EU's Debt Deal Is "Kiss of Death" For Greece

After eight long and extremely painful years of austerity due to gigantic rescue packages that were accompanied by brutal neoliberal measures, in Athens, the "leftist" government of Alexis Tsipras has announced that the era of austerity is now over thanks to the conclusion of a debt agreement with European creditors.

In the early hours of June 22, a so-called "historic" deal on debt relief was reached at a meeting of Eurozone finance ministers after it was assessed that Greece had successfully completed its European Stability Mechanism program, and that there was no need for a follow-up program.

The idea that Greece's bailout programs can be considered a success adds a new twist to the government's Orwellian doublespeak, given the fact that the country has experienced the biggest economic crisis in postwar Europe, with its gross domestic product (GDP) having shrunk by about a quarter, and reporting the highest unemployment rate (currently standing at 20.1 percent) of all European Union (EU) states.

On top of that, the ratio of the country's public debt to gross GDP has risen from 127 percent in 2009 to about 180 percent, a development which has essentially turned Greece into a debt colony, leading to pressing demands that all valuable public assets be sold — including airports, railways, ports, sewerage systems, and gas and energy resources. Indeed, since the start of the bailout programs, Greek governments have been trying hard to outdo one another on the privatization front in order to satisfy the demands of the official creditors, the EU and the International Monetary Fund (IMF). Still, the current pseudo-leftist Syriza government has proven to be the most servile of Greek governments to creditors.

Arguments for privatization aside, the deadly combination of higher debt and declining GDP had most economists convinced quite early on that austerity was killing Greece's economy, and that a debt write-off would be at some point absolutely necessary for medium- and long-term recovery. However, Germany and its northern European allies had diametrically opposed this idea, insisting on even stronger doses of austerity, while balking at the prospect of a debt write-off.

At the same time, the idea of Greece exiting the euro was also an anathema to Germany and the eurocrats in Brussels. Keeping Greece in the Eurozone — even while its economy and society were going to bleed to death as a result of harsh austerity measures — was deemed absolutely imperative for the very survival of the euro, and for ensuring that all previous debts to European banks were going to be repaid. Indeed, it was these concerns that led to the bailouts in the first place — not the duty or obligation of helping out a member of the European family bounce back from a financial crisis that had been caused, to a large extent, by the highly flawed nature of the architectural design of the European Monetary Union itself.

The idea of restructuring Greece's huge debt pile, which kept on getting bigger with every passing year of austerity and neoliberal reforms, never went away, especially since the IMF never got tired of telling the Europeans that the country's debt level was unsustainable. Indeed, the IMF refused to join the third bailout until debt relief was put on the table.

Afraid of going alone with its neoliberal experiment and neocolonial attitudes toward Greece, European officials kept hinting on various occasions that a time may come when debt relief for Greece could become a topic of negotiations. However, it seems that the last elections in Germany may have been a turning point in that direction, particularly with Wolfgang Schäuble having been forced to relinquish his role as Germany's finance minister for that of speaker of the Bundestag.

In contrast to Tsipras's outrageous claim that the debt deal represents a "historic" agreement, in that it allows Greece to become a "normal country" once again, the measures agreed on to make Greece's debt sustainable will doom the country into becoming a permanent semi-peripheral debt colony of the EU. The deal simply pushes the debt into the very distant future, and locks society into a state of perpetual austerity by requiring that the government run exceedingly large primary budget surpluses. The deal is not a cause of celebration for Greece but, rather, a kiss of death.

First, it grants Greece a 10-year extension on some pressing loan maturities and provides extra funds to the government in the sum of 15 billion euros in order to boost its cash reserves. In other words, no debt write-off of any kind, with the total amount of debt remaining around 180 percent, but simply making the next generation responsible for the repayment of a sizeable chunk of debt. This decision is supposed to enhance Greece's financial credibility and allow the country to return to private markets for its future borrowing needs.

The debt agreement also compels Greece to run primary budget surpluses of 3.5 percent until 2022, and then by about 2.2 percent until 2060. This means, then, that Greece will be in a state of severe austerity for the next 40 years. In fact, the demand that Greece runs a primary budget surplus of 3.5 percent until 2022 means that the doses of austerity will have to be increased substantially in the years ahead. This is especially the case since there is interest involved on the repayment of the loans, which means that the actual fiscal surplus is even bigger.

Indeed, when we take into account interest payments on debt, even at the rate of 1 percent until 2022, the overall fiscal surplus demanded from Greece as part of the so-called "historic" debt deal jumps to around 5.3 percent of the GDP through 2022. But even after 2020, the annual fiscal surplus demanded from 2023-2060 (assuming that the interest rate remains at 1 percent, although it will probably be higher) will be a minimum of 4 percent of GDP. (I am obliged to the economist Robert Pollin at the University of Massachusetts at Amherst for pointing out this important detail regarding the impact of interest rates on the actual primary budget surplus.)

At this point, with primary budget surpluses running in the range of 5.3 percent (until 2022) and even 4 percent (from 2023-2060), "severe" is not the right word to describe the level of austerity that will need to be enforced on the Greek population. A more apt term is "brutal" austerity, and such large primary surpluses inevitably bring to mind the condition of Germany at the end of World War I, when the country was forced to run similarly large surpluses in order to finance the reparations demanded by The Treaty of Versailles in 1919. Of course, what happened afterward is now common knowledge — except, apparently, among the German political class and the eurocrats in Brussels.

The debt deal for Greece is indeed a turning point: It marks the death of any prospect or hope for economic recovery and a return to normalcy. Only more difficult times lie ahead.

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