

# The Greek debt – a European story ...

By [Catherine Mathieu](#) and [Henri Sterdyniak](#)

At end 2014, Greece's debt was 317 billion euros, or 176% of its GDP, up from 103% in 2007, despite debt relief of 107 billion in 2012<sup>[1]</sup>. This debt is the result of a triple blindness, on the part of: the financial markets, which lent to Greece until 2009, heedless of the unsustainable level of its public deficit (6.7% of GDP in 2007) and its trade deficit (10.4% of GDP in 2007); the Greek government and ruling elite who, thanks to the low interest rates permitted by its membership in the euro zone, allowed unbalanced growth, based on financial and real estate bubbles, corruption, poor governance, fraud and tax evasion; and Europe's institutions, which after the laxism of 2001-2007, imposed crushing, humiliating austerity programmes on the country, with the oversight of the troika, a strange threesome consisting of the International Monetary Fund (IMF), the European Central Bank (ECB) and the European Commission (EC). In the eyes of the troika, the austerity programmes were needed to cut the public deficit and debt and put the Greek economy on a path to growth. While the programmes did indeed help to reduce the public deficit (which was only about 2.5% of GDP in 2014, i.e. after excluding interest expenses, a surplus of around 0.5% of GDP), they have pushed up the ratio of debt to GDP, due to the collapse in the country's GDP, which is now 25% less than in 2008. Austerity has above all plunged Greece into economic and social distress, as is sadly illustrated in an unemployment rate of over 25% and a poverty rate of 36%.

The tree of Greek debt must not, however, hide the forest: from 2007 to 2014, the public debt of the OECD countries as a whole increased from 73% of GDP to 112%, reflecting profound imbalances in the global economy. Due to financial

globalization, the victory of capital over labour and growing inequality, the developed countries need large public debts; these debts are generally not reimbursable, since reimbursement assumes that agents with a surplus agree to run deficits.

Take the example of Germany. It wants to maintain a large external surplus (7% of GDP), which weighs down its European partners and has contributed to an excessively strong euro. In order for Greece and other European countries to repay their public debts, they need to be able to export, especially to Germany; Germany would in turn have to accept an external deficit and thus greatly increase public spending and wages, which it does not want to do. The contradictory demands of the surplus countries (to maintain a surplus but be repaid) are leading the entire euro zone into depression. Fortunately for the European economy, neither France nor Italy is adhering strictly to its European commitments, while the UK is not subject to them.

Can we require Greece to continue to meet its European commitments, which have led to a deep depression? To reduce its debt to 60% of GDP within 20 years? The effort needed to do this depends on the difference between the interest rate paid on debt (1.9% in 2014) and the nominal rate of GDP growth (-1.2% in 2014). Even if Greece managed to accelerate its growth so that the growth rate equalled the interest rate for its loans, it would still have to turn over 6% of its GDP every year; this drain would unbalance the economy and put the brakes on growth. The Greek people cannot be asked to make further economic and social sacrifices.

If Greece were an emerging country, the solution would be obvious: a strong devaluation and default on the debt. The euro zone, on the contrary, cannot be maintained without solidarity between its members and without a turnabout in its economic policies. Europe cannot ask Greece's new government to maintain an austerity programme that has no prospects or to

abandon its electoral programme and implement the failed policy negotiated by the previous government. A refusal to compromise would lead to the worst result: a showdown, a financial freeze on Greece, and then its withdrawal from the euro zone and perhaps the EU. The people would rightly feel that Europe is a straitjacket and that democratic votes don't count. On the other hand, it will be difficult for the northern European countries and the Commission to give up their demands: tight control of national fiscal policies, a reduction in public debts and deficits, conditionalities on aid, privatization policies and structural reforms.

Syriza's programme includes the restoration of social welfare and the public services as well as a decent standard of living for retirees and employees, but also, very clearly, tax reform, the fight against corruption and bad governance, and the search for a new development model based on the renovation of production and re-industrialization, driven by the State and a restored banking sector, based on public and private investment. This is an ambitious path that presupposes a fight against greed and the inertia of the dominant classes by mobilizing the whole of society, but it is the only future with promise.

The only solution is a compromise that would open the door to a new policy in Europe. Let's distinguish the Greek question from the European question. Europe's institutions must agree to negotiate a restructuring of Greek debt. This 317 billion euro debt is now held as follows: 32 billion by the IMF, and 223 billion by the ECB, the European Financial Stability Facility, and the other Member States, i.e. 80% by public institutions. This enabled the private sector to shed Greek debt, but it has not helped the Greek economy. Greece already benefits from low interest rates and lengthy repayment deadlines [\[21\]](#). Given the low level of current interest rates and the hunger of financial investors for the risk-free sovereign debt of most Member States, there is no reason for a

default on Greek debt; it simply needs to be restructured and secured. We must avoid a situation where every year Greece is in the position of having to repay and refinance an excessive amount of debt, and thus finds itself at the mercy of the capital markets or new negotiations with the troika. Greece needs a long-term agreement based on mutual trust.

Europe should give the Greek people time for their economy to recover. Greece's debt needs to be made sustainable by converting it into very long-term secured debt, possibly confined within the European Stability Mechanism, so that it is sheltered from speculation. This debt could be financed by Eurobonds with very low rates (0.5% at 10 years, or even slightly negative rates by issuing securities indexed to inflation). European taxpayers would thus not be saddled with the burden, and the Greek debt load would be acceptable. It is Greek economic growth that will make it possible to cut the ratio of debt to GDP. The reimbursement should be limited and, as proposed by Greece, depend on growth (e.g. be zero when the volume of growth is less than 2%, and then 0.25 GDP point per additional point of growth). The agreements with Greece should be reviewed to allow the new government to implement its programme for social and production renewal. Two key points must guide the negotiations: that responsibility for the situation is shared between Greece and Europe, that each must bear its share of the burden (the banks have already undergone a partial default); and that Greece must be helped to recover from its deep depression, which means support for consumption in the short term, and in the medium term stimulating and financing the country's productive renewal.

France should support Syriza's proposal for a European conference on debt, because the problem is not just Greek. The Greek experience merely exemplifies the structural problems with Europe's economic governance and the challenges facing all the Member States. This governance needs to be overhauled in order to overcome the economic, social and political crisis

gripping the euro zone. The turning point represented by the Juncker Plan must be given resolute support (investment support of 315 billion euros in three years), as must the ECB's quantitative easing programme (1140 billion in 18 months).

The public debts of the euro zone countries must be guaranteed by the ECB and all the Member States. To absorb them, the ECB must keep long-term rates well below the rate of growth, which will require taxing financial activities and controlling the orientation of bank loans to prevent the rise of speculative bubbles. Instead of cutting public and social welfare spending, Europe must coordinate the fight against tax competition and tax evasion by the wealthy and by multinational firms. The unsustainable fiscal straitjacket imposed by the Stability Pact and the European fiscal treaty must be replaced by the coordination of economic policies aimed at full employment and resolving imbalances between euro zone countries. Finally, Europe must propose a strategy for recovery from the crisis based on boosting domestic demand in the surplus countries, coordinating wage policies, and supporting investments that prepare the ecological and social transition. The challenge here is crucial. We need to rethink the way economic policies are organized in Europe in order to allow countries to conduct policies that are different and autonomous, but coordinated. This is the only way the euro zone can survive and prosper.

---

[\[1\]](#) More than half of which was used by the Greek state to secure the country's banking system.

[\[2\]](#) Moreover, the ECB Member states are repaying it any gains that they make on Greek bonds.

