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“The debt Issue and a New Stage of Neoliberal Transformation of the European Union. Consequences for the Left, Alternatives of the Left”

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THE CLASS CHARACTER OF RECENT GREEK DEBT RESTRUCTURING (FEBRUARY 2012) AND WHY GREEK PUBLIC DEBT SHOULD NOT BE PAID

The paper examines two interconnected subjects: First, the class character of Greek public debt restructuring of March of 2012, according to its design and consequences, which determined its failure to reduce the level of the debt. Second, concrete legal arguments at favor of the imminent cessation of payments and abolition of Greek public debt.

Introduction

The paper examines two related subjects: First, the strictly class character of Greek public debt restructuring, according to its design and consequences, which determined its failure to reduce the level of the debt. The importance of this discussion is highlighted by recent considerations about a new haircut or a new rescue loan to Greek government[1]. The contradicting plans make clear that sooner or later there will be a new round of crisis with negative implications to Greek working class and people.

Second, five concrete arguments at favor of the cessation of payments and abolition of Greek public debt. In the following lines it is shown the huge responsibility of European Union to the deterioration of sovereign debt crisis in Greece. The damaging role of EU in the Greek sovereign debt crisis, which operated as protector of bankers and creditors and led to the current deadlock was described on October 12, 2012 by Financial Times with the following: "Although IMF staff wanted early on to consider restructuring sovereign debt as part of the debt rescue, they were overruled by Eurozone governments and the ECVB which feared for the health of European banks holding Greek bonds, until a writedown became inevitable. A recent internal review of the conditions the IMF attached to lending admitted: 'Institutional constraints in the euro area occasionally limited alternatively policy options that could otherwise have been considered – notably, debt restructuring to strengthen debt sustainability'". Consequently, any solution in direction of reducing the debt and relieving of working class has as precondition the conflict with creditors which now, by big majority, are official (EU members, ECB, national central banks and IMF) and not private.

1. The Class Character of Recent Greek Public Debt Restructuring (PSI)

1.1 Failure of Memorandum paved the way of default

The priority of banks', creditors' and speculators' rescue and the significance of the punitive character of the Memorandum (May of 2010) sharpened the sovereign debt crisis of Greece. As a result the official aims of the austerity

[1] See, among many others: Spiegel (10/25/2012) Eurozone plans to fix Greece have failed (http://goo.gl/WJK6j), Financial Times (10/4/2012) Greece back in the spotlight (http://goo.gl/ZSWen), Wall Street Journal (9/20/2012) Fight Looms on Greek Bailout (http://goo.gl/AbPVK).

programs failed. Memorandum's nominal goals very soon were characterized by Press and politicians of the entire political spectrum in Greece as a huge failure. Specifically, according to the first Memorandum unemployment rate would go from 9.4% in 2009, to 11.8% in 2010, to 14.6% in 2011 and to 14.8% in 2012. After, it would begin to fall. The reality was entirely different. Unemployment in 2011 reached 16.3%, in the middle of 2012 was 24.4% and still rising... In 2013 it's sure that unemployment will increase, because economic activity will keep shrinking. Contrary to the Troika's predictions which said that GDP during the years 2009, 2010 and 2011 would be reduced by 0.7%, 2.8% and 3.1 respectively and from 2012 economic activity would begin to be moved positively (1.1%), GDP from 2009 till 2011 reduced 3.3%, 3.5% and 6.9%. For 2012 was predicted to be reduced by 7% and for 2013, trustworthy official sources predict that the recession will be approximately – more than 4%. We must highlight that never before, with the exception of the war period, has Greece or any other country of advanced capitalism suffered such a deep and prolonged recession lasting 6 years, given that reduction of GDP started in 2008, by 0.2%, and whether it will stop in 2013, isn't sure at all. Equally wrong was every other prediction of the Troika like for inflation (1.9% and -0.4% were predicted for 2010 and 2011 and reached at 4.7% and 3.3%), current account deficit (from predictions 19.3 and 15.9 bn. euros for 2010 and 2011 reached 23 and 21,1 bn.), fiscal balance, etc.

The most striking failure obviously, was relating to the predictions about the public debt. Troika predicted that public debt during the years 2010 and 2011 would reach at 133% and 145% of GDP. Contrary to these rosy expectations and partly because of the (fully predictable) depth of the recession which led to the heights the denominator (GDP) debt increased significantly these two years reaching 149.7% and 171% of GDP! Their failure was 17 for the first year and 26 percentage points for the next year! Totally failed was Troika's prediction that Greece during the first semester of 2012 would return to the markets, starting to issue bonds and in this way funding alone, progressively, its needs. This never happened and it paved the way for a new rescue loan which accompanied the restructuring of public debt.

All the above divergences couldn't be attributed to technical weaknesses or insufficiency of the models that IMF uses. These failures, even the free fall of GDP, could be considered as "collateral damage" in a successful, till now, long duration war which gives the IMF, the EU and Greek ruling class with the following strategic aims: Overthrowing of the class balances of previous decades (with winner, first of all, domestic ruling class) and rescuing the creditors (with winner, first of all, the foreign ruling class), by any means... Loser in both fronts was the working class and the big majority of the population which saw its social status sinks in this war which was carried under the flags of fiscal stability. Perhaps this was the upper meaning of the Harvard University historian Niall Ferguson's characterization of our period as "world war finance without war" in Financial Times (Ferguson, 2010). This war is the response of ruling class to the unprecedented development of nowadays productive forces and their conflict with the productive relations. This conflict is the upper root of the current, historical significance, capitalist crisis.

1.2 Early plans, political preparations

Having already failed so much, in so many sectors (regarding the nominal aims) the restructuring of the Greek public debt couldn't have had a better fortune. The reason couldn't be found anywhere else but with the interests that served the "haircut" of Greek public debt. What exactly happened with the Greek haircut has a very big importance because it was the first such effort in the advanced west capitalist world. The next haircut of public debt of another Euro Zone country with a non-viable public debt is probable to copy, or at least to follow, the steps of the Greek PSI (Private Sector Involvement), as the Greek (first) restructuring of public debt, in March of 2012 was called.

Although since the first scenes of the Greek drama, in 2010, there were callings for a deep haircut of public debt, even by Germany, Papandreou's government was rejecting solidly any discussion of this kind, saying that it's a matter of honor for Greece to pay its debt. For the first time the default was discussed and decided officially at the EU summit of July 21, 2011. The provision was for a new "rescue loan" to Greece worth 158 bn. euros and a "haircut" of public debt by 21% with the voluntary participation of private bondholders. To avoid misunderstanding it's necessary to clarify that a useful classification of public debt is by ownership, i.e. among "official" as is called the debt that is owned by other countries (bilateral loans) and institutions (ECB, national central banks, IMF, World Bank, etc) and private, as is called the public debt that is possessed by the private sector, be it banks, hedge and pension funds and every kind of investment scheme. EU's decision wasn't applied because very soon it was proven that the haircut of 21% was too little, and so the remainder public debt would not be able to keep being served by Greek state. What was needed was a much higher "haircut". So, Greece was led to the default of March 2012 which was decided at the EU summit of October of 2011. Greek people rejected this proposal as was recorded in opinion polls over the next days. Its anger was expressed when the yearly, national parade of October 28th, was transformed for first time ever, and in every city of Greece into a public demonstration. That day, outraged demonstrators attacked even the President of Democracy, Karolos Papoulias, firing a new round of political crisis which was solved, for the moment, by Merkozy's decision to overthrow the elected prime minister of Greece, George Papandreou, appointing in its seat an ex-central banker, Loukas Papademos, who, as governor of Bank of Greece, had the biggest responsibility for the "Greek statistics" of 90's. It became obvious (not only from Greece but from Italy too where in a striking similar development the Media mogul but elected prime minister Silvio Berlusconi was overthrown and in his seat was appointed the banker Mario Monti) that EU wasn't threating only the working rights and welfare state but even democracy and constitutional guarantees. It was an unexpected blow for a generation who had negative experiences from US inspired military regimes or secret operations like Gladio which believed that entrance and participation into EU was securing the democracy. The task of the new prime minister who parachuted into Athens was to impose the default, facilitating the contact between Greek ruling class and the bankers and foreign creditors. Much more his task was to suppress the inner popular and workers reactions against the default which heightened when the Greek parliament was voting the relevant law at the beginning of February of 2012.

1.3 Basic Features of PSI

The agreement can be outlined as including a "voluntary" haircut of private bondholders of 53% of its nominal value, which meant a reduction of the debt by 105 bn. (from a total debt pile of 360 bn. euros) euros and a new "rescue loan" of 130 bn. euros. The aim of the bond swap was to get Greece to a debt level that was 120.5% of its economic output by 2020. In the context of this bond exchange (which was supported by interest reduction) every bond of 1,000 euros was exchanged with a package of securities with a total face value of 465 euros. This package of 465 euros specifically contained: First, 75 euros of one-year notes issued by EFSF (Eurozone's bail-out fund) yielding 0.4%. Second, 75 euros of two-year notes issued by EFSF yielding 1%. Third, 75 euros as a result of 5 new Greek bonds maturing in February 2023, 2024, 2025, 2026, and 2027 of 15 euros each. Fourth, 240 euros, as the result of 15 new Greek bonds, maturing in February 2028 through 2042, of 16 euros each one (Forelle, 2012). These were the details of the context of the biggest sovereign default in history.

In political terms, Greece was “rescued” once more by undertaking a new net debt burden of 25 bn. euros. The terms of the bail-out contained the recapitalization of Greek banks, according to the guidelines of EU so to be compensated at 100% for the losses they accepted because of their involvement into the PSI. In this context, the removal of Greek bankers’ objections to the PSI could be explained, while initially, even Loukas Papademos had rejected it, with an article that was published in a Greek Sunday newspaper of mass circulation. From another point of view this cost (of recapitalization) was an “externality” that was imposed on the Greek people on the course of “banking union” which probably will lead to the sale of the whole sector, after its cleansing, to European banks. To this direction pushes the recruitment of Deutsche Bank (at an extreme example of interest conflict) as official advisor of Greek government for the restructuring of Greek banking system. The net increase of the public debt wasn’t the only handicap, even though this term alone should have been enough for a Greek government to say no to the EU’s proposal, rejecting the restructuring. But there were some additional terms, as part and parcel of the agreement of bonds swap that made it totally unacceptable and odious.

The Memorandum that accompanied the bonds swap as an inviolable, strict term was equivalent to the most brutal attack on the rights of working class for more than a century. Articles of this Memorandum, the second, were much more draconian than the previous Memorandum, to such a degree that even if it were the case that this haircut was so severe and sufficient to leave the debt viable and even to abolish it, the working movement had the historical duty to reject it and declare war against it! Neither the military regime of 1967 – 1974 had tried a challenge like this against the working class. The terms were so brutal that were damned by a joint declaration of the five, most prominent University professors of Constitutional Law in Greece who emphasized that the voting of this Memorandum from the Greek parliament was violating the “constitutional, European and international legality”. Under the threat of exit from euro zone they imposed a horizontal reduction of wages and salaries by 22% (and 32% for the young under 25 years old), of pensions bill, demolition of the collective wage bargaining system, planned massive lay-offs of public servants, reductions of social spending in health, education, social services, public investments and defense expenses (independently to the real needs of the country because of Turkish enmity), closed hundreds of public agencies and organizations and a massive wave of privatizations. The Greek plan of privatizations is the most ambitious plan through all over the world, according their own words.

1.4 Catastroika as prerequisite of PSI

It's necessary to open a parenthesis saying some things more about privatizations because it's an item of uninterrupted conflict in Greece due to the Troika's overwhelming pressure for the acceleration of the application of privatization program. Their interest, according to their arguments, is related to the filling of funding gaps of Greek budget and the reduction of the public debt. But their real interest has nothing to do with the reduction of public debt. They demand the sell-off of the Greek public enterprises and the natural wealth (islands, beaches, real estate in general) because first, according to a law that was voted in 2011 all the revenues from privatizations go to creditors and second because their prices, the last two years, have hit one negative record after the other.

Free fall of prices of public utilities and public wealth is a direct result of three reasons: First, absence of investment interest from abroad (because of the economic uncertainty), second, from the same country (because of the recession) and third, because of the collapse of stock exchange. Subsequently, it's easy to gain the control of a public utility with a little fraction of the amount that was needed before two or three years! Troika and creditors' hurry and unusual pressures to Greek government for the acceleration of privatizations could be interpreted easily if we take into consideration the sinking of stocks' prices which has led prices of enlisted public utilities (capitalization) into very low levels.

For example, stock price of Public Power Company from 13.32 euros in August 20, of 2010 has led to 2.55 euros and capitalization of the company (with total revenues, according to annual report of 2011, of 5,513.6 million euros and total assets of 16,645 million) has reduced from 3,092 million euros only to 592! A second example is the listed company Greek Organization of Football Prognostics, a cash machine as is characterized often, which stock price has been reduced from 11.70 euros (August 20, 2010) to 5.27 (August 20, 2012) and its capitalization from 3,732 million to 1,681 million while its net profits for the year 2011 were 542 million. Significant devaluation has accepted capitalization of all the listed public utilities. A last example is Piraeus Port Authority with a current capitalization 242 mil. euros while its total assets were 390 mil. (with property, plant and equipment among them to exceed 307 mil. euros). Subsequently, their interest is related to the possibility of a massive wave mergers and acquisitions where the Greek companies will be bought by Europeans as already has happened, for example, with Greek telecommunication company (OTE) which has already been bought by Deutsche Telekom. Colonization of Greece by European and especially German multinationals is revealed if we see too the appointment of Lufthansa as an official advisor of Greek government for the privatization of the 37 peripheral airports…

A special feature of privatization program refers to the selloff of natural resources and especially of seaside land and islands. According to latest demands of Troika from this source will be covered the funding gaps of Greek budget. If government overpasses the reactions of local communities and working movement the realization of this plan will mean the generalized commercialization and sharp degradation of Greek nature. Then, the process of financialization will have done a very big step forward including the nature.

The dramatic social and economic consequences of Greek privatization plan which announced for first time from Troika at February of 2011 (and later it was adopted by Greek government) was described thoroughly into the influential and aesthetically pioneering documentary film Catastroika (Catastroika, 2012).

Returning to the critique of the terms that accompanied PSI, we must highlight that this haircut of public debt signaled the permanent default of Greek pension system, the last nail in the coffin of Greek social security system and many more semi-public entities. Greek pension funds (with bonds of 25 bn. euros approximately), universities, commercial and professional chambers, et. al. were obliged by the law to invest a part of their reserves to Bank of Greece. Many times the management of these semi-public entities was ignoring the exact amount of these deposits. It was not happening so much because of the absence of professional management but because they believed that these deposits were free of risk. This was really happening till March of 2012. Then, Greek government wanted to increase the percentage of “voluntary” participation into the swap exchange because in this way, having achieved a threshold majority of two thirds, it could activate the Collective Action Clauses (CAC) which had been voted a month before. In this way Athens, as issuer of the bonds, could impose the participation into the swap even to those bondholders who didn’t will to take part. It was a precondition of forcing the deal to those bonds which had issued by Greek law, approximately the 86%. (From the rest 14% which had been issued by foreign law the vast majority of the bonds were governed by the British law). As a result of unilateral decisions of Bank of Greece, under the guidance of Greek government, there were pension schemes or technical schools which saw their deposits to be reduced even by 95%! This sacrifice meant an abrupt deterioration of their balance sheets, which had already hit by the unwillingness of Greek state to respect even to its yearly, official obligations for the operation of these entities. The same fortune was waiting even individuals who had invested their savings to Greek bonds, even sacked workers from semi-public companies who had been compensated with Greek bonds.

1.5 Who gained from PSI

This decision which led to a de facto default Greek pension schemes was much more provocative if we compare it with the firewall which was built to protect other owners of Greek debt who had no losses or they gained much more than the money they had invested. Some extreme examples, but representative of the biased character of restructuring, include:

First, Greek banks with a total value of bonds at approximately 50 bn. euros and official losses from PSI at 28 bn. euros which have been compensated twice the value of the losses, or 100 percent of their bonds in the form of recapitalization. It is obvious that, by the form of recapitalization, Greek banks were compensated not only for the loses from PSI but even from the increasing loses of non-performing loans due to the recession.

Second, European Central Bank and other national central banks which were holding those days a total amount of Greek bonds around 55 bn. euros, but excluded from bonds swap because belong to official lenders. European Central Bank, especially, instead of bear losses, gained much money because demanded and gained the 100% repayment even to those bonds which had bought by a discount of 30 or 40%! Just this happened with the bond that Greek government paid off to ECB at August 20 of 2012, with face, nominal value of 3.2 bn. euros. But ECB acquired this bond at August of 2010 paying approximately the 70% of its value. So, ECB paying 2.2 bn. euros was compensated after 2 years with 3.2 bn. euros, gaining in a period of 2 years 1 bn. euros and achieving a yield to maturity of 45%. In practice ECB was operating like a usurer, like a loan shark! Its role becomes more provocative if we take into account that this amount would be paid from Greece from the June 28, loan tranche value 31.3 bn. which till the midst of October of 2012 had not be given by Eurozone states and IMF – violating in this way the terms of the accord. Greek state found these money to compensate ECB (while could wait to take its money back) from market issuing Treasury bills of 13 weeks with a yield of 4.4%. This is translated in a year basis at an interest rate of 17.6%!!! These burdens, obviously, accelerated the new derailing of debt. Wasn't only ECB which gained from bonds swap.

The same happened with a third group of bondholders, speculators and hedge funds, who all the previous months, when prices of Greek bonds were very low, were buying bonds, betting that the haircut will be lower than the haircut that the market had imposed. For example at November 17, 2011 Greek bonds of 10 years old (maturity at October 22, 2022) were traded at 28.04% of their face value (71.96% haircut), 5 year old bonds (maturity July 20, 2016) were traded at 26,52% (73.48% haircut) and 2 years old (maturity August 20, 2013) were traded at 31,92% (68.08%). Contradictions and unequal terms of swap were so striking that were highlighted even by New York Times which spoke about “a much sweeter deal for investor than for taxpayers”! In the same reportage had been written: “Greece may never be able to pay off its huge debts but its bonds, long scorned by investors, are suddenly being gobbled up by hedge funds... The investors hope to book a fat profit on the expectation that the European Union and the International Fund will once again bail out Greece, fearing a global financial disaster if they do not... Those who bought the bonds recently at distressed prices might in some cases come close to doubling their money. But what is good for hedge funds in not necessarily good for Greece... According to a person with a direct knowledge of the debt swap about 30 percent of the investors who are expected to participate in the exchange bought their bonds after July 21 (date of the first accord for Greece’s default which was canceled later, LV). They are not the original debt holders – mostly large European banks – but more speculative investors looking to cash in on the steep fall in Greek bond prices... That the deal is a good one for banks should not come as a surprise. Greece had little input in setting the transactions terms, which were largely put together by representatives from the Institute of International Finance, a trade group of global bankers”. The lengthy article ends with the following: “In that case, it will not be just officials from Washington, Brussels and Athens celebrating their success in staving off a Greek bankruptcy for a while longer. So will a lot of well-heeled hedge fund investors” (Landon, 2011).

A further negative side of PSI is related to the law that will govern the new bonds. Instead of what someone would expect, the new Greek bonds will be governed by law of UK and Luxemburg! “This Agreement... shall be governed by and shall be construed in accordance with English law” (15.1 of Master Financial Assistance Facility Agreement). “The parties undertake to submit any dispute which may arise... to the exclusive jurisdiction of the courts of the Grand Duchy of Luxemburg” (15.2) This decision (which is a blow to the Greek sovereignty) has been imposed by creditors, so that Greek government, knowing that British law is in favor of creditors, never again impose a default on these securities, voting in the parliament, for example, and activating the CAC. This step was the tip of the iceberg into which the

Greek sovereignty had already crashed. With French officials established permanently in Athens to drive public administration's reform, Dutch to supervise real estate recording, Swedes to have undertaken the computerization of medicine recipes and German policemen to control Greek borders with Turkey, Greece increasingly looks like a post-modern protectorate in the age of Debtocracy. This term –Debtocracy- was introduced to public conversation in Greece by the chance of the release of the homonymous documentary film (Debtocracy, 2011), at spring of 2011.

The huge economic cost that bears for public finance the foreign law was appeared a few months after the completion of PSI agreement. Particularly in May 15 of 2012 when expired a bond which was governed by British law and hadn't been participated in the swap. Greek government paid it in its face value for avoiding the British courts. But in this way set the precedent for another 6.4 bn. worth of outstanding bonds (Laskaridis, 2012).

1.6 Nationalization of Public Debt

Last, but not least in importance among the negative consequences of the PSI and relative loan agreement, is the change of the profile of Greek public debt. With PSI the relation of Greek debt among official/private changed radically. Before PSI public debt was 62% private (Greek banks held 22%, other Greek investors 8% and not Greek investors 32%) and by 38% it was official (ECB held 16%, bilateral loans 16% and IMF 6%). After restructuring private debt represents 27% (no Greek investors 14%, Greek banks 10% and other Greek investors 3%) and the official part represents 73% (21% to ECB, to IMF 8%, to EFSF 23% and bilateral loans 21%). This change which equals the nationalization of the private part of public debt isn't a technical issue but marks a strategic transformation for two reasons. First, because the official debt is served by priority (seniority rule) and is much more difficult (but not impossible) to challenge by legal means in contrary to what is happening with the private debt, i.e. the money that owes a state to a private bondholder. The second reason is related to the removal of the risk from private creditors and the transfer of it to the taxpayers. EU governments deciding the nationalization of public debt accorded that the profits of the previous years (when Greek state was borrowing money with skyrocketing interest rates because of the increased risk of default) would remain private, and the real cost would be transferred to the taxpayers of North countries. To all these people who now believe that their own money goes to the lazies of Olive Club, as called the Euro-Mediterranean countries, while their own money went to their own banks. “Rescue loans” didn’t save Greek pensioners, Irish unemployed or Portuguese public servants as it is often written in mainstream Press of Germany, Nederland, Finland, etc. They saved banks of the core countries which were exposed to the crisis-hit countries. The worst was that governments of core countries inculpating peoples of periphery were growing a threatening racism. Especially Angela Merkel’s government, (while Germany twice during the last century had bet on racism and the superiority of its own race against the other European peoples as a means to cover and legitimize its criminal imperialist plan against Europe) was obliged to avoid a trap like this with an unknown end, in the name of peace and stability…

It is easily seen that PSI, along with the Memoranda, share the responsibility for the most barbarian and provocative redistribution of wealth in favor of ruling class and creditors that has been occurred in north hemisphere during a peace period. The fact that Greek default of March of 2012 designed from and serviced exclusively the interests of speculators, banks and imperialist organizations, defined not only the division of cost and benefit between different social classes and layers, but even the efficiency of the plan. In other words, creditors and fabulously paid technocrats despite the fact that led a whole society to its misery failed to transform the Greek sovereign debt into viable debt. Although from the point of view of the society the aim for the debt isn’t to be viable which means serviceable, but to be cancelled!

PSI was proved a totally bankrupt project as was shown from the next days when the new bonds began to be traded. According to Financial Times, “even after the biggest sovereign default in history, Greece is still priced for its next default. Yields of about 17-19 per cent, although often with wide bid-offer spreads, are where the old bonds were in the autumn. In terms of the market, Greece has only managed to put itself back where it was six months ago… Greece is almost bound to default again” (Mackintosh, 2012).

The sinking of the value of the new bonds (which moves to the contrary direction from the yield) meant something much more significant from the failure of PSI. Meant too, that all those individual domestic investors who trusted Greek state investing their money to bonds have been punished heavily not only because of the haircut but also because of the devaluation of the new bonds too! So, international creditors could be sure that the road to domestic borrowing, a safe way of funding budget gaps and new spending, would never be again so easy for public authorities. In this way they reaffirmed their dominance even through their failure, simply burning all the other alternatives…

2. Cessation of payments, abolition of debts

The Greek government, up until the date that EU announced officially the default plans, rejected every proposition for default of public debt. It argued that it's a matter of honor for Greece to pay off its debt, till the last euro. But creditors had a different opinion...

The position that lenders should honor their debt obligations couldn't be further from truth even we focus into the states, forgetting that in private economy bankruptcies and refusal to pay-off the debt is a matter of cost-benefit analysis without taking into consideration moral issues. Looking at the bigger picture we will see that in the course of history state bankruptcies rather is the rule, not the exception. Concretely it is estimated that since 1800 till 2009 have been recorded at least 250 sovereign external default episodes and at least 68 cases of default on domestic public debt (Reinhart & Rogoff, 2009). According to the same writers is "far from the norm the current period of honoring the debt obligations". In this long history of defaults the protagonist role doesn't belongs to credit unworthy "rogue" states of the Third World. It belongs to Germany, the nation that today has placed under its direct tutelage Greece and other countries of Eurozone periphery because of their debts! Germany is responsible for the biggest bankruptcies during the 20th century. Three times it defaulted on its debts: in 30's (on a huge debt that was equal to the cost of 2008 financial crisis!), in 1953 and in 1990. As a result, Germany is characterized by the prominent Munich-born economic historian Albrecht Ritschl who teaches at London School of Economics as the "biggest debt transgressor of the 20th century" (Albrecht Ritschl, economic historian, 2011). Victim of this transgression was Greece which had to forgo the reparations, paying twice for German imperialism. Now pays for third time.

2.1 Creditor-led Defaults

Undoubtedly, defaults aren't all of the same kind. At first, we could draw a basic dividing line between the creditor-led defaults, which are those that are imposed by lenders and debtor-led defaults which are those defaults that imposed without creditors' consensus. The most striking example of the first, creditor-led, case is Greek restructuring of March of 2012 as well as the Brandy Plan which named after Treasury Secretary, Nicolas Brady, and referred to the restructuring of the public debt of tens of countries during 80's. Their common feature, in vast majority of the countries, is their punitive character due to austerity measures that accompanied writing off part of the debt and the priority into the creditors' interests and no to the peoples' and nations' ones. It should be stressed that both defaults (Brady Plan and PSI) had the same architect: Charles Dallara. According to The Wall Street Journal Europe, in 80's he spent 15 months at US Treasury managing the Latin America crisis and in 2011-2012 spent many months in Athens, as managing director of Institute of International Finance working speaking with the political leadership and Eurozone officials on behalf of banks and financial institutions (Fidler, 2011).

2.2 Debtor-led Defaults

At the other side the most characteristic examples of debtor-led defaults is the case of Russia (1998), Argentina (2001) and Ecuador (2008). Contrary to the creditor-led defaults, the economic situation in these countries justified their decision to proceed in cessation of payments and partial abolition of debt. In Argentina especially, where the 2001 default on its debt of a value of 95 bn. US dollars was the largest one in history (till came the Greek one). Argentina, over the next years observed an explosive growth of GDP and a parallel sharp reduction of poverty. Especially, referring to GDP after an impressive reduction in the next year (2002) by 10.9% the immediate next years there was a spectacular increase of the value of the produced services and goods as measured in constant 2000 US dollar (2003: 8,8%, 2004: 9%, 2005: 9.2%, 2006: 8.5%, 2007: 8.7%, etc.). Recorded, too, a serious reduction of the unemployment, by half (2002: 17.9%, 2003: 16.1%, 2004: 12.6%, 2005: 10.6%, 2006: 10.1%, 2007: 8.5%, etc.) and of extreme poverty which nearly disappeared. Particularly, those who live with less than 2 US dollars a day were in 2002 nearly 9.8% of population (one in ten!), 8.2% in 2003, 5.3% in 2004, 3.8% in 2005, 3.1% in 2006, 2.4% in 2007, 1.6% in 2008, 1.7% in 2009 and 0.9% in 2010 (World Bank). As a comparison to note that in Greece, where political elite chose to show obedience to the creditors, GDP between 2009 and 2012 has decreased more than 20% and unemployment has climbed from 7.4% in June of 2008 to 24.4% in June of 2012 and in 2013 it is estimated to surpass 29%. Reduction of social wealth by one fifth and tripling of the reserve army cost the surrender of Greece to its creditors… Subsequently, scaremongering that are usually repeated by the Press or mainstream political parties about damaging consequences after a default (international isolation, expulsion of markets, transformation to a closed economy, etc.) aren't confirmed by recent history and much more they sound like threats from the creditors side.

2.3 A necessary precondition: control in capital flows

Crucial role in a successful cessation of payments and the subsequent efforts for the abolition of the whole or the biggest part of the public debt plays the implementation of controls in capital inflows and outflows. Freedom of capital was a cornerstone of the Washington Consensus since ‘80s. Today capital controls have been de-stigmatized and legitimized in peoples’ consciousness since the freedom of capital during crisis of euro has been proven a safe means for ruling class to send its money to off-shore tax havens deteriorating the crisis. Crisis of Greece, Spain and Italy would never have taken the current disastrous dimensions if from Greece had not fled 80 bn. euros till the end of 2011, from Spain hadn’t fled till August of 2012 nearly 320 bn. euros and from Italy till March of 2012 had not fled 274 bn. euros. At the same time the valid regime of “capital freedom” failed to secure the entrance of foreign direct investments, as their adherents were promising when they were demanding the removal of controls, describing them as a barrier to the coming investments that would create new working seats. In reality the only who gained from the new regime was speculative capital. The last years the successful implementation of capital controls in many countries, especially of Latin America, has broken down the Anglo-Saxon orthodoxy of capital freedom, proving that changes of this kind are feasible (Bretton Woods Project, LATINDADD, 2011). Furthermore, barriers to capital outflow are necessary because only in this way a cessation of payments will be essential. Differently, fiscal authorities will have to confront empty coffers and every plan of redistribution of social wealth will be deprived of the necessary means. It could be that the outflow of capital was averted by strict controls, especially to subsidiaries of multinational financial institutions which have the relative “know how”. The social wealth could be kept in the country and the government could cover its funding needs when a primary deficit appears through domestic borrowing, which is the safest way. It is obvious in the case of Japan which although keeps the highest public debt among advanced economies, at the level of 229.8% of GDP in 2011, when that of USA was 102.9% and that of UK, Canada, Germany and France between 80% and 90%, due to the fact that the biggest part (more than 90%) is domestic lending and in this way isn’t dependent from the blackmails of money markets, Japan pays one of the lowest interest rates being almost totally independent from ratings agencies grades (IMF, 2012). Furthermore Tokyo has an unlimited discretionary power to announce whatever kind of restructuring of the public debt, postponing the pay-off of a bonds series through a press release by Public Debt Management Office. In other words without to ask the approval and humiliations of international creditors and speculators, like in Greece!

2.4 Audit of Public Debt

The precedent of Ecuador shows the huge value of the auditing of public debt as a means to prove that public debt is illegal, illegitimate or odious and for this reason shouldn't be paid (Government of Ecuador, Internal Auditing Commission for the Public Credit of Ecuador). In this cause could be proved very useful the concept of "odious debt". Such a debt is defined: first, it doesn't serve people's or state's interest, second, the government had no legitimacy or citizen's agreement to undertake this debt and, third, the creditors were aware of this situation (Sack, 1927). This article which was used by Ecuador's president Rafael Correa in 2008 had been used for first time nearly a century before, in 1898, by USA after the annexation of Cuba. Then Washington wanted to get rid of the loans that had been left behind by Spain's colonialism.

In 2011, stemming from Athens and spreading all over Europe, a popular movement was formed, asking to open the books of public debt and to form in each country an independent committee that will proceed to the audit of public debt, with the participation of social movements and scientists (lawyers, economists, etc.). It is a "multi-speed" movement, encompassing various levels of politicization and militancy, but having as a common denominator the de-mystification of public debt, citizen's participation, the independence of government or the parliament and the refusal to pay (at the very least) the illegal, illegitimate or odious debts. In other cases, like Greece, the abolition of sovereign debt in its totality is demanded (www.elegr.gr).

Today, Greece should refuse to pay off its public debt, announcing imminent cessation of payments and denunciation of two loan agreements due to following five reasons. These causes give to Greece a solid base to demand and succeed the abolition of its public debt.

2.5 German war reparations

First, Germany, according to French economist and consultant to the French government Jacques Delpla owes to Greece from Second World War obligations 575 bn. euros (Delpla, 2011). Till now, Germany is refusing to pay its obligations to Greece arising from the occupation loan and war reparations that equal 1.5 times the current value of Greek public debt. Consequently every attempt to put an order in international economic liabilities and transactions of Greece should begin from the recognition of Germany of its obligations to Greece, the imminent return of 575 bn. euros. It is unacceptable from every aspect (moral, political, historical and economic) nowadays Germany to refuse to pay off an occupation loan which legal character had been recognized even by Adolf Hitler, the Third Reich, who had given orders to start its repayment. It's a process that till now has been left unfinished.

2.6 Emergency situation

Second, Greece should resort (again) to the clause of "emergency situations" that had been used for the first time in 1938 by the representative of the Greek state before the Permanent International Court. As he claimed, when a state is charged with liabilities against its creditors, which it cannot fulfill concomitantly to its obligations to its own people, then it must prioritize basic social needs, even if this is at the expense of the creditors (Permanent Court of International Justice). In his own words, "no country is required to fulfill, in whole or in part, its financial obligations, if this jeopardizes the functioning of its public services and results in disorganizing the country. Where the repayment of loans threatens financial life and the administration, the government is obligated to halt or to reduce the servicing of its debt" (Yearbook of International Law Commission, 1980). This precedent renewed its validity very recently, when Nestor Kirchner's government declared default on Argentina's sovereign debt invoking "a state of public emergency in the social, economic, administrative, financial and exchange rates" with the Act No 25.561 which was adopted by the Argentinean Congress on January 6, 2002 (Katrougalos, 2011). Argentina's right was recognized by three different sources: First of all, by the International Centre for Settlement of Investment Disputes, namely World Bank's court, which decided on October 3, 2006 that Argentina had the right to invoke a "state of public emergency" in the case of LG&E Group against the Republic of Argentina (ICSID, 2006). Secondly, by the Italian Court of Cassation which decided that this act was a sovereign right of Argentina and that the interests of a community organized by the state have an absolute priority vis-à-vis opposing interests, something that excludes their legal evaluation by foreign courts as *acta iure imperit* (Corte Suprema di Cassazione, 2005). Finally, by the German Federal Constitutional

Court, which decided that the German state has no obligation to protect the rights of its citizens (Schutzpflicht) that were hurt through this act (BVerfG, 2006, 2007).

In Greece, there are all the preconditions that allow the state to invoke all these successful examples and default on its public debt: explosion of unemployment, poverty and hunger, homelessness and suicides; as well as closure of schools, universities and hospitals.

2.7 Violation of Laws

Third, the agreements with the Troika violate national and international laws. The loan treaties haven't been ratified by the Greek parliament, not even through simple majority voting, despite the fact that the constitution requires an increased majority since these are international commitments for Greece. The violations of the law don't stop here. The legal edifice that occurred since May 2010 constitutes a legal coup. In particular, the suppression of legal minimum wages; the application of Anglo-Saxon and Luxembourgian law and the recognition of the European Court of Justice's jurisdiction in case of disputes; the waiver of immunity on reasons of national sovereignty; as well as the blow to basic social rights constitute a violation of the Greek Constitution, of International Labour Law and UN Treaties.

2.8 Blackmails, violation of transaction ethics

Forth, the agreements with the Troika, not only in Greece but also in Ireland and Portugal, were imposed in a context of blackmails violating the ethics and the trust that usually govern transactions (Toussaint & Vivien, 2011). Not only in Greece but also in Ireland and Portugal, the Troika exploited its superior negotiating position imposing its own terms to the other party, which had no room for choice. In this context every contract is void.

2.9 Odious debts

Fifth, both the rescue loans and the public debt are an emblematic case of "odious debt", showing that this clause could be used even in advanced capitalist countries of the Northern Hemisphere with democratically elected governments –not only in cases of military regimes. In accordance to the first condition of recognizing debt as “odious”, these loans didn’t serve the interests of the citizens or the state. The loans’ aim was to secure that Greece was going to pay its debts to the creditors and to rescue the banks. From 2010 to 2013, when the first loan agreement of EUR 110bn is to be concluded, the bonds that have to be paid off reached 103.7 bn. due to maturity. Thus, the loan was securing that the debt would be paid off. Furthermore, according to the British Daily Telegraph, till January 2012, only 19 cents from each euro of the bail-out money was going to the budget. From the rest, 40 cents were directed to non-Greek financials, 23 to Greek financials and 18 cents to the ECB (Hannan, 2012). On the other hand, citizens’ (social) and state’s (sovereign) interests were violated in an unprecedented way.

As far as the second condition to recognize a debt as “odious” is concerned, the governments in Greece had no legitimacy to sign the agreements with the Troika. The last government of L. Papademos, a former central banker appointed by EU, didn’t enjoy popular legitimization for signing the EUR 130bn loan that accompanied the restructuring of the Greek public debt, despite the fact that it had an overwhelming parliamentarian majority. Opinion polls were demonstrating the public’s radical disagreement, which was also expressed in the streets, in the form of a mass movement. The previous government of G. Papandreou didn’t have the mandate to sign the first loan of 110 bn. euros and none of the previous governments had a green light by the Greek people for the indebtedness of the country, which was caused predominantly by corruption, military spending and opaque agreements with financial institutions like Goldman Sachs.

What about the third condition that is required for the characterization of Troika’s loans and the biggest share of public debt as odious, it is equally fulfilled. Lenders of Greece EU and IMF knew very well where their money went and goes: In the case of two loans they rescued mainly French and German banks which had the biggest share of investment in Greek bonds, exploiting by privilege terms the previous years the huge opportunities that Greece and PIIGS offered due to their huge funding needs. Troika and Institute of International Finance (which on behalf of Troika undertook the daily negotiations with creditors) played the role that traditionally was playing IMF and most strikingly in Argentina case: the chief negotiator and organizer of the creditors’ cartel, attempting to secure the better terms for lenders (Cibils, et. al. 2002). As usually, creditors are both judge and jury (ACFID &

Jubilee Australia, 2011). EU too was revealed as the savior and protector of creditors and mechanism of a violent degradation of working rights.

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Digital Resources

Website of Greek Committee for Audit of Public Debt, www.elegr.gr

World Bank, www.worldbank.org