the government's spending priorities: for example, if we look at the Greek budget of 2012, it is easy to calculate that the government's priorities were to spend 16 times as much on debt than on health. Spending on unemployment benefits in a country in which two thirds of young people are out of work, and yet most are not eligible for benefits, amounted to 1.7 billion euros, whereas interest payments on debts were 12.2 billion and debt servicing reached 36.7 billion euros.[39] For 2014, although interest payments are expected to be halved to six billion euros, this will still be three times that spent on funding public hospitals.[40]

How things interrelate

Events in one part of the economy can ripple through and affect the whole economy. The way the different sectors of the economy relate to each other is complex, and are further complicated by changes made in the global economy. Factors such as composition of foreign trade, foreign debt, the currencies these are denominated in and the exchange rates at any given time, impact upon the state of a domestic economy. Furthermore, aspects such as whether other countries are in boom or bust, in trade surplus or deficit are all important parameters for a domestic economy.

In Greece 2014, although interest payments are expected to be halved to six billion euros, this will still be three times that spent on funding public hospitals.

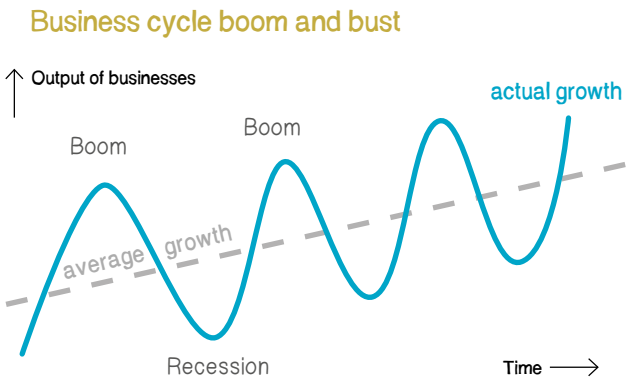
For more about how the government borrows money, see below.

The way the government plans to collect taxes and spend them is called **Fiscal Policy**. So if we return to GDP:

A reduction in economic activity means that the value of all goods and services produced was less than before. If this continues for over six months the economy is in recession. GDP can go down if there was a reduction in consumer spending, private sector investments, government spending, or through expanding trade deficits (where imports are greater than exports). Fiscal policy inevitably affects spending decisions in many other parts of the economy, which may lead to changes far greater than originally intended (measured through the multiplier). If government spending goes down, people's income who relies on it will also go down, and this will have a knock on effect on their consumption. Increases in taxes (either directly through income or indirectly through VAT) means that people have less disposable income causing further decreases in consumption.

4) The business cycle

Far from being unusual occurrences, recessions happen every few years. The ups and downs of the economy are called the 'business cycle'. They vary as to their breadth and depth; some spread across regions, others across the globe. There have been a few major crises which have been deeper and have caused structural changes in how the economy was organised: in the 1930s, in the 1970s and now, since 2008. Crises are a recurrent characteristic of capitalism and there are many explanations as to why they keep occurring. For a detailed overview of the different theoretical explanations about why crises occur see Corporate Watch's "Making Sense of the Crisis" pamphlet.[41]



5) Monetary union and fiscal union

A recurrent theme discussed within the euro zone crisis is the failures resulting from having a monetary union without a fiscal union. What is meant by a Fiscal Union? At the moment, each national government implements its own fiscal policy. If this was done in coordination or integrated across a number of different countries or areas, there would be a fiscal union. Decisions about how to tax and spend as written out in annual budgets could be made by collective institutions, spanning across several countries or states. The US, for example, is a federal system, where taxes are integrated and redistributed across all the states. Although the EU does have a budget, which all member countries contribute to, its size is minuscule in relation to the size of the member states' economies.

What is meant by Monetary Union? The euro zone is a monetary union, with a single central bank (the ECB) conducting monetary policy for the 18 countries that use the euro currency. As the crisis deepens in Europe, commentators, economists and policy makers have discovered, as if by surprise, that the underlying flaw in the euro zone is that the monetary union cannot easily exist without a fiscal union. The euro zone has a one size fits all monetary policy that gets decided in Frankfurt by the ECB and covers all members, whilst fiscal policy is left for the national governments to decide within the strict limits of the **Growth and Stability Pact**.

6) Trade surpluses and trade deficits

Often when talking about the causes of the crisis in the euro zone we hear about structural problems linked to the trade imbalances between countries. These imbalances are split roughly into southern periphery countries and core countries, such as Germany. There is a large discrepancy between core countries which rely on exports and periphery countries which rely on imports. The trade surpluses (when a country exports more than it imports) of the core are mirrored in the trade deficits (when a country imports more than it exports) of the periphery.

The balance of payments: The tab that a country keeps in relation to the rest of the world is called the balance of payments. It records payments that enter or exit a country. The balance of payments is made up of the current account and the capital account. The **current account** registers the payments coming in and out via trade (i.e. amounts spent on exports and imports), and income from and to abroad that originate from profits and **dividends**, or from interest payments on foreign debts. The largest chunk of the current account is the trade balance (the difference between the amount earned from exports and the amount spent on imports). A continually worsening trade balance is the result of a country spending increasingly more on imports than it earns through its exports (trade deficit). The **capital account** is the corollary of the current account; it measures the changes in ownership of **assets** which should in theory explain how the changes in the current account were financed. It looks at the payments coming in and out relating to purchases of assets abroad, or of purchases by people abroad of domestic assets. Examples are different types of investment flows such as Foreign Direct Investment (FDI) in or out of the country or short term capital flows. Taking into account changes in the central bank's reserve assets, the sum of the current and

> "The Eurozone has a central bank without a Government, Governments without central banks, and banks without an effective lender of last of resort. With a regime of low inflation, now turning into deflation, and without the possibility of expanding government balance sheets, the system has no mechanism for eliminating excessive debt in the economy"
> Bellofiore and Toporowski 2011[42]

Who thought redistribution could occur through the Structural Funds?

Many had thought that redistribution in the euro zone could occur through the EU budget, particularly through the expenditures of the Structural Funds. Structural Funds and Cohesion Funds are a mechanism within the EU, where member states receive grants and funding from the EU. For the period 2007-2013, the budget allocated was 348 billion euros, representing 35% of the EU budget and was the second largest budget item (the Common Agricultural Policy was the first). Its relatively small size however, means it is unlikely that any real redistribution could occur. Additionally, there is a growing criticism of the role the EU budget has played in individual member states. As its funds have often been used to finance large infrastructure projects, the EU subsidies have often resulted in white elephant projects. Anecdotal evidence from southern Europe reveals large uncompleted projects, and astronomical sums spent on small projects, making it clear that these subsides have provided opportunities for embezzlement and corruption.

capital accounts, in theory at least, is zero, hence the name, a balance of payments.

The balance of payments issue is particularly relevant in the context of the crisis because of the current account imbalances across the euro zone. Germany's trade surplus is mirrored by the trade deficits of the European periphery countries. This has been increasingly scrutinised and has become a starting point for analysing the unequal relationships between euro countries that led to increased private and public debts (see Chapter 7). How does a country balance its payments if it has a deficit? These deficits were financed through capital inflows, which created debt (either in the private or the public sector). This was the result of various events; we will describe just one to show how the euro zone's creation favoured some countries over others.

In the third and final stage of the euro zone creation, the countries permanently fixed their currency **exchange rates** against each another in such a way that systematically created an imbalance between them. Here we give a brief explanation of how decisions regarding the exchange rates affect the trade balance, in order to fully analyse these dynamics in Chapter 7.

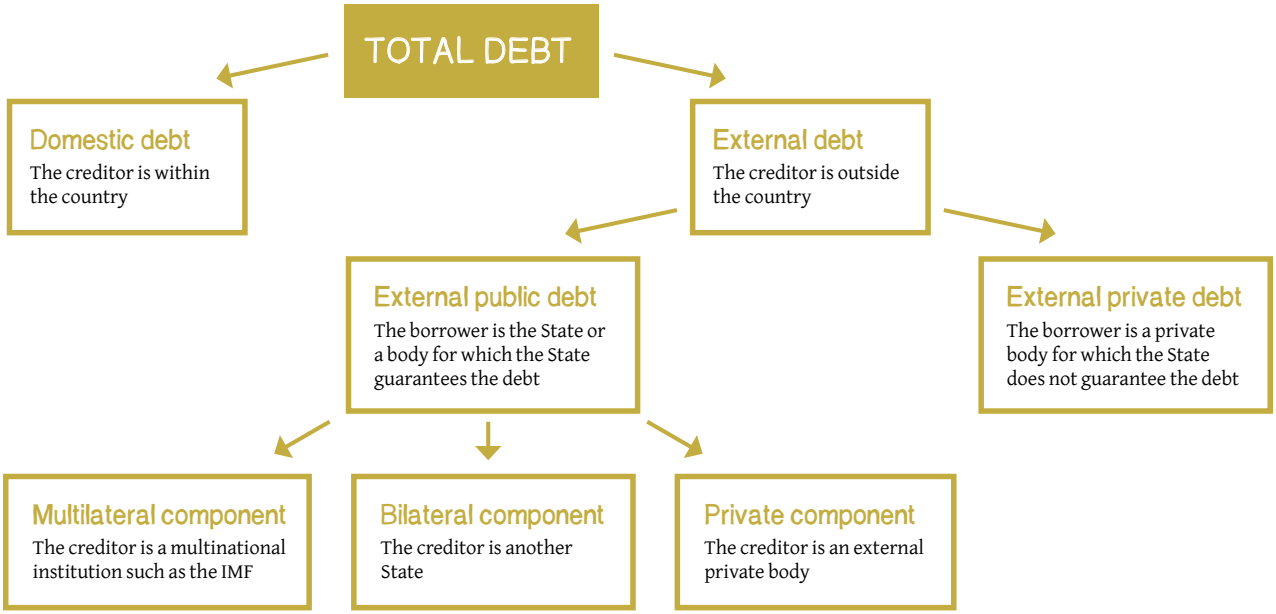
The amount a country exports or imports depends in part on the exchange rate of the currency the goods are priced in compared to other currencies. This is because anyone buying the goods would have to exchange some of their currency into the currency the exports are priced in to buy them. If the exchange rate is overvalued (i.e. strong), it makes the price of the goods exported vis-a-vis other currencies appear relatively more expensive, meaning others will be put off by them, and exports will fall, worsening the trade deficit. Likewise, if a country keeps a low, undervalued exchange rate, its goods appear cheaper vis-a-vis other countries' goods and so its exports are likely to grow and the trade balance will improve.

The background to the balance of payments and an understanding of how exchange rate policies affect it are useful in order to understand how, with the original euro-joining rules, some periphery countries set unrealistically strong exchange rates and lost out in terms of competitiveness to others who pursued strong export-led models, based on low wages and artificially low currency at the time of euro adoption.

7) Debt

There are many types of debt – some of which can be bought and sold. The creation of debt (and its corollary credit) comes in booms and busts and is affected by numerous things, such as the borrowing rate the central bank charges private banks.[43] Over the past decades there has been a widespread explosion of credit and the variety of credit instruments available. These are not analysed in depth in this report, but references are made when relevant.

We have already seen how a government gets into debt if each year it spends more than it has collected in taxes. The stability of the state's finances relies in part on the ability to retain confidence that those debts can either be paid in full and on time, or be forever refinanced, i.e. taking out new debts when the old ones fall due. All sectors of the economy have debts and the total debt of an economy includes debts of all sectors and all types. The division between external and domestic debt relates to whether debts are owed to people and institutions within the economy or abroad.



Source: Manual on debt audit

To help understand the complexities of debt and its management we outline below some examples of different configurations of total debt and how it could go wrong. Total Debt can be broken down in different ways. The examples that follow do not represent any specific place, just serve as an example.

Example 1: broken down according to when its repayment is due (maturity)

Total debt -> 70% short term -> 30% long term

Short term debts are sometimes called notes, and are lent for about a year, and long term debt are called bonds. Economic difficulties can occur if a body or an institution (a corporation for example) takes out lots of short term loans to invest in a long term project. If it can no longer borrow short term, because of a crisis, and its long term investments have not yielded any profits yet, the short term debts falling due will be unpaid, and it will default.

Example 2: broken down according to currency

Total debt -> 80% USD -> 20% Euros

If a country in the euro zone had debts mainly in dollars, and suddenly the value of the euro crashed, its debts in dollars would become much harder to repay. Likewise, if a country were to leave the euro and go back to using its national currency, and its value were to depreciate substantially, the external debts would remain in euros and would become much harder to service.

Example 3: broken down by type of debt

Total debt -> Debt securities (long term) bonds
-> Debt securities (short term) notes
-> Multilateral debt
-> Bank loans

Many countries of the global South have huge debts to the international financial institutions, like the IMF, but zero debts issues in the bond markets. Most rich countries rely on tradable debts (bonds or notes), however, the recent bailouts have added multilateral and bilateral debts (i.e. debts between two partners, such as those owed to other states), or multilateral organisations (like the IMF) back on the table.

Example 4: broken down according to which sector is borrowing:

Total debt = 20% government debt, 20% household debt, 40% financial corporate debt, 20% non financial corporate debt.

Recently, individual and household indebtedness has rapidly increased, partly due to the increasing inaccessibility of services, such as healthcare, education and housing, pushing people into taking out larger amounts of consumer loans.[44]

8) Central Banks and Private banks

A **central bank** is a financial institution, such as the Bank of England and the US Federal Reserve. The oldest central banks, like the Bank of England and the Bank of Sweden, were originally set up to manage the debts of their governments (generally debt acquired to finance wars). Although it is the sole provider of coins and notes in circulation, currently only 3% of the money in the economy is cash – the rest is credit and deposits, mainly created by private banks. One of the main jobs of the central bank is to try to regulate the cost of credit provided by the private banks by setting interest rates. As such it is responsible for **monetary policy.** The amount of credit and the ease with which it is accessed and used is crucial in causing credit **bubbles**, as this leads to money pouring into different markets, leading to speculative bubbles in commodities or real estate booms.

The central bank lends money to the private banks at a low rate meaning the private banks can then lend that money onto others at a higher rate and earn profit from the difference. As a regulator, the central bank then establishes the fractional reserve rate, i.e. the amount of money the banks can create for every unit they borrow from the central banks. However, aided by creative accounting, it's easy to hide the size of true lending, and so the real figure is actually much higher.[45]

"In the real world, banks extend credit [i.e. make loans], creating deposits in the process, and look for the reserves later."[46] Alan Holmes, former Senior Vice President, Federal Reserve Bank of New York

Although credit is created by the central bank, the majority of today's money is created by the private banks. Credit creation is the subject of old academic and policy debates; traditionally, it was thought that the central banks had complete control over how much money was created by the private banks, but this is not held to be true any more. In the traditional view, the reserves a bank held with the central bank constrained the quantity of credit in the economy. The monetarist doctrines pioneered by Friedman, were based on this principle. However, in the post gold standard and highly liberalised era, central banks don't have as much control of the money supply as they used to.

The value of credit is rooted, to some degree, in confidence placed in the financial system. There are significant differences in how people understand the operations of central and private banks. For example, a standard assumption is that banks sit around waiting for savers to come along and deposit money in the bank, which the bank can later lend out to make loans. The reality is very different. Banks do not wait for depositors (savers) before they can make loans. Instead, they often create or credit deposits when they make loans, and they do this by expanding their balance sheets. This is not to say that bank lending is limitless, but their restrictions are based on what volume of lending will be profitable.[47]

The interbank market is where banks lend money to each other, usually to cover their short term needs, at interbank **interest rates** such as LIBOR, EURIBOR or the Federal funds rate. (These rates affect the commercial rates the banks charge people when making loans, accentuating the scandalous LIBOR rigging crime). The central bank is the dominant bank in this interbank market, supplying **liquidity** to private banks. It also defines the reserve requirement, which is the minimum amount of cash commercial banks must hold against their debts (liabilities). These reserves are often held at the central bank.

Liquidity is quite an intangible concept, but generally refers to the ease with which **assets** can be converted into cash, and the ease with which financial obligations can be met. There are several other ways in which the central bank can provide liquidity to the banks, which have changed over time. One example is through the **discount window** (in the euro zone it is called standing facilities), which is a form of short term liquidity provision. The central bank can influence commercial banks borrowing by raising or lowering the discount window.

Central banks play a critical role during a crisis as they can act as a **lender of last resort**. As central banks' solvency and liabilities are guaranteed by the state, their promises are the most secure of any promises. The central bank can act as the lender of last resort by lending to the government and taking its liabilities onto its balance sheet or by guaranteeing interactions in the financial system. Lending at a time of crisis means that the central bank risks that what it takes onto its books may suffer major losses (i.e. it takes on credit risk), and therefore relies on the state to guarantee those losses.

It is important to note that the task of international lender of last resort was given to the IMF in 1945, which was initially set up to lend to countries which faced trouble repaying others.

"When banks extend loans to their customers, they create money by crediting their customers' accounts." Sir Mervyn King, Governor of the Bank of England 2003-2013

9) How do the bond markets work?

Following on from government deficits, a government needs to borrow money to cover its current expenditures that it cannot cover through its taxes or to repay old debts. Most governments are always in debt, whereby each year they take out new debts to repay the old ones. How do they do this? Before the rapid liberalisation of the capital markets and deregulation of finance, governments financed themselves largely through bank loans. With the development and expansion of the bond and capital markets, governments now obtain long term finance through the sovereign debt market, using tradable loan contracts, (bonds and short-term financial instruments).

However, different states around the world continue to rely, in different degrees, on bank loans and multilateral loans. Much of the global South does not have access to international capital markets and is dependent on IMF, World Bank and other regional multilateral banks, which in exchange for money, impose neoliberal restructuring of their economies.

What are bonds and how do they work?

A bond is a type of loan, which takes the form of a contract and gives the holder of the bond the right to receive regular interest payments until a specified time in the future (this is called maturity). When the bond expires, it must be repaid at the original value of the loan and not at whatever the current, trading value of that bond may be. Bonds can be traded much like shares on the **secondary market** and their prices fluctuate daily.[48] Sometimes they are liquidated (made into cash) at a discount so that the price paid is less than their original face value. However, they can also be liquidated at a premium, where the price paid is higher than its original value. When a government issues bonds, the old (outstanding) bonds continue to be traded in the market amongst investors. The amount received is not directly affected by these daily fluctuations in the price. The interest payment is generally fixed at the time the bond is issued, meaning that the holder of the bond can accurately predict the income it will receive. What changes through trading is the yield of the bond (explained below). The factors that affect the price of bonds are various, and include changes in the issuer's creditworthiness and the interest rates being offered in the market. Overseeing financial activities has been almost entirely privatised ensuring that the credit rating agencies (all of whom are private companies) are now critically important, as they review the quality of financial instruments, giving each a rating.[49] Creditworthiness is assessed by the well-known rating agencies Standard & Poor's, Moody's and Fitch, which operate without any transparency. When a country's credit rating is reduced, the price existing bonds will trade at on the secondary market will also be reduced; and the interest rates demanded by investors on new bond issues will be higher. This may alarm the government because as the yield on existing bonds increases, the interest rate on any new bonds will also increase. This can be shown in a simple equation:

yield = coupon amount (i.e. interest) ÷ price

When a bond is bought at the price it was originally issued for (at par), the yield is equal to the interest rate, but as the price in the secondary market changes, the yield will also change.

Want to know more about the shaky role of credit rating agencies?

Case Study: Shin Yukawa & Abacus

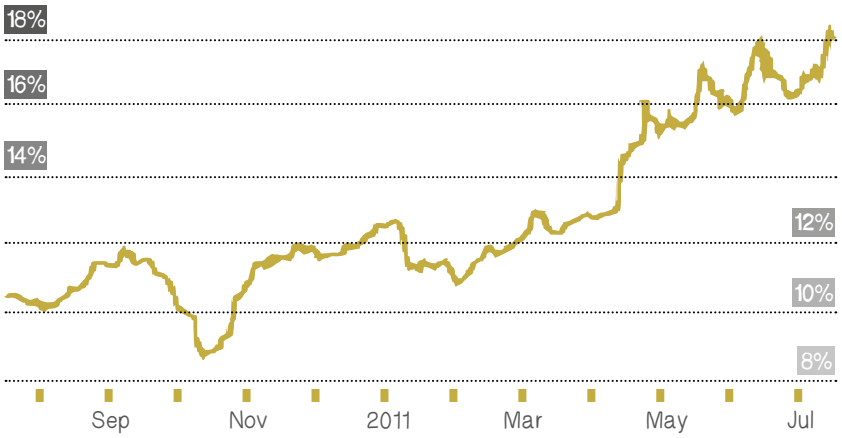
The revolving doors between credit rating agencies and investment banks spin fast: Shin Yukawa, formerly of Fitch, was snapped up by Goldman Sachs to create a complex financial package called Abacus. With Yukawa's technical expertise the financial instrument received a triple A rating, bringing a healthy profit for Goldman when it was sold at auction. John Paulson, a hedge fund manager, assisted in collecting the underlying mortgages that Abacus relied on, which were all weak, and in the forthcoming housing bubble collapse, most of these mortgages defaulted. Goldman sold billions worth of these instruments, and then created a vested interest in their failure, by holding increasing amounts of insurance contracts (CDS) against their default. The hedge fund bet against the Abacus package, making an easy billion dollars. For deceiving investors, particularly of the role the hedge fund had to play in creating the Abacus package, Goldman was charged a record fine of 500 million dollars by the US Securities and Exchange Commission, yet the rating agencies which were a pivotal part of the deal went unscathed.[51]

For example: a 10 year Greek government bond issued in March 2010 had an original (nominal) value of 1000 euros, with an interest rate of 6.25%. The value of the coupon is 62.5, i.e. 6.25% of 1000. The coupon divided by the price of the bond gives a yield of 6.25%. All is simple when the bonds trade on par (i.e. at the value they were issued at) in the markets. But in August 2011 the price of that bond was 420.5 euros, instead of 1000, as that was the most anyone would pay for it in the secondary markets. Considering that the buyer is still getting the same guaranteed coupon of 62.5 but for an asset that is now worth 420.5, the yield goes up to 14.86%.[50] Of course, for those who don't mind a bit of risk, they will go ahead and buy it at this cheap price, even if this reflects a higher chance of default, as they may get a higher return. Since existing Greek bonds are bought and sold at lower prices than their nominal value, but the interest remains constant, it means these bonds now have a higher yield. Therefore as the price of a bond decreases, the yield goes up.

During the euro zone crisis, each time there has been a major summit meeting, or talks of **debt restructuring**, the threats of default or use of blackmailing tactics to impose austerity measures have intensified. This drives the bonds to extremely low prices, for example, 40 cents to the dollar (i.e. for every dollar's worth of nominal value of a bond, investors are only willing to offer 40 cents for it). However, days or even hours following an announcement of the forced adoption of austerity policies this may have jumped back up to 60 or 80 cents to the dollar, meaning those that bought them up cheap are making good money. So, given this context, when the national and international media portrayed the July 2011 proposal that banks take a 21% reduction in the value of their Greek bonds as 'tough on the banks' we can see it is nonsense. The officials were guaranteeing 79 cents for institutions who may have bought them at half that price.

See below for an example from Ireland and Greece.

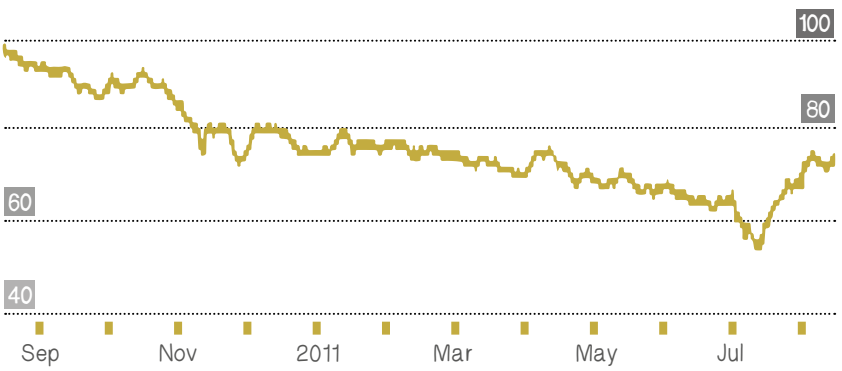
Greek ten year bond yields



Source: Bloomberg, 10 year Government Bond Yields

Irish government bond price over time

5% Treasury Bond 2020



Betting on default and the Credit Default Swaps Scandal

"When you buy protection against an event that you have a hand in causing, you are buying fire insurance on someone else's house and then committing arson." [52]

A notorious way to speculate on government bonds is by betting on their default and by doing so, drive down the prices, and drive up the yields. Those unwilling to hold riskier investments will start selling them off, driving down their prices further.

Credit Default Swaps (CDS) are contracts which are supposed to act as insurance against the default of other contracts. Three giant banking groups (Deutsche Bank, Goldman Sachs, and J.P. Morgan) control 75% of the global CDS market.[53] The buyer of a CDS contract (on for example a government bond) is taking out insurance against the occurrence that the bond issuer (e.g. the country) defaulting. Obviously, the more precarious and fragile the economic situation of a country, the higher the insurance premium demanded by the bank that sells the insurance. The problem with CDS is very simple: insurance can be taken out by someone who does not own what is being insured (naked contracts). In most insurance regulations this scenario is prohibited. For instance, it is forbidden to take out fire insurance on your neighbour's house and then receive the insurance money if this house catches fire, since you would have every incentive to have it burned down.

The use of CDS had such a controversial role in the euro zone crisis that trading in certain types of CDS relating to public debt was forbidden by the EU, albeit two years later. This was because big banks were speculating that a country would default, pouring money into the CDS contracts. This itself became a driver which pushed up the borrowing costs of countries, meaning these could no longer borrow from the capital markets.[54] Typically, the IMF released a report insisting that they could find no reason at all to ban naked CDS contracts.[55]

Evolution of Greek CDS

Source: http://www.marketoracle.co.uk/Article27976.html

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Summary of main points

This section of the report dispels myths surrounding the causes and searches for the real reasons for the crisis. Below is a summary of some of the issues explored in Part 2.

The main point is that the only sustainability the authorities and the Troika were interested in was that of the large financial institutions, and that is the main reason why the austerity packages and bailouts were imposed.

Part 2

Why has all this happened?

Chapter 4: Lets bust the myths!

The myths about the crisis are busted one by one, by exposing racist stereotypes, providing the hard facts about social spending, and showing that large deficits are a symptom, not a cause, of the crisis. The countries going through the worst of the crisis were not the ones with the highest debts or deficits. Even so, debts have become unsustainable partly because of a global recession and due to a 'solution' that involved ever increasing amounts of debts and austerity. In any case, these debts do not have to repaid, let alone through austerity and privatisation.

Chapter 5: Taxation policy's role in the crisis

Corporate tax evasion is rife: in the EU it may cost up to 1 trillion euros each year.[1] Many point to these revenue losses as a cause of the crisis. Indeed, it is popular to claim that stopping corporate tax evasion alone would be enough to prevent future crises and provide an alternative to austerity. Given how unfair the tax system is, there is mileage in this argument, but the policy alternative of taxation over austerity also contains within it a false dilemma explored within this chapter.

Chapter 6: The euro zone crisis is a continuation of the global financial crisis

Rather than look for the causes of the euro zone crisis in the individual specificities of each crisis country's economy, we need to place things in the broader framework of the causes of the global financial crisis that broke out in 2007/8 and its aftermath. This crisis was dealt with by providing huge sums of public money to the financial sector. This led to the crisis being transformed into a fiscal crisis for several countries. The European banks were already in a parlous state, and were jeopardised even more when the first countries in the euro zone started to wobble. The authorities decided to use structural adjustment and enforce greater indebtedness on countries like Greece, Ireland and Portugal. These bailouts ended up paying to save the big banks.

Chapter 7: Digging Deeper

The foundations of the EU and the euro zone

The current imposition of austerity measures are a continuation and evolution of the direction the EU had since its inception: to entrench free market ideas and facilitate free movement of capital. The monetary union encouraged adjustment to global economic conditions mainly through competitive (i.e. low) labour costs. Either 'labour market flexibility' (i.e. wage reductions and worse conditions) is accepted to attract capital investments in low growth areas or labour migrates to high growth areas. By keeping fiscal policy in domestic hands, but insisting that those fiscal budgets stay within strict boundaries, fiscal austerity goes hand in hand with monetary austerity.

Convergence between euro countries was a pipe dream

The single currency does not allow for fluctuations in relative prices that would benefit individual members of the euro zone. By separating out monetary policy, the euro was built on the ability of wage earners to adjust to the whims of free capital. Real wages have stagnated in Germany and several periphery countries joined the euro at artificially high **exchange rates**. This resulted in entrenched macro–economic imbalances over the course of the euro years, which encouraged the capital inflows that fuelled the **bubbles** in Spain and Ireland, and public debt in Greece and Portugal. As such, the crisis is not imputable to domestic policies of 'profligate' states, but to the mechanics of the single currency area, which resulted from specific policies.

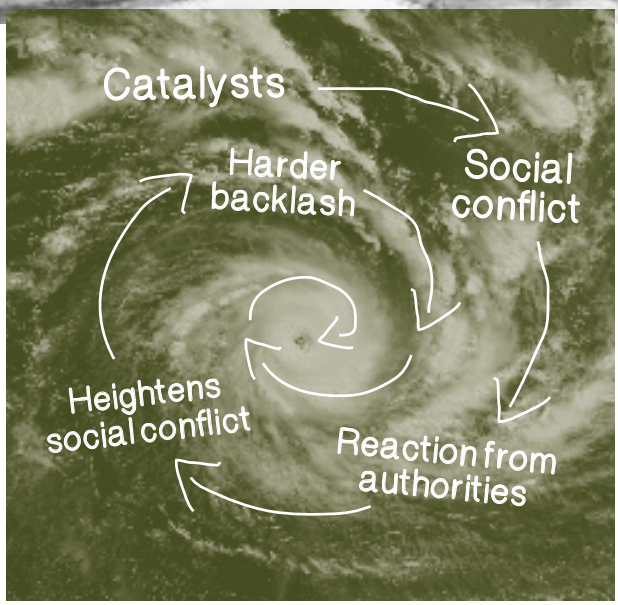
Chapter 3

The importance of understanding causes

Many reports on the euro zone debt crisis follow this structure:

Laying out the causes of the crisis ---> describing what happened in the crisis ---> proposing different solutions

Given that we are still in a crisis period, it is apparent that these are not linear relationships. For example, solutions proposed by the authorities have themselves become events in the crisis, and have also been causes of its deepening severity.



The different solutions proposed to solve the crisis are conditioned and determined by what one sees as its causes. This is important in seeing how the debate of the crisis gets framed.

To see how this plays out with the euro zone consider the following:

If one believes the crisis was caused by:

a) overpaid public sector workers and large pensions; then the proposed solution is the one that the Troika proposed of severe wage and pension cuts.

b) government deficits and high debts caused from too little taxation; then the proposed solution could lead to policies either in favour of increasing taxation of corporations and the rich or of increasing tax for the masses and lowering tax for business.

c) government deficits and high debts caused from generous social spending is a variation of cause a) where the proposed solution is austerity.

d) by lack of competitiveness in the economy and too much government interference (again variations of the above), then the solution is the one proposed by the Troika which focuses on austerity, deregulation of all markets, and rapid privatisation.

d) greedy bankers and predatory instincts of investors in an environment of finance gone wild; then the solution proposed is one about regulating the financial system.

e) an imperialist invasion of foreign powers meddling in domestic affairs; then the solutions tend to be nationalist, such as reinstating national sovereignty and reinforcing racism and scapegoating migrants. Elements of this is found across the political spectrum, including the left, which focuses on reinvigorating national economies and state-led growth models.

f) an inherent tendency in capitalism to enter periodic crises; then the only solution is abandoning the capitalist system altogether.[2]

More generally, the above anecdotal causes can be lumped together into more general categories: Bad Policy, Faulty Design, False Theories, Human Nature and Cultural Origins.

The crisis was caused by ...

a) Bad Policy

The Bad Policy genre of explanations, advocated by the right-wing and from the Troika itself, argues that the crisis was caused because governments didn't abide by the rules (policies) of budget and debt ceiling requirements, as laid out in the **Maastricht Treaty** and the **Stability and Growth Pact**. Therefore, the solution is to make governments come down to the targets and then make even stricter rules for the future. Conversely, from a more left-wing perspective, the Bad Policy approach maintains that it is exactly these policy requirements (of debt and deficit ceilings) that, through forcing the wrong policies upon governments, led to the crisis. The solution proposed in this case is fiscal stimulus (an attempt to jolt the economy by the government spending lots of money) which would make the deficit and debt greater, to remove the debt ceiling and allow the ECB to freely fund the governments.

b) Faulty Design

There are others who say the euro zone was flawed from the start because it attempted something that was bound to fail, namely a monetary union without a corresponding fiscal union. The solutions to redress this go in various directions, ranging from an orderly break up of the euro zone to greater integration – such as creating a fiscal union to complement the monetary one. On a more general note, there are those who say the crisis was due to failed institutional structures such as regulating bodies not doing their jobs; others who claim it was the development of the unregulated banking sector and innovation in new and risky products. These latter approaches tend to call for a global reconfiguration of institutions, for example through the G20.[3]

c) False Theories

Much of the backbone of economic policies is informed by, or justified through, various economic theories. Some people therefore blame bad theories and call for the use of better ones. For example, Friedrich Hayek is credited with inspiring decades of free market thinking, or Milton Friedman is associated with monetarist thinking. Instead, it is proposed that what needs to be done is to reinvigorate some of the better theories out there, such as those by John Maynard Keynes, who advocated increased government spending as a way to stimulate economic activity or Hyman Minsky, who pointed out the problems of accumulating vast quantities of private debts, fearing that it would cause instability in the financial system.

"The euro has never had the infrastructure that it requires"
EU President Herman Van Rompuy[4]

Graffiti in Athens calls to save Greece from its saviours.

d) Human Nature and Cultural Origins

This line of argument claims the causes of the crisis are due to certain cultural traits. There are many varieties of this explanation. This argument is linked to reasoning about human nature, i.e. that the crisis was caused by excessive greed or by the predatory instincts of investors. Some of the more racist ones relate to the characters of southern Europeans (e.g. they are all lazy), but it is not restricted to there. Before the euro zone crisis began, the French and German press portrayed the global financial crisis as an 'Anglo Saxon disease' that had spread to their banking sectors. Furthermore, as the crisis progresses, racist explanations are rife. They point towards the migration of people into Europe as being the cause of the crisis.[5]

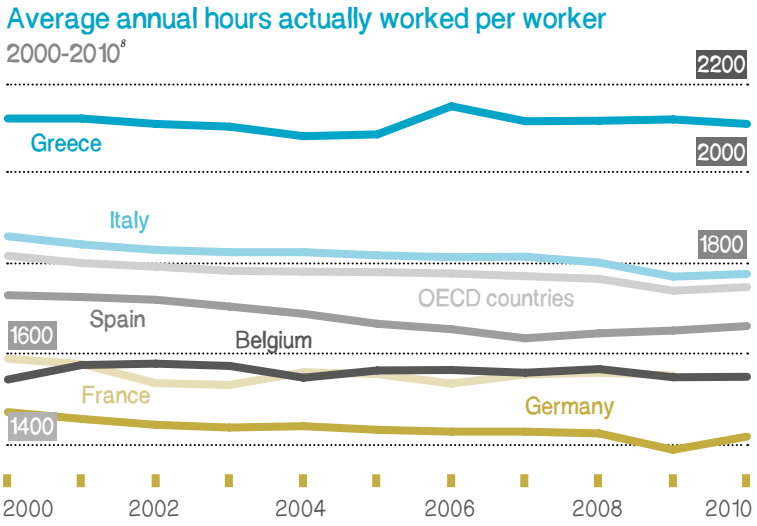
At any given point, people usually apply many of these stories, or variations thereof. However it is useful to clarify why some alleged causes of the crisis are false and why there may be more truth to others. Elements of truth can be be found in several of these explanations, yet each explanation is malleable towards different political predispositions. By and large the public dialogue across Europe is a see-saw between two approaches. On the one hand the mainstream narrative blames the crisis countries for mismanagement of their finances, advocating ways to create more opportunities for the private sector. On the other hand a common response of European progressives is to claim that all these social benefits were the outcomes of decades of hard struggles, need to be protected, and by no means sacrificed for an elite of already rich creditors. In the first instance, the mainstream narrative claims to be acting as 'saviours' and in the second instance, the progressives call to 'save Greece, Ireland, Portugal from their 'saviours''.

This guide predominantly focuses on debunking the official narrative which has framed the debate. However, it is important to point out that the anti-austerity camp also falls into a trap of accepting the basic premise: that it is primarily a sovereign debt crisis. This is a common framework used to understand the crisis, which is discussed in Myth 5 below. Discussing causes is a good starting point for moving towards ideas and solutions. If we have not begun to understand the nature of the problems, it is unlikely that we will move in the right direction. This crisis is instigating much deeper and permanent changes over a much wider geographic area than the countries in crisis. Whether in the euro or not, or under a strict conditionality programme or not, the policies applied in Greece, Ireland, Portugal and elsewhere, are being generalised across the EU, creating new precedents and new norms for the future.

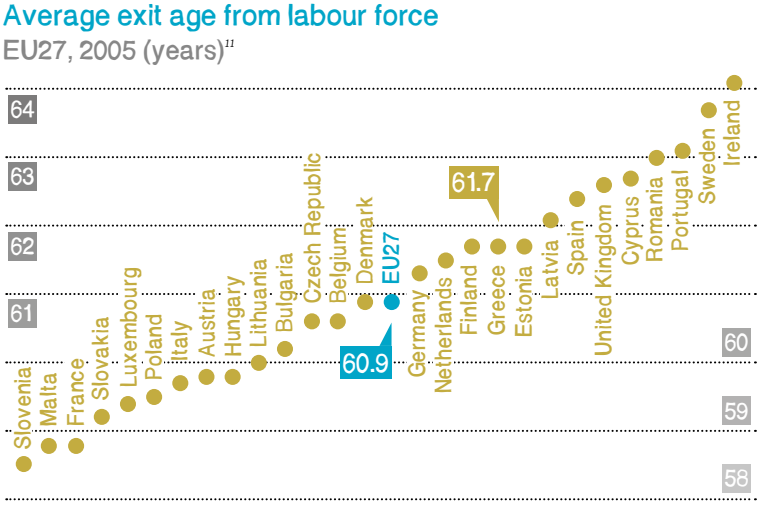
Chapter 4
Let's bust the myths[6]

"The crisis of the euro zone is an excellent example of how flagrant lies can successfully be converted into accepted wisdom. Almost every generalization about the crisis found in the mainstream media is false. As a result, the mainstream punditries on the crisis are ideological polemics masquerading as analysis. Further, often progressive critiques of the reactionary "austerity" policies by the euro zone governments accepts the mainstream faux-facts about the crisis, fuelling the There-Is-No-Alternative (TINA) syndrome.[7] - John Weeks, Professor Emeritus School of Oriental & African Studies, University of London

The mainstream media, along with governments, have actively cultivated myths about the causes of the crisis in order to justify the prescribed policies. The next section draws mainly from examples in Greece, as it often bears the brunt of the smear campaign, however similar statistics can be used to bust myths from elsewhere.



Source: OECD



Source: Eurostat

Myth 1: The lax Mediterranean work-ethic is at the heart of Southern Europe's self-inflicted downfall.

This myth is so prevalent that it is sadly necessary to prove that this is nothing more than a vilifying, degrading racist argument used to justify a moral high ground to impose economic hardship. The OECD publishes figures on the overall hours worked per worker in one year. The figure below shows that people in Greece, Italy and Spain worked on average more throughout the past decade than people in Germany, France and Belgium.

Myth 2: Greeks retire early.

A New York Times report is paradigmatic of this supposed logic: "Greece's system of early retirement has contributed to the out-of-control state spending that has led to Europe's sovereign debt crisis".[9] In fact, the retirement age for the state pension in Portugal, Italy, Greece and Spain is much the same as in France and Germany. Allowances for early retirement are found in several countries including Germany, France, the UK, as well as other northern countries.[10] Eurostat statistics on the average EU-wide retirement ages disproves the myth and renders it bigotry. The left axis shows all the countries, and the EU average. Spain's, Ireland's and Greece's averages are above the European average of 60.9 years. In Greece it has gone from 61.7 years raised to 67 in 2012 with the austerity packages.

"What you have to do is wage moderation, an internal devaluation and a reduction of prices and wages[13]" by Greece's unelected banker Prime Minister Lukas Papademos.

Blaming working people for not working enough, also extends to blaming older people (pensioners) for receiving pensions that are too high. The evidence however, contradicts this:

Myth 3: Greek social spending is too high.

In its Second Memorandum, the IMF proclaims: "Greece's level of social spending (as a share of GDP) remains well above the euro area average."[14] Despite the claim that high social spending could be to blame for the ruins of the euro zone, the statement itself is also a colossal inaccuracy. If we look at data published by the OECD, we can see that the amount of public money spent on each citizen, (using values which can be compared across countries,) shows that Greece's social spending is pretty low compared to its most vociferous critics among the other euro governments.[15] Greece, Portugal, Ireland and Spain's public and private social expenditure per head and as a proportion of GDP are lower than France and Germany's.

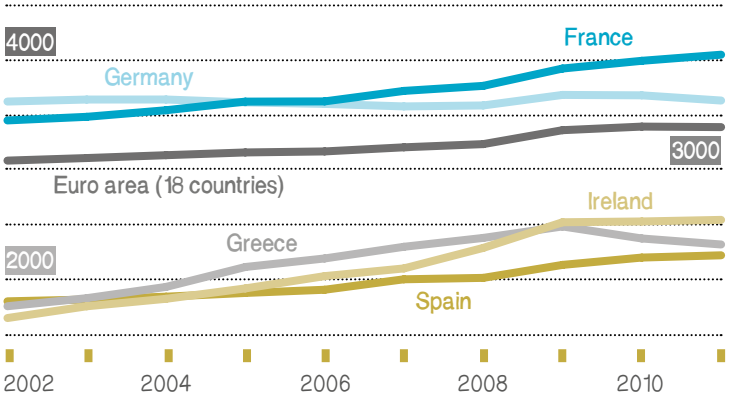
Myth 4: The public sector is huge

Rumours about the 'disproportionate size' of the public sector are also contradicted by official figures. According to reports published by the International Labour Organisation (ILO), Greek public sector employees account for 22.3% of the workforce, whereas 30% in France, 27% for the Netherlands, and 20% for the United Kingdom.[19] The government agreed to shrink the public workforce by 20% by 2015 (150,000 out of a 2010 workforce of 768,000), despite the fact that the pre-crisis proportion of public sector employees (as a proportion of the total labour force) was close to the EU average.

Blame them for everything! Public Sector Workers: They came from hell to destroy Greece, Portugal, Italy, Germany, the euro, the European Union, the dollar, Obama, the global economy, to cause global warming, to pollute our seas, to raise our VAT, to take our homes, to rape our families, to burn our forests, to bring AIDS and drugs, to make the football team Olympiakos lose its next match.

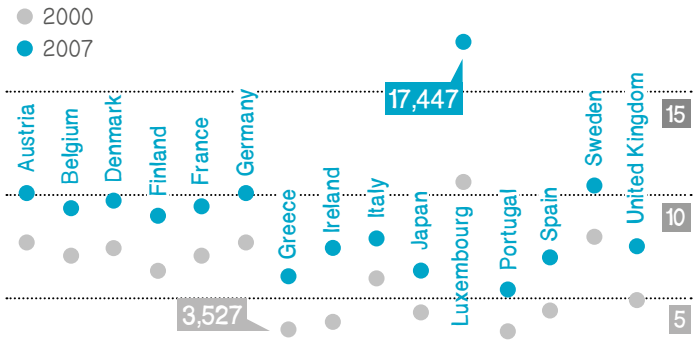
One million public sector workers trouble 6 billion people

Spending on Pensions Euro per inhabitant[17]



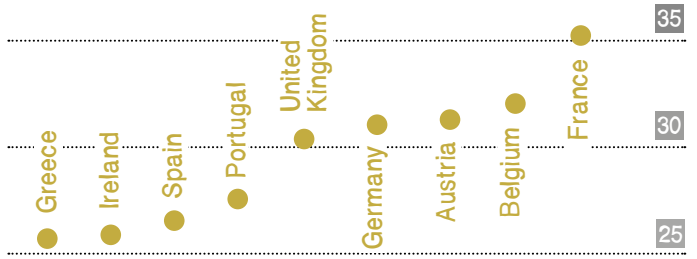
Source: Eurostat, extracted on 1.04.14

Total public social expenditure per head[16]
at current prices and $PPPs (thousands)



Source: OECD

Public and private social expenditure
in percentage of GDP in 2009



Source: OECD[20]

Myth 5: The cause of the crisis in southern Europe is excessive public debt and excessive public deficits. "It is an indisputable fact that excessive state spending has led to unsustainable levels of debt and deficits that now threaten our economic welfare" German Finance Minister Wolfgang Schäuble [21]

Although several countries are indeed now trapped under unsustainable, massive debts, consider the following:

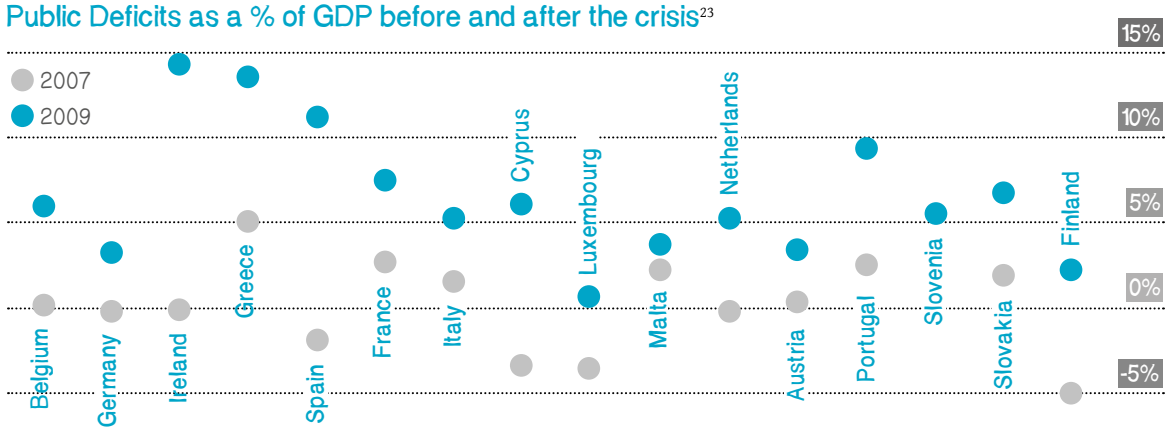
a) The crisis countries were not the ones with the highest debt or deficits

b) Numerous countries at numerous times have broken the Maastricht rules, first and foremost Germany

c) Large public deficits are a symptom, not a cause, of the crisis (see graph below)

John Weeks, professor emeritus at SOAS, provides a particularly pertinent explanation of the myth of the public debt crisis. "An essential element in the mainstream narrative (aka lie) is the fiscal prudence of the German government (and, by implication, Germans in general). Were this prudence fact, we would expect that Germany would have the smallest public debt of the euro zone. We find that it is larger than that of Spain and not much less than Portugal. [...] In 2007, just before the Global Financial Crisis struck, for Portugal and Germany, debt as a portion of national income was the same (44%), and both were more than double the ratio for Spain (19%)". That high debts caused the crisis is refuted by the fact that the countries which entered the crisis did not have the worse debt indicators. Weeks further explains that all debt indicators deteriorate during the crisis because national income decreases – as the denominator of the debt to GDP ratio goes down, the ratio itself increases. "The debts of Germany, the European countries named as PIIGS – Portugal, Ireland, Italy, Spain and all other countries are excessive if and only if economies do not grow. They pass from excessive to disastrously unsustainable when austerity policies make growth impossible. Among the most flagrant lies of omission in the mainstream narrative is the admonishment of Spain for its unsustainable debt, without adding 1) it is relatively and absolutely lower than Germany's, and 2) its increase after 2008 resulted from the public sector nationalizing the private sector's unsustainable debts. [...] Believe it or not, in 1995 (due to temporary factors associated with reunification), the German public deficit was the largest in the European Union, and for three years, 2002-2004, was greater than the deficits of Spain, Portugal or Italy." [22]

Public Deficits as a % of GDP before and after the crisis[23]



Source: Evans, T (2013)

"It is an indisputable fact that excessive state spending has led to unsustainable levels of debt and deficits that now threaten our economic welfare." German Finance Minister Wolfgang Schauble

Debts were made unsustainable and crippling in the process of the crisis and not from the outset. A country's ability to deal with these debts was made completely impossible with the subsequent forced indebtedness caused through the bailouts and the crumbling GDP. By extension this myth resembles the 'overspending caused the crisis myth', nicely summarised and debunked in the diagram above. Government deficits are a symptom, not a cause, of crisis. For each pair we can see public deficits before the crisis, looking quite small, and the deficits after the crisis (quite big).

It is not the large deficit that caused the crisis, but the crisis that caused the large deficit (negative indicates a budget surplus). In all cases it is obvious that deficits ballooned after the crisis had begun, undermining the mainstream narrative that ballooning deficits are actually what caused the crisis in the first place. It is simply incorrect to state that a high deficit caused the crisis.

Essentially, this myth relates to what this crisis is all about. The crisis is not really about high levels of debt or deficits, at least it wasn't when it started, but is rather about the systematic creation of the perception that public debt is too high. This detracts from where the focus should be: private sector debts, how and why they are created, and how their socialisation has acted as the lever to implement widespread anti-labour policies.

Myth 6:

"We all ate the money together" Theodoros Pangalos, Deputy PM Greece, Feb 2010

"We all partied." Brian Lenihan, Minister of Finance, Ireland November 2010

"We are all in this together." David Cameron, August 2011

These grand statements go hand in hand with Thatcher's famous phrase, also much hailed in this and previous crises: "There is no alternative". It seems what is being said is that everyone has equal responsibilities for the state of the economy: politicians and single mothers are equally responsible for the government deficit; someone claiming housing benefit is called to be 'squandering', whereas politicians who collude with big corporations and, legally or not, line their pockets are applauded for 'doing business'. Sharing the guilt and accusing people of having behaved badly has several effects.

One is to create the feeling that people have done something wrong and that now they have to 'pay up' as it were for the past sins. That they somehow owe the state and society for something which they took in the past. This is further enhanced by the rhetoric regarding those that are deserving and those that are undeserving (legal versus illegal immigrants, genuine claimants versus fraudsters etc.).

Second, sharing the guilt and making people feel responsible for the crisis justifies compliance with the second grand statement – that there is no alternative to the offensive against rights, to the intensification of work and the degradation of working conditions.

Third, 'national interest', that catch all favourite, is invoked explicitly by using the plural 'we'. It assumes that 'we' all need to get together, put our heads down, and work our way out of the crisis. What is argued is that these measures need to be accepted and that they are necessary because they are in the national interest. That, somehow, compliance with extreme hardship is some sort of patriotic act.[24] By implication, they equate the national interest with the suppression of wages and deterioration of living conditions.

Greek Prime Minister Papandreou said: "we must regain (national sovereignty) through our credibility, our programme and the self sacrifice of each".

"When someone ingeniously remarks "we lived beyond our means"..[we say]..it was not "we" who took on the credit but the government...it was not "we" either who spent the money, but the state. And the whole point of the investment by the state was to produce the conditions which could justify the debt and some further economic growth on top of it" Kittens April 2012[26]

To start with, look at how simplistic, conservative and nationalistic these statements are. It tries to put on each person the necessity of identifying with the nation, and then it insinuates that by becoming individually 'competitive' (i.e. by accepting lower wages), so will the nation. Among other drawbacks, this ignores all the other factors about how economies are integrated into the global economy.

Dispelling this myth can also be done by examining figures for income inequality that show 'we aren't all in this together'. UK UNCUT says directors' pay and bankers' bonuses continue to rise, as the average salary of FTSE 100 directors has risen 55%, and banks, such as Barclays, HSBC and Lloyds, announce combined profits of £24.2 billion for 2010.[25]

Meanwhile there is a disproportionately negative impact on people in poorer income brackets through cuts in disability allowance and housing benefits. Statistics for the UK have been documented to show how the cuts will deepen inequality in the UK.[27]

"We are making cuts that Margaret Thatcher in the 1980s could only have dreamt of" Greg Barker, UK climate change minister [30]

Examples include how the cuts will increase child poverty as indicated by the Institute for Fiscal Studies which mentions that the cuts to benefits and tax credits will lead to a 300,000 increase in child poverty by 2013-14.[28] The charity Mind has highlighted that the £18 billion cuts to welfare the UK government has announced affects those with disabilities and with health conditions the hardest: "1.6m people who are claiming incapacity benefits will be reassessed through a test that has been shown to be neither fair nor effective, with 25% of people expected to be denied the replacement benefit. Millions of people in receipt of Disability Living Allowance will also be reassessed in an effort to find a 20% saving in the budget for that benefit".[29]

The second approach to busting this myth is by proposing alternatives that could have the same impact on the budget targets. Rather than cutting government spending to lessen the deficit, you could raise taxes on the notorious tax evaders: high personal incomes, large wealth, and corporations. Numerous proposals exist which look at trying to lessen the deficit by increasing taxes rather than decreasing government spending, alluding to the several deep problems surrounding the recent trends in taxation discussed in Chapter 5. However, this approach often misses deeper issues. So, for example, when the 'markets' are punishing governments who have 'large deficits', this approach to myth busting essentially says 'let's not try to achieve the deficit that the markets 'want' this way but some other, 'fairer' way'. This approach doesn't question the basic premise of whether these debts and deficits are the problem in the first place. It doesn't challenge the ways the 'financial markets' (i.e. the major multinational banks) bully and dictate economic policy to governments; nor does this approach acknowledge whether large debt and deficits are sometimes necessary and desirable and how this can be managed in the current liberalised global economy.

Another drawback is that this creates another false dilemma or false framing. A criticism raised by those who question the capitalist system as a whole is that the call for tax increases is a rather myopic alternative, as it presupposes the success of those capitalist businesses in order to tax them. "This critique instead of offering a way out of socially produced poverty, depends on it: taxing capitalist corporations presupposes their success."[32] To counter the austerity argument 'the thin must diet' and that austerity must be inflicted on the poor, arguments are used that in essence accept the basic premise (that the debt must somehow be repaid and the deficit must be eliminated) in the scramble for an alternative. This is far from a real alternative however, when we see the same political elite imposing the hardship playing out its own version of 'hard ball'. The buzz phrase in the Greek political establishment during October 2012 was the search for 'equivalent measures', in which they tried to present alternatives to the Troika's austerity suggestions.

Conclusions of the myth busting

For all its merits, relying on myth busting is not sufficient to build a critical analysis of the situation, even if it arms one with some basic pointers. There are a number of reasons for this. Trying to deflect and disprove that southern Europeans are lazy or that workers of the public service are overpaid, or that lazy Mediterranean scroungers are enjoying one of the highest standards of living in Europe while the frugal Germans are picking up the tab, engages with the most trivial form of reasoning.

Attempts to disprove or argue against these myths are demoralising, but even engaging with them in the first place is problematic. Engaging in a wrong framing usually backfires, as it legitimises the framing while the different sides discuss the details: how many times a year can someone go on holiday in this country or in that country, which hospitals need closing, which schools can or can't be merged. Time spent trying to prove that one country worked harder than another, is a perfect distraction while the new budgets and harsh legislation continue to be ploughed through the parliaments.[33]

Deconstructing the myths is useful in considering why these vilifying arguments catch on and become common parlance. Propagating myths is a powerful tool, as these myths become the default ideas that 'common sense' then rests on and informs public opinion in a general sense. The role of the media is to effectively use a few truisms to shift the focus and frame the debate. However, engaging in a misguided framing of the debate backfires as those resting strictly on myth busting to prove a point appear as defenders of a dysfunctional system.

However, having, for clarity's sake, established that the myths spun around the causes of the crisis are false and are largely intended to deliberately misinform, we can move onto some other explanations of the crisis.

Chapter 5

Taxation policy's role in the crisis

Taxation is a controversial issue, both during a crisis and out of it. It is the lever with which the government earns income, and then uses it to pay for its expenses. It's what everyone complains about, and yet, it is presented, at times, as if taxation policy could by itself be a panacea for capitalism's problems. Friend or foe, taxation has a central role in revealing features of the crisis. From the political right it is advocated that taxes for capital need to be lowered, so that countries can engage in tax competition, and attract foreign investments. From the left it is argued that corporations and the rich don't contribute their fair share of tax revenues and if they did, there would be no problem of deficit or need for austerity.

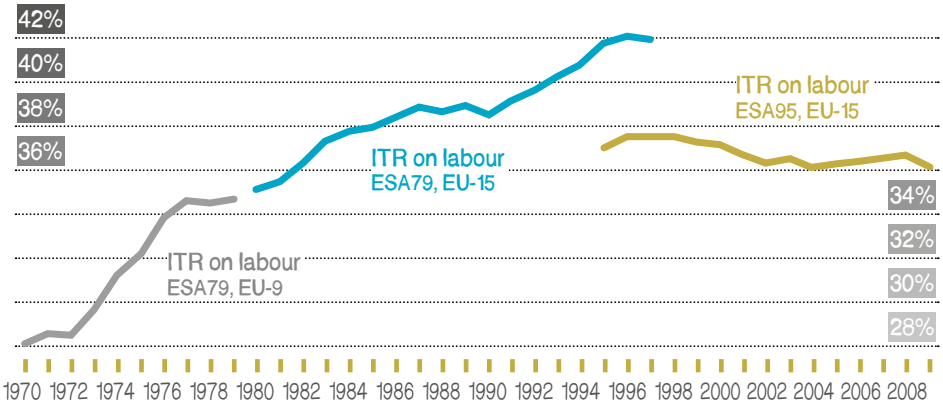
There are lots of different types of tax and different ways of taxing. One big divide in tax is between tax on labour and tax on capital. The main characteristics are a:

- long term increase in the tax burden on labour
- long term decline of the taxes on capital

The graph below demonstrates the significant, long term increase of the tax burden on labour.[34]

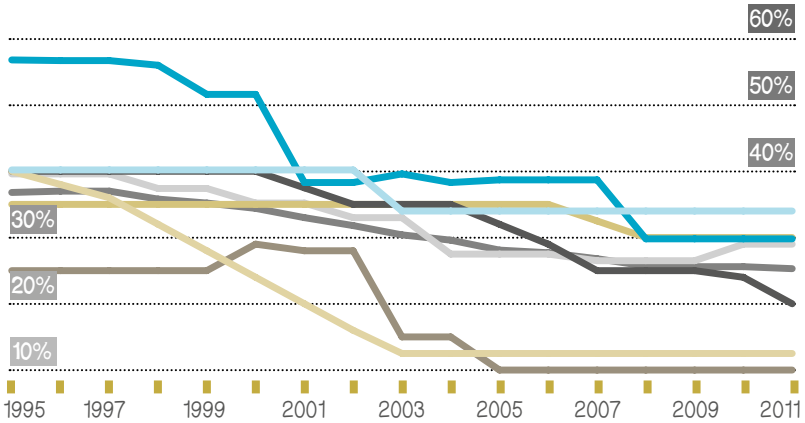
Following a European Commission report, the results about corporate tax are evident: overall dramatic reductions from 1995 to 2011 on the rates. But the story doesn't end there. According to work done elsewhere (See the following Price WaterHouse Coopers graph) the corporations actually end up paying a lot less than what is reported, and this can be seen in the next chart.

The amount that Labour is actually taxed as a % of income [35]



Adjusted top statutory tax rate on corporate income

1995-2011, in %



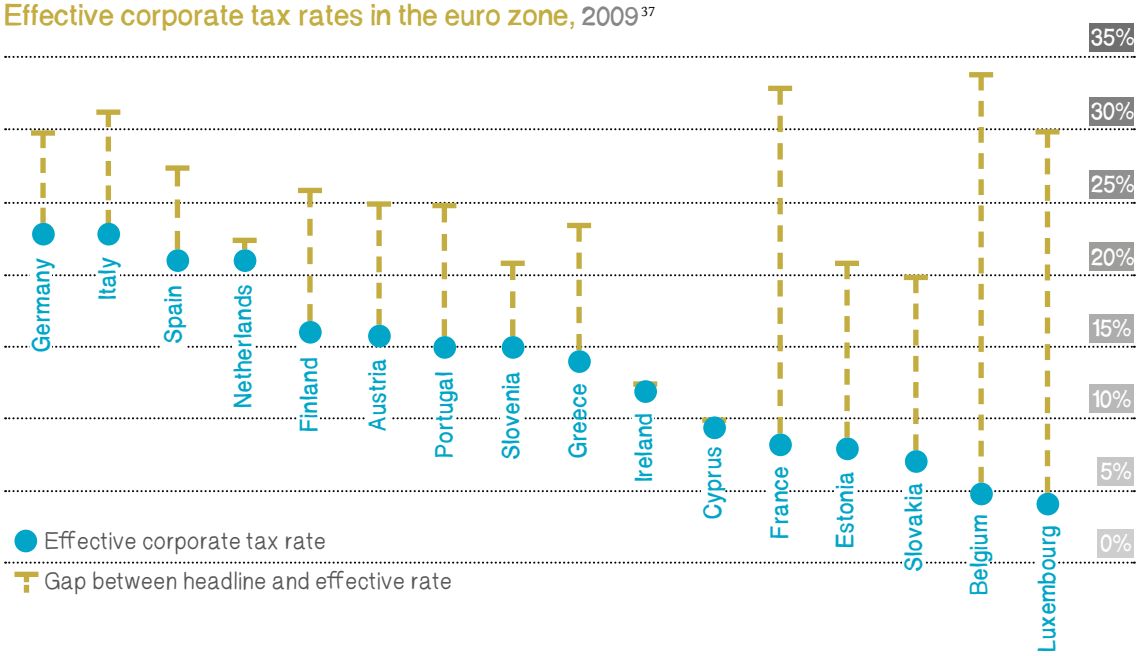
Big drop during the euro years 2000-2011

Belgium	-6.2
Germany	-21.8
Ireland	-11.5
Greece	-20
Spain	-5
Cyprus	-19
Portugal	-6.2
EA17	-9

Source: Commission Services

We can see that what they are charged is not what they pay. Although the headline tax rate has persistently declined for corporations in the last decades, the amount that is actually paid is even lower.[36]

Effective corporate tax rates in the euro zone, 2009[37]



Source: Price WaterHouse Coopers

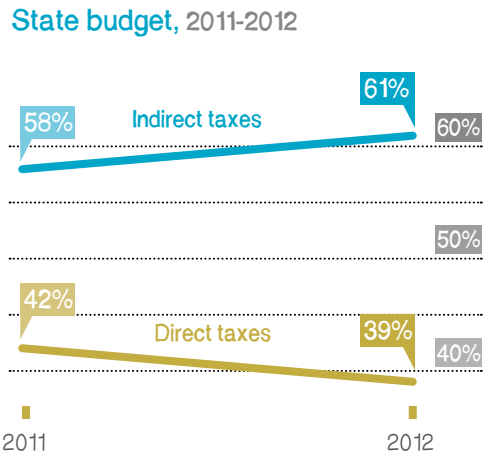
Tax is continually dodged, legally and illegally. Whether through various methods of financial engineering, by channelling money through tax havens, or through government created tax breaks, there are large amounts that go untaxed. It is estimated that tax avoidance and tax evasion in the EU may cost up to 1 trillion euros each year. Globally the picture is even more staggering, with some estimating that 21 trillion dollars are lost to tax havens.[38]

Tax hikes that disproportionately affect the poor are an integral part of the neoliberal austerity packages that are being horizontally applied by the Troika (see Chapter 9 for more details). The justification is, in Greece for example, the widespread acceptance that Greeks do not pay any taxes. As Christine Lagarde, former Minister of Finance for France and current Managing Director of the IMF said: "I think they should also help themselves collectively. By all paying their tax"[39]. Lagarde also said she felt more sympathy for "the little kids from a school in a little village in Niger", than those currently inflicted by austerity in Greece. However, as IMF critics say, "if 'sympathy' is what characterises the IMF's approach to Niger, then Greece would do better to avoid it", considering the role the IMF and the World Bank have had in perpetrating structural adjustment policies for over three decades, leaving people in Niger mired in poverty and frequent famines.[40]

Besides all the aforementioned 'sins' that the southern Europeans epitomise, the most fiscally relevant one is the claim that they don't pay their taxes. Sure enough, the taxation system favours businesses and capital, famous tax evaders are left unhindered and tax officials are notoriously corrupt. One of the most notorious cases of tax corruption has left the former finance minister Papakonstantinou, under whose watch Greece agreed to the bailouts, under criminal investigation for offences whilst in office. This relates to the 'Lagarde List', which included several famous tax evaders, yet 'mysteriously' was kept quiet despite the persistent rhetoric about needing to impose all the unpopular tax hikes to lower the deficit. The list only came to light in a redacted form, with the names of the former finance minister's relatives removed.[41] This case became even more high profile when the journalist who made the list public was immediately arrested by the police, while the chase of those engaged in tax evading has been slow- to say the least.[42]

If we break down the tax collections from the government's budget reports we also see that, the Greek taxation system receives more tax from people than it does from businesses. Additionally, the Greek tax system is increasingly regressive, meaning the taxation system puts more burden on the poor than on the rich. Greece has a high proportion of indirect taxes which hit the poor disproportionally as they are levied as fixed, regardless of the income the person paying them has.

This is no doubt a trend that is visible across Europe.[44] What we see then is that businesses have successfully lobbied and achieved low taxes to aide their profitability, whilst citizens bear the brunt. A fairer policy would have this trend reversed. Changing taxation structures may be an integral part of reform that could create a more equitable distribution of income, even if it is not sufficient to blur the class structures of society. Proposals for deficit targets to be achieved by taxing corporations often assume that if successful this would offer a path out of poverty as well as a sense of justice. However, the basis of corporate success (and hence the creation of their taxable income) is fundamentally a cause of inequality.



Chapter 6

The euro zone crisis is a continuation of the global financial crisis

When discussing the euro zone crisis, it is difficult to define when it really began, as the European crisis is the continuation of the global financial crisis that began in 2007. It still shows no sign of abating, making it the deepest, and most structural crisis since the 1970s. The crisis developed from a housing bubble evolving into a sovereign debt crisis. Concern about what the causes of the euro crisis are should look to how defaulting mortgage loans in the USA led to a sovereign debt crisis, and examine the structure and operations of the financial system. The previous era was built on cheap credit, coupled with rapid expansion of the financial sector and the instruments and processes it uses. But when sub-prime mortgages began defaulting, the US housing bubble of 2001 – 2006 ended. Precisely all the innovations designed to manage risk throughout the financial system failed, and brought down chunks of the banking sector. With the widespread panic throughout the financial system, over-indebted banks collapsed, and there was a global recession. This crisis was dealt with almost uniformly by providing huge sums of public money to the financial sector (bail outs), which transformed it into a fiscal crisis for several countries.

"In short, European

So, when did the euro zone crisis begin? The most obvious starting point is when Greece started to wobble in the autumn of 2009 and the euro zone started to crumble in the spring of 2010. The European crisis didn't come out of thin air, and below we trace in more detail how the sub-prime crisis merged into the other euro crises.

The sub-prime crisis of August 2007 ended the US housing bubble of 2001 – 2006. The housing bubble boom was fuelled by expansionary **monetary policy** (cheap money) leading to mortgage brokers lending money to anyone who wanted it, regardless of whether they would be able to pay it back. As long as housing prices were soaring no one really cared. Mortgage brokers did not work alone; the expansion and dominance of the financial sector meant that financial institutions of all kinds began creating **securities** and **derivatives** and poured ever more money into the markets which ultimately derived their solidity from a continued confidence in the system as a whole and on whether the borrowers could repay those loans. As mortgage-backed securities (MBS) values started to plunge, the whole **shadow banking sector** that issued and held MBS were hit. No one wanted to keep trading and buying in mortgage-backed securities, because suddenly, large numbers of the assets they had invested in were rapidly becoming worthless as the number of people defaulting on loans increased. The central feature of the crisis was called the **credit crunch** – this was the widespread mistrust between financial institutions who didn't have the confidence to lend to each other or anyone else. They didn't know how exposed to bad debts other banks were, so feared they would be unable to repay. This led to the interbank **money markets** freezing up - the markets for short term borrowing between the banks, and **liquidity** disappeared. (Liquidity is an indication of how easily assets can be sold, or made into cash, without this negatively affecting the price of the assets; assets that can be bought or sold easily are called liquid assets). The credit crunch meant that the level of **leverage** that banks and financial institutions had could no longer be sustained. (Leverage is an indication of how much of a bank's or company's activities are financed through debt and how much through their own capital).

The panic began as investments turned sour – beginning with borrowers unable to repay their mortgages, and led to the interbank money market drying up. Suddenly, the housing market, for years praised for its performance, was transformed into a speculative bubble whose time had come to burst. The crisis spread to Europe, via

the drying up of interbank liquidity and, in August 2007, Northern Rock collapsed in the UK. However, all over Europe banks were exposed to large amounts of MBS held **off the balance-sheet**. It eventually became clear that the whole edifice of European banking was threatened. Banks needed bailouts in France, Germany, Switzerland, Belgium, the Netherlands, Italy and Iceland. One of the famous 'giants' that crumbled in September 2008 was Lehman brothers in the USA.

Although the monetary authorities were providing lots of liquidity to the banks, they decided to let the large investment bank Lehman Brothers collapse in October 2008, having saved another large bank, Bear Stearns, just months before. The global financial crisis had come to stay. The governments of the US and UK stepped in and essentially guaranteed the interbank markets. The governments rushed in to bail out private financial institutions, and the ECB intervened and lent freely to European banks. A series of events transformed a crisis of private finance into a sovereign debt one. (More details of the bailouts to European banks is examined in Chapter 8). The banks in turn, in extreme need of liquidity, attempted to repair their balance sheets to recover from their losses on bad debts. The inflows of money into the banks in the form of bailouts, meant the banks could use this money to free up capital they were keeping in case of losses. Money was used to **deleverage** (i.e. to pay off) debts. By deleveraging, less loans were given out and the recession deepened.

The recession had a global impact, and led to severe impacts in the global South as well, and also led to a devastating crisis across central and eastern Europe, with the Latvian crisis epitomising its severity. However, lending to periphery euro zone states was still deemed safe up until 2009, as lending towards them actually increased from 2007 to 2009 by over 30%.[45] This is partly because during a crisis, investors flee to safe havens, typically dominated by government bonds which offer low, although supposedly steady returns. Money flowed to the government bonds of the EU, however as the recession from the global financial crisis deepened, economic activity slowed and public revenue from taxation was smaller. Smaller revenues plus increased spending from the bailouts, made the deficits larger (see Myth 5). States needed to borrow more money in 2009, exactly when the financial markets were wobbly. The financial authorities did not really intervene (say by banning trade in instruments that exacerbated financial instability) until it was too late.

In 2009, rather than intervene directly, and attempt to stamp out the speculation that had begun on wobbly states early on, the ECB was unwilling to act as a lender of last resort to the states in need. As speculation on state debt increased, and the weakest links were clearly identified, sovereign default raised its ugly head. This created the premise from which to lever for the dramatic austerity policies that have brought widespread impoverishment. Money had to be squeezed out of the people to pay for the socialised private sector debts. The crisis has now spread from Greece to Ireland, Portugal, Spain and Cyprus, and with French and German banks now being downgraded by the credit rating agencies it has hit the euro zone and its structures to the very core.

finance was rescued, only to turn and bite its rescuer".[46]

To recap, the **credit crunch** was the result of frenzied lending policies across the Atlantic. These practices spurred large northern European banks to finance a credit boom across Europe, which would later collapse. These banks were bailed out by their "respective governments, damaging public balance sheets and resulting in indebted governments".[47] Government debts exploded overnight as they took on these private bank debts, which led to the cost of borrowing for those governments to also rocket skywards.

Despite the havoc left in their wake, and the fierce consequences of the last bubble bursting, the speculation continues. In 2014, the London Stock Exchange is now at levels it was before the 2008 crash.[48]

Chapter 7
Digging Deeper

Shift of production, falling wages and rising debt

To get further insight into what may have led to this crisis, we must consider historical and structural reasons. Crises are a fundamental part of much of history. This section looks at how capitalism was restructured as a whole after the last major crisis in the 1970s to explain the background and the run up to this one. Next we look to the specific characteristics of the euro zone and their role in forming this crisis. Although for each country in crisis specific historical reasons apply that to some degree explain what is happening, there are also overarching, more general reasons, that bridge across the different country specifics.

David Harvey, Professor of Anthropology and Geography in New York, is well known for his analyses of capitalism that looks into deeper explanations of crises. Instead of focusing on the immediate causes of the current crisis, we can think more generally about the recurrence of crises.[49] This is not just a preoccupation of more critically minded or radical approaches; the mainstream economists of the day have coined the term 'systemic risk' to approach the issues of inherent risks and weaknesses in capitalist economies.[50] One of things to look at is how society is restructured with each major crisis, and ask who benefits and who loses out. We need to look at how the relationships between different groups in society have changed, or more specifically at changes in the relationship between labour and capital, and between different types of capital. For example, the last 20 to 30 years have seen the expansion of the financial sector to the detriment of the manufacturing sector in the industrialised western countries, coupled with a decisive shift in where global production of goods takes place. This is largely now located in Asia. Production is more profitable where wages are low.

Harvey maintains that this current crisis is occurring in a way that was largely dictated by the way the previous one was resolved. He maintains that since the 1970s – the previous major structural crisis which was marked by the oil price hikes, there has been a dramatic drop in the proportion of wages in national income in the West. The crisis in the 1970s brought about the collapse of the old monetary global order, with the end of the gold standard (the post-war monetary system where many economies fixed the value of their currency to the value of the US dollar which was fixed to a specific quantity of gold). Effectively, the world had a system of fixed **exchange rates** which was relatively stable compared to the frequency of banking and currency crises of other times. Stability in prices and low inflation was also one of its supposed benefits because there was a certain degree of confidence that paper money could always be convertible into gold; the **central banks** couldn't print money loosely as they were constrained with the amount of gold they had, and all this resulted in maintaining some price and exchange rate stability. However, the crisis of the 1970s dismantled this system, and this led straight into the 1980s debt crises. Falling wages in national income was propelled and deepened by other features of this period such as neoliberal policies, off-shoring and weakening of trade unions. Since wages are needed to buy goods, to overcome the problem of lagging demand for goods, a similar level of consumption was maintained by expanding credit dramatically towards households and forcing people to take on personal debts. This has become so prevalent that access to housing, education, and health is increasingly only possible by going into debt.

This has been highlighted as a basic transformation of the economy into a highly financialised one, which relies on increased amounts of household indebtedness. This is indicated by the dramatic rise of loans people take out to access the most basic of goods and services, such as housing, education and medical care. The current workings of the economy force people into debtor relations.[51] The potentially unsettling consequences of stagnant or declining wages in the west were temporarily circumvented through cheap credit, exemplified by the boom in consumer loans, credit card spending, as well as a ballooning housing debt market. The explosion and increased dominance of the financial sector was encouraged by its deregulation over the past 30 years: new processes such as **securitisation** and the expansive use of **derivatives** made the debt **bubbles** about much more than just making loans. Increased competition was forced into the financial sector by removing regulations, meaning banks had to compete a lot more to attract depositors. As industry shifted away from the west, the west became ever more focused on financial services.

To give more context to this crisis, we can think more generally about whether capitalism ever actually 'solves' its problems and crises, or whether it just moves them about geographically. During a hurricane there is an eye of the storm where things are really kicking off, (the USA after Lehman's collapse for example); as it moves away it hits other places (UK, Greece, Portugal) but the places left behind are still in crisis, even if out of the limelight. Although the USA was in the eye of the storm in 2008 when Lehman brother's collapsed, this has left in its wake a record number of foreclosures in 2009 and 2010:

"Banks in the US repossessed 92,400 homes in April (2010), a record number and 45 percent higher than in April 2009. At the present rate, with more than 350,000 houses taken over by lenders in the first four months of 2010, more than 1 million American homes will be repossessed this year. In 2009, 918,000 repossessions took place, a 6.5 increase over the previous year."[52]

These statistics do not make the headlines as Lehman's collapse did. As this continued, the European crisis began unfolding.

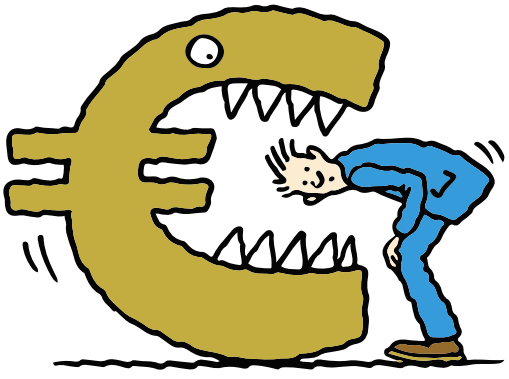
The Making of the European Project

Before the laments of the euro zone's failures escalate further, it might prove useful to examine the basis of the European project when it was conceived. Despite the legitimate concerns of whether, and under what conditions, the euro zone can survive its biggest storm, a few features of EU integration and European Monetary Union (EMU) creation should be pointed out. Even as the European Union and its unaccountable institutions continue their boot-in-the-face tactics to tackle the crisis, there persists in the current debate a desire to hold onto the European Union and merely reform it into something more suitable. But suitable for what and for whom? With growing discontent towards austerity escalating across Europe, the ruptures of European integration are more visible and its vulgarities more obvious. As the story of the euro zone crisis gets twisted and the belief that 'Greek bailouts are a sign of German solidarity' grow, it is worth going over some things that now seem relevant about the aims behind the European project, which started at the end of the Second World War.

One of the original aims of the EU was to advance and extend the free market in Western Europe. By arranging the conditions for the free movement of capital and the creation of supranational (i.e. over and above national) institutions to regulate it, the foundations were laid for what today receives criticism from both the left and the right sides of the political spectrum: the transference of political power to bureaucrats in Brussels working under the premise of technical efficiency, political neutrality and expertise.

The deregulation and neoliberal agenda began to dominate from the 1980s onwards. "The EC project was promoted by left centrist parties, primarily Christian and Social Democrats, as a way of defending the market economy against Communism".[53] European integration was strengthened and deepened during the escalation of the Cold War and the Iron Curtain in Europe.[54] However, as a response to the pressures of communist ideas and working class aspirations the EU adopted the welfare state, embedded in social democratic values. European institutions attempted to defend free market principles and thus act as a form of insulation from domestic class, race and gender struggles. European integration based itself on creating a social market economy which served to pacify these struggles by establishing a whole barrage of legislation and institutions that shift many concerns about market regulation to supranational bodies.

This watering down of democracy was sold on the promise that it would bring economic prosperity that would trickle down through the processes of a competitive market and lead to a process of convergence. The period's high growth rates helped bring full employment closer rather than this being the result of any statutory commitment to full employment or Keynesian policies within the Treaty of Rome itself. The commitment to European institutions meant that the burden of economically adjusting to the requirements and principles of market liberalism was down to each member state and more specifically to the working people of each member state. In this process, labour had to adjust to the new conditions, whereby "The Treaty of Rome was seen to provide an 'extra-democratic' framework for economic adjustment."[55]



The foundations of the European Monetary Union

This section will examine in more detail how European monetary integration escalated inequalities within the member states, arguing that these economic inequalities played a crucial role in bringing about the crisis. It is pertinent to ask, what was the aim and what was the impact of a common **monetary policy** for the euro zone countries but separate fiscal policies? General issues regarding this separation are discussed before moving onto an analysis of the economic imbalances they led to.

The argument for an independent monetary policy goes like this: as governments are always interested in re-election and are subject to domestic pressures, monetary policy must remain rule based, out of the hands of the electorate and with the sole aim of maintaining price stability and low inflation. High inflation devalues the real size of creditor's assets: the loans they have made out. By being made independent, monetary policy attains some sort of quasi judicial status, freed from any potential influence by the populace. This is not to say that before the common currency, the populace had real influence over monetary policy – monetary policy has always resisted democratic encroachment.[56] However, the importance of removing interest and exchange rate policy from member states is that national conflicts can no longer be eased or appeased through nationally induced credit expansions or currency devaluations. However, by retaining fiscal policy in domestic hands but enabling Europe's policing of fiscal budgets to stay within strict boundaries, fiscal austerity goes hand in hand with monetary austerity. As Professor Werner Bonefeld of York University explains, this effectively means that "a domestic policy of austerity would be anchored in a supranational regime designed to provide 'stability', where stability stands for low inflation, strong currency, competitive labour costs, and an efficient labour force whose ability to demand better conditions is checked by 'Europe'."[57] The common currency entrenches this regime. By losing control over interest and exchange rate policies, the burden of adjusting to global conditions falls mainly on labour. Labour can adjust by migrating to high growth areas or by accepting 'labour market flexibility' (i.e. wage reductions and precarious conditions) to attract capital investments in low growth areas.[58]

The Stability and Growth Pact is a means of protecting the common currency from governments' responses to popular demands for furthering fiscal expansions. In other words, the Stability Pact restricted the ability of governments' fiscal policy to appease domestic crises by introducing the limitation of balanced budgets, thus reinforcing the increased dependence between the member states in each other's ability to contain labour struggles. This is because the failure of one member state to contain the labour conflict also has costly consequences for all other member states. This shows the precarious links holding together the currency union. As Hans Tietmeyer, former President of the Bundesbank said "sustaining the monetary union may need indeed perhaps more solidarity than beginning it".[59]

As the ruptures in the euro zone grew from 2009 onwards, what is commonly referred to as the main 'flaw' came to light: the inability of a monetary union to exist without a fiscal union. One of the reasons a fiscal unity has been resisted is because without further surrendering national sovereignty, it would not be acceptable to the government of one state to use its tax collections to bail out another, without asking for anything in return. As we can see from the reforms currently under way, enshrined in the fiscal compact and the nascent banking union, power is further concentrated in the European institutions, weakening possibilities for people to influence policy and for national parliaments to act independently.

Convergence between euro countries was a pipe dream: the skewed nature of monetary union[60]

Having looked at some of the foundations of the European Union and the European Monetary Union, the structural imbalances that have resulted will now be examined. Specifically, trying to bring very different countries under the same policies, and specifically the same monetary policy, deepened the imbalances within the euro zone. It led to the divide between the core countries (Germany, France, Netherlands) and the periphery (Greece, Spain, Italy, Portugal, Ireland). The growth model of many of the core countries was based on exports; the one of the periphery on imports. The core countries channelled their export money towards the periphery, in the form of capital inflows. The periphery, used these capital inflows to cover their deficits and keep the public debt growing; or to keep fuelling private sector financial **bubbles** (e.g. in house prices or construction). This mechanism, visible through these macro imbalances creates unequal power dynamics between euro countries, and is discussed in more detail below.

Before the euro was created, there were national currencies. When the euro was introduced, their value vis-a-vis the euro (their exchange rate) became fixed. The euro has now become one of the world's most important currencies, acting as an international reserve currency to rival the dollar and the pound. However, in contrast to, say, the dollar, the pound or the yen, there is no one single powerful state that backs it, but an alliance of differently powerful states in the euro zone. Whereas the rhetoric during the euro's creation was that it would bring about convergence of economies as the latest step towards greater economic integration, it actually drove already very different countries even further apart. The euro zone essentially followed a one-size-fits-all policy, meaning one monetary policy applied for all the member countries, despite crucial differences such as in economic cycles or competitiveness. The single currency does not allow for fluctuations in relative prices that would benefit individual members of the euro zone. One-size-fits-all essentially means that by handing over exchange rate and monetary policy to one central authority, economic adjustments are occurring through the labour market (through wages) and within the limits of strict fiscal budgetary rules.

The macro-imbalances in the euro show that convergence was an unrealistic dream – the exact opposite happened. There have been lots of loud voices about Germany being the economic powerhouse of the euro zone. For instance German Chancellor Angela Merkel warned that "Germany's strength is not infinite... but it is (Germany's) special responsibility as the leading economy in Europe...to realistically size up our powers...".[61] However what is less frequently pointed out is that the key reason Germany is in this position is far from a natural result of market forces, but rather the result of directed government policy over the past decades, beginning with chancellor Gerhard Schröder. Mercantilist policies dominated European thinking during the 15th to 18th centuries, and maintained that trade surplus (exporting more than you import) is necessary. In recent times, Germany's mercantilist policies managed to transform a "$33 billion **current account** deficit in 2000 to a surplus of $200 billion, while all other European countries have a deficit".[62] This was achieved by keeping real wages stagnant for a decade (i.e. squeezing workers) and hence gaining competitiveness vis-a-vis the other euro zone countries. This allowed Germany to build an export-led growth model, which is why Germany's export industry is doing so well. In fact, Germany accumulated trade surpluses so swiftly that they are now second only to China.[63] The European market became the market that Germany sold its goods in, adding to other reasons why the German government wouldn't want to see the euro zone collapse. If it did, it would likely result in an appreciation of German currency, something that would eventually undermine its export-led growth model.

> "Guided by EU policy, euro zone countries have entered a 'race to the bottom' encouraging flexibility, wage restraint, and part-time work. The race has been won by Germany squeezing its workers hard in the aftermath of reunification. The euro zone has become an area of entrenched current account surpluses for Germany, financed by current account deficits for peripheral countries."
>
> Research on Money and Finance, euro zone report March 2010

The development of these economic imbalances were not only the result of stagnant real wages in Germany. Exports were facilitated by corporations seeking to sell their goods. One estimate puts 10% of Greece's debt down to bribes originating out of foreign multinationals bribing Greek officials for contracts. "... German taxpayers [...] should consider that their hard-earned euros of yesteryear financed corruption in Greece for the purpose of creating a massive Greek trade deficit. That trade deficit was in turn financed by German and other European banks at handsome, risk-weighted rates of return." The box summarises how Germany's export led growth model was far from the result of natural market forces.[65]

It has now become more widely accepted that German wage policy is central to the structural imbalances of the euro zone, and it is even receiving criticism from the likes of the IMF and the International Labour Organisation (ILO).[73] The hawkish German finance minister Wolfgang Schäuble also suggested changing the "low-wage-to-keep-strong-exports policy", joking that "if anyone deserves a pay rise, it is the Germans".[74]

"... German taxpayers [...] should consider that their hard-earned euros of yesteryear financed corruption in Greece for the purpose of creating a massive Greek trade deficit. That trade deficit was in turn financed by German and other European banks at handsome, risk-weighted rates of return."[64] Criton Zoakos in International Economy magazine. He also estimates that 10 per cent of Greece's debt went to bribes.

Research on Money and Finance, a more progressive network of economists based at SOAS in London, put it differently. It describes these euro zone imbalances as "a beggar thy neighbour policy for Germany, on the condition that it beggars its own workers first".[75]

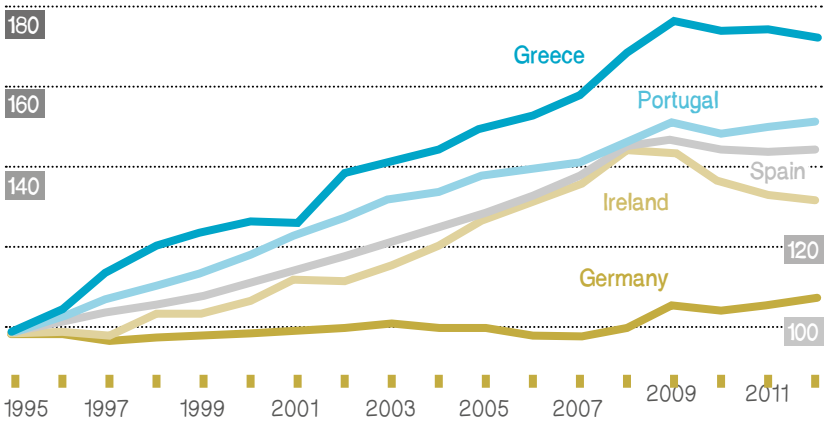
One of the mainstream arguments in favour of austerity and wage cuts is related to unit labour costs (the average cost per unit of output produced). The argument given is that by cutting wages, unit labour costs decrease, making production more competitive. Whereas the mainstream narrative maintains that Greece's rising unit labour costs are proof of why wages need to be slashed, it is in fact Germany's unit labour costs that are abnormally low. All countries' unit labour costs have increased through time, but Germany's have remained totally flat for the last decade, stemming from the fact that German workers have had no real wage increases during it.

As well as looking at German wage policy, there was another key factor about how the euro economies were fused together. The states that wanted to become members of the euro zone had to fix their exchange rate a few years before the currency was introduced into their economies. The level which the exchange rate was fixed has affected the ease with which countries import and export.

Greece, Portugal and possibly other countries too were locked into an exchange rate that was overvalued (too high), leading to a persistent loss of competitiveness. For example, in 1998, the then Greek government of Costas Simitis announced the country would enter the EMU. The original exchange rate was set at 357 drachmas for one euro, then revised downward, to 353, and at the last minute it was changed again and set at the even more unrealistic 340.75, meaning even fewer drachmas were now required to purchase one euro. The drachma was appreciated (revalued) in the last instance and appeared as a stronger currency. People at the time were aware that this would cause problems in competitiveness but they deemed the perceived benefits, such as access to European money markets, would outweigh it. People actually thought this last minute appreciation was no problem at all, and that they would be richer with the euro.

The result of ten years of the euro is entrenched trade imbalances, where certain countries are importing a great deal more than they are exporting. For example, some economies were modelled on exporting low skill goods (the south European periphery) and importing high skill capital intensive goods. Often too, their export sectors were dependant on those imports. Exporting became relatively more expensive for the countries with the overvalued exchange rate and imports relatively cheaper. This is because the overvalued exchange rate made the currency appear stronger in relation to its economy than it was, therefore giving it more purchasing power. A stronger currency resulted in imports becoming relatively cheaper to purchase, and likewise, in making exports less appealing.

Evolution of nominal unit labour costs[76]



Source: AMECO (2011 and 2012 are forecasts)

German exporters' use of bribes led to higher sovereign debt in Greece

"I have taken so many bribes I could not possibly remember the details." Mr. Kantas former deputy in Defence Ministry speaking to the prosecutors January 2014

There has been a long-standing symbiotic relationship between foreign corporate bribery and the Greek political establishment. Recent revelations focus on military expenditure corruption and the vast amounts of public debt incurred to sign deals with foreign military corporations which Greece could hardly afford.

Between 2002 and 2012 Greece spent two times the EU average on military purchases.[66] According to the World Bank it is one of the largest arms importers, spending 6.4 billion euros in 2004 alone.[67] In 2010, despite being in dire financial straits the amount was higher at 7.1 billion euros, 58% of which went to Germany. Overall, the main beneficiaries are the USA who supply 42% arms, Germany 22.7% and France 12.5%.[68] Former director general of the Defence Ministry calculated that between 1996 – 2006 Greece spent 49 billion euros on military expenditure by going deeply into public debt. Furthermore, the Troika's bailout loans, secured in 2010 and arriving in tranches are fuelling Greece's arms expenditures. At the height of the Greek crisis, as hostility by European authorities mounted on Greece to bulldoze through austerity measures, Greece forked out a final 293 million euros for the payment of the notorious submarines detailed below.[69]

Although it is hard to calculate, one estimation is that arms dealers would have spent more than 1.9 billion euros on bribes to sign the deals, gain approval of ministry officials and parliament.[70]

+ Krauss-Maffei Wegmann: Greece bought 170 Leopard II tanks from a German company for 1.65 billion euros on credit. One man was bribed with 600,000 euros to stay silent about the fact that the ministry bought no ammunition for them. Another official received 1.7 million euros from the German company.[71]

+ Ferrostaal: 2 billion euro contract, by a German arms manufacture, signed in 2010, for four Class 214 submarines. Only one submarine has been delivered so far and even that has proven to be faulty. They sit abandoned in the shipyards. Former Pasok (centre left) Minister of Defence Akis Tsochadzopoulos, has been imprisoned since April 2010 for, amongst other things, an 8 million euro bribe from the company. Other officials are testifying they too received bribes into the millions for the same deal.

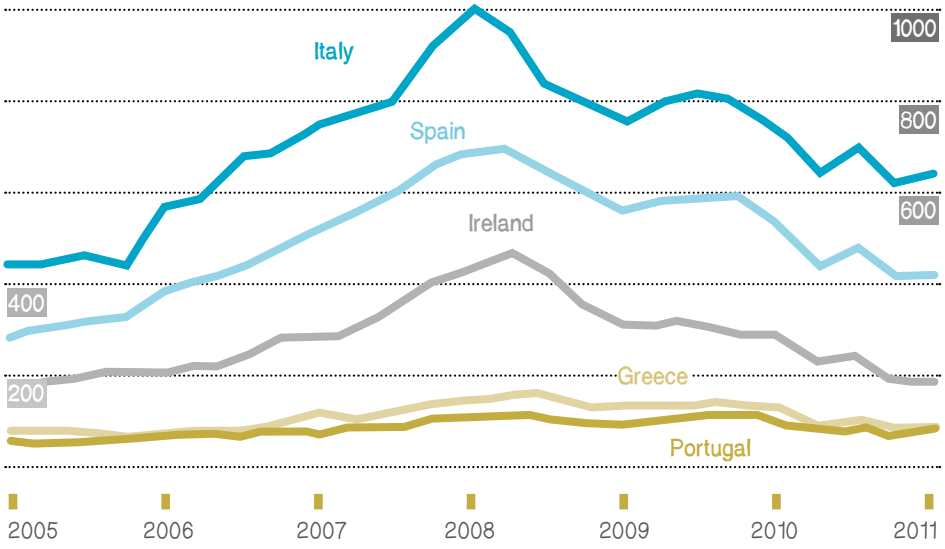
+ Siemens: was commissioned to set up a security system for the Olympic Games, C4i, a 233 millions euro contract from the German company that was never delivered. Following an investigation by US and German authorities into money laundering it was found that Siemens had a 10 million euro slush fund it used to bribe individuals in the ministry of defence and the Greek army. In retaliation for being fined, Siemens turned off 35 traffic lights in central Athens and refused to hand over completed projects such as new metro stations.[72]

Someone's surplus is another's deficit, and so the divide of the euro zone into countries of the 'core' and of the 'periphery' was created. It was the periphery countries (Greece, Spain, Portugal), which were systematically losing competitiveness against Germany and so generated entrenched current account deficits. (**Current account** and **capital accounts** are explained in detail in Part 1 of the guide.) This meant that certain countries were systematically and almost permanently making more payments on goods and services than receiving payments. In order for deficit countries to pay for their imports, they needed capital to flow in. Some of these capital flows are debt-creating whilst others may be indirectly debt-creating. For the current account to be financed, inflows must come into the capital account. There are various forms that capital flowing into a country can take, towards the private sector (e.g. in Spain) or towards the public sectors (e.g. in Greece).[77] In Spain, capital flowed in and helped fuel a lending frenzy in the private construction centre, which is characterised now by airports with no planes and 3.4 million empty homes, whilst hundreds of families are evicted on a daily basis.[78] In the case of Greece and Portugal, the goods they imported were often sourced from the same countries who were lending them the money, as is shown through the arms industry - the mechanisms of colonialism all over again, albeit in a different context.

The current account was relatively easily financed, as the ECB kept interest rates low during the years of the euro. The creation of the euro encouraged domestic banks to access the money markets and to get into ever more debt, which was cheaper.[79] Investors lent to them with ease, as being part of the euro they were deemed more stable and belonging to the same currency, destabilising changes in exchange rates were no longer a concern.

To summarise: joining together very different economies under a single currency caused the current account deficits in the periphery to mirror the current account surpluses of the core, above all, Germany. The bias of the euro zone became entrenched. To a large extent the capital inflows came from major European banks that were lending money to periphery countries, whether it was lending to the private or the public sector. By 2009, the core countries' banking sectors were highly exposed to the periphery countries – meaning, if some of that money would not be repaid, the banks' future would be threatened to say the least (see chart below)[80]. From this stems the observation analysed further on in the Guide, that the bailouts to Greece, Ireland and Portugal are really bailouts for the large multinational financial institutions.

Core bank exposure to Eurozone periphery billions US$



Source: BIS Consolidate Banking Statistics

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Summary of main points

The crisis came and it hit hard. The EU, the IMF and national governments have pushed for a series of actions that have not only failed to contain the crisis but have led the euro zone into a decisively darker era. Increased authoritarianism is used to push through reforms in which lives and livelihoods are degraded and sacrificed in the name of public debt and increased competitiveness. This section looks at the different responses from governments, regulators, bureaucrats, and the IMF. Tracing the development of the responses to the crisis we can see how disaster was turned into opportunity for those who govern.

This section lays out the major operations the authorities took on, and how each move relates to each other. The bailout funds were conditional on national governments pushing through legislation like lowering wages, shutting hospitals and selling public utilities on the cheap. These are euphemistically called stabilisation policies.[1] To generalise these changes across Europe and beyond the few countries facing acute difficulties, required a barrage of new legislative measures which have created the new EU governance laws, and a more active ECB to keep financing the banks.

Part 3

What have the authorities done?

Chapter 8: Bailouts: What are they and where does the money come from? A look at the EFSF, EFSM, Greek loan facility, ESM, IMF and the bank bailouts

The Troika (the European Commission, European Central Bank and International Monetary Fund) was formed to set up and administer the bailouts for the countries in debt crises. The Troika has no legal let alone popular mandate to make decisions, and each of the institutions that comprise it are unelected and unaccountable. It originally set up three funds: The EFSF, the EFSM and the Greek Loan Facility. In 2013, the ESM – the permanent bailout fund – came into being. All, except the Greek Loan facility, rely on banks, pension funds and hedge funds from around the world to believe the bailouts are a good investment, and invest in them. The Greek Loan Facility was different: countries lent bilateral loans (meaning debts between two partners) to Greece. Most of the bailout funds supplied through all these mechanisms were overwhelmingly siphoned off into the coffers of the multinational financial institutions. The bailouts were really back-door bailouts to the large multinational banks.

Chapter 9: Austerity does not repay debts but it destroys people

Austerity has deepened the crisis and has created an institutional landscape that favours big business and states. Austerity turned the crisis into an opportunity by exploiting lower wages, worse working conditions, and by inviting investors to buy anything and everything at discount prices. This chapter lays out why it is imposed, some examples of what it achieves and what others have to say about it.

Chapter 10: The European Central Bank's actions and responses

The ECB was prohibited from covering the state's borrowing costs when the crisis hit. Instead, it responded by flooding the banks with cheap loans. The banks then often used these cheap loans to lend at much higher rates to governments. This encouraged banks to buy the bonds from their own governments, raising the probability of both of them collapsing. Eventually, the ECB bought up troubled countries' bonds in the secondary bond market, itself a profitable business. By doing this the ECB alleviated the big private banks from the risky business of holding debts.

Chapter 11: Changes in EU structures: using the crisis as a good excuse

A new series of legislative changes alter the legal and governing frameworks of the EU. Each of these changes further entrenches austerity as well as introducing harsher repercussions if new rules aren't followed. This means that the severe austerity implemented in the crisis countries is now generalised and applied across the EU. The Fiscal Compact and other such measures are explained.

Chapter 12: New bodies: authorities chasing their own tails

The authorities have created several new bodies to deal with the crisis. Each one has failed spectacularly at diagnosing the problems, or predicting the next fallouts.

Keeping in mind the variety of perspectives about the causes of the crisis, it is interesting to cross check them with the reforms actually implemented. Under the excuse of the crisis, authorities are introducing measures which despite deepening the crisis, strengthen future opportunities for profit making. The 'shock doctrine' - a method which involves exploiting the violent destruction of the existing economic and social norms, in order to bring in a new laissez-faire capitalism – is being applied to the full.[2]

What have the authorities done?

Bizarrely enough, the architects of the euro zone did not create a bailout mechanism. Does this mean that they never imagined anything could go wrong? Or that governments would never have trouble repaying public debt? Could they have done things otherwise; changed the ECB rules or taken a different course? The world has not lacked experience in crises. Those in the business of dealing with debt crises like the IMF, the big banks, and law and accountancy firms have seen this before. We begin with a summary of the familiar territory of sovereign defaults and some of the widely known lessons. This provides some context for the actions the authorities took during the euro crisis, allowing the reader to appreciate how their actions have invariably replicated 'errors' from the past, ignoring significant lessons learned from decades of sovereign debt crises. The preferred response of euro zone officials to deal with the crisis was first to deny that there was a problem, second to use the constant threat of mayhem that would ensue if debt was not repaid as a lever for sweeping austerity actions, and third to create the rhetoric of 'crisis resolution' as a one-way street of bailouts and obedience to the Troika.

The standard problems frequently highlighted when dealing with sovereign defaults are: negotiations are lengthy and unfair; they have uncertain outcomes; and they do not even necessarily lead to debt relief. Creditors' coordination is poor and there are incentives for creditors to holdout from negotiated agreements. Politicians delay default, thus often deepening the economic crisis.[3]

After the 1980s debt crisis, it was proposed that when a country has a debt overhang – a debt so high it acts as a disincentive in the domestic economy because households and firms know their earnings will be taxed away to service the debt – total and substantial debt reduction could benefit both creditors and debtors.[4]

Following the Latin American and Asian crises, the IMF was forcefully criticised for following the dangerous path of bailing out countries only for them in turn to bail out international investors. Insulating foreign investors by funnelling bailout funds to them via the government aggravates the problem of what mainstream economists call 'moral hazard' – which encourages predatory lending and systematically ensures that the banks will be bailed out by the taxpayers.[5]

> "We're in a survival crisis. If we don't survive with the euro zone we will not survive with the European Union." Herman Van Rompuy EU President[11]

After the euro zone crisis we have a situation where the policy of 'too big to fail', tacitly reserved for large banking institutions with 'systemic' importance, is being applied to sovereigns.[6] As the Greek crisis began to unravel, it was considered that defaulting would risk causing significant damage to large financial institutions and thus restructuring was delayed for two years. However, delayed defaults and restructuring have long been known to be more damaging, as delaying the process deepens the crisis, decreasing both ability and willingness to pay.[7] Evidence from past experiences of 73 countries defaulting and renegotiating with private creditors shows that average creditor losses may have been in the realm of 40%, and may have taken seven years to resolve, yet debt relief was minimal.[8] Other examples show that large bondholder haircuts can even correspond to increased debt burdens.[9]

With this in mind,[10] let us look at what the EU authorities and the IMF decided to do when the sovereign debt crises unravelled.

Up to months before the bailout they all denied the possibility of it occurring

It is "out of the question" that Athens would turn to the IMF. December 2, 2009 Giorgos Papakonstantinou, serving as Greek Minister of Finance

"Within the stability and growth pact there is no role for the IMF - rightly". December 9, 2009, Axel Weber, serving as German Bundesbank president

"There's no issue of leaving the euro or of asking for help from the IMF". January 13, George Papandreou, serving as Greek prime minister

Chapter 8

Bailouts: What are they and where does the money come from?

A look at the EFSF, EFSM, ESM, Greek loan facility, IMF and the bank bailouts

How does a country get 'bailed out'? A climate of fear is inflated through the media, creating the impression of an imminent Armageddon. The government presents the situation facing them as a choice between seeking assistance (nothing more than a helping hand), or widespread immiseration that would come with defaulting, and risking membership in the euro zone (prospects tainted as hellish). The choice facing the governments is better understood as a balance between clinging to power, appearing as saviors and keeping the skeletons of responsibility in the closet. They create an atmosphere of emergency, needed to justify the severity of the policies that impoverish people's livelihoods. To those who resist they make clear they will pursue a zero tolerance policy. As the storm clouds gather, and life begins to change, the fear revives conservative aspects of society, strengthening the elements who just want order to prevail, for things to return to how they were, for the storm to be over. The result is a radical conjuncture with normality and a fragile social order.

In March 2010 Angela Merkel said: "We have a [European] treaty under which there is no possibility of paying to bail out states in difficulty."[15]

What exactly do *you* mean by 'exceptional circumstances?': As the situation spiraled out of control, the authorities decided default was not an option. They also decided the ECB was out of bounds. The euro zone rules specify that the ECB is prohibited from lending directly to governments – i.e. it cannot act as a lender of last resort. To by-pass this rule they came up with other ways to finance the states. Along with the stipulations contained in the Stability and Growth Pact, there is a specific Article (125) in the Treaty on the Functioning of the European Union, a 'no-bailout clause' which states: "The Union shall not be liable for or assume the commitments of central governments, regional, local or other public authorities".[12] Another Article (122 section 2) states that direct financing *is* permitted in *exceptional* circumstances, but for the EU authorities, the current circumstances were not deemed exceptional enough to allow for this article to be used. The selective understanding of exceptional becomes evident: the crisis is exceptional enough to justify creating a semi-permanent state of emergency (which is tacitly in place in Greece and possibly elsewhere) which facilitates fast-track legislation and increased rule-by-decree, bypassing parliament to violently strip people of their rights. This increased rule-by-exception is used to enable unpopular reforms being passed through quickly and justify increased repression.[13] Thus, some laws are deemed holier than others. The crisis was only seen as exceptional enough to terrorise people with riot squads patrolling the neighbourhoods, torture protesters, and curtail freedom of speech in order to bulldoze through austerity measures, but not to alter the ECB's financing rules.[14]

"I did not read the memorandum, I had other obligations and responsibilities" Greek Minister of Public 'Order' 2012[17]

Negotiations between the government which needs the funds and the EU and IMF involve estimating the size of the bailout needed in order to avoid defaulting on the debt repayments and the size of the fiscal measures (taxes and cuts) needed to be implemented in return. These calculations are based on economic predictions that are now widely discredited (see the box on debt sustainability analysis in Chapter 9).[16] The bailout money each country receives comes from a combination of sources, raised through the EFSM, the EFSF, the ESM, the Greek Loan Facility, and the IMF. Each of these funds is examined below. The money can only be received once the government signs two key documents: a Loan Treaty which enshrines the loan in international law and a Memorandum of Understanding which lists the structural measures and conditionalities that need to be implemented in return for the money. Although the austerity packages are brought hastily to parliaments and bulldozed through, the loan agreements are often not; they are shielded from the public eye. In the case of Greece, the prerequisite procedure for signing such agreements was bypassed and the way the agreements were then integrated into domestic law was controversial. (For further details about this see Chapter 20).

Did it have to be this way? Three years later, documents were leaked by the IMF regarding the Greek programme which confirm that bailouts and the corresponding austerity were far from necessary. This shows that the bailouts had little to do with countries' debt sustainability, and more to do with bailing out international lenders [18] and entrenching free-market policies.[19]

Back door bailouts

How do the euro country bailouts work?

EC
Troika
ECB
IMF

Three unaccountable institutions set up the funds and dictate the conditions countries must implement to receive bailout money.

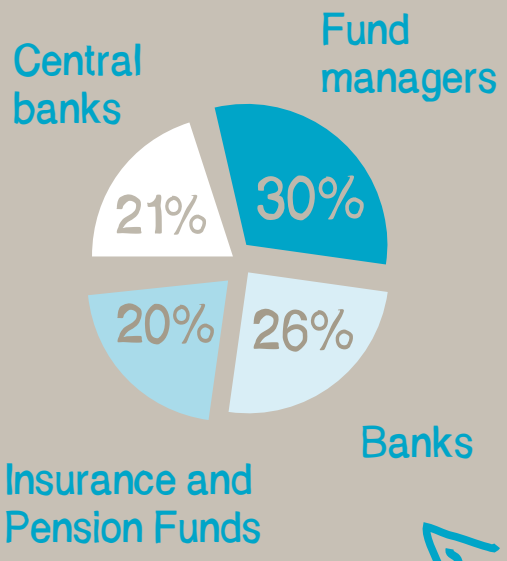
AAA

Bailouts are top-grade investments until major guarantors of the fund are downgraded (e.g. France).

Bailout

Creditors

Invest in well rated bailout bonds supplying the bailout money[1]



The EU borrows cheaply from the capital markets, with as little as **1%** and lends to distressed governments expensively with as much as **5%** interest, making the bailouts a good investment!

EFSM

Established in May 2010, mandating the EC to borrow up to €60 bn on the international capital markets using the EU's budget as collateral. Used for Ireland and Portugal only, the EC lends on what it raises. Total commitment = €48.5 bn disbursed over 3 years.[2]

Greek Loan Facility

An exception to the other funds, the GLF was originally €80 bn in bilateral loans pooled, administered and disbursed by the EC between 2010-13. Each country would lend amounts calculated in proportion to their paid-in contribution of each euro zone country to the ECB. Interest: high and variable between 4.9% and 5.9%. The programme's failure led to early termination in December 2011, with total disbursed funds at €52.9 bn.[3]

1 Adapted from reference: Investors in the EFSM: http://ec.europa.eu/economy_finance/eu_borrower/documents/eu_investor_presentation_en.pdf The figures refer to the EFSM fund.

2 European Commission, DG Economic and Financial Affairs, European Financial Stabilisation Mechanism (EFSM) available at http://ec.europa.eu/economy_finance/eu_borrower/efsm/index_en.htm The Commission also raises money in the capital markets for Hungary, Latvia and Romania, who also are undergoing acute crises with dramatic austerity measures.

3 Slovakia, Ireland and Portugal pulled out reducing total by €2.7 bln. Actual contribution of individual donor countries was lower e.g. Germany's original €22.3 bln was €15.7 bln.

Conditions

- Tax those under the poverty line
- Lower minimum wage
- Mass redundancies
- Lower wages and pensions
- Fire-sale privatisations

How? This is done by bull-dozing through the measures no matter the cost, and by violently repressing any resistance.

High risk, high interest rate

Funds

EFSF

Set up in May 2010 as a private company legally separated from other EU institutions based in Luxembourg. It can lend up to €440 bn (revised upwards from original €250 bn), guaranteed to a total of €780 bn on an intergovernmental basis, according to each euro zone country's contribution to the ECB capital.

ESM

The ESM is a permanent lending fund, able to lend up to €500 bn, of which €80 bn is paid in capital, the rest are guarantees. Accessing the ESM funds is conditional on ratifying the fiscal compact, legislation that effectively outlaws public deficits. Legally constructed so to stand outside European Law, neither the European Parliament nor the judicial system can touch it.

IMF

The IMF provides roughly a third of the funds for each bail-out using money that comes primarily from the contributions each member country has paid into the IMF. The IMF lent Greece €49.8 bn, Ireland €22.5 bn and Portugal €26 bn. Including Cyprus' €1 bn loan, IMF loans to euro zone countries amounts to €99.3 bn.[4]

Back-door bailout

Most of the bailout money does not stay in the country; it gets registered as public debt and is immediately siphoned off to repay creditors.

Countries

Greece
Portugal
Ireland
...

To repay Old Debt

The creditors are the domestic and foreign owners of a government's debt. Bailout funds are lent to repay the bond-holders, such as institutional investors who may also be investing in the bailout funds.

Additionally, bailout funds are lent to re-pay the original bailout funds provided. The Troika is providing the funds to pay itself back for the funds provided.

4 European Parliament, 'The Troika and financial assistance in the euro area: successes and failures' February 2014 Study on the request of the Economic and Monetary Affairs Committee

In May 2010 two temporary bailout funds were created to deal with the escalating crisis, the European Financial Stability Facility (EFSF) and the European Financial Stability Mechanism (EFSM).

1) European Financial Stability Facility

The European Financial Stability Facility (EFSF) was agreed at the EU's Council of Finance Ministers (Ecofin) meeting on May 9, 2010, and is the main temporary bailout fund. It is headed by Klaus Regling, a German economist who was previously the Director General for Economic and Financial Affairs at the Commission (Ecofin). Its mandate is to give bailouts to euro member states, under strict conditionalities. These conditionalities are the degrading austerity policies described in Chapter 9. The EFSF is set up as a type of Special Purpose Vehicle, a private company that is legally separated from other EU institutions and is based in Luxembourg. It issues its own bonds or other debt instruments on the capital markets and uses this money to lend to states. People, banks and hedge funds invest in these bailout bonds because these bonds are seen as a good investment: they are guaranteed by the euro area states and initially at least received the best possible credit ratings by the agencies. However, this has now began to weaken (see below). The EFSF can lend up to 440 billion euros, which was revised upwards from the original 250 billion euros, an amount deemed insufficient were larger economies (such as Spain and Italy) to be pushed into a bailout. These bailout loans are guaranteed to a total of 780 billion euros on an intergovernmental basis, according to each euro zone country's contribution to the ECB capital. As proportions of the total guarantees of EFSF issues, Germany has provided 29%, France 21.8%, Italy 19.2% and Spain 12.8%, Netherlands, Austria and Belgium under 4% each.[20] This is why Germany has the last word on the decisions; it contributes guarantees worth 210 billion euros, with France second with 160 billion euros.[21]

Don't be fooled by these amounts. "As an unintentional consequence of the crisis, Finland has benefited enormously. We have not lost a cent so far, the same as for Germany" Martti Salmi, from Finland's ministry of finance.[22]

See the 'Who Profits' Part for more details.

The setting up of the EFSF is indicative of the European establishment's muddling through the crisis. In early May 2010 exceptional arrangements were made for Greece alone to receive bilateral loans from other governments (see the Greek Loan Facility below). Simultaneously, fears grew rapidly that the debt crisis would not just be a Greek 'problem' and other countries' imminent defaults became apparent. This led to growing tensions between Paris and Berlin and the temporary bailout fund, the EFSF, was born. As it was set up as a separate legal entity, it is independent of the EU treaties, semantically bypassing the 'no bailout rules' Merkel appears so stuck on. The right-wing critics accepted the EFSF as a round-about way to bail out countries and allay fears of the euro zone collapsing. And yet the foundations of the EFSF, the ESM and fiscal compact were questioned by German right-wing critics of Merkel who have lodged six constitutional complaints against her policies.[23] Furthermore, the way the lending capacity was raised to 440 billion euros was by leveraging the fund. This means that proportionately less committed funds are used to leverage more in loans. There is less backing for more loans. This satisfied Merkel and former French President Sarkozy's concerns about the amount of taxpayers money committed, but ultimately this means the bailout fund itself relies on confidence in the financial markets. As Aufheben aptly put it:

"Thus the very mechanism to shore up confidence in the financial markets was therefore itself to be made, at least in part, dependant on the confidence of the financial markets"[24]

Are the 'stability' mechanisms actually stable?

The bonds of the EFSF fund were downgraded by Moody's in November 2012 and by Fitch in July 2013. This happened because a major guarantor of the EFSF – France – was downgraded, and the credit worthiness of the EFSF is highly contingent on its main contributors. So, as the number of highly rated guarantors of the fund dwindles, so too does the stability of the EFSF, particularly considering the possibility that the bailout loans it has given out may never be repaid. To illustrate the point: before the downgrade, if a country, say Greece, did not repay 100 worth of EFSF loans – that amount would be guaranteed by 165 of member guarantees, of which approximately 100 were AAA rated and 65 were lower quality. After France's downgrade, for each 100 million of loans, there are 67 million of AAA guarantee, 36 million of AA1 and 62 million of lesser quality.

"Thus the very mechanism to shore up confi
at least in part, dependant on the confidence

Using a special purpose vehicle (SPV) structure (see the section 'back to basics' below) allows for the liabilities the governments may incur to not be directly visible as contingent liabilities in the government's annual accounts. You may think it odd that euro leaders created a fund that very much resembles the dodgy structures used in the sub-prime bubble, which allowed banks to get rid of risky assets from their balance sheet. Although several countries were driven to massive loans during the euro crisis, the authorities did not (at first) draw up any more conclusive plans. They had devised a scandalously profiteering business as the EFSF borrows cheaply from the capital markets, with as little as 1% interest and lends to distressed governments expensively, originally with as much as 5% interest.

The director of the Fund, Klaus Regling is absolutely confident the bailout system works: "Because what we in Europe are doing right now is precisely what the International Monetary Fund (IMF) has been doing all over the world for decades without ever losing money. IMF loans are tied to the conditions that the country overhauls its economy, as are ours."

Although in 2012 he assured investors that "A public [debt] write-down is something that is very unusual... It can only happen in extreme circumstances" casting aside swathes of public debt write-downs,[25] in 2013 he remembered it happens all the time.[26]

One issue that proved controversial was whether the EFSF charter would permit the direct bailing out of banks, without first indebting the recipient state. Essentially providing the capital for banks directly would not be effectively nationalising them (as other bank bailouts such as the UK's Royal Bank of Scotland was) but 'internationalising' them, as the EFSF would be the major shareholder. However, what happens is that, as shown in the illustration explaining the bailouts on page 58, the bailout money flows to the government (indebts it) and the government gives this money to the banks. For example the EFSF earmarked 50 billion euros for the Greek bank bailouts, but these funds are not given directly to the banks but siphoned through the government's Hellenic Financial Stability Fund which distributes the funds to the banks. This means that first the money burdens the government with debt and then the government keeps the debt but passes on the money to the banks. The turning point in debating this de facto policy was the euro summit in June 2012 in which the Spanish bank bailout was requested (see below). At first the media cheered of the great victory that Spain had apparently 'won' and this led to many in other countries under the Troika to appear to demand 'equal treatment' by the Troika. By 'equal treatment' they meant that banks continue to be bailed out but without indebting the government. In the end however, it proved a moot point, as the de facto policy did not change. However, the proposed legislation surrounding a banking union essentially opened the door for banks to be bailed out whilst avoiding the lengthy, often messy late night discussions (see Chapter 11). [27]

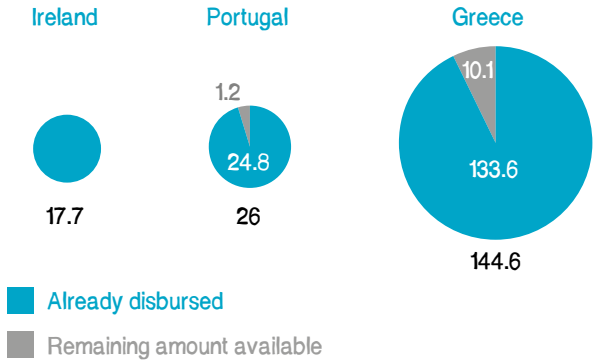
The EFSF was given extra flexibility compared to the ECB in respect to how it can intervene in markets to stabilise bond yields (see Chapter 2). The idea is that buying up troubled government's bonds sends a signal that speculating will be futile, thus providing reassurance that default is unlikely. The strict rules of the ECB state that it cannot be the direct buyer of government bonds. Creating demand and purchasing bonds could prop up the bonds' prices – lowering their yield. The ECB bought Greek, Portuguese and other peripheral bonds indirectly, in the secondary market through the Securities Market Programme (SMP), and undertook various other reassurances in an attempt to bring down the yields of high risk bonds (explained in Chapter 10). In contrast to the ECB, the EFSF is mandated to intervene in both primary and secondary markets to stabilise bond yields, yet it failed to do this over two years of raging instability. As will be covered in Chapter 10, neither did the SMP programme succeed.[28]

What we in Europe are doing right now is precisely what the IMF has been doing all over the world for decades without ever losing money. IMF loans are tied to the conditions that the country overhauls its economy, as are ours. Regling, head of ESM

dence in the financial markets was therefore itself to be made, of the financial markets"

As of January 2014 the EFSF has already disbursed 17.7 billion euros to Ireland (i.e. the total amount that was promised to it), 24.8 billion euros to Portugal with 1.2 billion pending (26 billion total). It has already disbursed 133.6 billion euros to Greece with 10.1 billion pending (144.6 billion total).[29] Up to 100 billion euros have been committed for Spain's bank bailouts.[30] On 1 July 2013, the EFSF handed over all powers to make new loans to the ESM (see below).

Loans given out by the EFSF as of 19 December 2013
billions euros



Source: EFSF [31]

2) European Financial Stabilisation Mechanism (EFSM)

The second temporary emergency funding programme is called the European Financial Stabilisation Mechanism, also inaugurated in early May 2010. This mandates the Commission to borrow up to 60 billion euros on the international capital markets using the EU's budget as collateral. The Commission lends what it raises to the country which needs to borrow the money. This is a clever arrangement whereby the Commission just acts as a conduit for the money without the responsibility for debt servicing the bonds. However, as guarantor, if the borrower defaults on its payments, the budget would be called upon to deal with the fall-out. In this way, the UK government is indirectly liable since it contributes to the EU budget.[32] The EFSM has been used for the bailouts to Ireland and Portugal only, committing a total of 48.5 billion euros (22.5 billion euros to Ireland and 26 billion euros to Portugal), disbursed over three years.[33] The EFSM raises money mainly in three to five billion euro instalments, with a final auction in 2013 which completed the EFSM programme. The European Commission also raises money in the capital markets for Hungary, Latvia and Romania, which are also undergoing acute crises and accompanying dramatic austerity measures.

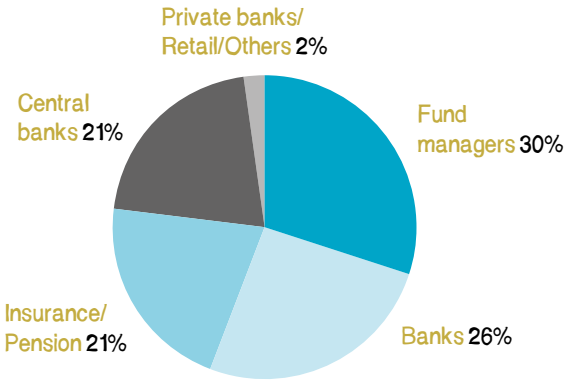
Who are the investors? Who buys these bonds?

The 'Investor Package' prepared by Ecofin (the Economic and Financial Affairs of the European Commission) publishes various facts and figures to make it look appealing to investors to contribute and fund the bailouts.[34] What is it that makes the bailouts look appealing? Firstly there is the guarantee by the euro zone member states to dictatorially keep imposing laws to reap repayments no matter the social cost of fiscal adjustment. And secondly, the confidence placed in the EU to do this, is indicated by the bonds which have been given triple A ratings by the credit rating agencies. The money they commit is administered by the Troika which makes sure the creditors will get their money back (see austerity section further below).

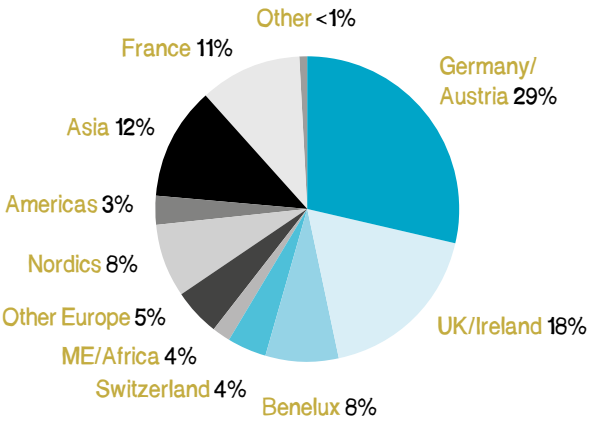
The funders of the bailouts are shown in the graph below by investor type and by regional distribution.

Investor distribution 2011 - 2013

by type



by region



Source: European Commission[35]

3) The Greek Loan Facility (GLF)

The bailout package for Greece was originally provided through a different institutional arrangement, called the Greek Loan Facility. The first bailout package to Greece was agreed on May 2 2010 by the Eurogroup – the Council of euro area finance ministers. This was after the formal request on 23 April by the former Greek Prime Minister who – from a picturesque remote island harbour – announced Greece's bankruptcy. It consisted of a joint package of loans from individual member states (called bilateral loans) and a separate loan from the IMF. Originally agreed as a three year programme (2010 – 2013), it amounted to 80 billion euros of bilateral loans and 30 billion euros of loans from the IMF through the stand-by agreement (SBA), making a total 110 billion euros bailout.[37] The original loan to Greece was an arrangement for each country to 'chip in' to the GLF. In contrast to the EFSM, the European Commission does not act as a borrower to on-lend to Greece, but is mandated to coordinate, administer and disburse the pooled bilateral loans. The amounts that each country would contribute were calculated in proportion to the paid-in contribution of each euro zone country to the European Central Bank (ECB). This brought Germany's commitment to the Greek Loan Facility to 22.3 billion euros, France's to 16.7 billion euros, Italy's to 14.7 billion euros, Spain's to 9.7 billion euros, and Holland's to 4.7 billion euros. These loans were given at high and variable interest rates ranging between 4.9% and 5.9%, despite the fact that borrowing rates for the lending countries themselves (most especially for Germany, France, and The Netherlands) were several percentage points lower.[38] Slovakia, Ireland and Portugal eventually pulled out of the Greek Loan Facility, and so the original 80 billion euros was reduced by 2.7 billion euros.

The plan to keep Greece afloat until 2013 with the first bailout faltered. The first programme to Greece was terminated and replaced by a second one, which was not funded through bilateral loans, but the EFSF and the IMF. Details are explained below in the country case studies. The full amounts originally committed were not disbursed, so as of December 2011, the final month of the first programme to Greece, the total disbursed funds from the GLF was 52.9 billion euros plus 20.1 billion euros from the IMF. The actual contribution of individual donor countries was lower than what was originally agreed, bringing, for instance, Germany's contribution to the Greek Loan Facility to 15.7 billion euros rather than the original 22.3 billion euros. The total loan to Greece from the first package amounted to 73 billion euros, much lower than the originally planned 110 billion euros.[39] The remainder 34.3 billion euros were transferred to the second programme.[40] Calculations made by Attac France show that from the first programme alone, a minimum of 65% of the bailout money went straight to Greece's creditors or to the Greek banks.[41]

> "We borrow the funds that we provide to governments in assistance loans from the financial markets. But of course the loans are guaranteed by euro-zone countries, and therefore ultimately by taxpayers"
> Klaus Regling, Head of EFSF and ESM Funds January 2013[36]

The loans were given at high and variable interest rates despite the fact that borrowing rates for the lending countries themselves were several percentage points lower.

4) The European Stability Mechanism (ESM)

The EFSF, the ESFM and the Greek Loan Facility were temporary mechanisms set up to deal with the crisis. They were replaced by the European Stability Mechanism (ESM) in July 2013. The ESM was first agreed in 2010, originally representing an embryonic European version of the IMF, that would have the power to give out loans and impose conditionalities without the need for lengthy multilateral discussion each time. It was a way of streamlining severe austerity and bailouts without having to consult parliaments. The ESM was envisioned as a permanent body, and so has required more time to become fully entrenched into EU structures. Structural amendments have to be taken by each member state, new treaties ratified and in some case referendums held. Since the ESM was first discussed, the process of establishing it has been lengthy. It was gradually set up over the course of numerous EU level meetings.

The ESM is a permanent lending facility, able to lend up to 500 billion euros, only 80 billion euros of which would be paid in capital, with the rest taking the form of guarantees. Accessing ESM funds is conditional on ratifying the fiscal compact, a key piece of new legislation that further deepens European integration and entrenches harsh austerity measures across Europe (see Chapter 11).

Far from being a bridge out of this crisis, the ESM makes the reliance on confidence in the financial markets the backbone of its activities. There are numerous defects with its design, beginning from the fact that to be effective it relies on confidence in capital markets for governments to borrow from and then shore up the ESM's capital. It also depends on confidence in financial markets to purchase the ESM's issues, which depends on their rating. For example, as more countries who back the ESM receive rating downgrades (as France has), the ESM's issues come under question. This happened in November 2012 when both the EFSF and the ESM were downgraded from their triple A rating by Moodys.[42] Nonetheless, the ESM is a potential profit-making dream: what would stop the banks from borrowing at 1% from the ECB and lending it to the ESM, which then goes on to lend at an even higher rate to the countries?

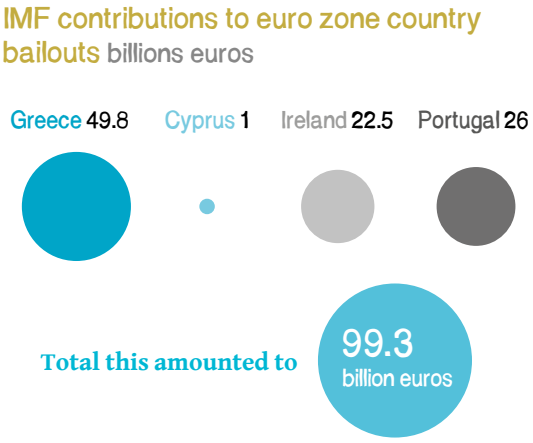
The ESM is created on shaky legal ground. Legally constructed so as to stand outside European Law, neither the European Parliament nor the judicial system can touch it; it was made dependant on the 'no bailout clause' (Art 125 TFEU) being adapted and effectively neutralised. The Commission has been replaced by the Troika as the main body to negotiate and monitor the Memorandum of Understandings, without any legal base for this in European treaties.

Loans given by the ESM will have what is known as preferred creditor status, meaning that if a country doesn't repay its debt, the ESM loans get priority repayment first before other debts the state may have towards other lenders (such as other private bondholders or pension funds). In this hierarchy of whose loans get prioritised, should a debtor default, the IMF remains the top preferential creditor. However, the IMF too may face a quid pro quo situation soon. Although in the last year it is the one pushing for the official sector to take a loss, this could undermine its own preferred creditor status.[43] In any case, private investors were dismayed that their investments may come second place to the repayment of official sector money.

This ordering of debt repayment priorities shows the tensions that are present amongst the authorities (the different governments and financial sectors and international financial institutions like the IMF). Tensions also arose when a country receives money both from the EFSF and the ESM, concerning which should receive priority if a debtor defaults. Deciding the 'technical' details about who goes bust and who gets bailed out if a debtor cannot repay are an obvious area of contestation. In Greece in 2012, when the 'haircut' was imposed, the banks' investments were bailed out, whereas the value of pension funds carrying people's pensions, were halved. (discussed below)

5) The International Monetary Fund's Contributions[44]

Despite the public resistance to inviting the IMF to join the 'crisis resolution', the IMF contributed large amounts of the funds. In the case of Greece, Ireland and Portugal roughly a third of the bailout money agreed for each country came from the IMF, the rest was provided by the EU. In the case of Cyprus the IMF contributed proportionally less than this. What does this mean in terms of numbers?

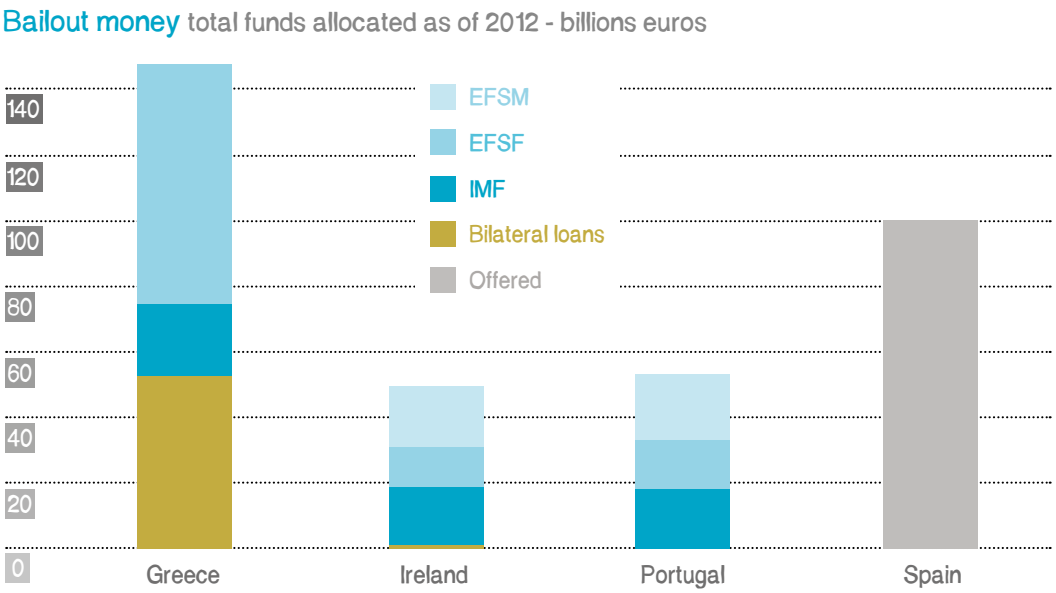


Source: European Parliament[45]

In 2011, IMF contributions corresponded to 3,212% of Greece's borrowing quota with the IMF, a fact causing discomfort for IMF management as well as for non-European contributors to the IMF's capital.[46] Obliged to push for increased capital contributions from non-traditional donor countries such as Brazil, Russia, India, and South Africa, the IMF faces internal criticism for lending to Greece well above what Greece is eligible to receive.

Since late 2012 the rift separating the IMF from EU leaders has been growing and criticism is mounting, as shown by the furious resignation of its veteran economist Peter Doyle, advisor to the IMF European Department, over its failures and mishandling of the crisis. Ironically the IMF may itself be cornered into an eventual debt write-down, risking its preferred creditor status.

We knew at the [IMF] from the ve
was impossible to be implemen
– any – successful example", accor
former finance minister, Panagiotis Rou



Source: Financial Times, 2013. IMF figures may not sum to published totals due to fluctuations in the IMF special drawing right/euro exchange rate

6) Bail in, bail out: what ever happened to those banks?

This section is dedicated to the bailouts towards banks occurring in the years preceding the bailouts to the countries discussed above. The aim is to reinforce the connection between the bailouts of the banks being the precursor that led to sovereign debt problems. The poor state of the banks was more obvious to the public in 2008, but as the crisis continued, the story shifted into one of irresponsible states overspending. To counter this narrative, we will look at the banking sector crisis that preceded the turmoil in the sovereign debt markets, and argue that the euro zone bailouts were primarily a way to prop up large financial institutions, and less about resolving any domestic policies that had gone astray. Prior to the arrival of the Troika, Europe witnessed some of the most spectacular banking failures. We don't hear about them so much any more, but these should be borne in mind as a way of putting the Troika bailouts in context.

As Pratap Chatterjee from CorpWatch US says: "Wealthy countries and international lenders claim that the recent bailouts rescued rash and wasteful borrowers in Greece, Ireland and Spain.

ry beginning that this program
ted because we didn't have any
ding to Greece's IMF representative, and
meliotis.[47]

In reality, they were often repaying foolish loans that Belgian, French and German banks made in an effort to pump up their own profits which helped cause the crisis in the first place". The frenzied lending that arose in the years preceding the crisis are extensively documented in a new report by CorpWatch US (see footnote 47), which shows how large northern European banks joined a roller-coaster ride of financing a credit boom, only to collapse afterwards. This credit boom was aided by lax monetary policy and decades of legislative changes in European banking sectors that encouraged financial sector competition. What was the outcome of this competition? Several of these banks failed spectacularly, and they were bailed out by their "respective governments, damaging public balance sheets and resulting in indebted governments even in Ireland and Spain, which were running government surpluses with low debt before the euro zone crisis."[48] Government debts in Ireland and Spain exploded overnight as they took on these private bank debts, which led to the cost of borrowing for those governments to also rocket skywards.

Trouble in the financial markets, increased spending on bank bailouts, and increased spending due to the recession, led to increased debt and deficits (see 'myth busting' section). Although it is referred to as a sovereign debt crisis, its causes lie in the private financial sector. Warning signs were issued early on that the bank bailouts may push the EU into crisis. The Telegraph in February 2009 quoted a confidential Brussels document which cautioned that "Estimates of total expected write-downs suggest that the budgetary costs – actual and contingent – of asset relief could be very large both in absolute terms and relative to GDP in member states".[49]

"It is an open secret that numerous European banks would not survive having to revalue sovereign debt held on the banking book at market levels." Deutsche Bank CEO Josef Ackerman [50]

Maria Lucia Fatorrelli, a debt campaigner from Brazil, explains that this increase in public debt was created because the money used to bail out the banks had to be borrowed: "Countries created public debt by issuing public bonds to give to banks in order to fill up the big hole created by their 'toxic assets'. So, a significant part of the 'sovereign bonds' of these countries did not represent [...] bond issuing to obtain resources to the country, but simply the utilization of debt mechanism to guarantee funds to financial institutions".[51]

The figures below show the amounts given to bail out banks in respect of the size of each country's economy. For example, the UK government had approved an amount equal to 50% if its 2011 GDP to save the financial sector, of which it spent over 17% of its 2011 GDP.

By comparing the two tables we can see the original amounts approved to bailout the financial system and the actual amounts used.[52]

Going back to 2000, a World Bank report stated: "Governments and, thus ultimately taxpayers, have largely shouldered the direct costs of banking system collapses. These costs have been large: in our sample of 40 countries governments spent on average 12.8 percent of national GDP to clean up their financial systems".[54] Moving forward to 2012, the European Commission has calculated that the bailouts that occurred during the financial crisis between 2008-2012 have committed funds worth 40% of the EU27 countries GDP, a figure three times as much as the world average, as calculated by the World Bank in 2000.[55]

Amounts approved to prop up financial sector selected EU countries 2008 - 2012

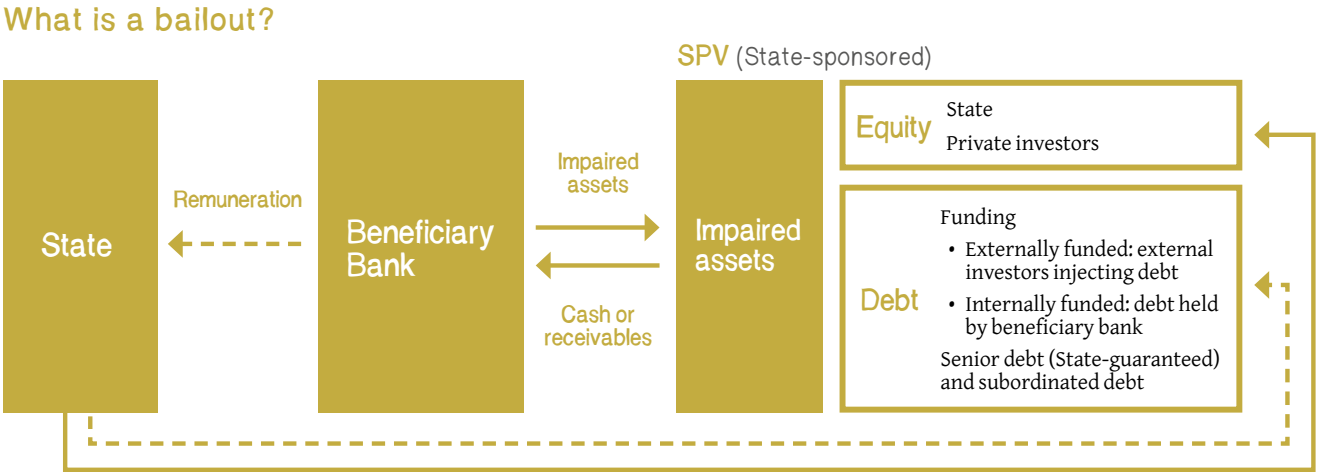
	in € billion	as % of 2011 GDP
Belgium	**358.62**	**97.4%**
Denmark	**612.63**	**256.1%**
Germany	**646.06**	**25.1%**
Ireland	**571.34**	**365.2%**
Greece	**128.75**	**59.9%**
Spain	**575.25**	**53.6%**
France	**371.15**	**18.6%**
Italy	**130.00**	**8.2%**
Netherlands	**313.33**	**52.0%**
Austria	**94.24**	**31.3%**
Portugal	**76.98**	**45.0%**
United Kingdom	**873.35**	**50.0%**
Total EU-27	**5085.95**	**40.3%**

Source: European Commission, DG Competition

Amounts used to prop up financial sector selected EU countries by aid instrument 2008 - 2011

Member State	Recapitalisation measures		Guarantees		Asset relief interventions		Liquidity measures other than guarantees		2008 - 2011	
	In € billion	As a % of 2011 GDP	In € billion	As a % of 2011 GDP	In € billion	As a % of 2011 GDP	In € billion	As a % of 2011 GDP	In € billion	As a % of 2011 GDP
Belgium	20.40	5.54%	44.23	12.01%	7.73	2.10%	0	0%	**72.36**	**19.65%**
Denmark	10.77	4.50%	145.00	60.61%	0	0%	1.97	0.82%	**157.75**	**65.94%**
Germany	63.24	2.46%	135.03	5.25%	56.17	2.19%	4.75	0.18%	**259.19**	**10.08%**
Ireland	62.78	40.13%	284.25	181.70%	2.60	1.66%	0.08	0.05%	**349.71**	**223.54%**
Greece	6.30	2.93%	56.30	26.17%	0	0%	6.90	3.21%	**69.49**	**32.31%**
Spain	19.31	1.80%	62.20	5.79%	2.86	0.27%	19.31	1.80%	**103.68**	**9.66%**
France	22.46	1.12%	92.73	4.64%	1.20	0.06%	0	0%	**116.39**	**5.83%**
Italy	4.05	0.26%	10.90	0.69%	0	0%	0	0%	**14.95**	**0.95%**
Netherlands	18.86	3.13%	40.90	6.79%	5.00	0.83%	30.40	5.05%	**95.16**	**15.80%**
Austria	7.38	2.45%	19.33	6.43%	0.40	0.13%	0	0%	**27.11**	**9.01%**
Portugal	0	0%	8.54	5.00%	0	0%	2.85	1.67%	**11.39**	**6.66%**
United Kingdom	82.39	4.72%	158.22	9.06%	40.41	2.31%	18.55	1.06%	**299.57**	**17.15%**
Total EU-27	**322.18**	**2.55%**	**1084.83**	**8.59%**	**116.78**	**0.92%**	**88.10**	**0.70%**	**1611.90**	**12.76%**

Source: European Commission, DG Competition Note: Data for the amounts used for 2012 or 2013 have not been released.



Back to basics: What is a bank bailout anyhow?

The phrase 'bailing out' is used frequently, but what does it mean? All the investments banks made in complicated financial products, which originally made them billions and then proved to be worthless, were bailed out by the public. Bailing out can be done by the state directly buying the worthless assets from the bank or by guaranteeing them, meaning it promises to 'help out' if the bank enters financial difficulties, such as being unable to repay its debts. The bank is saved; perhaps the CEO resigns and maybe the organisational structure is shuffled about, but ultimately, it remains a bank managed as a private company, subsidised with public money. This then allows it to free up capital it has been hoarding for losses and use them elsewhere. More generally, bailouts can be used to recapitalise the banks, or can act as guarantees of the financing instruments banks have issued, allowing banks to continue accessing capital markets. Bailouts can also be '**asset** relief' which give money to the banks in return for the bad assets they hold, or through other **liquidity** measures. Recapitalising a bank means adding to the Tier 1 capital of the bank – i.e. the least risky, highest quality capital a bank has in its 'coffers', to support all the risks it takes, in its lending, trading and so on. Doing this instantly improves the bank's solvency.[56]

How does this happen technically? Bailouts are often mediated through a special purpose vehicle (SPV), owned or partially owned by the state. This is a separate legal entity, which issues equity (shares) and debt (bonds) to raise funds which are handed out as cash payments (if given straight away to the bank). The circularity of finance is bizarre, as the bank being bailed out may even buy into the equity of the SPV which is raising the funds to bail it out. This is a way of reclassifying and transforming 'bad' assets into 'good' assets.

Between 2008 and 2011 the EU27 had put aside 4.5 trillion euro for support to the banks, and actually used 1.61 trillion euros, or 12.8% of the EU27's 2011 GDP [57]

1) Type 1: Examples of individual European bank bailouts[58]

Dexia – Belgium: The bank needed bailing out twice, in the form of a 150 billion euro guarantee (2008) and a further 4 billion euros in 2011.

Fortis – Belgium/Netherlands: The bailout included buying the bad debts and guaranteeing them in 2008 and 2009. The banking and insurance sectors were sold to the Belgium and Dutch governments respectively, and then, in the case of Belgium, the shares were sold onto a private bank BNP Paribas.

Hypo Real Estate – Germany: This was a real estate financial company, involved in the financing of infrastructure projects. Its total assets were worth 393 billion euros. In 2008 it was bailed out, and in 2009 fully nationalised, when the German government took 100% ownership, via decisions by SoFFIN (the German Steering Committee of the Financial market Stabilisation Fund), the state agency that was set up and mandated to support the German banking system. Hypo Real Estate's collapse is one of the most spectacular in the crisis and led to the creation of a 'bad bank' to take on its debts. The bad bank, called FMS Wertmanagement, took on 191.1 billion euros by September 2010.[59]

German Landesbanken: Germany's most troubled lenders, owned by the federal states and savings banks. The Landesbanken received approximately 97.3 billion euros bailout money. For example, Landesbank Baden-Württemberg (LBBW) is Germany's fifth largest bank. In October 2009 approximately 17 billion euros were given to bail out various structured credit portfolios, including investments in mortgage backed securities and collateral debt obligations. West Landesbank is another major bank with total assets worth 254 billion euros. In 2008 it set up an **off balance sheet** SPV [a legally separate entity companies can hide debts in] called Phoenix to park bad assets. The amount included went from 23 billion euros to 85 billion euros by the end of 2009, which ended up with the creation of Germany's second bad bank, Erste Abwicklungsanstalt.

2) Type 2: Examples of bailout schemes

National Asset Management Agency NAMA – Ireland: Its objective was to purchase 83.5 billion euros worth of land, development property and commercial loans from five banks (i.e. Anglo Irish Bank, Allied Irish Bank, Bank of Ireland, Irish National Building Society and Educational Building Society) for 54 billion euros. By the end of 2010, it had acquired 71.2 billion euros for 30.2 billion euros, meaning it bought everything at fire sale prices.[60] To pay for them, NAMA set up an SPV to issue debt securities to cover the assets. The Irish state is a minority stakeholder in the SPV and private companies are the majority. This means it can take advantage of the Eurostat rules that allow it not to be officially recorded as general government debt, although the Irish state bears the ultimate risk. So the banks offload their bad loans to NAMA, and then receive bonds (or other debt securities) in return. The bailed out banks can then use these bonds as collateral to borrow more from the ECB, hence getting more liquidity. It was stamped by the European Commission on 26 February 2010.[61] Nearing the end of 2013 Ireland still tries to pose as Europe's bailout success story even though many of its banks are still in dire straights despite the public money they have received. Meanwhile, people and small businesses are still mired in debts to the banks taken out during the property boom.[62]

"Allied Irish Bank has had a €20 billion bailout from the Irish state and is effectively 98% state owned. AIB will today pay out €2.25 billion in a bond payment. Speculators were buying AIB bonds for 52 cents last November – so these anonymous bondholders will make a huge profit when they're paid in full today. Meanwhile, St. Vincent de Paul report that 20,000 people called them for help getting food last year. Why is this government letting bondholders be paid by a bank that it owns, while our people go hungry, lie waiting on hospital trolleys and languish on the dole?"[63]

Bailing-in

When bank deposits in Cyprus were frozen and amounts taken to pay for the banks, it was called bailing-in. This is a new precedent for the EU crisis; rather than immediately granting funds to stop banks collapsing, the bail-ins are allegedly introduced so that bank's creditors pay for bank losses instead of the government immediately stepping in. In Cyprus (more is explained in the Cyprus case study) those who held large deposits in the banks had their money seized and their deposits were used to bail out the banks, effectively turning deposits into equity and making the depositors shareholders. This frightened many large depositors in crisis hit euro countries and accelerated capital flight from those banks, obviously benefiting the northern banks to which they fled. In Cyprus, however, capital controls limiting placing a daily limit of 300 euros on what can be taken out of a country were put in place by the EU authorities for over a year, with the blessing of the IMF which normally condemns such measures.[64]

Bailing in will form part of the plan for the banking union the EU is planning (see Chapter 11 for details). This new EU wide bail in proposals that are being conjured up suggest that bank shareholders and bondholders must pay for 8% of the bank's liabilities if it needs bailing out. If 8% of the banks liabilities that the creditors will in theory provide covers the bailout, then no public funds will be committed. However, if 8% is not enough, the state will pay. Under most situations, when a business goes bankrupt, the creditors and shareholders lose a great deal more than this. A new report by Corporate European Observatory explains that even this meagre amount has in-built exemptions, in wording vague enough to allow those large enough off the hook.[65]

Chapter 9

Austerity does not repay debts, but it does destroy people

In this chapter we cover what austerity measures are, describing some of the individual policies and how the authorities justify them. We also look at how they are implemented and what their consequences are. [66]

What is the official line behind austerity?

Austerity has a weak record of correcting fiscal imbalances; it pushes down demand and brings about recessions. Austerity is not really implemented to solve economic crises; instead it is used as a means for the state to finance itself by restructuring society in favour of private business interests in line with free market principles. Austerity has many tragic consequences: in return for the bailout money, the Troika (the EU Commission, the IMF and the ECB) forces each country to sign a loan agreement and a Memorandum of Understanding. The loan agreement provides the legal structure for the loan and the Memorandum outlines the raft of reforms required to keep receiving the money. Three things define these austerity reforms: more liberalisation, more privatisation and more deregulation. They translate into full throttle neoliberal policies such as reducing pensions, lowering the minimum wage, cutting public expenditure, raising indirect taxes, liberalising markets (i.e. removing legislation that may have protected rights) and privatising public assets (i.e. when services and resources which were run by the government are transferred to private corporations seeking to maximise profit).

Those in favour argue that austerity and privatisation are the only ways to significantly reduce debt burdens and government deficits, by restricting the number of costs that are borne by the state budget, such as payroll expenses. Moreover, they argue that the size of the state bureaucracy, and its production or distribution of certain goods (such as energy and water), create monopolies, prevent economic development and production, hamper competitiveness and most importantly, stem the establishment of a free (unrestrained) market and the cut-throat competition this implies. To popularise this ideology, such arguments are complemented with daily propaganda about reducing the 'large and lazy' state with its rigid bureaucratic operations. Although the very people who pronounce these free-market benefits themselves hold those important positions within the state and the bureacrtatic machine (directors, Ministers, senior civil servants), they nonetheless intersperse their discourse with derogatory comments about the clerical staff and civil service. Their laments for the 'careless waste of the state' tries to distort the fact that they themselves have made sure that the 'reckless government spending' has been given to their cronies or is not subject to any meaningful social control.[67]

This austerity push is driven from the EU institutions but welcomed by national governments. Despite all the archaic rhetoric about the EU representing a union of the peoples, the EU bodies (commission, parliament, central bank etc.) have turned into a collective creditor and, with the help of the IMF and national governments, coerced citizens into working more for less, in the name of crisis resolution. Governments have welcomed most, if not all, measures, even if they are politically costly, as a way to keep their interests intact. In certain cases, it has been suggested that national governments were actually keener on implementing austerity harsher than the Troika had suggested. One example of this was in June 2013, when Greek public television screens went blank, after the government abruptly pulled the plug, simultaneously dismantling the public TV, radio, choir and orchestras and throwing the employees' futures into the air.[68] This sparked tides of resistance and six months of 'illegal' public TV and radio broadcasting under workers' control, that were eventually violently evicted by riot police. The Regional Policy European Commissioner Johannes Hahn stated that the closure of the public broadcaster (ERT) did not follow from the Troika's orders, but that it was the government's own prerogative.[69] The Greek Minister of (so called) Development, Chatzidakis confirmed that the government shut down ERT simply to please the Troika.[70] Such moves have led to Greece losing 17 points in global press freedom rankings since 2009, the biggest decline on a global scale.[71]

"The Troika is doing everything in their power to show that the law prevailing in Greece is that of an occupied territory" Ioannis Koukiadis, former head of Greece's Privatisation Fund TAIPED (HRADF)[76]

How do they push the austerity measures through?

In order to pass such violent measures, governments have had to resort to increasingly authoritarian and divide and rule tactics, such as scapegoating claimants, pensioners and migrants. The following examples are largely based on the Greek experience but there are similarities elsewhere.

1. **Rule by decree:** Laws with significant consequences on people's lives are not discussed or voted on in parliament as they should be, but are imposed through edicts rather than bills, preventing parliament from discussing them. In Greece, the main examples of this are the **Loan Treaties** between Greece, the euro member states and the IMF, and the **Memoranda of Understandings** (austerity packages and their respective implementation laws) that were signed contrary to normal parliamentary procedure and in violation of constitutional rules.[72] The Greek constitution specifies that international agreements like the Loan Treaties and Memoranda need to be ratified by a majority of three fifths in parliament.[73] The two loan treaties have not been brought for discussion before parliament at all, presumably because bringing these documents to parliament would require MPs to quite explicitly vote away national sovereignty.[74] Furthermore, legislation was swiftly passed in May 2010 that gave increased powers to the finance minister to be solely responsible for representing the Greek state in its international negotiations. Amendments were passed legislating that any international agreements signed by the finance minister do not need to be ratified by parliament, but can only be brought for discussion to parliament. Through one paragraph in a single edict, the parliament was transformed into something more akin to a discussion club.[75]

WWI recruitment poster, London, 1915

As the crisis deepened, it became frequent practice to bundle the outstanding reforms together and plough them through just prior to a meeting with the Eurogroup, where the authorities have to show that they have done everything requested of them to be eligible for the next drip of bailout money.[77] These edicts have also been used to push through the controversial privatisations of public utility companies.[78] This has been described as turning "a parliamentary democracy into a parliamentary junta".[79]

2. **Forced labour:** The government does what it can to push the measures through, no matter the cost. It uses a type of 'forced labour conscription' to break industrial strike actions in the workplaces. When sectors have gone on long-term or repeated strikes, severely destabilising the government's ability to continue with the reforms, the response is to apply a law that threatens workers with five years imprisonment if they do not go back to work immediately.[80] Such is the determination to show international lenders that governments can do what it takes, despite flagrantly violating commitments to abstain from this type of forced labour, except in times of war. It is also in contravention of various government pledges and guarantees that forbid any form of forced labour, such as in international labour law and constitutional legislation.[81] The Spanish and French governments have used these tactics to break industrial actions. The Greek government has used four of these mobilisations during the crisis. In Greece several sectors are under this regime (teachers, municipal workers, metro workers, shipyard workers). The metro workers' strike was broken particularly forcefully with the riot police smashing into the station and dismantling the barricades.

3. **Using puppet parliaments:** In 2011, after the Portuguese government rejected harsh austerity and then resigned, the Troika placed increased pressure on the already dismissed government. Effectively a care-taker government, i.e. one with no democratic legitimacy, made the official request for the bailout from the Troika, becoming the third country to seek aid. In Greece, to push through austerity they created a government led by an unelected person, a banker who had never presented himself before an electorate. This government also included politicians from an extreme right party (LAOS), without an electoral mandate and for the first time since the Colonels' Junta fell in 1974. The Troika had invited LAOS into parliament and after just months in office, the party's leader proclaimed to parliament that, "he who comes from Afghanistan should know that if he comes here he will be put into a concentration camp. He will not be allowed to roam freely and conduct criminal activity. And he will eat only if he produces".[82] In the midst of grave political instability and mass protests that finally brought down the Papandreou government, the second bailout programme comprised of the largest sovereign **debt restructuring** in history and a new monstrous loan of 164 billion euros was finalised in 2011.[83] The Troika initially withheld 8 billion euros from the bailout and rushed to appoint a more reliable prime minister, choosing Lukas Papademos, ex-vice president of the European Central Bank and former governor of the Bank of Greece during the crucial run up period of Greece joining the euro.[84] They described his government as 'technocratic', even though its members were distinguished for their lack of political legitimation rather than their technical expertise.

4. **Use of significant repression:** [85] People don't agree to such measures voluntarily, and the resistance has been continuous, from mass mobilisations to numerous decentralised workplace actions. The use of terror, torture, and other violent tactics has escalated.[86] Whoever raises their head to object and resist the government policy is a target for police repression, whether an active militant, or a community health centre.[87] Furthermore, the official government line is to denounce any evidence of police brutality and torture as populist propaganda,[88] whilst escalating its offensive against freedom of speech.[89] The police increasingly target the far left, raiding social centres, and other groups resisting the austerity measures.[90] The government and media have cultivated a rather simplistic theory of two extremes, providing both a dangerous legitimation of the far right and also a convenient excuse to terrorise and crack down on what they call the 'other extreme', being the far left and the antifascist struggles. An example of this is how Greek government spokesman Kedikoglu accused opposition party Syriza (one that advocates an easing of austerity) as being similar to a neo-nazi group (which is responsible for murder, beatings and other criminal activity)[91]: "The extremes are defined by their actions and unfortunately for SYRIZA, it has many similarities with Golden Dawn".[92]

"Single party government of national unity"
"Coalition government of national unity"

When taken together, the methods identified above indicate that the governing must turn to authoritarian tactics to implement austerity. In Greece, this turn towards the far-right is revealed through statements made by New Democracy Party officials who propose a 'light Guantanamo' for Greek protesters, or who flirted with the idea of collaborating with the neo-nazi party Golden Dawn.[93] And the implementation of these austerity programmes violate various rights and procedures that the Greek state has enshrined in national and international law. The European Commission itself admits that it is not in the slightest preoccupied with the illegality

U.S. Depression bread line, winter 1932-3

of pushing through austerity measures. It stated: "important budgetary measures are likely to be challenged in the courts, which could lead to the need to fill a fiscal gap emerging as a consequence". As highlighted by Katrougalos, a Professor in Public Law, the Commission does not care that the austerity measures may be illegal, but rather the illegality is mentioned "just as a compelling factor for introducing a new wave of them!"[94]

Why austerity does not work

Austerity has been a devastating policy for the majority of people subjected to it, so it is worth examining the arguments against it. It is publicly claimed that austerity packages are a way for countries to regain competitiveness and get their economies growing again. Why then, after three years of severe austerity, have economies collapsed? Is it because 'they just haven't been implemented enough' as is often said?

Austerity involves cutting public expenditure on things like subsidies and benefits, imposing wage freezes and spending cuts in both the public and private sector. This leads to incomes shrinking, in certain cases up to 40 – 50%. Instead of national or sectoral employment contracts being renewed, bosses may force workers to accept individualised firm level contracts (abolishing the collective bargaining contract) and simultaneously cut wages. Take it or leave it they say, while unemployment in 2014 hovers close to a third of the working population in places like Spain and Greece. In Portugal the number of workers covered by collective bargaining agreements was reduced from 1.5 million before the Troika's arrival to 300,000 by 2012.[95] These horizontal changes to wage and working conditions instantly weakens private consumption. Consumption and public spending are major parts of aggregate demand and as that decreases, the economy enters recession. Weakening consumption aggravates recession because as overall income levels are lower, so are overall taxes. The pro-austerity lobby argue that by imposing worse conditions on labour, cutting wages and pensions and allowing unemployment to sky-rocket, labour will become more competitive, i.e. the cost of producing each unit of output (unit labour costs) will go down and so the economy will recover through exports or by a rush of foreign investors who, seeing cheap labour, will choose to invest. Putting aside the possibility that export led growth could alternatively happen through devaluing the currency, or that export led recovery at the moment is an ambitious claim (given that most of Europe is in recession, and other markets further afield cannot compensate), this is deficient for a more significant reason. This mentality rests on the assumption that restructuring domestic economies for the world market and engaging in the global race to the bottom is a desirable or indeed achievable growth model. There is no bottom when it comes to wages and pensions.

The worsening economic situation makes it harder for banks and states to borrow. Shrinking GDP makes the debt:GDP ratio worse. Collapsing government revenues from less tax earnings means the deficit widens.

Financing the deficit becomes more difficult, given the higher interest rates demanded by investors to lend to weak countries. Austerity deepens income inequalities, both within and between states, and together with further liberalisation weakens the position of labour even more.

Austerity measures are not only counter productive at reviving shrinking economies, but they have dire social and environmental impacts. This is documented through the debasement of quality of life – not solely the impacts of material degradation but the violence, mental distress and trampling on dignity caused by implementing these policies. This is indicated by the rise in suicides and deteriorating mental health. In Greece, there has been a 50% increase in domestic violence since the crisis began; a 137% increase in suicides from 2009 to 2011 (a trend that shows no sign of easing); HIV was criminalised by the Greek government as a pre-election tool to win votes; the state-run sweep operations detaining scores of people for no reason, which in combination with the escalation of xenophobic and race related crimes leave people in fear to walk the streets.[96] Stuckler and Basu of Oxford University said: 'Many countries have turned their recessions into veritable epidemics, ruining or extinguishing thousands of lives in a misguided attempt to balance budgets and shore up financial markets"[97]. The impoverishment in Greece is visible through the type of humanitarian assistance that is being delivered: soup kitchens, emergency health clinics and shelters.[98]

Case study of austerity policies: Greece

- The tax-free threshold for income tax has been lowered from 12,000 euros to 5,000 euros, under the official poverty rate; and for those self-employed, the tax-free threshold was abolished and tax is paid from the first euro earned. VAT rates are on the rise: the 19% rate increased to 23%, 11% becomes 13%, and 5.5% will increase to 6.5%. Excise taxes on fuel, cigarettes and alcohol have risen by one third. A Bloomberg Survey reports Greece ranked sixth out of 60 countries for the most expensive gas, after Turkey, Norway and the Netherlands, amongst others, and since 2009 taxes imposed on gas petrol are the third highest in Europe[99]
- New taxes have included a euphemistically called 'solidarity' tax beginning from the first euro earned, a 'vocation tax' for self-employed workers up to 1,000 euros a year (regardless of how much income is earned), separate and increased taxes on property, wealth and luxury assets. Many tax exemptions have been abolished. A new tax levied through the electricity company was so onerous, most people could not pay it, yet the government insisted on its orders to cut electricity connections if the levy was unpaid. Thousands of electricity lines are disconnected each month leaving households in the dark.[100]

"I represent here the private sector" Minister of Health, Adonis Georgiadis, August 2013. [102]

"The Ministry of Health and the Ministry of Environment warn you that it is more hygienic to die from the cold than from the smog! Stop lighting fires!"[109]

- Public sector wages have been cut over three years on average by 40%. The government has agreed to sack 150,000 public sector workers by 2015, 20% of the 2010 total. Schemes have been introduced that move workers to partial pay; they get 60% of their annual salary and then that's it. In addition, all temporary contracts for public sector workers have been terminated. The minimum wage has been lowered by 22%, (and 32% for young people,)

D.A Siqueiros, Struggle for Emancipation, Mexico 1961

to an amount that is less than 50% of the equivalent wage in other EU countries. Unemployment benefits have fallen to 356 euros per month, yet most jobless people are unable to receive it.

- Education spending has fallen by closing or merging over 1,000 schools, at a time when Golden Dawn are gaining popularity in school playgrounds and children are fainting from malnutrition in the classrooms.[101]

- The government originally promised to raise 50 billion euros from privatisation by 2015, by setting up the Hellenic Republic Asset Development Fund to which all major state-owned companies, assets, infrastructures, ports, airports, motorway concessions, state land and mining rights will be sold (see box in Chapter 17).

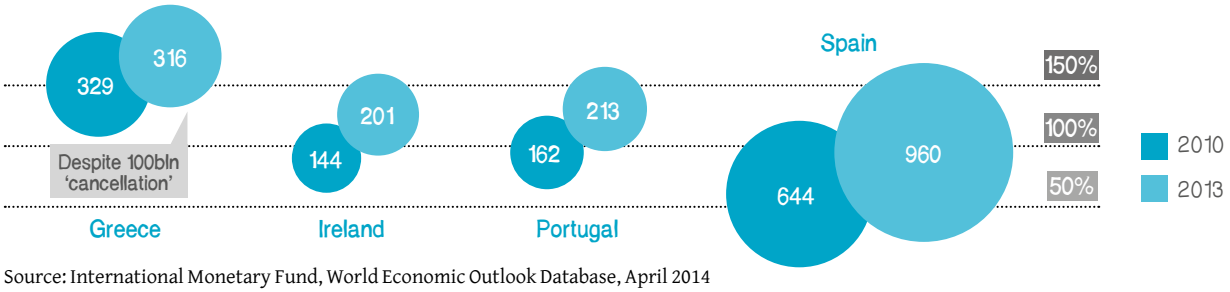
- Dismantling labour rights by: first, replacing full and stable employment with flexible forms; second, by making it easier for companies to cut their payroll costs by suspending industry-wide wage bargaining; third, by making working shifts more flexible to suit the needs of the employer; and finally, by facilitating termination of contracts. Working more for less, with diminished legal protection, leads to less pay and less legally enshrined rights.

However, the extent of the crisis cannot be depicted solely by listing the legislation that has been passed. There is an official climate that tolerates an assault on the weak, that creates a new norm of degradation. Public and private companies are increasingly leaving their workers and suppliers unpaid. This leads to a state of decay, confusion and disarray. In public services like hospitals, cuts to supplies and leaving staff unpaid create dire everyday circumstances. Suppliers of food and medical supplies to Greece's Lavrion refugee centre had not been paid by public funds for the whole of 2013 and they reached the limit of what they could keep providing on credit. They stopped providing supplies in order to pressure the government to service its unpaid invoices, but this left 240 migrants, many of who were children, simply without.[103] This climate has also led to extreme occurrences as was seen from farm foremen who opened fire on migrant workers who were demanding their unpaid wages. Protesting against months of working without getting paid, they staged a strike, and they received their answer with bullets.[104] Additionally, it is not just the Troika and the government that demand lower wages. Representatives of 11 multinational corporations at a meeting of the ministry of *[un]* Development in early 2013 attempted to blackmail the government by promising investment if the minimum wage was entirely abolished.[105]

And the consequences are ...

Disastrous. For 2013 alone, the impact of this was that waged workers on average earned 18% less income and paid 52% more tax compared to 2012. The combined result of wage cuts and tax rises have left Greek wages on average 40% lower than they were three years ago.[106] In Greece, over 30% of the population is at risk of poverty and social exclusion and

Austerity leads to debt increases billions euros and in % of country GDP



Source: International Monetary Fund, World Economic Outlook Database, April 2014

15% faces severe material deprivation (i.e. cannot pay rent, electricity or heating), compared to 5% for Belgium, the UK, and France.[107] Sights unimaginable a few years earlier have become commonplace. It is estimated that crisis-induced arrears in social security contributions have left one third of the population locked out of public healthcare. With thousands of people abruptly cut from social security coverage, patients (including the terminally ill) are simply left without.[108] Over 1,000 educational institutes (primary, secondary and vocational colleges) have been closed down, which in mountainous, rural areas means children have been excluded from the education system altogether. Those schools still open have at times been left for months without teachers and go winters without central heating.

To find out more about the austerity policies and how people have come together and built alternatives, check Part 5.

What the IMF sees as Debt Sustainability

The IMF's narrow obsession with primary surplus (the component of the fiscal surplus measuring the difference between current government spending and current income from taxes, excluding expenses on government debt) boils the entire crisis down to one figure, which if achieved, is assumed would solve the crisis all together. The IMF's policy prescriptions are based on the economic model they use, called the Debt Sustainability Analysis (DSA). The model allows them to estimate the amount of primary surplus needed in order to stabilise the debt at a certain level. The DSA is constructed in a very biased way, with three major problems. Firstly, the only variables framed in the model, i.e. the only thing the model looks at that the authorities could possibly change, are the primary surplus and the revenue from privatisation. This means the government is told the only thing it can do is to cut and to sell. Second, the economic behaviours in the model do not account for the impact of fiscal policy on growth. This means that it assumes austerity will not affect the rate of growth, and so the model is completely blind to seeing the effects of austerity. Third, the model assumes interest repayments take priority over all other government expenditures. This leaves, for example, governments spending several times more on interest payments than on health, education or other social spending. Overall, sustainability is a concept clearly emanating from the creditors' perspective and their interests, rather than the debtors'. [110]

How could a country reduce its debt ratio?

In the official narrative, the main means by which a country can repay its debt is by running a fiscal surplus (i.e. spending less than it earns).

One risk with this approach is clear from the basic GDP equation:

$$GDP = C + I + (G - T) + (X - M)$$

A fiscal surplus exists when taxes are greater than government spending, and so overall (G-T) is negative; this would in the most immediate sense bring GDP down, as to achieve it either taxes (T) must be increased or government spending (G) decreased. A fiscal surplus (G-T) being overall a negative would bring GDP down unless it was offset by a positive trade surplus (i.e. X-M) or by high levels of private sector investment (I). Overall for the level of GDP to go up, the trade surplus and investment would have to be larger than the fiscal surplus for the GDP to begin to rise.

Another major flaw is the unrealistic expectation that a small fiscal surplus will repay a large debt. For example, how can a government repay a 300 billion euro debt, which is growing every year, by earning a fiscal surplus of 2 or 3 billion a year? The OECD estimates Greece needs a 9% primary surplus for 9 years to comply with the EU's debt rules (see footnote 160). It is clearly an unrealistic objective. It is also misleading to put it into these terms, as approaching it this way ignores the 'normal' financing operations of states: namely of roll-over financing. Governments overall rely on being able to refinance debts by issuing new debt to repay the old debt on a rolling basis, forever. This is also known as 'kicking the can down the road'.

"If you make the same mistake a hundred times over, can it still be considered a mistake?" ROAR magazine

The social consequences are disastrous; do these policies fare any better in achieving their stated aims? Certainly not. Ruthless austerity has led to rapid increases in debt statistics, as seen in the previous figure.

What economists have to say about austerity, debt and growth:

Fiscal consolidation does not 'slash' the debt, but contributes to it; Ann Pettifor, PRIME. "The empirical evidence runs exactly counter to conventional thinking. Fiscal consolidations have not improved the public finances. This is true of all the episodes [of fiscal consolidation] examined, except at the end of the consolidation after World War II."[111] "... A body staffed by 1100 professional economists with an overall budget of $800 million [i.e. the IMF] "failed to make that correct call."[112]

Trying to achieve the debt ceiling within the monetary union just makes it worse; Jan Toporowski, SOAS. "In a recession, people are spending less on consumption, businesses less on investment, so GDP is falling fast, making the debt-GDP ratio worse. In fact, the idea of having a ceiling on government debt within the monetary union shows its internal contradiction. If a country tries to achieve it (say by running a fiscal surplus), it moves the country away from the target, because GDP starts to fall (i.e. keeping the debt/GDP ratio high or growing) a lot sooner than governments actually earn any surplus to repay any debts."[113]

The calculations used to create austerity measures were inaccurate: IMF chief economist, Oliver Blanchard. "Forecasters significantly underestimated the increase in unemployment and the decline in domestic demand associated with fiscal consolidation". The IMF recommended slashing budgets too fast early in the euro crisis, starving many economies of much-needed growth. While economists expected that cutting a euro from the budget would cost around 50 cents in lost growth, the actual impact was more like 1.50 per euro"[114]

How much unemployment has one pro-austerity, academic paper caused?

The influential economists Reinhart and Rogoff have authored several relevant books and papers on debt, financial crisis and growth. One of their main conclusions is that countries with high ratios of debt to GDP (high being 90% of debt to GDP) lead to long periods of slow growth. This has been used to justify and influence economic policy towards austerity, to lower debt levels.[115] This argument has been quoted as evidence by Olli Rehn, European Commissioner, Tim Geithner, Former US Treasury Secretary and Lord Lamont of Lerwick, current adviser to UK chancellor George Osborne.[116] Its use as evidence in the most senior policy circles indicates how seriously influential this paper has been, yet, it has significant errors which have recently been brought to light: data was excluded to yield these results. Dean Baker from the Centre of Economic Policy Research in Washington states:

"This is a big deal because politicians around the world have used this finding [..] to justify austerity measures that have slowed growth and raised unemployment. [..It has] been used to justify austerity policies that have pushed the unemployment rate over 10 percent for the euro zone as a whole and above 20 percent in Greece and Spain. In other words, this is a mistake that has had enormous consequences. If facts mattered in economic policy debates, this should be the cause for a major reassessment of the deficit reduction policies being pursued in the United States and elsewhere."

IMF's "Woops Sorry" is nothing new! [117]

In each major crisis, the IMF imposes the same solution: austerity measures and market reforms, privatisation, liberalisation, deregulation. And after each major crisis it was actively involved in managing, it always concludes it made major mistakes in handling it. Its response to the euro crisis is not new. It is not only

by looking at the riots caused by the IMF policies, such as in Peru (where the price of bread multiplied twelve-fold overnight) and in Venezuela in 1989 with three days of rioting, that its 'mistakes' are acknowledged. Mainstream economists are repeatedly criticising the Fund's role.

"Thirty years of IMF crisis management led to the conclusion that the IMF is too optimistic in assessing growth prospects. The IMF follows a crisis management model that enforces austerity packages on countries using forecasts of rapid economic growth that never materialise."An official IMF historian James Boughton[118]

In the South East Asian crisis in 1997, the IMF came under fire for imposing even harsher austerity, a fact trumpeted loudly by liberal economist, Joseph Stiglitz, former chief economist at the World Bank. Another forceful criticism emerged about bailing out countries who in turn bail out international investors. This is exactly what has happened in the euro crisis where mainly foreign investors have been insulated by funnelling bailout funds towards them via the government.[120] A few years later, the IMF admitted: its prescriptions were based on an assumption that its programmes would restore market confidence, which they did not.[121]

Even conservative free-trade economist Jagdish Bhagwati chided the Fund for its counterproductive approach to crisis management, arguing that the IMF now worked solely in the interests of the large Wall Street banks.[122] Former IMF managing director Michel Camdessus stated: "we probably made many silly mistakes and committed errors with Argentina." Perhaps the swathes of Argentinians who suffered the consequences of the deepest economic recession in its history have a less sympathetic response to these silly 'mistakes'.

"Over the past thirty years, the world has experienced over a hundred financial crises. So far, the IMF has responded to practically every single one of them with the same defunct policy prescription of rapid fiscal contraction, fire-sale privatisation and far-reaching neoliberal market reforms. In the vast majority of cases, this orthodox policy response contributed to a deepening of the recession, the loss of millions of jobs, and a humanitarian tragedy of unspeakable proportions. If you make the same mistake a hundred times over, can it still be considered a mistake? Or are we looking at the deliberate reproduction of an ideological script that narrowly serves the interests of private creditors by shifting the burden of adjustment squarely onto the shoulders of the poorest and weakest members in the debtor countries?"[123] says Jerome Roos from Roar Mag, an alternative media collective from Oakland, USA.

As one of the most powerful US think tanks, the Council on Foreign Relations, recently said: "the IMF's growth forecasts for Ukraine and Greece [are interpreted] not as forecasts at all, but rather as assumptions necessary to justify the IMF's interventions."[124]

"The Fund is acting as enforcer of the banks' loan contracts."
Karen Lissakers, Executive Director on the board of the IMF, 1983[119]

Chapter 10

The European Central Bank's actions and responses

In Part One we introduced reasons why the ECB may not be as independent and solely concerned with monetary policy as it officially claims (see Chapter 1). We covered the influence of the Shadow Council, the Group of 30 and the refusal of the ECB to release internal memos that would be crucial in revealing its complicity in pushing for bailouts. In this chapter we expand on the examples of dodgy ECB activity and responsibility for the crisis. We go over the policies – official and unofficial – the ECB has pushed for during the crisis.

a) The ECB is the severest imposer of wage and fiscal policy

Although generally believed to concern itself solely with **monetary policy**, inflation targeting and nothing more, the ECB – highlighted through its participation in the Troika – also imposes the harshest wage and fiscal policies. Through the Troika, the ECB has ordered living standards to be lowered and social services axed, sending millions into unemployment. The Troika was proud of appointing bankers to run governments rather than risk elections that might lead to an overturn of the Troika's policies. The ECB, together with the IMF and the Commission, represents the wholesale dismantling of protective legislation that had been created to protect working people and publicly-run goods and services.

Leaks of secret documents reveal that the bailouts were pushed onto the governments by the ECB. Although the President of the ECB stated that, "I do not view it as the ECB's task to push governments into doing something. It is really their own decision as to whether they want to access the EFSF or not", evidence of the secret letters sent by the ECB suggests otherwise.[125] Just weeks before the Irish bailout, the Irish government was denying that any official talks on receiving a bailout were even taking place. Brian Leniham, the Finance Minister at the time, however, subsequently admitted that Jean-Claude Trichet had written to him to advise him that Ireland should enter an EU-IMF programme, and insisted that "the major force of pressure for a bailout came from the ECB."[126] The letter was kept secret apparently to prevent market risk and both the previous and current presidents of the ECB refuse to release the ECB's communication with the government.[127]

Furthermore, secret letters pushing governments to impose harsh austerity policies have also been sent to Spain and Italy. In 2011 Bloomberg reported that the ECB President, Trichet, sent letters to the Spanish and Italian governments detailing the neoliberal labour and other reforms they had to enact.[129] The letter sent by the ECB, the 'independent' central bank whose official mandate is to deal with price stability and inflation, instead prescribes that collective bargaining must be weakened and abolished, and that wages should no longer adjust in line with inflation.[130] The letter details numerous harsh austerity policies which trample on the rights of working people. The Spanish prime minister at the time, Zapatero, denied these letters had ever been sent, and only admitted them publicly, in his memoirs, after his government had imposed these policies.[131]

b) **The ECB's assistance to private finance**

The ECB has pushed the bailouts onto governments whilst at the same time it has done everything in its power to provide **liquidity** to insolvent banks, leaving private finance off the hook, rewarding and aiding it wherever possible.[132] Furthermore, it has used this power to leverage for policy change. It was by threatening to stop providing liquidity to Irish banks, for example, that the ECB exerted its influence on the government into accepting the bailout.[133] There are two main ways the ECB has assisted private finance: first, by flooding the banks with cheap loans and, second, by buying up government debt.

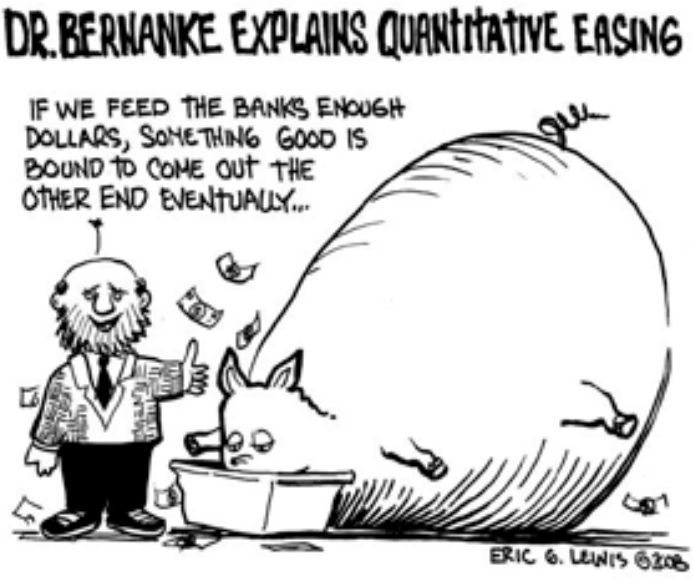
1) Flooding the banks with cheap loans

Although the ECB is not allowed to fund governments directly it is allowed to fund private banks at very low interest rates. It has given the banks cheap loans accepting as collateral any financial asset from the banks, of gradually decreasing quality (with lower credit ratings).

After Lehman Brothers' collapse in 2008 the ECB was quick to lower interest rates and to provide low rate loans (liquidity provisions) to banks on a large scale. In order to receive these loans the commercial banks deposited as collateral a series of illiquid (i.e. hard to sell) private securities, badly rated sovereign bonds and other toxic assets. In return they received liquidity. The quality of the assets deemed acceptable collateral for banks to deposit at the ECB has widened significantly throughout the crisis. The ECB, for example, began accepting worthless governments bonds (i.e. ones that had received the lowest possible rating). This keeps banks afloat by enabling them to use their investment in now worthless assets to borrow more and purchase more badly rated bonds from the states (at significantly higher interest rates) and deposit them at the central bank and then borrow more. For instance, although the Greek government bonds had been rated as 'junk' by the credit rating agencies as early as April 2010, the banks that had invested in these and other worthless securities (such as those mortgage-backed securities that became worthless once the US property boom unravelled), could use them to borrow even more and at even cheaper rates from the ECB.[134]

Helping these banks stay afloat was a key priority not just for the ECB, but also for the US central bank, the Federal Reserve, which also secretly lent to the banks at 0.01% interest. "Between 1 January and 21 October, 2011, the price of shares in France's BNP Paribas dropped 33.3%, and in Deutsche Bank 28.8%; Barclays dropped 30.5% and Crédit Suisse 36.7%, and Société Générale plummeted 52.8%".[135] So the question remains "Is it normal in a crisis for the private banks, which are usually financed at 1% by the Central Banks, to benefit from a rate of 0.01%, when in times of crisis certain States are obliged to pay rates 600 or 800 times higher?"[136]

A more extensive version of liquidity provisions was launched in December 2011 by the new head of the ECB, former Goldman Sachs director, Mario Draghi. The 'quantitative easing' programme of the ECB called the **Long Term Refinancing Operations (LTRO)** is a major intervention to save the private financial sector. Although the ECB's charter forbids it from funding countries directly, it generously funds private financial institutions (banks) by lending to them at very low interest rates, sometimes as low as 1% a year. The banks then lend this money to the governments at substantially higher interest rates, for example at 5% or higher. In the space of a few months, the ECB launched an extensive programme of liquidity provision in which 1 trillion euros was lent, at low interest to approximately 800 banks, with no strings attached.



The first batch launched in late December 2011 was worth 489 billion euros and the second batch of cheap three-year loans up to 529.5 billion euros was agreed in March 2012. This meant that the banks could borrow virtually unlimited amounts without any conditions. Over 800 different borrowers subscribed to it, with particular interest from banks of the periphery countries.[137] A small proportion of this huge amount was spent on new loans; for some banks it was used to pay off debts close to maturity and to 'repair their balance sheets', while for others it was used as a way to borrow cheap money with which to buy more European government debt.[138]

To sum up: the ECB has been incredibly generous in its funding of private banks, lending at very low interest and with no real restrictions, whilst at the same time refusing to lend first hand to the states that need cheap loans. The 'markets' (i.e. these same banks) have held the countries in crisis to ransom by requiring ludicrously high interest rates. What has been the impact of this? One impact is that banks have purchased their own government's public debt in increasing amounts and then used it as collateral to borrow more from the ECB. Spanish banks for example, borrowed 300 billion euros through the LTRO. In 2006, the Spanish banks held 16 billion euros of Spanish public debt, in 2010, this went up to 63 billion, and in 2011 it went up to 94 billion. After the LTRO this rose to 184.5 billion. Why? Partly because it is extremely profitable to borrow at 1% from the ECB and then lend it to the government, by buying public debt which offers an interest rate over 5%.[139] Similar patterns exist throughout the euro zone.

2) Half hearted buying up of government debt

The ECB and the National Central banks of the euro zone have purchased government bonds through a variety of mechanisms. The ECB launched the Securities Market Programme (SMP) in 2010 which ended in 2012, and was replaced by the **Outright Monetary Transactions** (OMT) Programme, a bond purchasing programme conditional on countries having agreed to strict conditionalities.[140] National Central Banks have also held government bonds often acquired from before the euro crisis erupted, and these investments are called **ANFA** holdings.

One of the motives for the ECB programmes was that banks that were very exposed to periphery country debt were graciously alleviated from the risky business of holding it. Although much of the responsibility for countries' over-indebtedness lies with the private banks that loaned the money, the lenders were served by ECB policy, whereas the borrowers were penalised. As the euro zone crisis intensified, bond markets became severely destabilised and governments had difficulty financing themselves. The level of interest demanded by lenders to lend to crisis countries became prohibitively high. When it became evident that investments in the public debts of periphery countries were risky and less secure, many wanted to sell them, a factor driving down bond prices. This pressured the ECB to try to stabilise bond prices and yields, by playing a more active role in the bond markets and buying up government bonds in the secondary markets.

Eric Toussaint, from the Campaign for the Abolition of Third World Debt, points out that it is not just the banks that are responsible for the over-lending to the states, but the central banks too: "the private banks of Western Europe used the vast quantities of low cost loans from the European Central Bank and the US Federal Reserve to increase their own higher interest-rate loans to countries such as Greece, making juicy profits in the process." Between June 2007 and the summer of 2008 (when the sub-prime crisis broke out) loans to Greece increased by 33% to 160 billion dollars.[141]

The BIS (Bank for International Settlements) has reported that in December 2009, French banks held 31 billion dollars' worth of Greek public debt, and that German banks held 23 billion dollars' worth.[142] The amount of debt they held from other periphery countries was much larger, meaning that multinational banks with high exposures would have gone bust if the states could not repay. To ensure that the banks had a smooth ride, government finances bore the costs. Banks' exposure to Greek and other periphery country debts were drastically reduced, aided by the ECB's policy.

The ECB responded to the crisis with more active 'crisis management' by starting the Securities Market Programme (SMP) in 2010. By June 2012 this programme reached 210 billion euros.[143] This was controversial for the ECB, as its founding treaty stated that it is not allowed to lend to states as this would involve taking onto its balance sheet the troubled liabilities of governments, even if the possible positive effect of this would be stability. Through the SMP, by February 2012 the ECB had bought up 55 billion euros of Greek government bonds, though the ECB's exposure has gradually decreased to 28 billion in December 2013.[144] This caused a stir with monetary anti-inflation hawks. The chief economist of the ECB, Juergen Stark, resigned in September 2011 over the relaunch of the SMP and

"I do not view it as the ECB's task to push governments into doing something. It is really their own decision as to whether they want to access the EFSF or not." Mario Draghi President of the ECB sidestepping his predecessor's secret letters[128]

current Bundesbank President, Jens Weidmann, has stated he is not in favour of the programme.[145] This brought to light the growing rift amongst euro-policy makers about their (mis)handling of the crisis. Axel Weber, the former Bundesbank President and the main contender to take over the ECB after the then current President Junker retired, also resigned in protest over the direction of the ECB, claiming that the SMP is effectively monetising government debt.[146] A significant rift within European authorities remained essentially a row between 'who's better at fighting inflation?' with Mario Draghi, the Italian ex-Goldman Sachs banker who took over the ECB after Trichet, faced with the 'challenge' of trying to restore ECB credibility in Germany. This rift continued with the decision to launch the Outright Monetary Transactions (OMT), as German representatives questioned whether such a move was beyond the ECB's powers and took the issue to the courts.[147]

Conclusions on ECB activity

One of the most obvious impacts of the ECB's policies is how it sustained countries' unsustainable debt cycles. As a member of the Troika, it pushed for more indebtedness to pressure the borrower to pay back its bonds, on extortionate conditions. Although at first, bailout money provided by the Troika was used to service bonds, currently the Troika's policies are now used to service the debts of the Troika!

The Troika came up with a plan to lower the value of outstanding bonds in Greece by restructuring them in the PSI arrangement in February 2012. Despite doing this in the name of 'debt sustainability' for Greece, and despite the numerous other problems with this, the ECB did not contribute the bonds it held, leaving the Greek state to repay them in full. At that time it was estimated the ECB held approximately 55 billion euros of Greek debt. The ECB was adamant that it would not accept writing off the Greek debts it held on its books, a position which further reduced the credibility of their claims to act in favour of sustainability. This policy was one of the steps that resulted in the greatest transformation of Greek debt ownership. Greece's public debt has gone from close to 100% in the form of bonds to 23.7% in late 2013, with most of the rest (66%) owed to the official (i.e. non-private) sector, European governments, the ECB and the IMF. The ECB's policy therefore enabled multinational banks to withdraw themselves, sustaining only minimal damage.[148]

Furthermore, the **ANFA** holdings are making gains: "Last year, the Finnish central bank contributed 227 million euros to the Finnish budget as a result of profits made on the Greek, Spanish and Portuguese government bonds it holds, 40 million euros more than it made in 2011. This year, the profit should rise to 360 million."[149] After months of ruminating about it, the ECB decided to forfeit the profits it was making from Greece, i.e. the amount equivalent to the income on the portfolio accruing to national central banks as from budget year 2013.[150] In July 2013 the 1.5 billion euros earned from the interest Greece was paying on the bonds held by the central banks was transferred to Greece. In contrast to the rest of the disbursements made at the same time, this amount was not 'counted in the financial envelope' suggesting it was a grant, rather than a loan.[151]

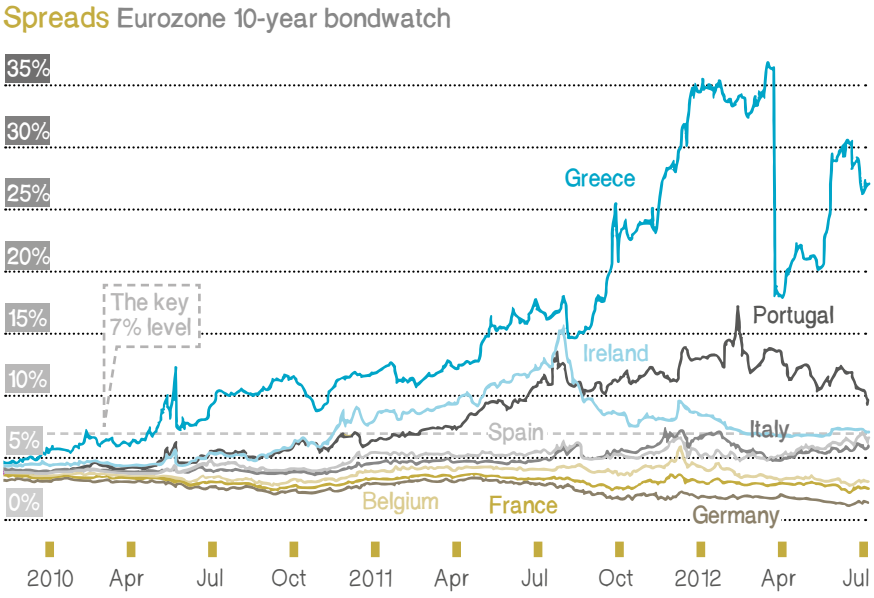
(The 'Who Profits' section of the report draws out more concretely the ongoing profiteering from the bailouts.)

How have these policies affected government borrowing rates?

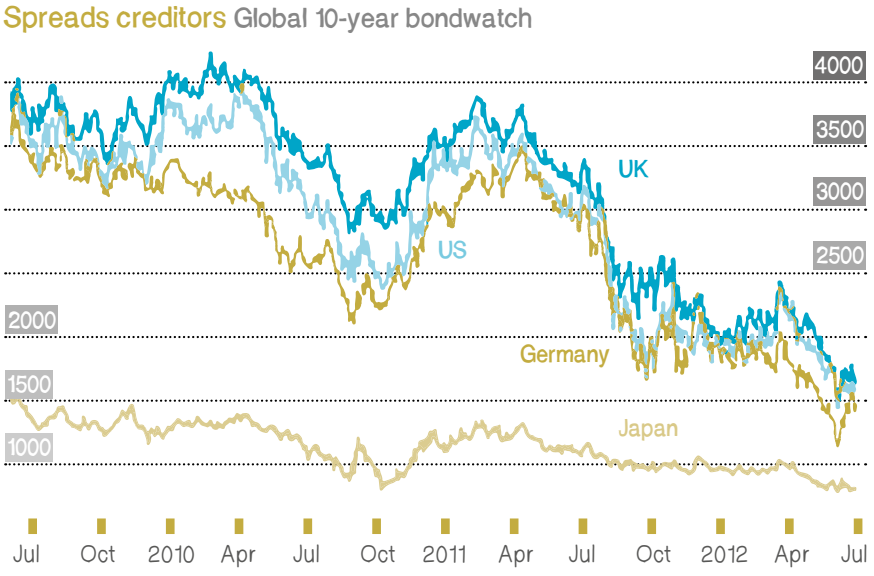
For the periphery: If one of the anticipated results of ECB interventions and policies was to bring down government bond yields, it was pretty clear that they had failed. It took three years for them to finally drop in 2013. Although on announcement of the ECB measures, Spanish and Italian yields dropped momentarily, they kept rising steadily afterwards. The 'do whatever it takes' announcement in September 2012 by Mario Draghi signalled the OMT programme, which was the new plan by the ECB to purchase sovereign bonds in *unlimited* quantities from crisis hit countries.[152] This is commonly referred to as the point at which ECB policies *did* start to lower peripheral bonds prices.

For the core: As it became more expensive for the peripheral countries to borrow it became cheaper for the core countries to do so. (See graphs below) As it became riskier to invest in periphery country bonds, investors seeking safer places drive down those countries' borrowing costs to record low points. The result was that safe haven countries were actually able to save money. The money they borrow to refinance their normal borrowing operations is now a lot cheaper. Arguably, this creates an incentive to ensure periphery countries remain a risky place to invest in. Germany, France and others' borrowing costs have substantially decreased since the crisis began, as conservative investors spooked by the crisis have demanded more less-risky bonds. Deemed as 'safe havens' for investors who want to keep their money as 'risk free' as possible, the 'flight to quality' has benefited those countries, by lowering their expected borrowing costs. Although calculations for this amount differ, the German finance minister mentioned that this 'flight to quality' has already benefited the German government: between 2010 and 2012 the country borrowed 73 billion euros less than it had originally planned to because of these changes.[153] The German multinational insurance giant Allianz calculated the savings at being 67 billion euros between 2010 and 2012. The Kiel Institute for the World Economy (Institut für Weltwirtschaft, IfW) calculated that 8.6 billion euros were saved in 2011 due to the low ECB interest rates and the 'safe haven' effect.[154]

To summarise, not only do the core countries make money from interest payments on loans to periphery countries, they also save money by borrowing at cheaper rates.



Source: MoneyWeek



Source: MoneyWeek

Chapter 11

Changes in EU structures: using the crisis as a good excuse

There has been a cascade of inconclusive summits, toppled governments and failing economies. There is across the board agreement that the crisis has been mismanaged. Sweeping structural changes ploughed through the EU framework have given more power to the Commission and further institutionalised austerity. At first, the authorities pushed austerity as the alleged solution to debt crisis in individual cases (Greece, Ireland, Portugal). Now the EU authorities are implementing policies that generalise permanent austerity policies irrespective of whether countries are under a Memorandum programme. This leads to a legally more integrated EU with more power handed over to Brussels on the basis of ever more unequal economic situations between member states. This section describes the EU-wide transformations and their consequences.

It is important to note the relation of the 'solutions' to what were originally perceived as the problems. For example, one of the problems originally identified was the dysfunctionality of the euro zone's structure. The problem was a haphazard integration of unequal countries, and yet what is being pushed through is greater integration of even more unequal countries. Although they could have changed the ECB's rules, instead EU decision makers created a round-about way of mobilising private funds by leveraging public funds.

Summarised below are the major changes to the EU's structure. They are the precursors to two key features of greater integration: the fiscal compact and the banking union explained in more depth below.

i) **The European Semester** proposed in Spring 2010 and adopted a few months later, stipulates that national budgets must first be approved by the Commission before they are shown to national parliaments. Each April EU member states are required to present to the Commission and the Council their draft national budgets, and wait for recommendations, comments and approval by July each year. In Autumn the governments present them to national parliaments.

ii) **The Euro Pact** in March 2011 is a commitment by states that the solution to the crisis is austerity: bringing down wages and lowering social expenditure to increase competitiveness. It is not legally binding.

iii) **The 'Six Pack'** transformed the above into six legislative proposals, the most important of which is the strengthening of the Growth and Stability Pact which includes making stricter enforcement rules such as semi-automatic sanctions and fines.

iv) **Fiscal Compact:** is also known as the permanent austerity treaty as it stipulates that states must tighten their budgets, which if not within the 3% limit must follow an adjustment programme to lower the 'structural deficit' (which is the deficit if there were no recession). The fiscal compact leaves individual government's manoeuvring to make alternative policy suggestions impossible.[156]

The Fiscal Compact (formally called the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union) came into force in January 2013. It scales up the efforts to collectively coordinate fiscal policy across the EU. Is it a small step towards a 'United States of Europe'? It affects not only the countries in deep crisis, but by adopting this treaty, it will affect everyone in the EU for good. The Fiscal Compact treaty is also known as the Automatic Austerity Treaty, and it is grounded in three issues: to formalise euro zone summits, to take swift action against countries with budget deficits, and to introduce a 'debt brake' through strong enforcement rules to keep deficits down and countries' debt from growing.[157] It legislates the European Court of Justice to be the key enforcer by imposing a fine of 0.1% of GDP on countries that have not brought their deficit down a year after ratification.[158] The judicial body of the EU will thereby be the enforcer of neoliberal economic policy. The requirement is that all countries integrate this European legislation to a level of law that is as strong as the equivalent of each country's constitutional law.

In the words of former BBC news editor, Paul Mason "enshrining in national and international law the need for balanced budgets and near-zero structural deficits, the euro zone has outlawed expansionary fiscal policy".[159] This essentially outlaws any, even vaguely, socially democratic policies, making it illegal to implement anything but austerity.

The OECD calculated that to comply with the fiscal compact "every year from 2014 to 2023, Greece will have to maintain a primary budget surplus of about 9% of GDP, Italy and Portugal about 6% of GDP, and Ireland and Spain about 3.5% of GDP."[160]

It is clear that this ruling is impossible to implement. Its precursor, the Growth and Stability Pact was selectively enforced and dead within a few years of its signing, after major EU economies were out of its restrictions. Furthermore, what is being assumed would need to be done to achieve such targets? The OECD has calculated that "to stay within this rule for every year from 2014 to 2023, Greece will have to maintain a primary budget surplus of about 9% of GDP, Italy and Portugal about 6% of GDP, and Ireland and Spain about 3.5% of GDP."[160]

Important for the countries currently receiving Troika bailout money is the fact that the Treaty includes a clause that states that any country wishing to receive bailout funds from the European Stabilisation Mechanism (ESM) must have ratified the treaty. Ireland was the only country to hold a referendum on the Fiscal Compact, in March 2012, yet many were scare-mongered into voting in favour of the Treaty, partially out of fear that it could jeopardise further funds from the Troika. The Campaign Against the Austerity Treaty was set up in Ireland to rally support for voting against it, with the main arguments highlighting how austerity had failed repeatedly and that the austerity treaty is a bondholders' charter.

The fiscal compact entered into force in January 2013, having been ratified by sixteen EU states. It is ironic that the key driver of this, Germany, faced a backlash from the ultra right-wing which took the issue to the constitutional court for approval, which it received.

A future with a Banking Union?

"Enshrining in national and international law the need for balanced budgets and near-zero structural deficits, the euro zone has outlawed expansionary fiscal policy". Paul Mason, author of Why It's Kicking Off Everywhere

Along with the fiscal compact the next most important proposal on the table to further integrate EU economies is the banking union. The banking union is currently being discussed as a way to break the vicious cycle of banks and governments being very likely to default at the same time. So far in the crisis, and encouraged by the ECB, government bonds have been accumulating in the coffers of private banks making a government default more likely to bring down the domestic banking sector. The proposal for a banking union has emerged, albeit slowly and rather feebly, from the EU authorities to solve this problem. The plan, thus far, is for the banking union to be supported by three pillars: a new system for supervising banks, a new restructuring and resolution of bank processes, and deposit guarantees.[161] The proposal is explained below.

As the European Banking Authority (EBA) (see below) failed spectacularly in its supervisory role, the job has now been assigned to the ECB, under a new body called the Single Supervisory Mechanism (SSM). All the banks in the euro zone with a balance sheet of over 30 billion euros or 20% of the GDP of the country it resides in fall under its mandate. The new system gives the SSM the right to intervene in these banks without needing consent from the country the bank resides in, essentially transferring decision-making powers away from national governments. The arguments given to support this are similar to those governing other crisis measures, namely streamlining these processes to avoid summits, late night bickering and 'negotiating'. The power for bailing out banks will be transferred to this structure. It is scheduled to start in March 2014, and although it refers to euro zone countries, other EU members can join, but without voting rights.

The second pillar is about changing how banks get bailed out: the private debts of the banks were socialised by taxpayers money, in one of the many forms explained earlier. It seems like the authorities are trying to ensure that shareholders and bondholders pay for eight percent of the bank's liabilities, as explained in the section above (bail-in). Furthermore, although this has yet to be concluded, a system whereby deposits over a certain amount will be used to bailout banks, as in Cyprus, may be routinised. Overall, it seems the authorities are attempting to streamline the bailout process to avoid extensive, flimsy and potentially political costly late night discussions witnessed again and again during the crisis. Instead they will try to remove some of these decisions from public view. In other words, although harmonisation of economic policies helped cause the crisis, they are proposing more so-called harmonisation, a fact unlikely to solve the current or future crises.

"the very design of Economic and Monetary Union (EMU) helped cause the crisis by establishing exchange rates that left periphery EU countries uncompetitive relative to Germany and, denied the option of restoring competitiveness through devaluation, encouraged the periphery countries to rely on the accumulation of debt to 'compensate' for this".[162]
Dr. Andy Storey, a lecturer and debt campaigner from University College Dublin and Action from Ireland.

Chapter 12

New bodies: authorities chasing their own tails

A variety of new bodies have been set up as crisis response measures; these have not prevented the crisis from getting worse and often failed in their function.

Euro Working Group[163]

This is headed by Thomas Wieser, and is a sub group of the EU's Economic and Financial Committee. The EWG is only for the Euro Area Member States, the Commission and the European Central Bank, and in this configuration, it prepares the work of the Eurogroup. The EWG preceded the crisis, but in 2011 it was formalised, and made into a full time working group. "The EWG agreed that each euro zone country should prepare a contingency plan, individually, for the potential consequences of a Greek exit from the euro," according to a specialist finance blog, ZeroHedge.[164]

CRIS Group[165]

The Special Committee on the Financial, Economic and Social Crisis was formed by the EU Parliament in 2009 and disbanded in July 2011. It was headed by Wolf Klinz. Its mandate was to assess the impact of the financial crisis and make recommendations in areas of financial supervision and governance to prevent a recurrence of anything similar. It released a report and was then disbanded. It did not see problems as epic as the subprime crisis it was investigating emerging under its nose. It didn't notice the new flurry of banks defaulting (for example, Dexia) nor did it point out any of the supervisory problems relating to the EU's investigation into how Goldman Sachs deliberately manipulated national accounts to hide debt and deficits.

European Banking Authority (EBA)

Created in 2010 and based in London, the European Banking Authority is a pan-European regulator overseeing all banks within the European Union. Its powers are limited as it relies on national bank regulators (such as the UK's Financial Services Authority) to implement its recommendations. It has already become another regulator who 'just failed to see it coming'. It was created as a crisis response measure forming a pillar of the new supervisory framework. But it swiftly lost its credibility after conducting two rounds of stress tests, testing close to 100 banks in more than 20 countries for their 'resilience to adverse scenarios'. (This means testing how a bank's capital base would look if it went through several shocks.) Banks it judged as safe went bust shortly after. For instance, barely three months after the results were published, Belgian Bank Dexia needed a bailout (its second since 2008) having been rated as safe.[166] Apart from Dexia, Spanish banks were guaranteed 100 billion euros worth of bailout funds, even though only one had failed the stress test of the EBA.

The EU's political impunity has come at a cost: in an attempt by the European authorities to show that they are dealing with the problem, they have created an institution bound to corporate interests from its inception, rendering it a mere smokescreen.[167] The EBA was the primary pillar of the new supervisory framework that the CRIS group helped set up. From the outset it was too close to the people it was meant to be overseeing. The nail in the coffin regarding the scope and credibility of the EBA was the awarding of the job of overarching supervisory body to the ECB instead of the EBA, which occurred at the Eurosummit of June 28-29 2012. This gives it little bite but lots of bureaucracy.

Task Force for Greece[168]

"The task force is the advance guard of an invasion force, the bureaucrats that have arrived to transform beautiful Greece into a German colony" wrote Der Spiegel.[169] Set up in July 2011 by the Troika, it is headed by Horst Reichenbach, a German national. Whereas the task force's official role is to 'provide technical assistance' and 'support' and 'cooperate' with the Greek government in meeting the terms of the 'adjustment' programme, to everyone else in Greece it is one more element of an economic occupation. Reichenbach heads the technocrats that have been positioned in every ministry and key departments that oversee

every decision made by the Greek civil service. Der Speigel reports that Reichenbach's role is basically to "restructure the tax system, streamline the administration, accelerate privatisation, strengthen legal certainty, open up access to protected professions, restructure the energy and healthcare sector and remove structures that are hostile to investment".[170] He is unpopular not only in Greece; in May 2012, a group in Germany torched his car and covered it in red paint in protest over his role in Greece.[171]

"The initial situation is so bad that it can only improve," said Reichenbach over a cup of tea.[172]

"The task force is the advance guard of an invasion force, the bureaucrats that have arrived to transform beautiful Greece into a German colony" Der Spiegel.

1 For more information on the euphemisms see: Petras, J, 'The Politics of Language and the language of political regression', in Fisher, R, 'Managing Democracy Managing Dissent', Corporate Watch, 2013

2 Naomi Klein visited Greece in May 2013 and spoke at B-Fest, an anti authoritarian festival, visited cooperative projects across Athens like http://synallois.org/, and visited the communities struggling against open pit gold mines. Her speech can be found here http://www.youtube.com/watch?v=Hnlx9uSS5zg

3 Ugo Panizza "Do We Need a Mechanism for Solving Sovereign Debt Crises?", Graduate Institute of International and Development Studies Working Paper No: 03/2013

4 Krugman, Paul (1988) "Financing vs. Forgiving a Debt Overhang," Journal of Development Economics, Vol. 29: 253–68.

5 Calomiris Charles, "The IMF's imprudent role as international lender of last resort", 3(17), The Cato journal 1998

6 Schwarcz, Stephen (2011) "Facing the debt challenge of countries that are too big to fail" in Kolb, Robert (2011) "Sovereign Debt", Wiley

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8 Wright, Mark (2011) "Restructuring Sovereign Debts with Private Sector Creditors: Theory and Practice" in C. Braga and G. Vincelette (eds.) (2011) Sovereign Debt and the Financial Crisis: Will This Time Be Different?, World Bank

9 Zettelmeyer, Jeromin (2012) "How to do a Sovereign Debt restructuring in the euro zone: Lessons from Emerging Market Crises," paper prepared for Resolving the European Debt Crisis, a conference Page 33 of 39

10 These concerns were vocalised from mainstream, senior academic and policy circles; the concerns and social movements of the populations have not been mentioned here, who frame the problems of past debt management in terms of social and economic injustice, but two examples of the anti-debt social movements of the Global South can be found here: Jubilee South http://www.jubileesouth.org/ Freedom from Debt Coalition http://www.fdc.ph/.

11 Evans-Pritchard, A, 'The horrible truth starts to dawn on Europe's leaders', The Telegraph, November 2010 http://blogs.telegraph.co.uk/finance/ambroseevans-pritchard/100008667/the-horrible-truth-starts-to-dawn-on-europes-leaders/

12 European Union, 'Consolidated version of the Treaty of the Functioning of the European Union', Official Journal of the European Union, March 30 2010, C 3/50 http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2010:083:0047:0200:en:PDF

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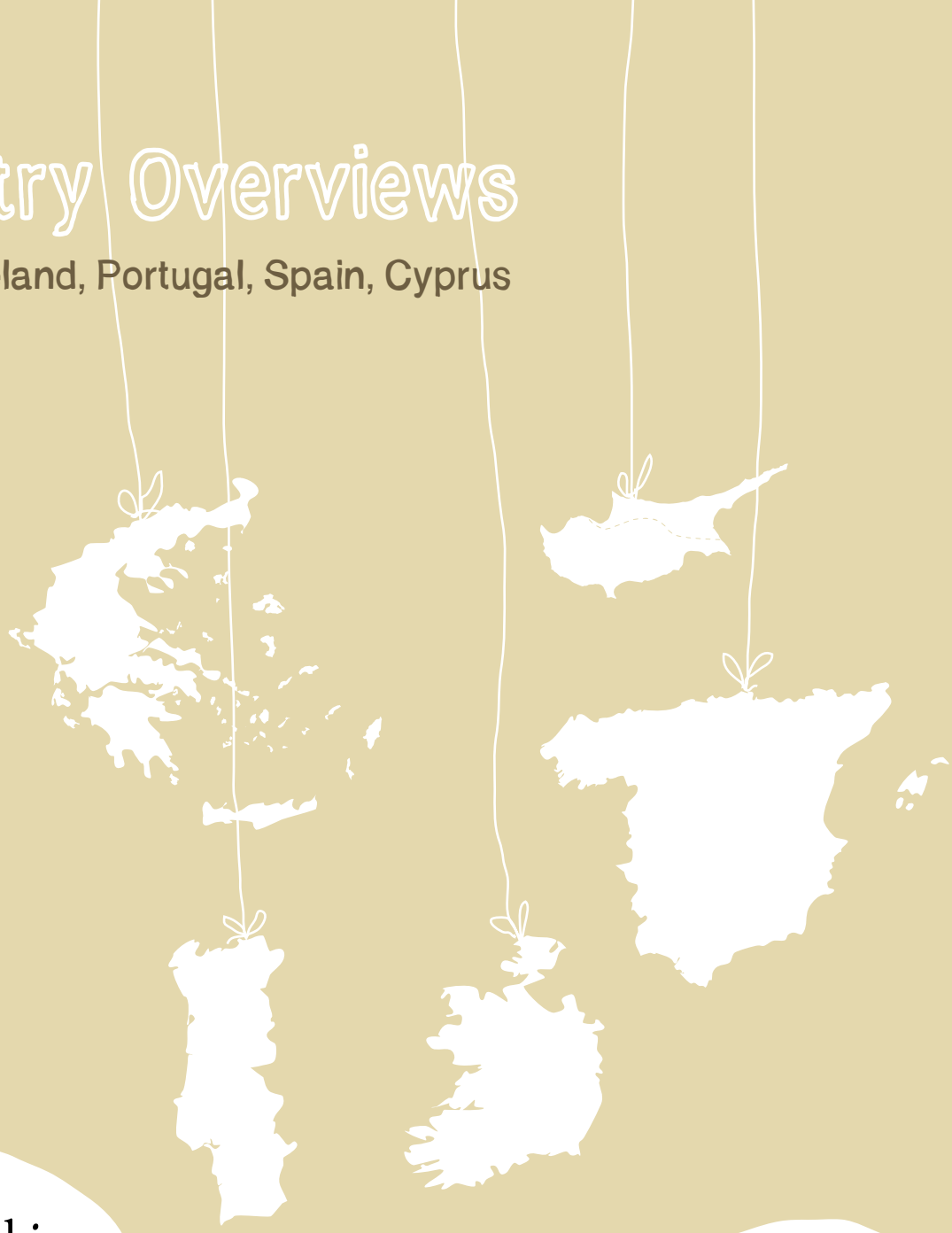
Country Overviews

Greece, Ireland, Portugal, Spain, Cyprus



"Portugal is not Greece."

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Greece

A great deal of information about Greece is provided throughout the guide so this section focuses on details surrounding the **debt restructurings** that have taken place since the bailout. Although at first, the taboo about Greek debt restructuring was unbreakable, the debt has been juggled about several times, each time worsening the debt indicators. The first bailout in May 2010 resulted in 52.9 billion euros disbursed through the Greek Loan Facility (GLF) and 20.1 billion euros through the IMF, bringing the total to 73 billion euros instead of the originally projected 110 billion euros. This programme fundamentally failed and amidst the political instability and mass protests that finally brought down the Papandreou government, the creditors hurriedly signed a new deal. In November 2011, the Troika rushed to appoint a more reliable prime minister, Papademos, former vice-president of the European Central Bank and former governor of the Bank of Greece. His government was described as technocratic, though its members were notable for their lack of political legitimacy, rather than their technical expertise. In March 2012 the Second Bailout, was agreed at 130 billion euros, plus the undisbursed 34.5 billion euros from the first programme.[2] This time the euro area's loans would be financed through the European Financial Stability Facility (EFSF), not via bilateral loans (GLF). Total commitments to Greece from the second programme were 164.5 billion euros, of which 144.7 billion euros would be lent via the EFSF, with the IMF lending another 19.8 billion euros. The total package was worth 247.5 billion euros, or 136% of 2013 GDP.

The major debt restructuring took place in spring 2012 and was called the Private Sector Involvement (PSI), as all the private sector investors in Greek debt were forced to participate. This was the largest sovereign debt restructuring ever completed, where 199.2 billion euros out of 206 billion euros of outstanding bonds held by the private sector were restructured.[3] Old bonds were swapped for a bundle of four instruments (of EFSF notes, new Greek bonds, GDP-linked securities, and EFSF notes to pay any interest accrued) of approximately half the old bonds' original face value. This meant an approximately 53% discount on the face value of Greek government bonds held by the private sector; this discount is called a 'haircut'. Why would investors agree to this? They were promised lucrative conditions such as issuing new bonds under English law, monitoring of all Greek ministries by an international task force, and proposals for an escrow (segregated account) to prioritise debt repayments. Collective Action Clauses (CACs) were introduced retrospectively on all bonds covered by Greek law, meaning all holders *had* to participate in this haircut, whereas only some of those holding bonds governed by foreign law took part, and did so voluntarily.

All three rating agencies downgraded Greece to default status, yet although Greece had now officially defaulted, the government and media, as well as international commentators, avoided the 'D-word' as much as possible presenting the occurrence as a purely technical affair.[4] The widespread fear of contagion did not materialise and the eventual CDS settlements were small, around 2.5 billion dollars.[5] The bond exchange was heralded as a success that would lead to debt reduction, taking Greece's debt ratio from 167% of GDP in March 2012 to 120% of GDP by 2020. However, revisions made in the Greek parliament, as early as October 2012, indicated debt had reached 189% and would peak at 192% in 2014.

Apart from the continuing collapse in GDP, which surely contributed to the debacle, what was most absurd was the fact that the debt 'cancellation' of 100 billion euros was only granted on the condition of creating (at least) another 130 billion euros of new debt. The 56.5 billion euros worth of Greek bonds held at that time by the ECB and national central banks were excluded, bringing into question how seriously the Troika aimed for a comprehensive debt reduction. The failure of this agreement was immediately apparent, as the newly exchanged bonds were instantly trading significantly below par, meaning that bond markets expected another default as soon as the first one was concluded. Furthermore, the way it was completed meant that those who held out, including several happy hedge funds, would be rewarded by being repaid in full by euro zone bailout money. Greece is even getting sued in the World Bank's international arbitration tribunal court ICSID by speculators who hoped to recover the full amount of their investments.[6]

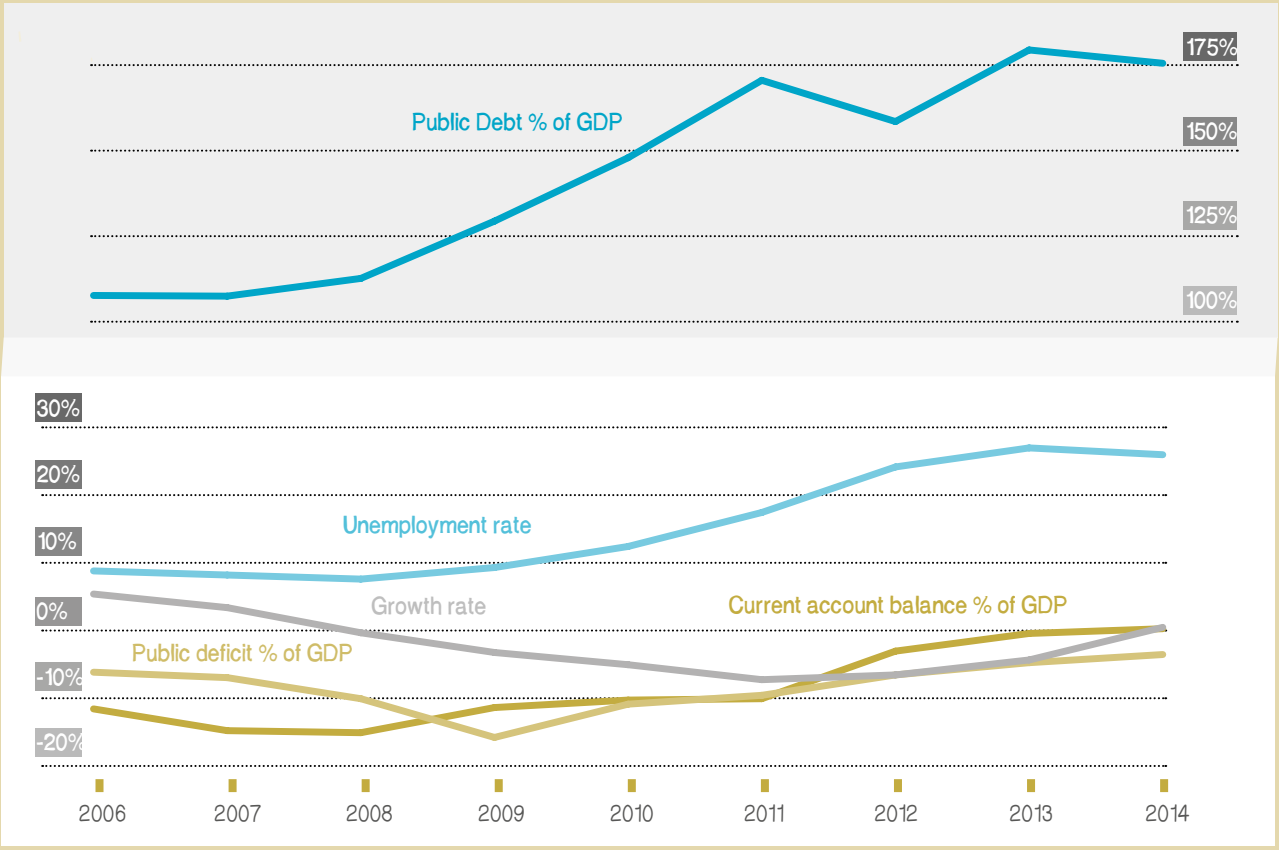
What was the result of this? Greek banks and pension funds held a large amount of Greek government bonds, and their inclusion in the PSI had the immediate effect of ruining their balance sheets. Unsurprisingly, due to the PSI, the pension funds which secure pensions for working people, lost 12 billion euros out of a total of approximately 24 billion euros, and by the same stroke Greek private banks were pledged 50 billion euros in recapitalisation.

Further debt restructuring was in place by December 2012 when Greece borrowed money to buy back older debt, in what was known as the 'debt buy back'. One of the conditions for receipt of 52.3 billion euros from the second bailout package was a debt buy back, where part of this borrowed money would buy back post-PSI bonds. Greece bought approximately 31.9 billion euros of government debt securities for 11.3 billion euros (on average 33.8% of their original value) meaning approximately 20.6 billion euros were written off. The complication was that the government was now essentially imposing a new haircut on any remaining holdings of Greek debt by Greek residents, which was mainly the Greek banks. They were pushed into this in order to secure the next 24 billion euros as part of the remainder recapitalisation scheme. Once again public debt rose in net terms; the write-offs were actually conditional on further, larger indebtedness.

The debt profile is now completely altered, clarifying the original objectives of the Troika: the only sustainability the Troika was concerned with was that of the large multinational financial institutions and not that of Greek debt.

By the end of 2013, only 23% of Greek sovereign debt is in the form of bonds. Much of the remainder (over 66% in September 2013) is owed to the euro zone governments, the European bailout fund and the IMF.[7]

For more information on the social impacts and political resistance to the bailouts see chapters 9 and 19.



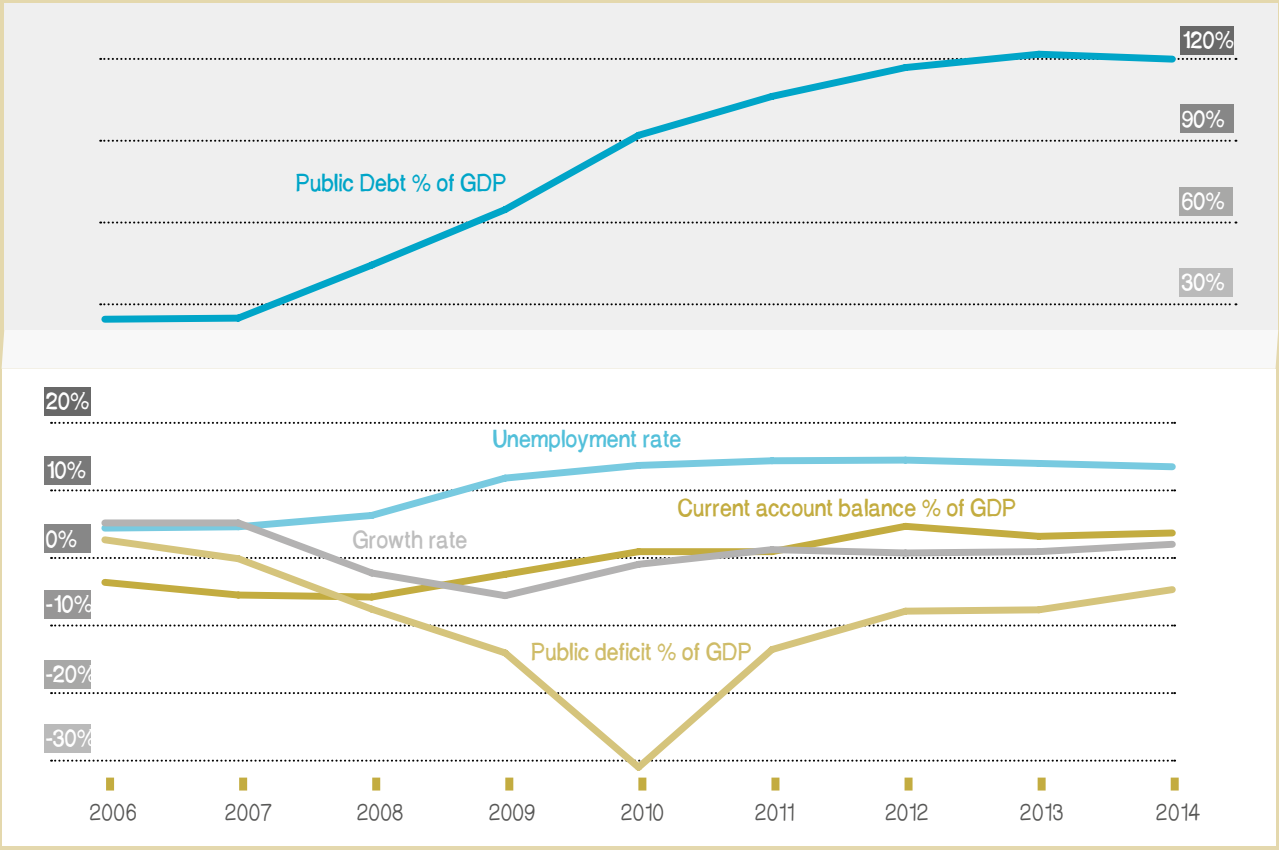
Ireland

In 2008, during the escalation of the financial crisis, the Irish government announced one of the largest bank guarantees in history. The blanket bank guarantee scheme was worth 400 billion euros, more than double Ireland's GDP at the time. Was this a surprise? A year earlier a senior risk manager in one of Ireland's largest banks, UniCredit Ireland, blew the whistle to the regulators revealing that the bank was systematically not meeting minimum liquidity requirements, only to be ignored and silenced.[8] A year later, it all came crashing down. The guarantee covered not only bank deposits, but the banks' bondholders as well, making the main beneficiaries of the guarantee the creditors of Ireland's insolvent banks. By guaranteeing all the debts of the banks, no matter the size, the state committed astronomical amounts to banks which were no longer operational, to which it continues to fork out billions a year to service their bondholders. It is no secret that the guarantee came after the insistence by the ECB to do so.[9]

In 2007, before the bank bailouts, the public debt to GDP ratio was 25%. By 2010 it had jumped to 92%. This led Ireland straight into the arms of the Troika (the IMF, the ECB and EC) and in November 2010, Ireland sought a bailout of 85 billion euros, which was to further increase its debt ratio to 120% by 2014. This 85 billion euros was provided through a combination of loans from EFSM (22.5 euros), EFSF (17.7 euros), bilateral contributions from the UK, Sweden and Denmark, and IMF (22.5 euros). The accompanying Memorandum was a structural adjustment programme coupled with severe austerity. This was not without political instability: the Fianna Fáil (the Republican Party)/Green Party coalition collapsed within months and was replaced by a Fine Gael (the 'Irish Race' or 'Gaelic Nation' party)/Labour Party coalition at the February 2011 general election. The general bailout scheme called NAMA set up to manage the banking collapse is explained in more detail in Part 3.

Although presented as the 'good austerity pupil' in reality, the consequences of the policies are grave, with living standards dropping rapidly. This includes a more than 20% reduction in wages of public sector workers, introduction and increases in a range of taxes on housing and water. The numbers of people emigrating reached 40,000 for 2012, with levels remaining high.

Despite being praised as a poster child in its successful implementation of gruelling austerity, the situation is deteriorating, with worsening living conditions, the budget deficit still looming and the government still set on cutting social spending to bring it down.



Portugal

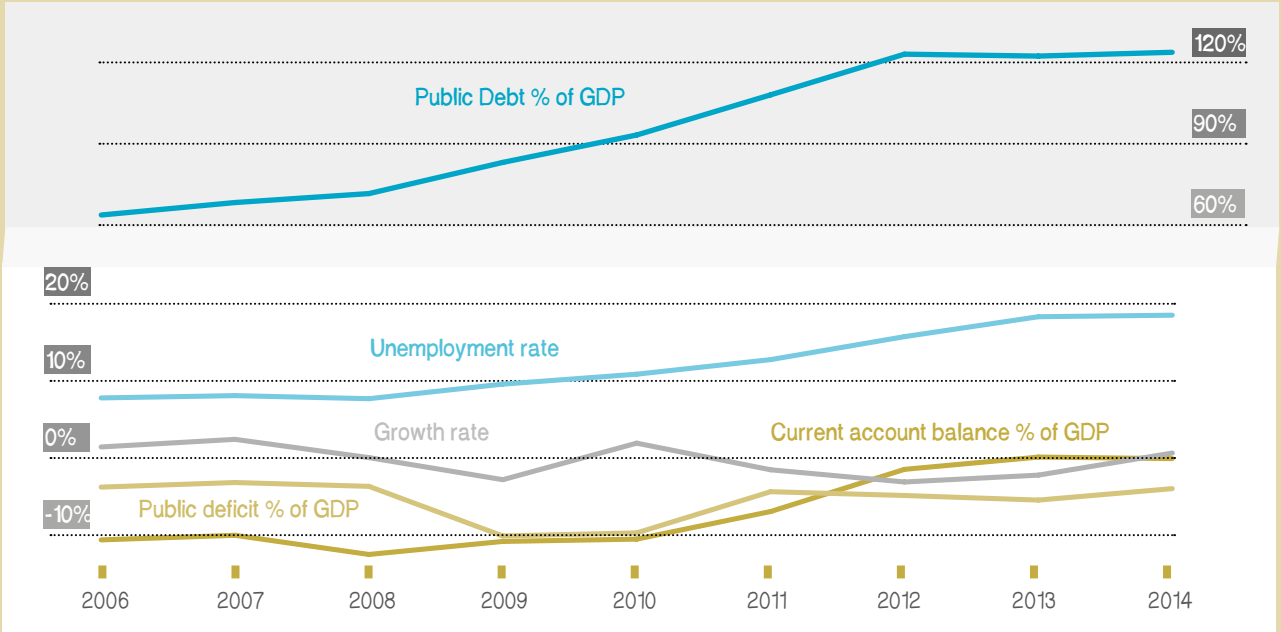
Portugal has seen a massive peak in private debt levels over the past decade, with private debt jumping from 88% of GDP in 1996 to 249% in 2011. Public debt increased but by a much smaller relative amount, from 50% of GDP in 2000 to 68% in 2007 – an amount similar to that of France, Germany and Austria. By 2011 the public debt was 108%, and government deficits, which averaged 4% of GDP between 2000 and 2008, were 10.2 % in 2009 and 9.8% in 2010.

The government started voting in harsh austerity packages before an official bailout was requested as a way to 'reassure' the financiers and fend off the official request. In 2011 when a major austerity package was rejected by all parliamentary parties, it led to the collapse of the minority Socialist Party government, and effectively was implemented anyway (in harsher terms) through the Troika. Prime Minister Socrates (2005 -2011) resigned, and elections were called for June 2011. After the government had resigned, the Troika placed increased pressure on the already dismissed government. What was effectively a caretaker government with no democratic legitimacy, made the official request for the bailout from the Troika, becoming the third country to seek aid. With other centre to right political parties, the Memorandum (the list of conditionalities) was signed and eventually, the centre-right party won the election of 5th June 2011 with Passos Coelho - Social Democratic Party (conservative) – becoming the Prime Minister.

The bailout, agreed in May 2011, totalled 78 billion euros up to mid-2014, which originated from the EFSM (26 billion euros), the EFSF (26 billion euros), and the IMF (about 26 billion euros). Often portrayed as a success story, the bailout, its austerity and ensuing recession has been detrimental. The predictions made by august institutions like the IMF and ECB were unable to correctly predict what would happen just six months down the line, and have permanently underestimated all variables. The unemployment rate has risen from 4.5% in 2000 to 8.% in 2008, and by 2012 it was 15.5%; official numbers place unemployment at 15.3% in 2014. With over a million people out of work, 55% of who have no benefits or public support, the situation is desperate. More the 120,000 have been emigrating each year since 2010, numbers unheard of since the 1960s when the dictatorial rule of Salazar caused many to flee. Salaries have decreased by as much as 20% whilst average working hours have risen from 35 to 40 hours a week in the public sector; 25% of the Portuguese population is living below the poverty line (before transfers), with the poverty line drawn at 420 euros monthly income in 2010. Cuts have been imposed in social benefits (unemployment, minimum income scheme, etc) and public services (education, health, science and research), and major privatisation (energy, shipyards, postal service) is planned.

By July 2013, although still sustained by the bailout, Portugal was portrayed as a success story, able to borrow in the capital markets. The future is wobbly and uncertain and it is increasingly likely Portugal will need a second bailout in 2014, when the current funding runs out. The IMF has made it clear that it expects the EU to provide this. Portugal undertook bond exchanges, in late 2013, swapping government bonds that were imminently due for debt maturing about three years later.

At the end of 2007, 70% of Portuguese public debt was in the hands of bankers and other international investors (private creditors). In December 2011, 32% of Portuguese public debt was held by the EU, ECB and the IMF; 22% by international financiers; 18% by international banks and 7% by families. By August 2012, the Troika held 70% of public debt.



Spain

Spain represents a very clear example of how a private sector problem became socialised. Spain's recent past was based on a construction boom: airports without planes, highways without traffic, luxury hotels that are instantly bankrupt, and a high velocity train line AVE, which is longer than Japan's and without passengers in many sections. The bubble was based on giant construction companies and real estate developers making billions, and on Western banks (many of which later collapsed, such as HypoRealEstate, Dexia etc) financing them. Borrowing heavily from core country banks allowed Spanish developers to keep growing and keep inflating property prices. Due to legislation that changed 'non – construction grade soil' into 'construction grade soil' all municipalities began competing to attract the developers.

Before the crisis, Spain had 36% debt to GDP, an amount much lower than the **Maastricht** commitments, whose maximum is 60%. It has now grown to over 90% of GDP, yet the problem is not public debt but private debt.[10] This is a problem for everyone now, because it is the state that guaranteed these private debts. "So, the banks only have to worry about making money, because if failed, it will be the state who bears losses."[11] The amount of public money committed to the banking system through capital injections, liquidity, tax breaks, and guarantees amount to more than 1.4 trillion euros.[12]

The Spanish bailout was first agreed in July 2012, after the Spanish government requested it. This represented a new phase of deepening in the crisis, as Spain (and Italy) are both major economies, which cannot be dealt with in the same way as Greece, Ireland or Portugal (either practically or, apparently, politically). What was originally known about the Spanish bailout has been kept hidden. However, by early 2013, 100 billion euros had been committed (of which only 44 billion were used, and the programme closed in December 2013) by the ESM. The IMF did not contribute monetarily. The bailout was administered by the Fund for Orderly Bank Restructuring (FROB) – a bank recapitalisation fund of the Spanish government – which received the money from the ESM and gave it to the banks. The government remains fully liable and has to comply with strict conditionalities, as outlined in two documents: a Memorandum of Understanding (between the Spanish government and Commission) and

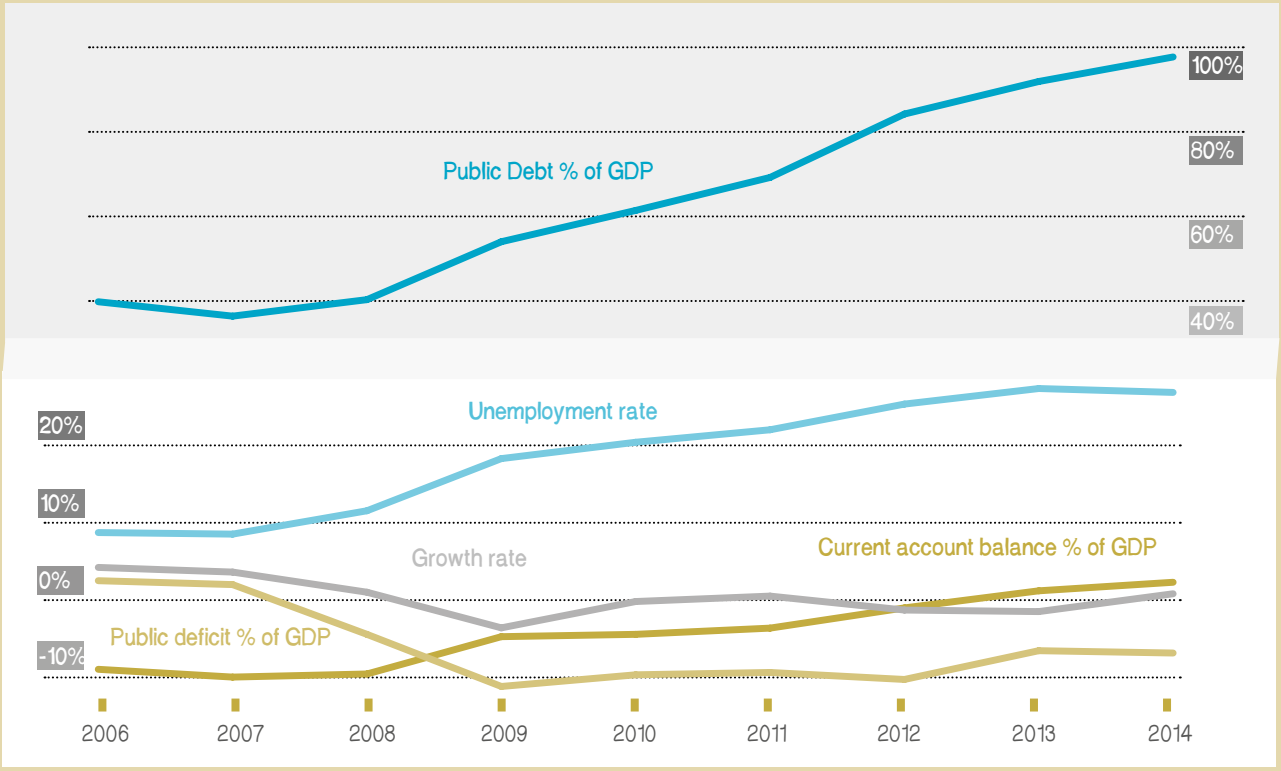
> "What is being requested is financial assistance. It has nothing to do with a rescue," de Guindos Minister of Economy and Competitiveness of Spain[13]

a Financial Assistance Facility Agreement (between the EFSF, Spain and FROB - the guarantor) regarding specific reforms to the financial sector.

In July 2012, when the Spanish bailout was first discussed, a thorny issue in the negotiations was whether the bailouts to the banks would go via the government, and thus increase the public debt, or would by-pass the government, come straight from abroad and thereby not affect public finances. Although the possibility of the bailout not directly indebting the government was revealed as a success and a victory by the Spanish government, this eventually proved to be a red herring (as it increased public debt and didn't by-pass the government). A second contentious issue was how to transfer loans from one fund (the EFSF) to another (the ESM). The main discussion point of the time was whether the ESM debt was more senior (i.e. has to be repaid first) than EFSF debt. However, in the Spanish case, the bailouts were originally financed by the EFSF and then transferred to the ESM without applying any seniority.

The permanent bailout fund, the ESM, issued its first notes worth 39.5 billion euros, marking the first time this fund was ever used. The money was given to the FROB on December 11 2012 and was used to bail out the following Spanish banks: BFA-Bankia, Catalunya-Caixa, NCG Banco and Banco de Valencia. The FROB has also given 2.5 billion euros for SAREB, the asset management company, for assets arising from bank restructuring (a 'bad bank'). The second disbursement to Spain was concluded on February 5 2013 by the ESM, for a total of 1.8 billion euros for the recapitalisation of the following banks: Banco Mare Nostrum, Banco Ceiss, Caja 3 and Liberbank.[14]

So outraged were people at Bankia's fraudulent practises that activists and left political parties are currently suing Rodrigo Rato, the former CEO, who was also managing director at the IMF. The legal battle is about presenting profits to dubiously inflate stock market prices, a few months before the bank declared **bankruptcy**. People that bought the stocks lost more than 3 billion euros of their money, which audits subsequently revealed was due to fraudulent accounting.[15]



Cyprus

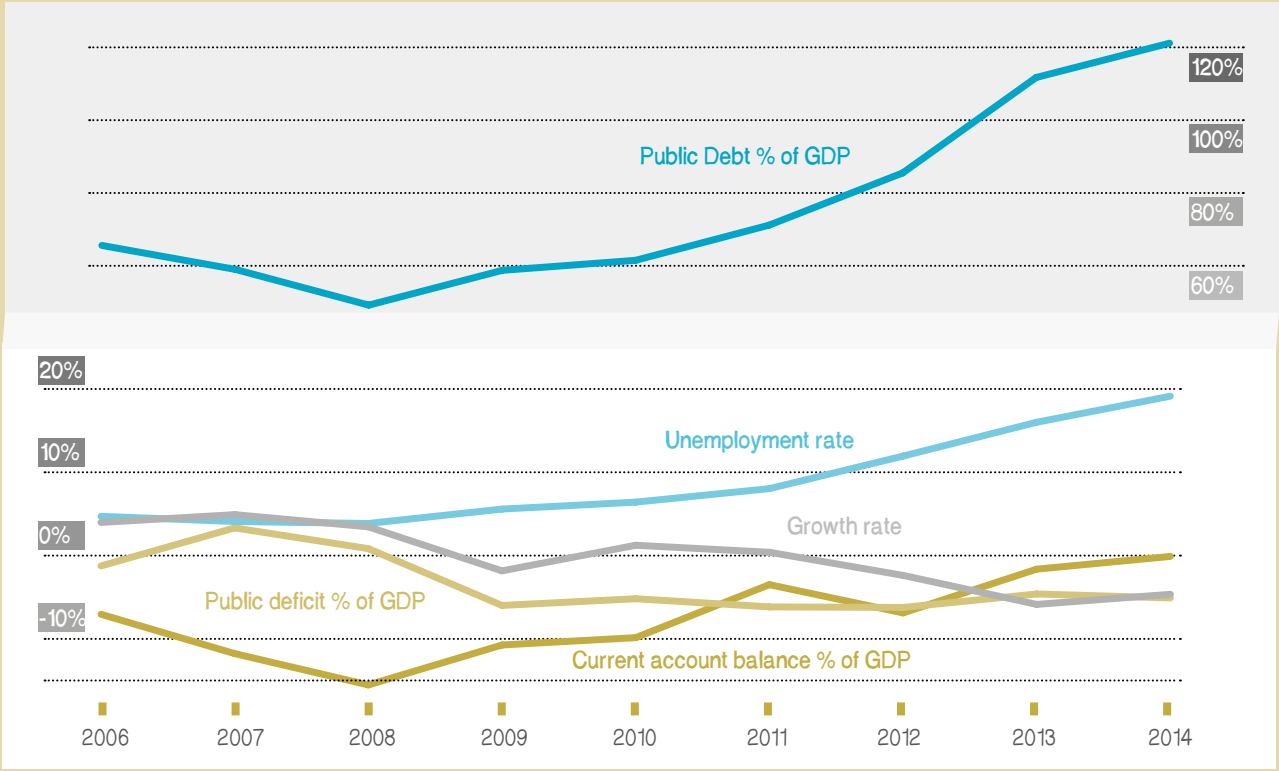
Cyprus was the fifth country to request financial 'assistance' when in 2011 it sought a 2.5 billion euros bilateral loan from Russia. In 2012 it agreed to a loan from the Troika, which was finalised in April 2013. The ESM will lend 9 billion euros, the IMF 1 billion euros for the period 2013 – 2016.

Despite having a relatively small GDP, Cyprus has a rather large financial sector, whose assets are almost eight times the size of its GDP. This is because it operates as one of the EU's many tax havens. It has close relations with Russia, and there are serious suspicions of money laundering of the investments and deposits of rich Russians. The Cypriot economy is also very much exposed to Greece, and so following the Greek debt restructuring in 2012, its largest banks failed to meet capital requirements.

A serious crisis occurred in March 2013, which ushered in a new precedent for the EU crisis: making depositors pay – bailing in, and introducing capital controls.[16] The bail-in is a direct seizure of bank deposits from people's bank accounts. This has been called a 'levy' currently at 6.75% of deposits in accounts up to 100,000 euros and 9.99% for sums over 100,000 euros. This meant depositors were paying for the recapitalisation, as they received bank shares in return. This measure was destined to raise 5.8 billion euros, as part of the 17 billion euros that the Troika deemed necessary for the Cypriot bailout, close to 100% of its GDP.[17]

Bank deposits were frozen, ATMs ran dry and the banks were closed. Following rapid destabilisation and increased anger of depositors, the Cypriot authorities decided to keep banks closed for almost two weeks and to keep the stock exchange shut, to prevent bank runs and the stock market collapsing. An indication of the emergency that overcame the small Mediterranean island is evidenced by the decision of the UK Ministry of Defence to send an RAF plane with 1 million euros in cash to supply its base of 2,000 military in Cyprus, a remnant from when the UK was an occupying force. Furthermore, the UK Chancellor George Osborne promised to guarantee all deposits by UK government and military personnel on the island.[18]

The second precedent, however, was that although Cyprus is the fifth country to seek a bailout, it was the first to originally say 'no' and vote against the EU's plans. This was short-lived however, as shortly after, the parliament agreed to the measures.



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Summary of main points

At every stage of the crisis corporations, governments, regulators and hedge funds have profited in one way or another, be it through financial gain or sustained political power. This puts the politicians' and journalists' talk of 'necessary crisis measures' into some perspective. The crisis has been transformed into an opportunity.

Part 4

Who profits from the debt crisis?

Chapter 13: Bailouts to periphery countries are really back-door bailouts for core country financial institutions

The large multinational banks owned a lot of periphery country debt in 2009. To prevent the banks going bust, the Troika provided the money (via bailouts) to the countries so that they could repay their debts to the private banks, in full and on time. The Troika's loans acted as back-door bailouts to many large financial institutions that had bought periphery country bonds. It was not sovereign debt they wanted to be sustainable, but the stability of these institutions. Most of the bailout money does not stay in the country; it gets registered as public debt and is immediately siphoned off to repay creditors.

Chapter 14: The Troika benefits from the bailouts

The Troika's solution to a debt crisis is to pile on loads more debt, which often comes with high interest rates and onerous conditions. Many of the creditors providing the loans borrow at close to 0% interest, and yet lend it on for much higher. The creditors are making good money out of their 'investments' in bailouts.

Chapter 15: The ECB's role

Banks can borrow cheaply (at 1%) from the ECB and then use the money to lend to the governments for a high price. In order to borrow from the ECB they use as collateral the government bonds of those currently paying a very high price to borrow. Furthermore, the ECB's purchasing of periphery country bonds is not a gift – it earns good interest!

Chapter 16: Vulture funds and other financial institutions

Heavily discounted debt is bought by vulture funds which wait for the right time to make a killing – in the hope that the country will default and can be sued in court for several times the amount the debt was actually purchased for.

Chapter 17: Privatisation: robbery in broad daylight

Privatisation is not a tool to secure a public service with less queues, less bureaucracy, or improved access to services, but rather it is a tool for those who want an equally clientelist state, with less (but more expensive) responsibilities for the public sector. The objective is not to improve public finances, but to sell off valuable businesses cheaply. We examine in depth Greece's privatisation fund, an example of how each asset is to be used solely for the repayment of the country's sovereign debt.

Who profits from the crisis?

"Germany, by lending money to the peripheral countries, is trying to prevent its fragile and leveraged banks from getting hit, effectively orchestrating a back-door recapitalisation of its own banking system" Stephanie Kretz, private banking investment strategist at Lombard Odier [11]

It is pretty clear that those paying for the crisis are not the ones that created it. Poverty is rising; people are losing their jobs or are forced into accepting terrible working conditions; universities and hospitals are closing. Everyday normalities are breaking down and racism, sexism and xenophobia are on the rise. The authorities say these are necessary consequences to repay public debt.

But it's not so bad for everyone: the crisis is being used to make profits in a variety of ways. At every stage corporations, governments, states, regulators and hedge funds have benefited not only through financial gain, but also through creating conditions that will create more opportunities to make profits in the future, as well as through increased or sustained political power. This puts the politicians' and journalists' talk of 'necessary crisis measures' into perspective. At each stage, the way the crisis has been dealt with has passed the bill onto society – to working people, to vulnerable social groups, to the environment – to ensure that large profits are or will be made by those who hold power, whilst corruption and injustices continue.

Profiteering happens in a number of ways: lenders (be they banks, governments or multilateral institutions like the IMF) benefit from the interest earned; corporations benefit from loans tied to contracts, projects, or from the carving up of public assets; officials gain from political patronage.

More specifically, the Troika's loans are being used to ensure the stability of financial institutions, partly as back-door bailouts to the multinational banks. These very banks had made millions using credit default swap contracts to bet on whether a country would default, pushing the countries to the international bailouts. The money administered by the Troika is a good investment for the creditors: triple A rating, excessive interest rates and a debt bondage through loan agreements and tight surveillance. The Troika loans are earning high interest payments, despite being below market rates and despite these rates being reduced in new negotiations. The Troika enforces widespread impoverishment under the guise of 'support' and 'assistance'. In some cases, the tight surveillance is no longer about back-door bailouts to banks, but about the Troika getting its money back. 'Distressed debt' is the specialty of aggressive vulture funds whose aim is to squeeze as much out of the debtors as possible, if necessary by taking them to court. Distressed debt is debt that is bought at a significant discount, meaning that it has very high yields. Meanwhile the numerous bailouts of the banks ensure the cost of the excesses of the private financial system are socialised – i.e. the public pays for their mistakes. Furthermore, the conditionalities imposed enforce a widespread sell off of public property and ownership. The privatisation plans are part of a new corporate carve up of public spaces and public assets.

Let's look at these one by one:

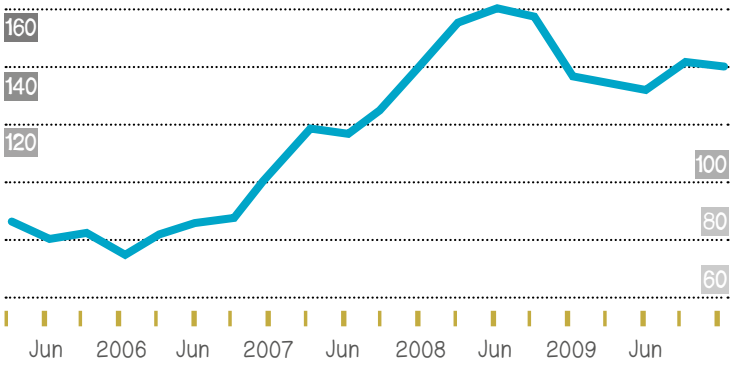
Chapter 13

Bailouts to periphery countries are really back-door bailouts for core country financial institutions

After the sub-prime mortgage crisis in the US, the monetary authorities in the USA, UK and Europe started bailing out the banks. The European Commission reported that the 27 EU countries committed 4.5 trillion euros to rescuing the banks up until October 2011. The monetary authorities threw money at them at very low interest. Up to late 2009 the banks took the opportunity to lend money to periphery countries, hoping to capitalise on high interest loans. Banks already heavily exposed to the debt from these countries became even more so. For example, from late 2005 to early 2007 loans of Western European banks to Greece grew by 50%, and after the sub-prime crisis began kept growing by 33%.[1] So even after the first major phase of the crisis, where inter-bank markets froze up, loans to periphery countries actually increased by 33%. This suggests the bailout money was being recycled towards government debt, much like the way in which it was also being funnelled into other markets like the commodity markets, which was linked to the financial speculation that resulted in massive food riots around the world in 2008.[2]

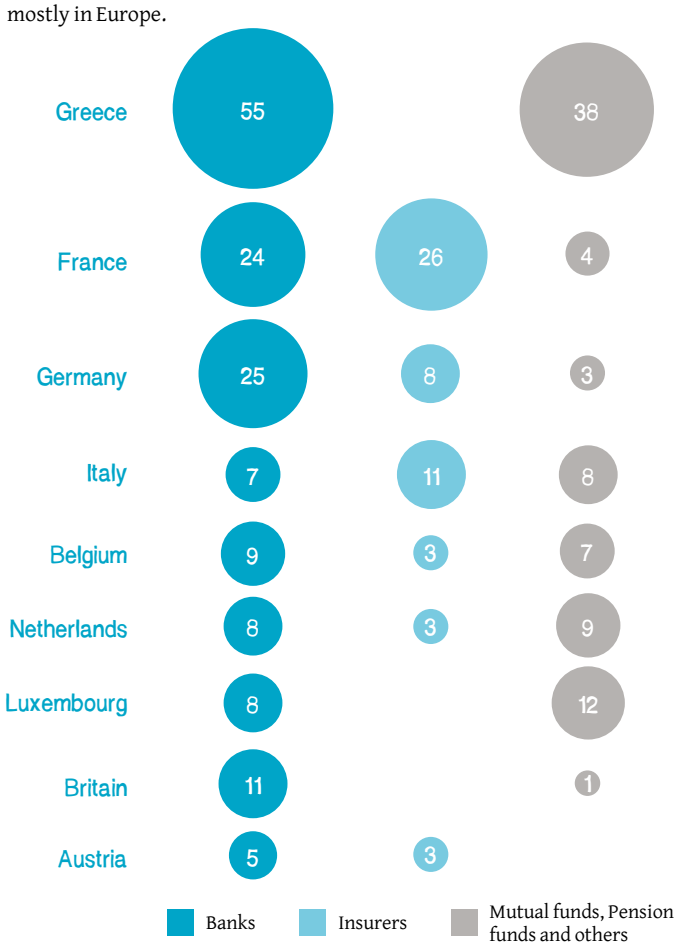
Although the exact amounts that each bank's exposure and the real risks it faces are usually confidential, some information is occasionally published and there were many – often fluctuating - estimations about each bank's and country's exposure. According to Bloomberg, in December 2009 German banks loaned out a staggering 704 billion dollars to Greece, Ireland, Italy, Portugal, and Spain.[4] According to BusinessInsider, two of Germany's largest private banks—Commerzbank and Deutsche Bank—loaned 201 billion dollars to Greece, Ireland, Italy, Portugal, and Spain. As for the French banks, BNP Paribas and Crédit Agricole of France loaned 477 billion dollars to Greece, Ireland, Italy, Portugal, and Spain.[5] This includes all loans to companies, governments, households etc.

Trends in Western European banks' exposure to Greece[3]
billions dollars



Financial institutions exposure to Greece billions euros

Greece had about $390 billion in debt at the end of the third quarter last year. Nearly three-quarters of that is held by institutions in other countries, mostly in Europe.



Source: NYTimes[6] - IMF, Barclays Capital

As the euro zone started to crumble, the possibility of default meant that the financial institutions would loose a lot of money. Instead, bailouts were lent to Greece, Ireland, Portugal etc. under the auspices of the Troika, to ensure it pays back its bonds in full and on time to the banks. Most of the bailout money the countries received hasn't remained in the economy; it enters long enough to be registered as public debt, and is immediately siphoned off to repay creditors. The Troika bailout money was a way for multinational financial institutions to withdraw from exposure to the crisis countries while minimising their losses.

"The German government is using taxpayer money to prevent its own banks from collapsing" wrote Pratap Chaterjee of CorpWatch US.[7] This is in direct contradiction to how the debate is normally framed: i.e. as responsible countries bailing out the irresponsible ones. The real motives are glaringly obvious, and have also long been admitted by the senior officials to the German government. For instance, Peter Böfinger, an economic advisor to the German government, declared that the bailouts "are first and foremost not about the problem countries, but about our own banks, which hold high amounts of credit there."[8]

All of the fanciful and imaginative justifications that the entire official narrative is based on crumbles when we look at the evidence about why the bailouts were bulldozed through.

Take the example from November 2012 where Greece pushed through a major austerity package which eroded labour rights, cut pensions and wages even further and enforced redundancies in the public sector, all in order to secure the next loan tranche of 53 billion euros bailout money. This was framed as necessary to put the Greek economy back on track, the reforms as crucial to restoring Greece's competitiveness etc. Where did this money go? From the 53 billion euros (almost 15% of Greece's GDP), 23 billion euros went straight to the Greek banks, and most of the rest of it to debt repayment of Greece's foreign creditors (remaining foreign bondholders and the ECB, IMF and EU governments). Attempting to pull the wool over people's eyes, the creditors and the politicians presented the case that the bailouts are actually a sign of support for Greece. Furthermore, they relentlessly depict the arrangements as a choice between bailouts or wages and pensions, when in fact bailouts are the main mechanism for reducing pensions and losing wages and act as pure blackmail. It is a glaring lie made by those who want to portray the situation as one where the beneficiaries of the bailouts are actually the populations in the recipient countries. In fact, an investigation revealed that from the first 206 billion euros that the Greek state received in its bailout:[9]

- 49% went straight back to the creditors, and 54% of this, was to repay bonds falling due, 35% was the 'sweetener' the banks 'needed' to incentivise them to contribute to the deal they had conjured up in March 2012 and 11.1% was used for the Greek state to repurchase its worthless bonds from its creditors at the end of November 2012.
- 28% was used to bailout (recapitalise) the Greek banks.
- 22.46% (less than a quarter) at a *maximum* was absorbed by the national budget, but it is unclear as to how the bailout money got spent as it is opaquely reported.
- 0.43% was Greece's contribution to the ESM capital (i.e. to the fund that may bail it out again in the future)

The president of the German Institute for Economic Research stated, with regards to the Greek bailouts, that there has not been a single country in the last 60 years to have received such a generous financial assistance programme to address domestic economic problems, concluding that "the issue is not that they are not given enough money, but that the fact that the money they receive has not been properly used by the government."[10] However, it is the

Troika that strictly dictates how Greece was to use its bailout money: the creditors ensured that the money was funnelled into a segregated account that the Greek government can't independently touch; the spending is determined by the Troika and Greece is under draconian surveillance by the Task Force, which is permanently resident in the Greek ministries to oversee how spending decisions are made. Neither do the other states receiving money from the Troika have leeway in how this money gets spent. The vast majority of the funds are used to repay the creditors and, if anything, it is exactly for this reason that we can point to the failure of the programme.

In May 2010, if Greece had defaulted on the loans rather than agreed to the IMF and EC bailout, the consequences would have been disastrous for the financial sector, considering the exposure to periphery country debt. The Troika's bailouts provided the flow of payments needed to keep the repayments on those loans intact. These loans were not only bond repayments. In Greece, in 2009 immense pressure was put onto the Greek government to incorporate the debts of several public companies into its debt. However, many of these debts were owed to foreign banks (Goldman Sachs, Commerzbank, KommunalKredit) raising questions about the motives behind the inclusion.

Furthermore, some of these debts were incurred through illegal procedures, and yet they became conditions for the next disbursement of a tranche of a bailout loan. For example, in 2006 an Austrian bank made a loan to an Athenian city council even though it had been ruled procedurally illegal by the Greek courts. The IMF made repayment of those debts a conditionality for the fifth tranche of the first bailout package. In other words, the IMF enforced cuts in public spending to pay off an illegal loan to an Austrian bank.[12]

Short term borrowing continues:

In October 2009, before the euro zone crisis was out in the open, Greece could borrow six month loans at 0.59% interest. Just ten months later, this amount was 4.65%, eight times higher. The last time Greece issued ten year government bonds was in March 2010 and the interest rate was 6.25% each year on 5 billion euros until 2020. Ever since, the Greek government has been reliant on bailout money, but it has continued to issue short term government paper in the international markets. Short term borrowing could continue despite the fact that no one is willing to lend to Greece in the long term. The rate charged is 4-5% for three months, meaning every three months the Greek government would be paying, say 4% on 1.5 billion i.e. 60 million euros, in interest only.

Chapter 14

The Troika benefits from the bailouts

"Greece will not default on the troika because the troika is paying themselves"
Senior adviser Deutsche Bank

The bailout packages agreed for Greece, Ireland, and Portugal are not intended to help those countries. Looking at the terms and conditions of the bailout packages, we can see that the motive is to prevent certain financial institutions from collapsing, no matter the cost. The bailout money comes from a variety of sources, all administered by the Troika (the IMF, the European Commission and the ECB) who collaborate to allocate the funds and lay out the conditions to receive them.

A report by the private financial lobby group Institute of International Finance states that for 2014 the Greek government needs approximately 31 billion euros, of which 4.6 billion euros are for the overall deficit, 16.8 billion euros are needed to repay the bonds held by the ECB and National central banks and 7.4 billion euros to repay the IMF.[13] The Troika bailout money is being used to repay itself. Under the rhetoric of needing to avoid defaulting on international loans, economic and legislative frameworks are being fully restructured. The motive to use the debt mechanism to enforce these changes is clear.

"Greece will not default on the troika because the troika is paying themselves," a senior adviser at Deutsche Bank said.[14] Therefore the Troika puts pressure on governments to accept far-reaching reforms before it releases the money to repay itself.

Furthermore, these bailouts do not come for free, but instead come with high interest rates considering they are meant to be emergency loans to 'help' debt-stricken countries. This entire debt management method has led to the sure and steady explosion in debt in all crisis countries. For example, on average the Portuguese bailout carried 5.5% interest on 78 billion euros worth of bailout money. That constitutes a substantial amount in interest payments. Portuguese debt increased from 162 billion euros in 2010 before the bailout to 213 billion euros after it, in 2013. Some of the funds committed for the bailout loans are administered through the EC as bilateral loans, as is the case with the Greek Loan Facility.[15] The first bailout calibrated the loans on the basis of the amount that each country contributes to the ECB́ s capital, meaning the German government's commitment to the first package was 22.3 billion euros, at an initial annual interest rate of approximately 5%, while Germany borrows money at close to 0% from the capital markets. Germany ended up lending 15.7 billion euros, with high and variable interest rates and, as of March 2012, had already earned 380 million euros from the bailout to Greece, while Austria has earned 62.6 million.[16] German Finance Minister Wolfgang Schäuble's remark that Greece is a "bottomless pit" is entirely unfounded.[17] The rates may have come down but the draconian surveillance remains, rendering these loans a good investment for the member states.

Other benefits for the Troika relate to the falling cost of borrowing for the stronger states in the euro zone. With core countries' interest rates close to zero there have been various estimations about the 'flight to quality' savings made: one report puts three year savings for Germany at 63 billion euros and for France at 38 billion euros.[18] The German finance minister has said 73 billion euros less than it had originally planned were borrowed between 2010 and 2012.[19] The German insurance giant multinational Allianz calculated the savings at being 67 billion euros between 2010 and 2012.[20]

As of March 2012, Germany had already earned 380 million euros from the bailout to Greece, and Austria 62.6 million

Chapter 15
The ECB's role

The ECB refuses to lend to governments, using the spectre of the inflationary potential of monetising the debts. Considering how many rules have been broken (constitutions, national and international legal frameworks), it is deeply hypocritical to hide under the pretense of rule-following.

One of the ECB's responses to the crisis was to purchase distressed debt from the secondary bond markets. Beginning in May 2010 with the Securities Market Programme (SMP), this was replaced by a scaled up version called the **Outright Monetary Transactions** programme of September 2012. Once banks and others who had so heavily lent money to the periphery countries realised that their investments were a lot riskier than they thought, many tried to sell them off, and the ECB introduced ways to help them do so. This short-term safety mechanism allowed private financial corporations to 'offload' the bonds and sell them to the ECB, thereby reducing their exposure to the countries' debts that were closer to defaulting. In the distressed secondary bond markets the only prices on offer were the severely discounted ones. If a bank bought the bonds at full value and then, amidst the crisis, wanted to sell them, they could only do so at a price significantly less than they may have paid for it, and would register a dramatic loss. The ECB stepped in through the SMP guaranteeing the banks a steady buyer of troubled sovereign bonds, and a profitable move in itself. Details of the purchase price have been disputed, though the ECB claims to be buying the bonds at market prices.

However, details are coming to light about who the benefits of such a policy accrue to. In 2012 the ECB was estimated to hold over 200 billion euros worth of sovereign debt from Italy, Greece, Spain, Portugal and Ireland. In 2012, it is estimated that 14 billion euros were made in interest income by the European central banks from these holdings.[24] The ECB's profits are distributed to its shareholders, and with the German Bundesbank the largest shareholder, it will retain the largest share of profits from the crisis-hit countries' bonds. This is with the exception of Greece, as the Troika agreed in late 2012 to repatriate the profits back to Greece.[25] However, before this decision was made in 2012, the ECB had purchased heavily discounted Greek bonds, and a senior advisor from Deutsche Bank estimates this earned the ECB an effective interest rate of almost 10% from these bond purchases.[26] Others suspected that the ECB actually guaranteed a higher price, allowing other financial institutions to sweep up the cheap bonds only to sell them to the ECB in hope of getting a better price for them.[27]

The benefits accruing to national central banks and governments should not be taken lightly. It is up to the discretion of the central bank to decide what to do with the profits it makes, whether they originate from the ECB's SMP programme, or from their independent holdings of sovereign bonds (**ANFA**). In the case of Finland, the Finnish central bank has contributed a total of over half a billion euros to the budget from profits on these investments.[28]

The circularity of the payments is absurd as it is starkly ruthless. As mentioned above, almost 17 billion euros will be repaid by the Greek government to the European Central Bank and Eurosystem in 2014. Greece needs to borrow this money from the Troika, which will be given it only once it has agreed to several more severe austerity packages. Once the neoliberal restructuring has been pushed through, the profits the ECB and Eurosystem make from these repayments will then be repatriated back to the Greek government.

Interest in debt sustainability is empty talk

The whole Greek **debt restructuring** programme orchestrated by the Troika in February 2012 was a scam, as it was framed as debt 'cancellation' aiming to bring debt levels down, but in fact succeeded in substantially raising them and imposing further devastating austerity conditions. How then did some people make profits?

Firstly, several bonds at the time of the restructuring were trading at 35% of their original value in the secondary markets, well below the approximate 50% that was agreed in the restructuring deal. This means that for those who had bought bonds on the cheap, the apparent

'debt haircut' actually guaranteed a profit. Secondly, the ECB did not include its bonds in the Greek restructuring. This means that – scandalously - Greece was required to repay the ECB in full. The deal included bondholders of the private sector, not bondholders of the official sector (like the ECB). In the months preceding the debt restructuring the ECB had bought some 50 billion euros worth of Greek bonds in the Securities Market Programme (SMP). The bonds the ECB bought were at a small discount, and if kept till maturity would be repaid in full, plus interest. The ECB thus profited from holding the Greek bonds, and undermined all the Troika's rhetoric about achieving debt sustainability. Furthermore, Greece would be borrowing more bailout money (administered by the ECB and conditional on austerity) to repay the loans to the ECB. This bizarre arrangement eventually led to months of discussions about where these profits should go. Only in November 2012 was it agreed that they be distributed back to Greece.[30] The holdings of Greek bonds by the ECB have decreased gradually since the debt restructuring, reaching approximately 28 billion in December 2013.[31]

Chapter 16

Vulture funds and other financial institutions

Vulture funds are private financial corporations that function by profiting from distressed debt. They could be hedge funds or private equity funds that buy the debt of an entity (a company or a country) at very low prices, signalling that the entity is close to default with little chance of ever repaying that debt. The vulture funds buy up the debt at these discounted prices, which may be 10-20% of its original value, and then wait for the time when it can take the company or country to court and demand repayment in full, as well as more in court fees. This occurs all over, including in Argentina, Peru, Congo and now Greece and Portugal. The classic example is Elliott Associates which, when it won a court case against the government of Peru, it earned 400% of what it actually paid to buy the debt in the first place.[32]

Vulture funds scrambled to buy up the Greek bonds that were covered by foreign law, and hence would not be included in the Greek **debt restructuring** of February 2012. They bought them cheap and could not be forced to accept the debt write down unlike those who held bonds covered by Greek law (see: Country Overviews). The Greek government had two options: to default on the payments that were due and be taken to the courts by the vultures, or to fork out the full payment. Amid the election chaos of early May 2012, the first repayment due on these bonds necessitated a 436 million euro payment to a Cayman Islands-based hedge fund called Dart Management. There was at least 6 billion euro worth of these bonds still outstanding at the time of the election, when the government escalated its rhetoric against public sector 'waste' as an excuse to cut funding on social services. The payout in May set a precedent for cash-stripped Greece to divert more funds to repay the loan sharks.[34] This is not just happening in Greece: but in the entire European debt market.

Huge profits were made by vulture funds like Third Point hedge fund, which made 500 million euros by gambling on Greek debt, and Dromeus Capital followed closely after, also making millions in early 2013.[35]

Whereas for most people; when a crisis hits, they go bankrupt; when laws are broken, they face repercussions; or when it comes to the banks or the vulture funds, they have remarkable immunity.[36]

Some banks receiving bailouts may find it necessary to downsize and sell off subsidiaries at a loss (Credit Agricole sold its Greek subsidiary Emporiki for one euro) or even fire many of their employees (UBS decided to fire 10,000 employees). Banks are running on public money- money that is given on the condition of people being impoverished through the austerity measures - and yet they continue to run as private businesses. This means the decisions about where to lend, how much to charge and how to operate are still made without any consideration to anything except shareholder value and return on **equity**. The example of the Royal Bank of Scotland – a bank 75% nationalised and owned by the UK government - is a case in point. There is no shortage of shocking stories relating to the banks hitting the headlines. The investigation into LIBOR resulted in the UK regulators sitting down with the banks to negotiate a fine for a criminal act. It is not very often that individuals, when committing a criminal act of such a scale, sit down to negotiate a fine with the judge. Banking laws and regulations are so laxly enforced that banks can act with impunity.

Four years into the biggest financial crisis for 80 years, distressed debt investors predict a promising future: "There will be tremendous opportunities in stressed and distressed debt in Europe." Damien Miller, a manager at sub-investment grade specialist boutique Alcentra speaking to the Financial Times[33]

The details on page 66 of this Guide show the amounts approved and used in propping up the banks.

However, not all countries deal with the banks the same way. Whereas the majority of European countries and the US have provided endless support to them, the example of Iceland is worth mentioning. The banking crisis in Iceland led to a diplomatic dispute between Iceland, the Netherlands and the UK government, over the decision of Iceland to not cover the losses incurred by Dutch and British banks based there. The decision by the European Free Trade Association (EFTA) court in January 2013 made it clear that it is not the responsibility of the country in which a bank may be operating to cover the expenses of its guarantees, since all the safety nets should themselves be funded by the banks.[38] This an example of a court ruling that banks should cover the costs of their own losses, rather than rely on public money to bail them out. This ruling contradicts the actions of the Western European governments from 2007 onwards, since they have supported failing banks with public money, rather than letting the banks face their losses.

Chapter 17

Privatisation: daylight robbery

"The public sector will keep anything that the private sector doesn't want" Antonis Manitakis, 2013 Greek Minister of Governance Reform[39]

Among the large list of conditionalities that all bailout receiving countries sign, and among part of the standard neoliberal package, are widespread privatisation programmes. The arguments for the alleged benefits of privatisation point to improved services and increased competition, that will eventually lead to the wonders of growth and development. The administration, production and distribution of goods and services (such as energy and water) that are provided by the state are critcised for creating monopoly situations, preventing economic development, hampering competitiveness and, most importantly, stemming the establishment of a free (unrestrained) market and the cut-throat competition rules this implies.

Such arguments became part and parcel of a daily smear campaign to demonise the public sector, and extol the 'wasteful state'. This propaganda is enhanced by the media, which exaggerates benefit fraud, while completely ignoring the fact that the ones pronouncing 'reckless government spending' today are the ones who ensured public spending was spent on political patronage and wasn't subject to any meaningful social control. The government cuts in spending pre-empt and work hand in hand with the drive for privatisation, presenting it as a solution. The public perception of the public sector deteriorates as the severe cuts and lay-offs ensure the services provided are plunged into disarray.

Privatisation can occur in a number of forms such as through the immediate selling and equitisation of assets, through long term leasing of public property, or through PPP or PFI (Public Private Partnerships or Private Finance Initiatives), or through outsourcing particular tasks within a publicly owned service.

One common economic argument in favour of privatisation is that it improves public finances: i.e. selling state assets (companies, land, and other access rights) will earn some money to boost the revenues and lower deficits. The flaws in this logic have been frequently documented by those who point out that privatisation projects merely earn a bit of cash in the short term while forgoing steady income in the long term.[40] However, even a little bit of cash in the short term cannot be guaranteed amidst a crisis induced fire sale. Selling-off public assets is usually mediated in the midst of a severe economic crisis, at a time when the value of the assets sold are heavily depressed. For example, the public electricity company in Greece and the entire distribution network is valued today at less than just what one of its production units was valued pre-crisis.[41]

That the point of privatisation is not to improve public finances is evidenced by the fact that many public businesses being sold off are actually currently profitable. The state would benefit by keeping them in its ownership and earning these future income streams.

In other words, privatisation projects are not a tool to secure a public service with less queues, less bureaucracy, or improved access to services, but rather they are a tool for those who want an equally clientelist state, with less (but more expensive) responsibilities for the public sector.

Case Study: **Greece's Privatisation fund: Selling off state's assets**

The Greek government has gone to extensive lengths to facilitate privatisation, and has done so following the model of the Treuhand, the privatisation fund set up in 1990 which aimed to privatise the wealth of former East Germany, and whose utter failure is well documented. Treuhand aimed for profits of 600 billion DM in four years, and yet ended up with 300 billion DM of debt, which was left for the public to pay.[42] The private investors who had committed to investing 70 billion DM never did, and in a short space of time 2.5 million people lost their jobs. The head of the fund, Detlev Karsten Rohwedder, was murdered in 1991. It is acknowledged that the Treuhand was the most corrupt fund of the period. Why did Greece decide to follow its example in July 2011?

Officially it is called the 'Hellenic Republic Asset Development Fund (HRADF)', but people call it the 'robbery-in-broad-daylight-fund'. It was established on 1 July 2011 through the mid-term fiscal programme. Although the Greek government is the sole shareholder of the Fund, it is not a public entity, but a limited liability company, governed by private law, the assets transferred to it are not part of the Fund's capital, and they are transferred on the provision that they cannot be transferred back to the Greek state.[43] There are plans to remove the Fund even further away from public scrutiny, by transferring management and ownership to Luxembourg, as a means to avoid legislative and judicial red tape in Greece which has stalled the privatisation programme. "It is under discussion to base the holding company in Luxembourg because it would be easier to run it from there" a Greek government official stated on condition of anonymity in August 2013.[44]

It is governed by a Board of Directors, two of whom are observers from the European Commission and the euro zone. The Board must take into account the opinions of the Council of Experts, four of whom are appointed by the board and three by the Troika.[45]

The official website boasts, "The Hellenic Republic privatisation scheme is the largest declared divestment programme in the world." The government's original commitment (in 2011) was to raise 50 billion euros by 2016, a number that has rapidly dwindled to 15 billion with the ongoing devaluation of economic activity.[46] The Fund's portfolio includes major land and real estate development projects, state owned businesses and infrastructure. They include ports, airports, roads, public buildings and real estate, mining rights, public utility companies, the lottery company and railways. Currently not included in the privatisation plans are also over 80,000 real estate properties with an estimated value of 28 billion euros, which the Troika will asses how and when to include.[47] It has completed several privatisation projects already.[48]

The government passed various pieces of legislation regarding fast-tracking and streamlining investments in Greece, through the Implementation laws, which allow for the by-passing of existing environmental and planning regulations. The Fund's mandate is that 'each asset is to be used solely for the repayment of the country's public debt'. Furthermore, at the request of the Troika, former vice Finance Minister Sachinidis amended the law to include the creation of a separate account (segregated account) for all the revenue generated from privatisation to go directly into. This leaves Greece unable to even touch the money from privatisation, so that privatisation revenue can only benefit Greece's creditors.

As of 2014 the Fund has been mired by scandals and problems, with four chairmen resigning in two years. We look now at some of the controversial figures in the fund.

Former chairman of the board of directors was Athanasopoulos, former CEO of Greece's public power company (PPC), perhaps the most contentious and controversial asset to be privatised. The chairman resigned after allegations relating to decisions taken when he was leading the PPC, and was replaced in May 2013 by Stavridis, who up to that day was the CEO of the Water and Sewarage company of Athens, another one of the largest infrastructure items to be privatised. This chairman also resigned in 2013 when, immediately after signing the contract to privatise the profitable national lottery OPAP, he was caught hitching a ride on the private jet belonging to a Greek oil tycoon involved in the deal.[49]

The CEO of the privatisation Fund, Emiris, worked for eight years for Alpha Bank, one of the banks that went bust during the crisis, and is indebting the Greek government with billions of bailout money from the Troika to recapitalise itself from its losses.[50]

When the Greek government agreed to the bailout, the Minister of Finance was George Papakonstantinou. He is currently under criminal prosecution for his activities in office, charged with removing three names from the Lagarde List, a list of potential tax evaders the Greek government has had in its possession but refused to chase up. One of the persons deleted from the list was his cousin Eleni Papakonstantinou, who is on the Council of Experts for the Privatisation Fund. She quit her position after her name became implicated in the Lagarde List scandal.

Despite the requirement of a seven member Council of Experts, only five members had been appointed, two of whom are foreign nationals. One is them is Bernd Siegfried who retains his parallel position as Head of Investor Relations Financial Markets for KfW, Germany's most powerful government-owned development bank.

Scandals:

Privatisation of ADMIE (Independent Power Transmission Operator), the electricity network infrastructure, was streamlined through three key legislative changes. Firstly, in line with the Troika's liberalisation policies, the government voted in legislation to create the transmission operator as a separate subsidiary of the Public Power Corporation. Secondly, with a legislative edict (without parliament being able to discuss or amend the proposed law), legislation was fast-tracked that abolished any public control over the Transmission operator. Thirdly, in the summer of 2013, a simple Act of Cabinet fully separated the ownership structure of the Transmission Operator from the Public Power Corporation, sending it to the top of the list of privatisation priorities.[51]

The entire country's electricity transmission infrastructure, i.e. 11,000 kilometres of high voltage electricity pylons, wires, underground and underwater cables, 293 electricity substations and centres of high voltage, and the three National Centres of Energy Control, are commercially valued at 8 billion euros. The workers of the company estimate it to be 11 billion euros. The liquidation and divestment price, however, amounts to no more than 3-400 million euros, and its stock market value is approximately 1.2 billion euros. The rip-off is even greater if we see that the annual profit of the company for 2013 amounted to 116 million euros.[52]

Sale and leaseback of 28 properties[53]

The Greek Court of Auditors halted the privatisation process of 28 public properties (ministerial buildings, police offices and tax authority buildings)[54] on grounds of impartiality, lack of transparency, conflict of interest, and questionable benefits to the Greek state.[55] The first problem with the tendering process was that the two firms hired to consult the Privatisation fund about the tendering process were subsidiary companies of the two main companies bidding for the purchase of the properties. The two consultancies: NBG Securities SA and Eurobank Equities Investment Firm A.E are subsidiaries of two of Greece's 'systemic' private banks - National Bank of Greece and Eurobank. These two banks are also the owners of Ethniki Pangaia and Eurobank Properties, the two companies bidding for the purchase of the assets. The second problem raised by the Courts was whether this was a good deal for the Greek state, as the deal involved the Fund selling 28 buildings for 261.31 million euros, which the state will immediately start renting for 511 million euros over the next 20 years. All of the 261.31 million euros earned in revenue by the Fund will be used to repay public debt, whilst the state will spend more than double to rent the buildings from the banks' subsidiaries over the course of 20 years. Thus, these two banks (which are the main beneficiaries of the 50 billion recapitalisation measures towards the banks) were offering to purchase state property – through their subsidiaries - using bailout money being paid heftily for by the population, after they had consulted the state (through their other subsidiaries) about the price they should be sold at. Several more concerns were raised, but more importantly, these aforementioned 'technical problems' as the Privatisation Fund's representative called them,[56] were discounted, following an appeal which overturned the court's previous decision. In March 2014 the court gave the process a green light.[57]

> The public electricity company in Greece and the entire distribution network is valued today at less than just what one of its production units was valued pre-crisis.

Other real estate scandals

The longer-term aims of privatisation are clear if we look at some of the procurement bids for the assets in the Fund. The selling off of the golf course in Rhodes is accompanied by long-term leasing of the coastline for exclusive use, which will abruptly remove its public accessibility and prohibit visitors from having access to one of the most beautiful parts of the area. Similarly, an area on the island of Kerkira has been given to the American fund (NCH Capital) through a 99 year lease agreement for 23 million euros, much of which will be developed for luxury tourism.

Water privatisation

The privatisation of the water companies of Greece's main cities has met with fierce opposition from employees and residents who do not want to see their water run for profit or their bills to rise. The resistance in Thessaloniki has been combative and dynamic; details of the deal and the opposition can be found from K136, a local initiative (see Part 5) and Save Greek Water.[58]

The privatisation process which from start to finish brings in and lavishly pays for multinational corporations, multinational banking, consultancy, accountant and investment consortia, has a clear political purpose: any meaning of the commons, or public, open, free space is degraded in order to maximise corporate profit, and at the expense of popular access to the environment or to publicly provided services. All this is done in the name of repaying public debt, a debt which the officials themselves have acknowledged as unviable, and whose legitimacy and legality is disputed.

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Part 5

Groundswell

Across Europe the same chant is heard again and again: "We don't owe, we wont sell, we wont pay." The aim of this section is to show the colourful diversity of resistance and alternatives springing up. Firstly, we look at some of the statements that have been released by social movements across countries.[1] We hope to show something of the fervour arising from the spontaneous mass assemblies in the streets of Spain and Greece, of the ferocity of labour and antifascist struggles and of the imagination shown by groups building radical social alternatives and mutual aid networks. Secondly, we focus on Greece, and provide more detailed information about the ways people there have reacted to the crisis. It is far from a complete account, which would require a whole report of its own (the official estimate counts over 20,200 different mobilisations and protests during 2010-14)[2], but it gives a flavour of actions and struggles. By presenting a mixture of opinions and perspectives from different social groups this part aims to create a patchwork of experiences from social movements.[3] The third and final chapter covers debt resistance and some of the means available to facilitate mobilisations against debt.

Chapter 18

Respect existence or expect resistance

Greece: 1st People's Assembly May 2011 Athens: "For a long time now decisions are being made for us, without us. We are workers, unemployed, pensioners, young people [..] We are here because we know that the solutions to our problems can only come from us. In the squares we will co-create our future. We call all workers who will strike in the next period and who reach Syntagma square to remain in the Square. We won't leave [..] until all those who brought us here leave: governments, Troika, banks, memorandums and all those who exploit us. We say the debt is not ours. Direct democracy now."

Spain: Agora99 European and Mediterranean movements and network meeting on Debts, Rights and Democracy, November 2012: "Don't Owe, Won't Pay! We point at transnational corporations, especially international banks, for grabbing wealth through the payment of interest and the privatisation of the public companies in strategic sectors. We already know that debt claimed to governments has not been acquired for the benefit of the people. We therefore consider it illegitimate debt and will not pay. [...] Not paying debt is not enough, neither is the recognition of illegitimate debt; we know that the capitalist system works with a systemic debt mechanism of impoverishment and domination. Without overcoming the capitalist system we will not end the slavery process debt implies[...]."

Ireland: Irish say no to debt: "Ireland's debt repayments for the now dead Anglo-Irish Bank will reach over 47.9 billion euros by 2031 if the repayments are not suspended! That is 30% of Ireland's GDP. The debts run up by [...] 'Anglo' are not the responsibility of people living in Ireland – they are the responsibility of those who supported Anglo's reckless lending. [..]The next payment, amounting to 3.1 billion euros, falls due on 31st March, [... this] would cover the cost of running Ireland's entire primary school system for a year. We call on the government to immediately suspend these repayments!"

Germany: Blockupy: Blockade of the ECB and major banks, May 2012: "We are calling for massive protests in Frankfurt against the crisis regime of the European Union. We are protesting the widespread impoverishment and denial of democratic rights occurring in the Eurozone as part of a global systemic crisis. In the periphery of the EU we are experiencing the extreme effects of politics pushed for by the governments of Germany and France and enacted by institutions representative of global capitalism: the ECB, IMF, EU, and their imposed technocratic governments. Let us bring our movements together in solidarity to continue the fight!"

Spain: assemblies in Madrid September 2012: "With our presence (outside parliament) we denounce the lack of legitimacy of the Government for breach of its election and contempt for Popular Sovereignty. We demand: The resignation of the government!"

Portugal: 'Democracy and Debt' group: "At the heart [is] a 'debt' they constantly tell us has been created by us [...]. It is important to know [and] always necessary to reaffirm that this debt was (and is) caused by serious shortcomings in democratic regimes and [...] subservience to the interests of a predatory and corrupt government and economic and financial system. A system that never loses, and always profits, with the current crisis."[4]

Chapter 19
Turbulence in Greece

In this chapter, we hope to portray the extent of upheaval by providing additional information from some of the mobilisations. The result of three years of fiscal adjustment – as the authorities like to call the on-going social catastrophe – is a general, widespread and severe reduction of the quality of everyday life. In order to deal with a society that is crumbling and the corresponding widespread disobedience against the state's agenda, the state has needed to intensify its repressive rhetoric and technologies. This creates a situation where the state maintains a precarious order through violence and repression.[5] We begin this chapter with translations of statements made by a variety of types of struggles and groups, and then move on to descriptions of resistance in different sectors and areas.[6]

Don't Pay Tax Hikes (People's Assembly in Athens Neighbourhood Koukaki): "The community's struggle is through the People's Assembly, so no one will be alone. Choosing the lone road often leads to lining the pockets of lawyers and tax specialists. Choosing the collective road we explore the joy of trying to succeed together with our neighbours".

Community Health Clinic: "Reacting against the policies which impoverish the human, constructing armies of unemployed, creating thousands of uninsured, they abolish public health provision. We answer by creating in practice solidarity, the commons, self organisation in the social realms."

Athens squat: "the state and its lackeys ask and differentiate local or immigrant? Public sector or private? Employed or unemployed? Woman or man? Violent or non violent? Whilst at the same time pushing us all into impoverishment. WE REPLY we are the ones who create the wealth of this world and we are here to take it all back: people's assemblies, housing squats, social medical centres, strikers funds, anti-fascist hubs, direct agricultural productions, schools of self education, base unions and social centres. End the fear, everyone out in the streets".

Pensioner commits suicide outside the Greek Parliament leaving this note, April 2012:

"The collaborationist Tsolakoglou government has annihilated my ability to survive, which was based on a very dignified pension that I alone (without any state sponsoring) paid for 35 years. Since my advanced age does not allow me a way of a dynamic reaction (although if a fellow Greek was to grab a Kalashnikov, I would be the second to follow him), I see no other solution than this dignified end to my life, so I don't find myself fishing through garbage cans for my sustenance. I believe that young people with no future will one day take up arms and hang the traitors of this country at Syntagma square, just like the Italians did to Mussolini in 1945 (Piazza Loreto in Milan)." *Note: Tsolakoglou was a Greek military officer who became the first Prime Minister of the Greek collaborationist government during the Axis Occupation in 1941-1942.*

Greek Debt Audit Campaign: The Greek Debt 'Cancellation' and the PSI agreement is responsible for shutting colleges, hospitals and museums! The PSI is unacceptable because: it is imposed by a government which has no democratic legitimacy and was appointed in a disgraceful manner by Angela Merkel and Nicolas Sarkozy. We do not owe – We will not sell – We will not pay! Papademos has passed through parliament the monstrous progeny of the IMF, the ECB and the EU, but the game is only just beginning. The people's struggle will soon overturn the robbers' laws. But society can only achieve [this] through occupying the streets and removing the bankers from government.

The workers of 'Viomichaniki Metalleutiki' ('Industrial Minerals') in Thessaloniki, unpaid since May 2011 have taken matters into their own hands after the factory was abandoned by its owners: "When factories are closing down one after another, the number of the unemployed in Greece is approaching two million and the vast majority of the population is condemned to poverty and misery by the governing coalition of PASOK-ND-DIMAR, which continues the policies of the preceding governments, the demand to operate the factories under workers' control is the only reasonable response to the disaster that we experience everyday, the only answer to unemployment; for that reason, the struggle of Vio.Me. is everyone's struggle."[7]

Stop Evictions: "The debts of households and small businesses are the result of the recession, of unemployment, of relentless wage and pension decreases and of the ransoms that bank lending entails. No house in the hands of the bankers!"

K136 Initiative 136: "In Greece we are living in an extraordinary situation in which sovereign debt is being used as an excuse to privatise everything that is publicly owned. Under the auspices of the IMF and the EC they are putting up for auction the water and sewerage company of Thessaloniki (EYATH), amongst many others, even though it is an effective and profitable state-owned business offering good service at low prices, and is never in loss. If one divides the estimated value of the company by the number of water meters (i.e. users), the result is 136. Initiative 136 was born in the summer of 2011, whereby workers from the company, local community groups and citizens decided [...] that they are not willing to let anyone play with the water we and our families drink from. We will not allow any interest – domestic or foreign - profit from our water and play games with public health and our area's environment."[8]

Open co-ordinative against the gold mines: "When death, environmental destruction and injustice become the law, then resistance and struggle for the land and for freedom become a duty. [...] Repression has escalated under the dogma of zero tolerance and using methods of retaliation prompted by the company itself, they enter violently into houses and coffee shops arresting citizens who are involved in the struggle. They are kept unjustifiably, without being allowed the presence of lawyers, trying to bully them and demoralise them, they undertake forced DNA tests without having been read out any charges. [...]. Misrepresentation, and increasing repression will not put a dent in the struggle of the community residents".[9]

1st Festival of Solidarity Economy, October 2012: "In recent years we see more and more groups and networks of solidarity, of non-monetary exchanges, or alternative economies springing up all over Greece as well as many workers' cooperatives. These actions prove that another world is not only possible; it already exists. A world where the laws of the market and the existing economic system of exploitation of human labour for profit disintegrate and where human relationships gain a real, new meaning. The pauperisation and marginalisation that is imposed in the name of the crisis and in the name of growth is responded to through collective creation and solidarity (the latest example being the workers of VioMe). We want this festival to be a meeting point and the place to exchange ideas and communication between all these groups, but most of all we want this current of autonomy and solidarity exchange to come into contact with as many parts of society as possible, as, in this period, we are all searching for a way out of the economic and political dead-end. We know we are still at the beginning of a long journey and that we will find ourselves up against the powers of populism and of philanthropy, which are trying to manipulate the poverty and the misery that many of our co citizens are experiencing, by cultivating delusions that this crisis will pass and that we will return to the pre-Memorandum time[...]. That world is disintegrating and it is in our hands to show NOW the structures which [...]will form the apt example for the creation of relationships of solidarity, cooperativism and mutualism."

A referendum was organised in May 2014 by the campaign to stop water privatisation in Thessaloniki, which yielded 98% voting against water privatisation.

Labour struggles[10]

There have been approximately thirty general strikes since February 2010, with record numbers of people in the streets. However, large unions calling for general strikes often served to simply diffuse an explosive atmosphere, and often are not intended to bring down the government or prevent policy changes. Decentralised labour struggles are widespread, and unrelenting as the Troika and the government impose an early retirement

Historic solidarity concerts were held outside the public broadcaster ERT after its abrupt closure. "ERT open, free voice for society"

and redundancy programme, aiming to cull 20% of the public sector in three years. Public sector workers have, over the past few years, occupied all major ministries, such as the Ministry of Finance, Ministry of Internal Affairs and Ministry of Culture. In autumn 2013 the Troika was greeted at the Ministry of Finance by a blockade of cleaners who had been out of work for a whole year, demanding to be rehired.

Mobilisations in the private sector are also widespread. In the steel factory of Chalivourgia, outside of Athens, workers staged a nine month strike against employers, which was widely supported by the social movements but fiercely attacked by the riot police, under what were allegedly direct orders from the prime minister. Further north, outside of Thessaloniki, the Vio.Me. factory was abandoned by its multinational parent company and has been under workers' control for 11 months, supported by waves of solidarity across the country, in their efforts towards establishing a self-managed factory producing construction materials.

The response of the state to the waves of militant labour struggles has been violent and repressive. It has broken up major industrial actions by invoking a type of forced labour usually reserved for wartime (see Chapter 9 for more details). This was imposed on several sectors, including lorry drivers (in 2010), local council rubbish collectors (in 2011), metro workers (in 2013), shipyard workers (in 2013), and teachers (in 2013). Any workers who disobey this order could face imprisonment. The metro workers strike was broken particularly forcefully with the riot police breaking into the station and dismantling the barricades.

Workers facing unemployment have increasingly turned towards collective solutions. When Eleftherotypia newspaper shut down and left its employees unpaid, the journalists organised and released several of their own 'strike edition' worker's newspapers. The TV channel Alter was occupied by its workers, and continued broadcasting until the state cut the broadcasting signal. In the most dramatic silencing of free speech and brutal expulsion of public sector employees, the Prime Minister pulled the plug on the public broadcaster ERT and the television screens went black. This led to across-the-board waves of anger and resistance. Its offices were occupied, its external courtyard and surrounding areas were flooded with people, listening to free solidarity concerts and cultural events, while the journalists continued transmitting public television illegally through blogs and online radio for six months. This too was brutally repressed when the riot police were sent in to break-up the occupation. Further afield, an ever increasing number of workers' cooperatives are being set up while pre-existing ones are strengthening and forming networks.

Education sector struggles

The government has cut education funding by a third since 2009, and plans to cut it 50% by 2016. It imposes a brutal legislative framework of pay cuts, redundancies, mobility schemes and relocations. It has closed or merged over 1,000 schools, eliminated over 100 vocational colleges and put 15,000 teachers on the forced redundancy 'mobility' scheme, fired most teaching assistants and lowered the starting salary of a teacher from 1,050 to 640 euros a month. Education is under siege. However, it has also acted as a hub of resistance, and the school community is often the epicentre of community resistance. Teachers and parents organise solidarity networks to support struggling and unemployed families, or families who can't afford school materials, extra curricular support classes or school lunches for their children. After numerous cases of undernourished children arriving at schools and fainting in classrooms, teachers and parents organised activities such as distributing free school meals, collecting food and goods and also aiming to cover other household needs that poverty stricken families are unable to cover.[11]

Although the government is responsible for creating a landscape where young people face a 60% unemployment rate or poverty wages, it systemically tries to blame the teachers or academic staff for ruining the student's future prospects. In higher education the Ministry of Education has shut down vocational colleges, and is trying to introduce tuition fees and privatise universities. One of the largest universities in Greece, the University of Athens, will lose 498 of its 1,337 employees in technical and administrative positions as part of the enforced 'mobility' scheme. Whole departments, such as the Physics and Chemistry Department, will be left with no administrative personnel at all; libraries will be left without librarians, campuses will be left without guards for their entrances; funding will be lost because of the absence of staff to handle applications. The university unions were on strike for almost 12 weeks, beginning in September 2013, leaving the largest universities closed. Being already understaffed and underfunded, administrative staff refused to hand over lists of names scheduled for redundancy. This resulted in the postponement of exams, classes and enrolments. In the name of the students' best interests and upholding the 'temples of knowledge' as they were called, the Prime Minister reassured the public, or more accurately, the Troika, that they would do everything they could, to make sure the redundancies were pushed through. Striking staff predicted that riot police would need to enter the universities to achieve this. Although the government has attempted to use the students' cause to pressure the striking unions, accusing them of harming young people's prospects,the student unions called for mass occupations of university buildings to support the striking employees and prevent the privatisation of higher education.

A short video made by the teachers' union to rally support for strike participation listed the reasons teachers had decided to participate in the five day teachers' strike against the redundancy scheme in primary and secondary education. They included protesting against wages lowered and rights weakened, and against daily terrorisation and insecurity. Other reasons included: resisting working in a school whose objective is to provide cheap labour rather to create thinking students; to avoid the shame of walking into the classroom and hypocritically talking to students about justice or humanity while having tacitly accepted the Ministry's decisions; or because they can't bear to see students and their families constantly impoverished, or their colleagues getting fired or living in perpetual insecurity. Several mentioned they are striking to maintain their dignity and to be able to face their students with respect.

Health sector struggles

The resistance to the degradation of publicly provided health care has been continuous. Hospital doctors and nurses protest because the Ministry of Health does not pay them for their work, while staff salaries have fallen by around 40% in the last couple of years. There is a general state of decay in public hospitals, and even the largest lack basic provisions.[12] In the northern city of Kilkis, the doctors, nurses and other staff of the city's general hospital responded to the acceleration of austerity measures by occupying the hospital and running it under their direct control with decisions made by a general assembly. They were trying in every possible way to "defend free public healthcare, [and] to overthrow the government."[13]

The rise in medical costs and the explosive rise in unemployment mean people are unable to pay for their insurance contributions, locking out swathes of people. As a response to the ever increasing amount of people excluded from the public healthcare system, solidarity healthcare networks have emerged which, unlike the neoliberal reforms pushed by the Troika and the government, do not offer health care based on whether people have insurance, employment or legal residency documents; they offer care to those who need it. These solidarity health networks offer numerous specialist medical procedures voluntarily and for free. They often only accept donations in kind, such as medication and medical equipment.

Close to seventeen self managed health clinics have spontaneously sprung up and are operating around Greece. In these spaces, doctors, nurses and patients decide together how to run them. Their accelerated popularity is an indication of the difficulties facing public hospitals. Some of these clinics are run with the support of the local council, whilst others operate by the assemblies of squatted social centres. Often these initiatives are not trying to replace the public hospital, or create new private clinics, but are a platform of mutual aid to assist people, to the extent that they can, to face their primary healthcare needs.[14]

Other forms of resistance:

The 'Won't pay' movement reclaimed and recaptured people's imagination by focusing on resistance to price hikes. Auto-reduction, i.e. people not paying or reducing their fares, has at times spread widely and was applied to bus fares, road tolls and in new tax hikes levied through electricity bills.

The government's own bankruptcy has meant it also imposes its own 'won't pay' policy, leaving civil servants, semi-public companies and the providers of public services unpaid. When the government stopped paying the food suppliers to prisons, refugee centres and mental health institutions, it left the inhabitants entirely without essential provisions.[15] It was the social movements that spontaneously came together to collect and transport foods to these places.

Social movements linking farmers to urban city groups, by-passing profit hungry middle-men, were so successful they managed to pressure supermarkets to lower their prices, and have led to numerous initiatives giving city-dwellers better access to basic food stuffs, and at a cheaper price. Farmers in Heraclion, Crete, raided the airport, ahead of a vote over new austerity cuts that would lower their pensions. Farmers attempted to smash through the gate of the city's airport in order to occupy its runway. Several social supermarkets, social pharmacies and other providers for low-income groups have sprung up. Collective kitchens have been growing in number, and are now provided on a daily basis in several parts of major cities. They are not only provided by the church (feeding approximately 55,000 people a day in Athens) or the council (providing 7,000 meals a day) but by several other groups who have taken it on themselves to cook and share food collectively in parks and social centres. The drop in living standards caused by the policies of the last few years has led 90% of families in the poorest neighbourhoods to rely on food banks and soup kitchens.[16]

Squats, social centres, and free spaces are springing up, despite the heavy repression and extensive police raids. Local neighbourhood assemblies, which bring communities together to discuss collective opposition to tax hikes or other affairs, were revitalised by the summer of 2011 Square's Movement and have continued all over the country.

A social movement refusing payment at the tolls of national highways began with people lifting the bars.

Resisting Police repression

Tear gas thrown into Syntagma square's metro station where people were seeking refuge in June 2011.

The neoliberal policies of the Troika and the government are not accepted voluntarily. The state needs repression to impose these laws. Over the past three years there has been an intensification of political violence, meaning that social and political rights are now routinely repressed. Union meetings are disrupted by police, political prisoners are often detained without charge, and/or brutally beaten in custody. The use of force to crush the riots and rebellions in the streets involves the extensive use of chemical warfare. Tear gas, stun grenades and smoke grenades were used so excessively that they led to several hundred injuries, some of them fatal. The police used such chemical weapons indiscriminately, tearing apart street clinics set up to deal with these injuries, and firing tear gas into the metro station that people sought refuge in (Syntagma Square June 2011) and into a secondary school while students were inside (during goldmine struggles in Ierisso). Apart from this the government now frequently shuts down the city centre and the metro stations, and prohibits protests in order to deter people from attending mass mobilisations.

Refugees and migrants have rioted in detention centers because of the appalling conditions (which include being placed in metal containers during sweltering summer heat). The number of racist attacks has exploded. Employers exploit migrant labour while both Golden Dawn and the police and other official bodies make migrants' lives a living hell, normalising racist abuse. To oppose this, anti-fascist hubs and networks have sprung up and have played a crucial role in fighting the Golden Dawn, and in seeking justice for the people who have been stabbed or abused by them. This movement is winning several victories.

Chapter 20

Details of debt resistance

There is strength in numbers. Individually our debts overwhelm us; collectively our debts can overwhelm the system. There are ways of fighting back and reclaiming our lives and our communities from the current state of affairs. We are not looking for debt 'forgiveness'; what we seek is the abolition of debt profiteering and its replacement by a society that nurtures the common good.

Strike Debt / Occupy Wall Street, Debt resistor's operations manual[17]

This section highlights some of the arguments and positions regarding debt and its repayment, starting with the assumption that debts must be repaid. Whose debts are we talking about? It is apparent in this crisis that some are more equal than others when it comes to debt repayment. Debts are a 'sacred obligation' for citizens, small entities and, usually, states, whereas when it comes to banks and large corporations, their debts are easily written off, or underwritten by the state. Private banks are being protected from losses, while governments are pushed into forced indebtedness no matter the social cost. Individuals find that they are not only being pushed into debt to cover basic needs, they are also paying for the debts of the financial sector.[18]

David Graeber's *Debt: the First 5,000 years* highlights the deficiencies in the conventional mainstream moralistic reasoning regarding debt. He explains how this reasoning contains an implicit understanding that 'debts have to be repaid', and that 'a country in debt' must be doing something bad, whereas a country with a surplus (of any sort) must be doing something good. However, it is exactly the contrary: the more economically successful a company or a country is, the larger its debt. This is part of how the system works, not an aberration.

Over-indebtedness has numerous private and societal impacts. Private debt leads to personal indebtedness and if they go unserviced, debt collectors harass debtors, and bailiffs come round. As wages drop or stop entirely and outstanding debts mount, the banks keep demanding more. People who may not have earned income all year are forced to keep up with rising tax bills and social security contributions, and of course to keep servicing their debts. In Spain 350,000 Spanish families have been evicted from their homes since 2007, yet 3.4 million houses in 2013 (20% of total housing) are empty, as fall out from the real estate bubble.[19] On a national level, in the name of combating a debt crisis, countries are forced to indebt themselves even further on the condition that they impose drastic structural adjustment reforms.

However, debt is being resisted, both on the personal and the public level. Below we examine some of the different means of resistance available, and some of the political, economic and legal arguments that can be used to resist the rule of debt.

"Delete the debt and not our lives" at Syntagma square encampment in the summer of 2011.

350.000 Spanish families have been evicted from their homes since 2007, yet 3.4 million houses in 2013 (20% of total housing) are empty

Why debts do not have to be repaid[20]

They are not our debts, why should we pay for them?

In 2007/8 it was clear that the banks owed the public for bailing them out. Somehow the argument shifted and turned into the people owing the state. If we were to engage in a 'who owes who?' exercise, we may reach conclusions which advocate not only stopping debt repayments, but initiating a system of full reparations, returning everything that has been pillaged in the name of debt.

What did you do with all that money?

Debt contracts are shrouded in corruption and scandals, and were often contracted in illegitimate or illegal ways. People have a right to know where the money was spent and how the debt was incurred. In each country we see how large multinational financial institutions fuelled credit booms by dishing out loans to local authorities or contractors and even circumventing national procedural laws. The list is endless, yet the debts then get passed on to the government, and austerity is pushed through in the name of their repayment.

Austerity does not repay debts, but it destroys people

Austerity has a weak past record of correcting fiscal imbalances. The 'salvation' of the IMF and EU often leads to crumbling GDP combined with extra loans to pay off previous ones. Conditionality is being used to target women, the young, the poor, the disabled, and the elderly, whilst little is done to curtail tax evasion of the rich, big landowners or the church. The authorities' 'solution' has destroyed the future of young people, a fact which promises only further political instability.

Debt is not for the bankers to decide

The debt negotiations are occurring behind closed doors in Europe, mediated by bankers' interest groups and advisory bodies. All the debts related to the bank or the Troika bailouts are illegitimate, by virtue of how they were imposed. Not even the indebted governments have had a real say, yet they take the opportunity to implement the neoliberal reforms which they could have only dreamed of previously. Instead negotiations must occur on the people's terms, and the people should decide what to do with the debt.

Concepts that can help define and resist debt dictatorship:[21]

a) **Illegitimate debts**. This is a political concept that can and should be defined by social movements. It is also a dynamic concept, meaning, as circumstances change debts can be seen in a new light and delegitimised. In essence they refer to when debt or its repayment is in conflict with common interest. This is in contrast to legitimate debt, i.e. debt that was incurred to further aims that work in the general interest.

b) **Illegal debt**. Debts that were undertaken in violation of relevant laws and legal procedures.

c) **Odious debt.** Debts taken with and by undemocratic or abusive regimes against the interests of its citizens.

d) **Unsustainable debt**. Debts whose repayment is incompatible with maintaing people's quality of life, clearly visible when the volume of debt and interest repayments absorb a majority of the public finances.[22]

Legal tools for not paying back public debt

Many of the battles regarding debt refusal can involve fighting battles in courts. There are plenty of legal arguments which can help: concerning international and domestic practices, national constitutions and UN human rights charters. There are also several legal precedents which can be used. This is true for private debts as well, although not discussed here in depth. More can be found out in publications by groups resisting private debts.[23]

Although there are significant gains that could be secured through legal challenges, it is important to bear in mind their limitations. One constitutional lawyer who is part of the Greek anti-debt, anti-austerity movement cautions: "We the lawyers are trying to find legal remedies to problems, because this is our profession. But the crisis is not a legal question, it is not even primarily an economic question, it is above all a political one. It is a question of how the important decisions regarding the distribution of wealth are going to be taken."[24]

Bearing this in mind, let's look at how to build a legal case:

Debt is not more important than basic rights

The creditors' demands create conditions of acute deprivation. Suicides, homelessness, domestic violence and mental distress all haven risen dramatically. Schools and hospitals are closing, university departments are closing, small and medium-sized businesses are being wiped out, thousands of young people are migrating abroad. Yet the repayment of foreign debt takes priority and the police will enforce public (dis) order to ensure repayments are made according to the creditors' demands. [see chapter 9]

The imposition of Structural Adjustment Programmes, Memoranda of Understandings or austerity packages comes into conflict with the provision of basic requirements for decent livelihoods. A state often finds it is unable to simultaneously keep repaying its creditors on this scale and guarantee a decent living to the people in the country. This can happen either because of the large drain on its resources that debt servicing takes up or because of the dramatic conditionality constraints. This becomes glaringly obvious when debt repayments become the largest component in a government budget and when several times more is spent on debt than health, education and pensions (or all three combined).

An excellent resource about legal arguments has been compiled by the Campaign for the Abolition of Third World Debt (CADTM).[25] They list the legal arguments available and explain their use and circumstances of application, in which they could "justify unilateral suspension of debt repayment (which, depending on the case, can go as far as declaring such debts null and void) and rejection of the conditions imposed by the creditors."

The implementation of the austerity policies applied currently in Europe, and for decades in the global South, is a flagrant violation of legally enshrined human rights. The UN Human Rights Council of 23 April 1999 stated, "The exercise of the basic rights of the people of debtor countries to food, housing, clothing, employment, education, health services and a healthy environment cannot be subordinated to the implementation of structural adjustment policies, growth programmes and economic reforms arising from the debt".[2] Other legal requirements which attest to this include the United Nations Charter (1945), the Universal Declaration of Human Rights (1948), the two international covenants of 1966 on economic, social and cultural rights (ICESCR) and on civil and political rights (ICCPR), the Vienna Convention on the Law of Treaties, and the Declaration on the Right to Development (1986).[27]

There have been several attempts by trade unions to use human rights legislations to challenge austerity. The European Committee of Social Rights (the supervisory body of the European Social Charter) has condemned Greece for violating aspects of its charter through the 2010 austerity legislation.[28] Many more complaints have been lodged which await decisions. The ILO's Committee on Freedom of Association (the supervisory body of the International Labor Organization) stated that Greece's austerity deviates from the ILO protected rights and called upon Greece to change its labour laws.[29]

Cephas Lumina,[30] the UN independent expert on the effects of foreign debt on human rights, has emphasised that the legal requirements to protect human rights apply not only to states, but to international institutions like the World Bank and the IMF. During his recent visit to Greece he made it clear that the conditionalities and the debt servicing comes into serious conflict with human rights.[31]

Using constitutionality arguments against debt

The legal arguments mentioned above relate to a series of international obligations that states must legally abide by. Matters can also be brought to domestic courts, using arguments about constitutionality. These can refer to how austerity measures violate constitutionally enshrined rights, or to procedural violations about how the state agrees to such sweeping and internationally binding obligations.

The current crisis has meant abandoning any pretence of democracy in order to push through reforms and 'extraordinary measures'. This means that on numerous occasions, small or large parliamentary *coups d'etat* occur, where basic parliamentary procedures are not followed. Examples include the increasing rule-by-decree described in Chapter 9 or the violation of formalities when controversial legislation is voted in.

The international loan treaties are necessary to legally ground the bailout money. Greece, for example, has signed two loan treaties for each of the two memoranda it has signed, each of which contains progressively more restrictive clauses. International loan treaties are legally binding agreements in international law. These are signed first, and are followed by the austerity packages (Memoranda). Contrary to what people think, the Memoranda are not internationally legally binding agreements, and can be overturned through new domestic legislation. However, the creditors protect themselves from such future 'political risk' by locking-in the country to these treaties, whose execution is conditional on implementing the Memoranda, thus preventing future parliamentary changes from easily altering the terms of the loans. The treaties contain clauses that essentially bind the country to these terms forever, even if future domestic courts rule them to be illegitimate, or unconstitutional.

"The exercise of the basic rights of the people of debtor countries to food, housing, clothing, employment, education, health services and a healthy environment cannot be subordinated to the implementation of structural adjustment policies, growth programmes and economic reforms arising from the debt".
The UN Human Rights Council of 23 April 1999

In some cases, the signing of the loan treaties has not passed basic, formal constitutional requirements (such as being ratified in parliament), presumably because they contain clauses so extortionate that they are unlikely to receive parliamentary approval, as they would require politicians to vote away their country's national sovereignty. So, they agree to the fine print of becoming a protectorate only behind closed doors or with despotic tactics. The legal violations committed through Greece's signing of the international treaties have been outlined in detail.[32] Tellingly, the second Treaty was submitted three times to Parliament as a draft, which, blatantly mocking parliamentary procedure, was approved as *draft* legislation. It was not even discussed before becoming legally binding. A group of the most distinguished constitutional lawyers in Greece have since released a document detailing seven key violations of constitutional, European and international law which the second loan treaty violates.[33]

However, Greece does not have a constitutional court, and the ordinary courts have until now mostly upheld the austerity measures as constitutional. However, recently the Supreme Court of Audit unanimously declared the last wave of pension reductions to be unconstitutional and the Court of Cassation ruled the cutbacks of judges' salaries as unconstitutional.[34]

There are examples of domestic courts ruling austerity packages to be in contravention of national constitutions in Columbia, Argentina, Latvia and Romania. The European Commission itself admits that the austerity measures will be challenged in court and may be judged as unconstitutional.[35] As explained in Chapter 9, the Commission is not preoccupied by the illegality of the measures, but it mentions this as a compelling factor for introducing a new wave of austerity measures![36]

When is an emergency a real emergency?

"When a state is unable to fulfil its obligations to its lenders and simultaneously manage the needs of the populace, it can call on the ´state of necessity´ to defend itself from the haemorrhage of debt repayments. So, rather than figuratively hiding behind a [permanent] ´state of emergencý to repress and prohibit protests and to justify the increasing use of Legislative Acts, the state could draw upon legal practice and precedent to stop debt repayments."[37] Greek Debt Audit Campaign

During the crisis, the media, the politicians and the Troika have attempted to persuade the people to accept repeated 'extraordinary' moves, by claiming them to be justified by the gravity of the situation. However, there is a strong legal argument deploying the severity of the situation to make the opposing case. The 'state of necessity', is explained by the International Law Commission (set up by the UN) that "a State cannot be expected to close its schools and universities and its courts, to disband its police force and to neglect its public services to such an extent as to expose its community to chaos and anarchy merely to provide the money wherewith to meet its money lenders, foreign or national. There are limits to what may be reasonably expected of a State in the same manner as with an individual." [38] As we have already examined, austerity measures and their devastating impacts violate numerous principles that are enshrined in constitutions including guaranteeing fundamental social rights.[39] The basic tenet of this argument is simple: that in certain circumstances, the sacrifices needed to uphold financial obligations are unreasonable, and this is sufficient ground to suspend repayments.

Legal activist campaigns are kicking off around Europe. Besides the aforementioned examples from Greece,[41] in Spain, a group of activists have launched a fund to sue the former disgraced chairman Rodrigo Rato of the bank Bankia. Although this is only one of the banks at the heart of the Spanish financial crisis, the activists plan to amass a dossier detailing Rato's wrongdoings in order to put pressure on the public prosecutors to bring criminal charges against him.[42]

'Don't Owe, Won't Pay!'

The sentiment captured by the slogan, 'Don't Owe, Won't Pay!' is spreading throughout Europe. Although refusing to pay public debt is not the same as refusing to pay a poll tax, there are numerous past instances of debt jubilees, where the debts of people or entities or governments are cancelled. The questions are – who takes the initiative to cancel debts; on whose terms does it occur; and who benefits from the cancellation?

In the case of public debt, examples of debt write-downs or jubilees come in the form of 'debt forgiveness'. These initiatives are generally instigated from the creditor's side, and only occur when the creditors realise if they don't accept some losses, they may never see any of their money. In exchange for this 'debt relief' a country is punished through more and harder structural reforms. Initiatives such as those mediated by the IMF and the World Bank, or via other sovereign debt restructurings, like the one mediated in Greece in spring 2012, leave the country worse off than it was before the debt relief, often raising the amount of indebtedness in the longer term too. With added

"In 2000, the UN independent expert on external debt, Fantu Cheru, stressed the fact that the structural adjustment programmes imposed by these institutions go beyond the simple imposition of a set of macroeconomic policies at the domestic level. It represents a political project, a conscious strategy of social transformation at the global level, primarily to make the world safe for transnational corporations. In short, structural adjustment programs (SAPs) serve as 'a transmission-belt' to facilitate the process of globalization, through liberalization, deregulation, and reducing the role of the State in national development." [40]

conditionalities as a prerequisite for 'forgiveness', it leaves the country even more locked into exploitative policies.

However the movements against debt in the global South provide helpful examples. In the Philippines, the Freedom from Debt Coalition raised the human dimension of the public debt issue, and brought to the table what it calls 'social debt', referring to what is owed to the people after decades of illegitimate debt payments for obligations contracted through corrupt means. It promoted a citizen-led audit to uncover the scale of the country's debt and to resist paying the previous dictator's debts.[44]

Grassroots initiatives are also beginning in the North which question the legitimacy of these arrangements and the legitimacy of the international financial institutions imposing reforms.[45] Many groups are in favour of stopping payments to the creditors, and proceeding to a full debt write-down. A vehicle that could facilitate this is an audit commission, composed of groups in society living with the consequences of a generalised state of bankruptcy who could have a say about what, if any, of the debt should be repaid.

On the personal or family level there are other grassroots initiatives that are struggling to combat over-indebtedness. In Spain the initiatives that rally against evictions and foreclosures are strong and inspiring. Groups such as Stop Desahucios (Stop Evictions), and Plataforma de Afectados por la Hipoteca (Platform for Those Affected by Mortgages) have organised gatherings to resist evictions, which have succeeded in preventing the authorities and the banks from reclaiming housing. There is also a history of resisting student debt, for more details see *The Debt Resistors Operations Manual* for a colourful account from Strike Debt (USA).[46] Furthermore, for a rather rare case of the initiative coming from the banks, we can look at the example of Iceland: following the crisis the Icelandic banks agreed to write off numerous personal loans, equivalent to 13% of its GDP, easing debt burdens for a quarter of the population.[47]

In general, debt and debt crises are symptomatic of how the economy of the whole capitalist system is organised. While forming a single issue debt-based social movement is not enough, as it is the overall debt economy and structures that produce poverty that must change, debt movements are a good starting point as they can revolve around specific issues that make a real difference to people and can create the movements needed to force change.

"In the short term people should support not only the grassroots initiatives about the cancellation of all these debts, whether private or public, but should actively engage in campaigning for a policy of reparations, returning to communities devastated by 'adjustment' the resources taken away from them" Silvia Frederici, writing about the women's movement in Nigeria in the 1980 [43]

1 A full portrayal of the social movements is beyond the scope of this report, and excerpts have been made selectively, with an awareness of the diversity of types of political groups making them. Translation of announcements and texts have either been done by the groups themselves on their original release, or by the author.

2 Minister of Public Order statistics, as quoted in 'We protested 20210 times', April 24, 2014, http://news.in.gr/greece/article/?aid=1231313523

3 This section cannot possibly adequately capture the extent of people's reactions to the crisis. As the years wear on, social movements change, often morphing into new ones. Here we present small snippets and snap shots, aware that, unfortunately, several rich, diverse experiences are not captured. It would be a mammoth task to do this justice, so we encourage people to keep their ears to the ground about where the resistance is at in each place.

4 http://democraciaedivida.wordpress.com/informacoes-2/sobre-nos/

5 These themes are explored in the documentary Future Suspended, Crisis Scape Collective, 2014

6 All of these statements have been released online by the groups referred to.

7 http://www.viome.org/2013/02/the-factory-of-viome-industrial-mineral.html

8 The translation is marginally adapted from the original in interest of space, and without any intention to dilute or change the original.

9 http://nogoldthess.espivblogs.net/2013/02/27/%CF%8C%CF%84%CE%B1%CE%BD-%CE%BF-%CE%B8%CE%AC%CE%BD%CE%B1%CF%84%CE%BF%CF%82-%CE%B7-%CE%BA%CE%B1%CF%84%CE%B1%CF%83%CF%84%CF%81%CE%BF%CF%86%CE%AE-%CF%84%CE%BF%CF%85-%CF%80%CE%B5%CF%81%CE%B9%CE%B2%CE%AC/

10 For more information, Ta Paidia tis Galarias: http://www.tapaidiatisgalarias.org/wp-content/uploads/2013/07/material_final.pdf, http://www.tapaidiatisgalarias.org/wp-content/uploads/2010/03/ekei.pdf

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18 These injustices are explained by David Malone in Debt Generation and the blog, Golem XIV

19 http://www.cidob.org/en/publications/articulos/spain_in_focus/june_2013/profile_the_mortgage_affected_citizens_platform_a_grassroots_organization_at_the_forefront_of_the_social_protests

20 Groups working on debt across Europe and North Africa created in 2012 a network called International Citizens Debt Audit Network, which try to mobilise debt resistance movements, see http://www.citizen-audit.net/

21 Petição Princípio de Auditoria de Cidadão à Dívida http://peticaopublica.com/pview.aspx?pi=P2013N38162

22 For a critical perspective on how the IMF defines sustainable see Chapter 9.

23 For example the resources prepared by the PAH Plataformas de Afectados por la hipoteca (Platform for those affected by mortgages) and Stop Evictions [Stop Desahucios] in Spain; the Debt Resistors Operation Manual by Strike Debt in the US.

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28 This related to violation of articles 10 and 12 of the Charter, the decision can be found here: European Commitee on Social Rights, May 23 2012, Complain 66/2011 http://www.coe.int/T/DGHL/Monitoring/SocialCharter/Complaints/CC66Merits_en.pdf as referenced in Katrougalos, G, 'The Greek Austerity Measures: Violations of Socio-Economic Rights', Int'l J. Const. L. Blog, January 29, 2013, http://www.iconnectblog.com/2013/01/the-greek-austerity-measures-violations-of-socio-economic-rights

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Conclusion

The main conclusions to draw from this guide are that regardless of whether the country is under a Memorandum programme or not, certain rules are now imposed throughout the EU which preclude any alternative, independent economic policy that deviates even slightly from the neoliberal straitjacket.

The EU has revealed its true colours: an authoritarian, opaque, unaccountable set of institutions, governed by private lobby groups and unaccountable bureaucrats. It has spawned a racist and sexist resurgence, while drastically degrading democratic procedures, all of which have been made possible only through broad, general use of force. Debt has been used as an instrument of collective repression and as a lever to pass through extremely socially and environmentally harmful policies. To get some idea of the massive imbalance of power, we need only note that no one has been held accountable for failing banks or their debts, which were taken onto the public books, and are being paid for through the ruthless deterioration of our everyday lives.

This guide has attempted to uncover the evidence necessary to challenge these debts and the austerity measures that are imposed in their name. We hope to delegitimise the aggressive push for economic growth that is being used to justify the corporate carve-up of public services and the natural environment.

We hope to have shown what has been happening in the euro zone crisis, why it has been happening and what people are doing about it. By going deeper into the specific mechanisms and arrangements, explaining technical information and details of some of the main features that have come to characterise this crisis, we hope to have provided useful information that can strengthen movements seeking radical change. We end with no real conclusion, for the conclusion is yet to be seen.

Glossary

ANFA: refers to the government bonds held in the investment portfolios of national central banks.

Asset: a resource with economic value, representing what an organisation (state, corporation or individual) owns.

Bankruptcy: is a legal process used when a person or corporation cannot repay debts. The debtor's assets may be evaluated and sold (liquidated) to repay outstanding debts. Bankruptcy procedures vary greatly from country to country - some being much more favourable to the debtor and others to the lender.

Balance of Payments: is a record of all financial transactions made between one particular country and all other countries during a specified period.

Basel accords: refer to a set of agreements by the Basel Committee on Bank Supervision, which provide recommendations on banking regulations, such as capital adequacy ratios (i.e. rules on holding enough capital to meet obligations and absorb unexpected losses).

Basis point: one hundred basis points make up a percentage point, meaning an interest rate cut of 25 basis points means from 3% it decreases to 2.75%.

Bubbles: are visible from prices spiking in particular assets or markets. Investors increase trading quickly, causing prices to become overinflated, i.e. significantly above what people think the true value ought to be. At some point the bubble bursts and prices collapse.

Central Bank: is responsible for overseeing and enacting monetary policy. It issues bank notes, manages foreign exchange reserves, is the state's bank, and its money is legal tender in the economy. In the UK this is the Bank of England, different to the Treasury which has the responsibility of executing the government's finance and economic policy.

Capital account: is the corollary of the current account; it measures the changes in ownership of assets which should in theory explain how the changes in the current account were financed. It looks at the payments coming in and out relating to purchases of assets abroad, or of purchases by people abroad of domestic assets, such as Foreign Direct Investment (FDI) or short term capital flows.

Commercial paper: is a form of short term (under 9 months), unsecured (not backed by collateral) borrowing for a corporation. This means usually only those with high quality ratings can borrow in this way. The loans take the form of IOUs and are bought and sold by investors in secondary markets.

Credit crunch: when lending among financial institutions is scaled back because of widespread fears about the ability of borrowers to repay.

Current account: is part of a country's balance of payments. It registers the payments coming in and out via trade (i.e. amounts earned and spent on exports and imports), and income from and to abroad that originate from profits and dividends, or from interest payments on foreign debts. The largest chunk of the current account is the trade balance (the difference between the amount earned from exports and the amount spent on imports)

Debt restructuring: is when a debtor and a creditor change the original terms of repayment of a debt. This could involve reducing interest rates, extending the maturity (the loan's expiry date) or reducing the value of the outstanding value of a debt. The percentage by which the debts are reduced (losses) is called a 'haircut'. Lenders usually have the upper hand in negotiations.

Deleveraging: occurs when a borrower reduces its debts, usually by immediately trying to repay them or through default.

Derivative: a financial instrument whose value derives from an underlying asset.

Discount window: is an instrument of monetary policy (usually controlled by central banks) that allows eligible institutions to borrow money from the central bank, usually on a short-term basis.

Dividend: the regular income payment a corporation gives its shareholders.

Exchange rate: is the price of a currency expressed in terms of another currency. A floating currency means the value of the currency is determined on a daily basis through its trade in the foreign exchange market. Under a fixed exchange rate a government or a central bank tries to maintain the value of the currency at a fixed price in relation to another currency

or to the price of gold. Depreciation is a weakening in the country's official exchange rate relative to other currencies. This makes a country's exports cheaper for the rest of the world, but its imports more expensive (therefore worsening its current account balance).

Equity: could be stocks, shares or other securities which represents an ownership.

Eurobond: a method proposed as a solution to the euro crisis that would equalise borrowing costs amongst countries and look beyond differences in credit worthiness amongst countries. It would involve issuing a common, guaranteed bond by the eurozone governments. Confusingly "Eurobond" traditionally refers to a bond issued in any currency in the international markets.

Fiscal (or public) deficit: the amount of money that the government "goes under" each year. It occurs when revenues of the government are less than its expenditure. The gap (deficit) is financed through borrowing. The primary deficit does not include amounts of new debt created.

Fiscal policy: is one of the major economic policy tools a government has at its disposal to influence the economy, through spending, borrowing and taxation decisions.

Growth and Stability Pact: is an EU Treaty adopted in 1997, and lays out a set of rules demanded for the creation of the Euro, in addition to the Maastricht Treaty and was intended among other things to limit the borrowing of governments inside the Euro to 3% of their GDP and the maximum amount of debt to GDP to be no more than 60%.

Inflation: indicates the general increase in prices of goods and services in an economy.

Insolvency: occurs when an entity cannot cover its debts.

Interest rate: the amount (in %) someone is charged for borrowing or is paid for saving. Lenders make money from interest, borrowers have to pay it. There are many types of interest rates prevalent in the economy at one time. The central bank tries to manipulate short term interest rates through its selling and buying of government bonds. Interbank rates are the rates at which banks lend to each other in the short term, e.g. Libor (London Inter Bank Offered Rate) is the rate at which banks in London lend money to each other, it is calculated every morning based on interest rates provided by members of the British Bankers Association. The Euribor is the rate at which banks within the European Union money market will lend to each other; as these banks are the largest participants in the EU money market, this rate has become the benchmark for short-term interest rates.

Lender of last resort: the central bank's provision of liquidity to financial institutions in reaction to a crisis.

Leverage: the amount of debt used to finance an entity's assets. It looks at the composition of capital structure of an entity: being highly leveraged occurs when there are significantly more debts than equity.

Liability: a debt or other form of payment obligation.

Liquidity: assesses the ease that assets can be bought or sold without affecting the price.

Liquidity crisis: is a catch all term that can refer to – among other things – an acute shortage of liquidity visible through increased difficulty for banks to obtain cash.

Long Term Refinancing Operations: is a means of the European Central Bank of providing finance to euro zone banks, by providing liquidity to banks who hold illiquid assets.

Maastricht Treaty: an EU Treaty signed in 1992 and enforced in 1993, that sets out the criteria for members to adopt the common currency. These included targets on inflation rates, government deficit, public debt, exchange rates and long term interest rates.

Monetary policy: encompasses the tools used by central banks. In the UK these are set by the Monetary Policy Committee of the Bank of England. Monetary policy is used to influence inflation and affect economic growth, mainly through changes in interest rates.

Money markets: global markets dealing in borrowing and lending of money on a short-term basis.

Off balance sheet transactions: when assets and liabilities are not recorded on a company's balance sheet, resulting in financial statements under reporting the true extent of important financial indicators, such as leverage. Transactions include sale and repurchase arrangements, securitisation or creating special purpose entities.

Outright Monetary Transactions: an unlimited in size programme announced by the ECB in September 2012 to purchase government bonds in the secondary market, subject to the states imposing strict fiscal conditions.

Portfolio: is what a combined investment is called, made up of a collection of assets, bonds, cash, and other instruments. Investors construct their investment portfolio according to the amount of risk and liquidity they want to have.

Primary bond market: the market where new issues of bonds are sold directly by the issuer to the investors.

Recapitalisation: refers to changes to an entity's capital structure, and occurs to improve the financial position. It can happen through a debt restructuring (where outstanding loans are converted into an ownership stake). Fresh equity can be used to absorb future losses and reduce the risk of insolvency. The recapitalisation changes the structure of debt to equity (leverage) as the money raised is then used to pay off debts, making the finances more stable. When a government recapitalises a bank, it means the government then owns an equity stake in the bank, such as with the Royal Bank of Scotland.

Reserves: a country's reserves are assets held by a central bank, usually comprised of gold and foreign currency. One motive to hold reserves is to help the central bank defend the value of the currency. Banks keep reserves to deal with cash withdrawals by depositors, a portion of which is placed with the central bank.

Reserve requirements: are the amount of money banks are required to keep in cash or with the central bank. The latter can alter the reserve ratio to affect amount of funds banks have at their disposal to lend.

Reserve currency: is a foreign currency held by central banks around the world in their reserves. The US dollar is the pre-eminent reserve currency, but the euro, pound, yen and Swiss franc are also used.

Secondary market: the market where financial instruments are traded after they have been initially sold in the primary market.

Securitisation: the creation of tradeable securities that are backed by the income generated by an asset or a loan.

Shadow banking sector: refers to financial transactions conduced by the banking sector that are not subject to regulatory oversight.

Spread: the difference between prices or interest rates. For example, the spread of two different bonds of approximately the same maturity is used as a measure of market's perception of the difference in creditworthiness of two borrowers. e.g. If Greece can borrow at 17% and Germany at 3% the spread is 14%.

Suspension of payments: a term to describe when a debtor stops servicing (suspends payments on) their financial obligations (debts) on time.

Toxic: assets are called toxic when investors realise their vale has fallen or they are very hard to value or sell, and pose a threat to those who own them.

Troika: refers to the European Commission, the European Central Bank and the International Monetary Fund - the three organisations responsible for the austerity packages, onerous conditions and loan treaties imposed on Greece, Portugal, Ireland, Spain and Cyprus.

Write-down or write-off: involves recording a reduction in the value of an asset, for example to reflect a fall in its market value.

Yield: is the return to an investor given the price paid for an asset. Yields can increase for a number of reasons, such as the price dropping.

Want to know more about the euro crisis but don't know where to start?

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The guide shows how, in response to the European crisis, debt is used as a lever to pass through extremely socially harmful policies, whilst extracting profits for the institutions that dominate the financial sector. A step towards social and economic justice would be for debts to be cancelled and those responsible both nationally and internationally to bear the burden of cancellation. The guide compiles reasons and evidence to challenge debt repayment and present the main social, economic and political arguments to debunk austerity politics. It presents a radical critique of current European politics, showing how neoliberal changes have accelerated the transfer of wealth from public to private hands, and from the poor to the rich, and fundamentally undermined democracy.

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