Is Greece On The Road To Recovery, Or Will It Remain Trapped By Debt? An Interview With Economist Costas Lapavitsas

Professor Costas Lapavitsas BSc Photo: SOAS University of London

In early 2010, Greece became technically bankrupt as it was shut out from borrowing in the international credit markets because of skyrocketing deficits and huge public debt levels. Since then, the country has been under bailout programs created by the European Union (EU), the European Central Bank (ECB) and the International Monetary Fund (IMF) in order to keep it inside the eurozone. However, the bailout programs have been accompanied by brutal austerity measures that have had a catastrophic effect on Greek economy and society. Yet the current pseudo-leftist Syriza government — which has been enforcing the EU neoliberal agenda since coming to power in 2015, with greater dedication than any other Greek government since the outbreak of the crisis — declares today's economic situation a "success story." However, not everyone is buying the official story.

Costas Lapavitsas is a Marxist economist at the University of London. Since the outbreak of the eurozone crisis in 2010, he argued consistently in favor of Greek default and exit from the eurozone as the key to a left-wing strategy to confront the crisis. He produced much analytical work and his arguments had considerable influence within the left, but also more widely across Greek society. For several years, his name became widely associated with these policies and had influence within Syriza, even though its leadership was completely opposed to this strategy. In January 2015 he accepted an invitation by Syriza to join its electoral ticket as an independent, and was elected to the Hellenic Parliament with a great majority in his electoral region of Imathia.

Lapavitsas served as a member of parliament for seven months and was one of the leading voices in the country in favor of a radical course of action that would bring a political rupture with the lenders. The Syriza leadership, and especially the circle of Alexis Tsipras, tried systematically to marginalize him, keeping him away from positions of authority. When the Syriza leadership surrendered to the lenders in August, 2015, Lapavitsas left the party, together with more than 30 others. They were the true left of Syriza and tried to create an alternative left-wing party called Popular Unity. Unfortunately, their efforts have not been successful, partly because of their own organizational weaknesses, and partly because a disillusionment with the left prevailed in Greek society after the surrender of Syriza.

Is Greece on the road to economic recovery? In this interview, Lapavitsas suggests it is simply ludicrous on the part of a former left party to speak of a neoliberal success story for a country mired in poverty and debt.

C.J. Polychroniou: We have been told that after eight years of harsh bailout programs that devastated economic activity and produced immense pain and suffering for the great majority of citizens, Greece is about to turn the corner, as recovery is now well under way and investor confidence is staging a huge comeback. This is, of course, the official version of the current condition of the Greek economy, so I am interested in your own reading of the state of economic affairs in Greece.

Costas Lapavitsas: The bailouts have indeed brought a kind of stability to the Greek economy, as the fiscal deficit and the current account deficit have been eliminated. This stability has been achieved in an extraordinarily clumsy and brutal way. In brief, domestic aggregate demand was crushed — both investment and consumption. Productive capacity was lost on a grand scale as industrial

output fell by more than 30 percent and unemployment rocketed. The country was made dramatically poorer and weaker.
This body blow to the economy was not accompanied by any significant structural change, despite the endless talk about "reforms." Greece continues to have a disproportionately large service sector that is uncompetitive, a very weak industrial sector with a high propensity to import, and a weak agrarian sector with low productivity. The country also has negative net savings, very weak investment, poor productivity, a heavily concentrated banking system laden with non-performing equity reaching 45 percent of the aggregate balance sheet and very limited spending on innovation. I could go on and on. Many of these weaknesses became worse through the stabilization program.

There is no evidence at all that the country has "turned the corner." Practically all the macroeconomic data show an economy lodged in stagnation: GDP growth for 2017 will be barely above 1 percent. Investment is not rising with any vigor. Consumption is falling. Exports have risen a little, but imports have risen even more. Incomes are stagnant. Income inequality has greatly increased. There are strong indications that corruption and illegal economic activity have increased, and the rich now brazenly flaunt their wealth. Greece will continue down this path for the foreseeable future.

Prime Minister Alexis Tsipras and his finance minister Euclid Tsakalotos are also alleging that Greece will no longer be under EU supervision when it exits the current bailout program. Is there any truth to this?

In August 2018, when the third bailout program is due to end, Greece will have to meet its borrowing needs in the open markets. The sums are substantial. Merely to roll over principal in 2019, the country will need more than 12 billion euros. Conditions in the open markets are, at present, loose, and money is extremely cheap, but Greece remains a very special case. For this reason, the government is planning to accumulate a cushion of more than 15 billion euros to act as guarantee for foreign lenders.

This is a piece of extraordinary folly for a country that is desperately short of investment — keeping close to 10 percent of its GDP as a stock of dead money. Even so, international lenders will have to be further reassured that austerity will not be relaxed and that Greece would have access to official sources of support, if need be. This means that Greece would require implicit or explicit support by EU lenders before it goes to the markets, which of course, implies extra monitoring of Greece, beyond that of other indebted EU countries. Greece will remain effectively in a neocolonial status.

Where do things stand with regard to the debt? And do you see any willingness on the part of EU authorities to proceed with a debt write-off any time soon?

As incredible as it might sound, debt is currently rising again, both in absolute and relative terms. Thus, the general government debt was 312 billion euros in 2015 (177 percent of GDP) and 315 billion euros in 2016 (181 percent of GDP), but in 2017, it headed toward 330 billion euros (perhaps 187 percent of GDP). The reason is that the country is borrowing to create the incredible cushion that the government and the lenders want it to have by the end of this year. There is no doubt, of course, that Greek debt is unsustainable, and the situation is not improving at all. The country will certainly require debt relief.

However, a large part of the debt, perhaps three-quarters, is not tradable, since it is in the hands of official lenders in the EU. I do not think that there is any prospect of a deep debt write-off because that would affect official lenders, who would then have to confront their own electorates. If there is to be any relief, it will probably take the form of extension of the maturity of the debt and low interest rates. To receive these marginal improvements, the country will have to apply austerity, deregulation and privatization policies as far as the eye can see. Greece is basically trapped by the debt.

How do you explain the political and ideological turnaround of Alexis Tsipras and of Syriza in general?

There are many levels on which one could approach this question, but in some respects, the answer is quite simple. Tsipras and his immediate circle were people who never had serious ideological commitments of any kind. They were primarily interested in power and never intended to change things structurally, not to mention putting the country on a socialist path. They played a political and electoral game very successfully, and in several respects, continue so to do.

During the first months in government, they were under the false impression that they could force the EU to make concessions — a folly that was made worse by the incoherent arguments of Yanis Varoufakis, then the minister of finance. Inevitably, they lost every single battle with the lenders, even the minor skirmishes. When they eventually realized the nature of reality, they surrendered completely to the lenders and embraced the bailout programs to remain in power. The Syriza government of the last two years is the most obedient government Greece has had since the start of its crisis, which plays old-style politics domestically and follows a thoroughly conservative foreign policy. It is a disgrace, a real blot on the face of the Greek and the international left.

In the early years of the crisis, you advocated Greece's withdrawal from the euro. Does it make any sense for the country to leave the eurozone now?

In 2010, Greece basically had two options. One was to comply with the demands of the bailout programs imposed by the EU lenders. The other was to follow an independent path by defaulting on the debt and exiting the eurozone. This would have been a difficult path to take, but it would have offered a real prospect of economic regeneration and deep social transformation in favor of working people. The ruling bloc of the country, sensing the risks that the second path implied for its rule, became fully committed to the bailouts and never wavered. The bailouts have gradually created a new reality in the country that is clear for all to see: a weak and stagnating economy with a harsh and more class-ridden society.

Exiting the eurozone is no longer a step of immediate and direct urgency for Greece — the disaster has already happened. The country now needs a broad program of economic transformation that can put it on a growth path while changing the balance of power in favor of labor and against capital. It also needs to recapture its sovereignty. Needless to say, these things are not feasible within the eurozone. This is how exit should be now posited, in my view.