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Greece in the Aftermath of the Debt Haircut: More Austerity, a Deeper Slump, and the Surrender of National Sovereignty

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It is a well-recognized fact that the Greek economy has been going from bad to worse since the first bailout in May 2010. The leaked October 21, 2011, "debt sustainability analysis" prepared by the European Commission, European Central Bank (ECB), and International Monetary Fund (IMF)—the "troika"—acknowledged as much. In fact, it was an open admission of the blatant failure of the policy of expansionary fiscal consolidation and, by extension, the harsh austerity measures that have been imposed on Greece in the last 18 months or so.

Undoubtedly, the troika report figured prominently in the German decision on a 50 percent Greek haircut. It's the reason behind the IMF demand for an ever-bigger haircut. But why did it take the EU (European Union) chiefs, their German master, and their lackeys in Athens almost two years to recognize the need for a major haircut?

The haircut deal is finally done, but the plan is rather sketchy and gives little reason for celebration (unless you happen to be the Greek prime minister and his minister of finance, who celebrate after every EU announcement and decision no matter what its content). There is a lot of fine print to be sorted out, and once it is, the comment of the Polish prime minister that "hell" is hidden in the details could prove more prophetic than even he imagined.

The haircut plan falls well short for various reasons. First, it applies only to bonds held by the private sector, yet 40 percent of Greek debt is already held by the ECB, the IMF, and the EU—a figure that will grow substantially over the next few years. Second, while the haircut offers some nice sweeteners to the banks (approximately 30 billion of the 130 billion euros in bailout money will go toward a future bond swap), it leaves the Greek pension funds totally exposed (essentially, as the responsibility of a bankrupt government). Third, it makes a mockery of the notion of a "credit event" and therefore in no way ensures that the haircut will not be treated as such before the swap gets under way sometime in early 2012. Finally, it does not guarantee that a "contagion waterfall" will not ensue. Turbo-charging the European Financial Stability Fund (EFSF) by leveraging its 440 million euros to more than one trillion euros is a step forward, but it will hardly be enough to stem the eurozone crisis if Italy and Spain (let alone Belgium and France) become engulfed in debt flames.

So what if markets all over the world shot up in the aftermath of the 50 percent Greek haircut announcement? We should be amply aware by now of the role of short-termism in both stock and financial markets. Indeed, I would bet that once markets recover from the hangover that followed this announcement, they will return with a vengeance. For the ugly truth of the matter is, the latest eurozone (i.e., German) plan for Greece does not solve the nation's debt problem. All that it manages to do (and this is quite farcical, though it undoubtedly constitutes a politically strategic decision) is to reduce the debt-to-GDP ratio to 120 percent by 2020—which is where it stood prior to the explosion of the debt crisis! The new eurozone deal extends another bailout package of approximately 130 billion euros but leaves intact all the policies that led to the failure of the first bailout plan. And as a way to confirm its predestined failure, it comes with a guarantee of "durable" German supervision over Greece's economic affairs.

More fundamentally, a 50 percent haircut alone will not solve the Greek debt problem. When all is said and done, neither recapitalizing European banks nor turbo-charging the EFSF (especially with dubious schemes) can credibly resolve the eurozone crisis without also enacting policies to promote long-term growth. And at this stage, the only viable and immediate solution to reviving the economies of Greece and the other European member-states is through public spending and quantitative easing. But these are policies that are precluded by Germany's incorrigibly stubborn disposition toward expansionary fiscal consolidation. Germany has opted for this stance as part of its neo-colonial, imperial aspiration: it is Berlin's way of maintaining the "colony" status of peripheral nations like Greece, Portugal, and Italy.

The new German plan for Greece merely continues what started back in May 2010. The unparalleled sacrifices that the Greek population has been forced to make and is expected to make for many years ahead, the sell-off of all profitable state assets, and the conversion of the nation into a low-wage/high-debt economy with privately provided public services are all part of belonging to an economic club dominated by Germany and fiscal conservatism—and the subsequent outcome of a government that willingly surrenders sovereignty because it lacks either the capacity or the conviction to imagine and firmly negotiate alternative policy schemes.

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