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Greece

Should Greece Pay Back Its Debt?

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Financial speculators are nervously asking whether Greece will pay its debt or default. Political leaders from Europe to the US and the IMF are telling the Greek government to leave aside its democratic mandate and accept further austerity as a condition for getting credit to continue to pay back its debt. But the right question politically is: should Greece pay this debt.?

On 4 April the President of the Hellenic Parliament, Zoe Konstantopoulou, set up the Debt Truth Committee – a special committee of the Parliament to investigate the truth about the increase in Greece’s public debt. Eric Toussaint of the [Committee for the Abolition of Third World Debt](#) is the team’s scientific coordinator. The [Debt Truth Committee currently includes 35 international and Greek experts](#) in law, economics, accounting, banking from Europe as well as Zambia, Ecuador, and Brazil.

There are well-established concepts in international law that question the legality, legitimacy, sustainability or odiousness of a loan agreement if and when it deters a state from meeting its obligations to its citizens to ensure adequate access to health and education, a life with dignity, and the right to organise. There is a long history of states making use of these legal concepts to enter into dispute with their creditors over their sovereign debt starting with Cuba in 1898, the US in Iraq in 2003 and Ecuador in 2007.

These legal concepts are the guiding references for the Debt Truth Committee: Is any part of Greek public debt before or after the Memoranda of Understanding (MoU) with the Troika illegitimate? Was it contracted by a government without considering [whether the public or general interest would be safeguarded? Was any part](#) of it contracted in violation of the current legal or constitutional system? Has any part of the debt been granted on conditions that violate the social, economic, cultural, civic, and political rights of the people concerned? Were the loans intended not to save Greece but French and German banks?

The creditor institutions as well as the debtor governments have an obligation to audit these aspects before any loan agreement is made. Did EU governments consider whether any of these loan agreements violated the EU Charter of Fundamental Rights?

In the case of Greece, the [ILO's supervisory body](#) along with other supervisory bodies of the European Code of Social Security, the United Nations and European human rights bodies have repeatedly expressed concern that maintaining the course of fiscal consolidation foreseen by the MoU undermined the national social security system’s “capacity to maintain the population “in health and decency’ above the poverty threshold.” As a result of these policies and the dismantling of the collective bargaining system, real hourly wages in Greece fell by 25% by 2014. The minimum wage has fallen to its level of the 1970s. The minimum pension fell below the poverty threshold. As many as 35.7% of the population and 44.1% of children aged 11 to 15 are at risk of poverty or social exclusion. The economic depression became a fully-fledged reproductive crisis, with the population decreasing at the same time as rising emigration and decreasing fertility.

The conditionalities of the loan agreements since 2010 have not only destabilized the economy and society, but they also made public debt even more unsustainable. Research by [Gechert and Rannenberg of the Hans Böckler Foundation](#) in Germany show that without austerity the Greek economy would only have stagnated rather than lose 25% of its GDP. Implementing tax increases alone and no spending cuts would have been much more effective in lowering the debt to GDP ratio. The Troika did not adequately take into account the higher than average multiplier effects of cuts during recessions when designing the Greek programme.

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Our work at [Greenwich for the Foundation for European Progressive Studies](#) shows that the fall in wages alone explains 4.5 percentage points of the decline in Greek GDP. Contrary to the assumptions of the European Commission (EC) and the IMF, falling wages do not stimulate net exports significantly either.

Dealing with the depression and humanitarian crisis in Greece requires measures to reverse both inequality and austerity, increase the minimum wage, re-establish collective bargaining institutions and the welfare state, and promote public investment in the social and physical infrastructure via a healthy and progressive tax system. This is, unfortunately, not how the creditor institutions understand structural change.

Mario Draghi, the ECB President, has recently warned: “we are certainly entering into uncharted waters if the crisis were to precipitate.” To avoid the next potential Lehman moment, the sane response to the crisis would be to analyse the origins of the debt in Europe to shed light on adequate policies to generate sustainable development and social cohesion in Europe. The German export-led growth model also requires debt, but in another country, in Greece or Spain, hence it is as unsustainable as debt-led growth. However the EC, ECB, and the IMF are not guided by rational long-term economic and social concerns, but by erroneous economic concepts that serve the interests of the financial world. Therefore, the initiative of the Greek Parliament is of historical importance, not just for Greece but also for Europe as a whole.

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