The Final Turn of The Screws on Greece

by Dr. George D. Vardangalos


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This article first appeared on the website of RIEAS (www.rieas.gr) Oct. 21, under the title "The Final Turn." EIR has been given permission to reprint it. The complete article with footnotes is available on the RIEAS website.

Here is a substantial excerpt, edited for EIR:

The Greek Great Depression

2012 was the beginning of the Greek Great Depression and Greek Yeltsin-like era. There is a lot of data describing the present situation in Greece; the most characteristic information is presented below:

The Greek unemployment rate again hit a record high of 25.1% in July, according to data released by the Hellenic Statistical Authority (ELSTAT). 1.26 million Greeks were unemployed, with more than 1,000 jobs lost every day over the past year. In the worst-affected 15-24 age group, unemployment was 54.2%. In July 2008, a year before Greece's acute financial crisis broke, there were only about 364,000 registered unemployed.

The important data is again the labor force participation rate, which is getting continuously smaller. The number of employed during December 2011 was estimated at 3,899,319 people. The inactive workforce was 4,424,562 people. July's data show the number of employed at 3,763,142 people and the inactive workforce at 3,356,276 people. One million disappeared from the "inactive workforce" during the last seven months. Moreover, according to the rules of unemployment measurement, the self-employed and owners of small businesses can never be counted as unemployed. As a result, in fact, nearly 2 million people in Greece are without work now, including those whose year-long benefits have run out.[1]

Furthermore, taking into account that employees paid by the public sector, one way or another, are 1.0-1.1 million people, the percentage of unemployment in the private sector is already 50%. In August, there were thousands of businesses that did not pay salaries; hundreds of thousands of Greek households had no income that month. There are also companies that do not pay their employees' salaries for months. The special secretary of the Labor Inspectorate said that data show that 120,000 businesses have not paid their salaries on time. So, more than 400,000 workers were not paid in August, and over 400,000 families are without a wage earner. That also means that one in two Greeks who is being paid a salary nowadays belongs, one way or another, to the public sector.

It is obvious that the Troika still supports the public sector in order to be able to pay especially the guardians of the tyrannical regime—the Greek government—so as to proceed to the final stage of the rescue plan, as soon as possible (fast track): to buy Greece's public wealth at 10% or less of its real value. Everything is going to be privatized. That will be the end of the Troika's plan orchestrated by Germany, transforming Greece into a German protectorate, with a standard of living similar to that of the Third World countries. As an exchange, the Troika has promised to a certain part of the corrupted Greek political and financial elite, that they will remain in power afterwards.

1. Greece's population was estimated to be 10.8 million as of July 2012—*EIR*.

The Collapse of Health Care

Another critical sector collapsing at an accelerating pace is health care. Health care in Greece is at a crisis point, with hospitals running out of vital supplies and drugs. Cancer patients have to source their own prescriptions, as pharmacies fail to stock vital drugs because the government has not provided funds to pay for them. The insolvent country's worsening liquidity has led to public insurers being unable to pay bills, and prescription drug stocks are running dangerously low.

Thousands of people have no access to public health care. Doctors estimate that right now, at least 40% of Greeks are either uninsured or cannot get public health care, and the trend is likely to grow. Furthermore, hospitals are under increased pressure, as austerity has resulted in many people abandoning private hospitals for those of the public sector. Additional strain is placed on hospitals due to the needs of illegal immigrants who have not contributed towards social security funds.

Greece's overall public health-care system is on the verge of collapse. Public hospitals are under-staffed and under-supplied. The government owes millions of euros to pharmacies and medical staff.

Finally, the most important thing: The economic crisis will have serious repercussions for even the youngest swathes of the population. The physical and psychological development of youngsters in the country is at risk because of malnutrition caused by poverty. The alarm has been raised in a report of April 2012 on the situation of young people in Greece, drafted by UNICEF'S Greek committee, and by the University of Athens. The report says that 439,000 children in the country are currently living below the poverty line—underfed and in insalubrious conditions—in families that represent 20.1% of Greek households.

The Final Blow

Under this depressionary financial situation, the Troika demands that Greece adopt austerity measures worth EU9 billion next year, rather than the EU7.8 billion Athens had planned for in the 2013 budget. The total package for 2013 and 2014 is worth EU13.5 billion in spending reductions and tax hikes (in order to give a two-year extension, they demand measures worth EU18.5 billion, according to the latest information).

Almost EU5 billion of the cuts next year will come from pensions, which is likely to mean larger reductions for pensioners who earn more than EU1,000 a month than had originally been planned. About EU1.7 billion will be cut from civil servants' salaries, rather than the planned EU1.4 billion. Welfare payments will be slashed by EU1.2 billion. The measures will include an increase in the retirement age from 65 to 67.

These austerity measures will add more pain and recession to Greece. My first estimation is that recession will be 5-7% in 2013. Now, it is not known if there will be a two-year extension for the implementation of austerity measures, but taking into account the fiscal multiplier effect the IMF describes in its latest report, it seems highly probable that in the following 2-3 years, Greek GDP will have a further decline of 10-15%.

In its latest report, the IMF has an extended reference to the fiscal multiplier. It admits that it made a huge mistake in its estimates for the recession as a result of austerity measures. In their latest researches, they found the coefficient on planned fiscal consolidation to be large, negative, and significant. These researches suggest that the actual fiscal multipliers were larger than forecasters assumed. In the case of Greece, the fiscal multiplier has actually been over 1.5, maybe about 2.0.

Returning to the austerity measures, the government is orchestrating the final attack on the private sector. The wages of the employed in the private sector are being cut down to Chinese standards in a completely deregulated labor market. The tax measures taken, concerning especially the very weak self-employed and the owners of very small businesses, continue the peaceful procedure, in a concept like [Nazi Germany's] Kristallnacht in a Greek version, against this part of the private sector. The aim is now obviously the elimination from the market of the self-employed and the owners of small businesses, as soon as possible.

In 2011, two anti-constitutional tax measures were implemented against the self-employed: a) a fixed tax of EU500 was paid by every self-employed person, in fact as a penalty for being one, and b) the amount of money paid by the self-employed in health-care and pension funds (flat amount, independent of income, paid even if there is no income) was not considered as an expense. On the contrary, it is considered as income, and is taxed additionally.

Among the tax measures the Greek government has in mind to implement against the self-employed next year, two more anti-constitutional ones have been proposed/decided: a) the self-employed will pay tax from the first euro of their income, and b) this tax will be 35% of their income.

What does this mean for the self-employed? Taking into account the real income of 80% of the self-employed in this period, he/she must pay 60-70%, on average, of their income for taxes and payments to health care and pension funds. As for the tax range, that payment is up to 50%. That means that the self-employed won't survive in the following months, because the government's tax measures are giving them the lethal blow. I have to repeat that the self-employed are never considered unemployed by law, they don't receive any aid when they are unemployed, and they have to pay each year EU4,000-8,000 to health-care and pension funds (this range is valid for the latest law governing self-employed engineers).

So the 10% of the self-employed and owners of businesses that gather 90% of the wealth from this sector will gather more money from the hundreds of thousands that will be out of the market, sooner or later. Most of the tax evasion is among this 10%, but nothing is done about it. On the contrary, the tax reforms that the Greek government advertises are in fact a significant reduction of taxes for the wealthiest part of the society and increased taxes for the rest.

Big private businesses also say the tax hikes are suffocating them. In the worsening financial climate, two of Greece's largest companies have announced that they are pulling out of the country. Coca-Cola Hellenic (CCH) announced that it was switching its primary listing from Athens to London, and moving its corporate base to stable, low-tax Switzerland. Its move follows the Greek dairy group FAGE's relocation to Luxembourg this month. There are rumors that many other large companies are preparing to pull out of the country.

In addition, with the latest information about large companies not paying September salaries, the Greek private sector is near a credit crunch that could create conditions for the immediate collapse of the Greek economy, without warning. These conditions are similar to those of the Capital Strike in the U.S. in 1937-38. The usual commentators will say simply, it was a "Black Swan" event.

What Must Be Done

This collapse must be prevented immediately, or else it will cause an unprecedented event with chain reactions that will affect the EU, the wider region of the Mediterranean and the Middle East. I won't say much about the measures that have to be implemented, starting even before the American elections of November. In brief, these are needed:

• An EU120-160 billion haircut in Greek public debt (mainly OSI [official sector involvement]). A long extension to the loans taken from the Troika, reduction of their interest to the level at which the ECB is lending to banks now;

• Recapitalization of the banks and, at the same time, the separation of banks into their commercial and investment parts, under a law like the old Glass-Steagall Act in the U.S.

• Immediate implementation of a New Marshall Plan for the reconstruction of the Greek economy. The damage that has already been done by the Troika's rescue plan is irreversible.

Big countries are responsible for the destruction of the Greek economy because of the Troika's rescue plan. Even if some of them didn't force its implementation, they allowed other countries to proceed with this hubris that caused and causes thousands of deaths among the Greek population. Now, they must support the reconstruction of the Greek economy by any means. For the countries mainly responsible for this destruction, Nemesis is already on the way.

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