

Syriza Left demands 'Icelandic' default as Greek defiance stiffens

Greek premier Alexis Tsipras threatens Europe's creditors with a "big no" unless they yield on debt servitude

By Ambrose Evans-Pritchard
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The radical wing of Greece's Syriza party is to table plans over coming days for an Icelandic-style default and a nationalisation of the Greek banking system, deeming it pointless to continue talks with Europe's creditor powers.

Syriza sources say measures being drafted include capital controls and the establishment of a sovereign central bank able to stand behind a new financial system. While some form of dual currency might be possible in theory, such a structure would be incompatible with euro membership and would imply a rapid return to the drachma.

The confidential plans were circulating over the weekend and have the backing of 30 MPs from the Aristeri Platforma or 'Left Platform', as well as other hard-line groupings in **Syriza's spectrum**. It is understood that the nationalist ANEL party in the ruling coalition is also willing to force a rupture with creditors, if need be.

"This goes well beyond the Left Platform. We are talking serious numbers," said one Syriza MP involved in the draft.

"We are all horrified by the idea of surrender, and we will not allow ourselves to be throttled to death by European monetary union," he told the Telegraph.

The militant views on the Left show how difficult it could be for premier Alexis Tsipras to rally his party's support for any deal that crosses Syriza's electoral 'red-lines' on pensions, labour rights, austerity, and debt-relief.

Yet they also strengthen his hand as talks with EMU creditors turn increasingly dangerous. **Talks between Greece and its EU creditors fell apart once again on Sunday, leaving a final decision on a default to eurozone finance ministers.**

Mr Tsipras warned over the weekend in the clearest terms to date that Greece's creditors should not push him too far. "Our only criterion is an end to the 'memoranda of servitude' and an exit from the crisis," he said.

"If Europe wants the division and the perpetuation of servitude, we will take the plunge and issue a 'big no'. We will fight for the dignity of the people and our sovereignty," he said.

It may soon be too late to push any accord through the German Bundestag and other EMU parliaments before June 30, when Greece faces a €1.6bn payment to the IMF. The interior ministry has already ordered governors and mayors to transfer their cash

reserves to the central bank as a precaution, but even this is not enough to avert default without a deal.

Yet an official document released this evening in Athens appeared to throw down the gauntlet. "The government reiterates, in no uncertain terms, that no reduction in pensions and wages or increases, through VAT, in essential goods - such as electricity - will be accepted. No recessionary measure that undermines growth – the experiment has lasted long enough," it said.

European officials examined 'war game' scenarios of a Greek default in Bratislava on Thursday, admitting for the first time that they may need a Plan B after all. "It was a preparation for the worst case. Countries wanted to know what was going on," said one participant to AFP.

The creditors argue that 'Grexit' would be suicidal for Greece. They have been negotiating on the assumption that Syriza must be bluffing, and will ultimately capitulate. Little thought has gone into possibility that key figures in Athens may be thinking along entirely different lines.

Tasos Koronaki, the party secretary, said on Sunday that attempts to split the party will fail. "The government will not enter into any agreement that is not accepted by the parliamentary group. We are more united than ever," he said.

Finance minister Yanis Varoufakis told Greek television that his country cannot accept an "unachievable fiscal plan" and warned creditors that the minimum damage from Grexit would exceed €1 trillion for the European financial system.

Syriza's Left Platform has studied the Icelandic model, extolled as a success story by the **International Monetary Fund** itself. (1)

"The Greek banks must be nationalised immediately, along with the creation of a bad bank. There may have to be some restrictions on cash withdrawals," said one Syriza MP.

"The banks will go ape-s*** of course. We are aware that there will be a lot of lawsuits but at the end of the day we are a sovereign power," he said.

Deposit outflows from the banks are running near €400m a day and could at any moment turn into a national bank run. This is alarming in one sense, but it has advantages for Syriza hard-liners.

The immediate problem is landing in the lap of the European Central Bank, which has had to raise its emergency liquidity support (ELAs) for the Greek banks to €83bn. The ECB is ever further on the hook.

While Greek citizens are hiding their money in mattresses or parking it in foreign accounts, the wealth still exists and could be used to replenish new banks in the future.

"The more the deposit flight goes on, the easier Grexit will be," said one Syriza MP. "It is a trump card," said another.

Syriza has a strong ideological motive to strike at the financial elites. They view the

banks as the nerve centre of an entrenched oligarchy that has run the country for more than half a century as a family business. Forcing these institutions into bankruptcy provides cover for a socio-political purge, best understood as a revolution.

Iceland is a tempting model for Greece, but the parallel can be pushed too far.

The Nordic country seized control of its three big banks - Glitnir, Kaupthing, and Landsbanki - when the crisis span out of control in late 2008.

It wiped out shareholders and defaulted to foreign creditors - including British and Dutch retail depositors - setting off a storm of protest. Britain's Labour government briefly invoked anti-terror legislation. The governor of Iceland's central bank showed this reporter a document listing his institution along side al-Qaeda on the global blacklist, calling the British move "18th century gunboat diplomacy".

Iceland's internal banking system was rebuilt from scratch under state control with public funds equal to 30pc of GDP, and was shielded by capital controls. The boards were sacked. Some executives were prosecuted.

The banks kept their old names to maintain continuity for local depositors but they were essentially new institutions. Iceland gradually recovered and has since racked up **impressive growth**. (2) Contrary to apocalyptic warnings, a 50pc devaluation proved to be part of the cure. The krona has since strengthened slightly against the euro.

However, Iceland has a very different society and economic structure. Quick stabilisation was possible only because the IMF and the Nordic countries stepped in with a \$5bn rescue package.

Greece has already exhausted its IMF quota in the two failed rescues of 2010 and 2012, and is now at daggers drawn with the Fund's team in Athens. Some Syriza leader are demanding the head of Poul Thomsen, the IMF's programme chief.

They accuse him of working in cahoots with the oligarchy and pushing austerity beyond economic logic. The latest demands include a rise in VAT and pension cuts together worth 2pc of GDP by 2016, amounting to a pro-cyclical fiscal squeeze in an economy already in depression.

Tensions reached breaking point last week when the IMF pulled out of talks and flew back to Washington, though part of frustration is with the European institutions. It is hard to see how Greece could turn to the IMF for friendly help if the crisis leads to rupture. Much would depend on the quality of European statesmanship, and on how much political capital the US was prepared to spend sorting the problem out.

The IMF's view is in any case complex. It has warned EU officials behind closed doors that it will not continue to take part in Greek loan programmes unless the creditors accept a serious reduction in Greece's public debt burden.

While Greece's interest costs are just 2.5pc of GDP at the moment, they will jump to nearer 5pc in 2022 when the current debt deal expires. There is a high risk that the country would then be bankrupt again with little to show for a decade of austerity and depression.

Mr Tsipras faces a critical choice. If he accepts creditor demands, he may lose a large bloc of his own party and have to rely on the establishment parties to push the deal through the Greek parliament.

Such a course of action would render him a Greek version of Britain's **Ramsey MacDonald**, the Labour prime minister in the 1930s who enforced austerity and became the socialist figurehead of a Conservative national government.

MacDonald never overcame the accusations of betrayal by the Labour movement. He died a broken man.

Notes

(1) IMF Survey, Nov 03, 2011: **ICELAND CONFERENCE -- Iceland's Unorthodox Policies Suggest Alternative Way Out of Crisis** - Iceland's unorthodox policies provide good test case - Decision not to make taxpayers liable for bank losses was right, economists say -- Capital controls were necessary and are now seen as useful addition to policy toolkit -- URL: <http://www.imf.org/external/pubs/ft/survey/so/2011/CAR110311A.htm>

(2) Karin HAMMAR: **Iceland Makes Strong Recovery from 2008 Financial Crisis**; IMFSurvey, March 13, 2015 – URL: <http://www.imf.org/external/pubs/ft/survey/so/2015/car031315a.htm>