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Economy

# The lessons that can be drawn from the failure of the Greek 2012 restructuring

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### Éric Toussaint interviewed by Maud Bailly

#### **In 2012, the Troika did a restructuring of the Greek debt: what went wrong?**

The context was as follows: from early 2010 Greece was subjected to speculative attacks by the financial markets that demanded excessively high interest rates for roll-over loans. Greece was close to defaulting because it could not refinance its debt at reasonable rates. The Troika interfered with a structural adjustment Memorandum'. It would grant new loans for Greece to repay its creditors, i.e. essentially European private banks. [1] Those new loans were accompanied by austerity measures that had a brutal, even disastrous, impact on the people's living conditions and on economic activity.

In 2012 the Troika restructured the Greek debt owed to private creditors only, namely the private banks, of EU member states, that had already largely withdrawn though they still held some Greek debts, and other private creditors such as Greek worker's pension funds. This restructuring involved cutting Greek debts to private creditors by 50 to 60%. The Troika, which has been lending money to Greece since 2010, restructured the Greek debt but refused to be involved in any reduction of the debt. It means that the debt owed by Greece to the Troika has not been reduced.

The operation was presented as a success by mainstream media, Western governments, the Greek government as well as the IMF and the European Commission. They attempted to fool international public opinion and the Greek population into believing that private creditors had gone to considerable lengths to ease Greece's dramatic situation. Actually the operation was not at all beneficial for the country in general, and even less for its population. After a temporary slackening in 2012 and early 2013, the Greek debt has been steadily rising again and is now beyond the highest point attained in 2010-2011. The conditions enforced by the Troika have resulted in a dramatic fall in the country's economic activity: the GDP went down by over 25% between 2010 and early 2014. The living conditions of the population have dramatically deteriorated: violation of economic and social rights and of collective rights, regression of the retirement system, sharp reduction of public health and public education services, massive layoffs, drop in purchasing power... Moreover, one of the conditions for any debt relief was a change in the applicable law and the relevant jurisdiction in case of dispute with creditors. All in all this debt restructuring goes against the interest of the Greek population and of Greece as a country.

#### **How does this restructuring of the Greek debt compare with the Brady Plan that was implemented in countries of the South as a consequence of the 1982 debt crisis?**

The Brady Plan [2] was implemented in some twenty indebted countries towards the end of the 1980s. It was a way of restructuring debts through an exchange with US-guaranteed securities on condition that creditor banks reduce the amount of what is owed to them and that they use the money in the economy. In some cases the debt was reduced by 30%, and the Brady bonds guaranteed a fixed interest rate of about 6%, which is most favourable for bankers. The problem was thus solved for the banks and merely postponed for indebted countries.

#### **We find the same components in the debt restructuring imposed on Greece, Ireland, Portugal and Cyprus as in the Brady Plan.**

1Â°: In the Brady Plan, just as in the Memoranda imposed on the countries on the 'EurosÛperiphery' of the EU,

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governments of the major powers and international institutions step in instead of private banks as main creditors. All those plans thus aim to make it possible for private banks to withdraw as main creditors of the countries concerned without significant loss since they are replaced by governments and multilateral institutions such as the IMF. This was what happened with the Brady Plan. In Europe, the European Commission, the European Stability Mechanism [ESM], the ECB and the IMF have gradually replaced private banks and private financial institutions as creditors.

2Â°: All those operations are obviously accompanied by conditionalities that enforce the implementation of austerity measures and neoliberal policies.

3Â°: The other common point lies in the ultimate failure of such restructuring for indebted countries. Even neoliberal economists such as Kenneth Rogoff and Carmen Reinhart [3] acknowledge that the Brady plan was not beneficial for the countries concerned: debt reduction was much more limited than had been announced and in the long term the amount of debt actually increased and the amounts paid are very high. We can now say the same about Greece, Cyprus, Portugal and Ireland.

### **If restructuring the debt is not a solution, what should be done to help those countries solve the debt issue?**

Those countries ought to unilaterally: 1) set up an integral debt audit - with citizens' active participation; 2) suspend debt repayment; 3) refuse to pay the illegal or illegitimate part of it; and 4) demand a reduction of the remainder. The reduction of what is left after cancellation of the illegitimate and/or illegal part can be seen as a form of restructuring but it cannot be isolated as a sufficient response.

### **What happens if a government starts negotiating with creditors without suspending repayment?**

If there is no suspension of repayment or public auditing, creditors are in a dominant position. We mustn't underestimate their manipulative skills that can lead governments to unacceptable compromises. Suspending debt repayment as a unilateral sovereign decision creates a new power relationship with creditors. Besides, with a suspension, creditors have to crawl out of the woodwork. Indeed if you deal with securities holders without suspension of payments they remain anonymous since securities are not nominal. Only if they topple this power relationship can governments create the necessary conditions for them to enforce measures that legitimize their action in domestic and international law. In the cases of Greece, Portugal, Ireland and Cyprus the troika is the major creditor and would be obliged to go to the negotiation table.

### **In this case could governments initiate negotiations to show public opinion that creditors have an unacceptable position and that they have no choice but to turn to unilateral actions?**

Yes, but such an approach has its pitfalls. Creditors may create confusion in the people's minds claiming that the governments are unyielding and delay negotiations. Whereas the countries need urgent solutions and cannot afford to use their tax revenues to repay their debts.

The adequate moment to suspend debt repayment must be defined according to each country's specific conditions: the people's degree of consciousness, urgency, creditors' blackmail, the general economic situation of the country... In some circumstances auditing can occur before; in others, the two must occur simultaneously.

[CADTM-<http://cadtm.org/The-lessons-that-can-be-drawn-from>]

[1] French, German, Italian and Belgian banks mainly.

[2] The plan was named after Nicholas Brady who was the US Treasury Secretary. between 1988 and 1993,  
<http://www.treasury.gov/about/history/pages/nfbrady.aspx>

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