Document

Le plan de secours à la Grèce profitera en premier aux banques

(The New York Times)

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(Titre : Banks Come First in a Greek Rescue Plan)

It now appears that Europe is prepared to pay what it needs to pay to save its banks.

But not to rescue Greece.

Once again, there is optimism that a new round of European talks are going to result in an announcement of a Greek bailout. On Thursday, the Greek political parties caved in and agreed to a new austerity package that will satisfy the latest European demands.

When other loose ends are tied up, it appears the Greeks will have given up their principal bargaining chip — the threat that if they are allowed to collapse, they will take the European financial system with them.

If that happens, then at some point down the road, when it turns out that Greece has again fallen short of its deficit reduction targets, Germany will again demand more sacrifices. If the Greeks refuse, then the rest of Europe could be in a position to let Greece go.

It might or might not stay in the euro zone, but a bankrupt Greece would be left to fend for itself, with much of the rest of Europe saying — just as it did two years ago, when Greece's distress was just becoming clear — that it is a small country of little importance to the rest of Europe.

Perhaps Europe, in its stumbling and sometimes disorganized fashion, will have accomplished a large part of what it set out to do. It will have put a fence around the Greek tragedy and preserved — most of, if not all — the euro zone. As for rescuing Greece, well, you can't win them all.

The current European attitude was best captured by a document that was circulated as part of the now-abandoned German proposal to force Greece to accept a "budget commissar" to supervise its spending.

"Greece has to legally commit itself to giving absolute priority to future debt service," said the document, said to have been circulated by German officials. "State revenues are to be used first and foremost for debt service." Whatever money was left over could be used for other purposes, such as paying police salaries or purchasing hospital supplies.

That was shot down because it sounded so undemocratic and authoritarian, said Whitney Debevoise, a partner in Arnold & Porter with long experience in international bond negotiations. "Plan B is the escrow."

Escrow does sound like something neutral. But it apparently means the same thing. European aid to Greece would go into an escrow account, to be released as Europe saw fit and withheld if Greece again failed to live up to its promises to cut its budget deficit. But of course the money would be released for debt payments on the restructured bonds. For at least a few years, banks and others that own the new Greek bonds would be assured of collecting their interest payments.

"The euro area will be able to call the bluff of the Greek government," said Jacob Kirkegaard, an economist at the Peterson Institute for International Economics.

"Greece says, 'If we default, all hell breaks loose,' " he said. "The reality is that the threat from Greek contagion becomes a lot less credible."

The escrow system may also persuade more bondholders to go along with the "voluntary" restructuring. Anyone who did not, hoping that the handful of unexchanged bonds would be paid since the cost would not be that great, would run the risk that Europe would release funds to pay debt service on the new bonds, but not on unexchanged old ones.

There have been Greek rescue packages before, followed by new crises. But this could be different.

By the time it becomes clear that Greece cannot meet its new promises, the recapitalization of major European banks may be completed, and in any case they will have no immediate worry of a Greek default. The European Stability Mechanism, the new European bailout fund, will be in place, and perhaps the International Monetary Fund will have raised more capital. The much-talked-about "firewall" could be a reality, preventing contagion.

There are a lot of ifs in all that, and reasons for caution. Any capital infusion by the International Monetary Fund presumably would have to proceed without the participation of the United States; Congress has yet to sign on to the last capital increase. And European attempts to build that firewall have in the past included more rhetoric than hard cash.

But the essential part would be done. The Greek threat would be contained.

An optimist might think that would make it more likely the Greeks would really try to comply this time, and that the threat of a European cutoff would spur reform. Even if that were to happen, however, it is hard to see Greece's economy improving much, and no particular reason to think the new budget targets will prove to be more realistic than their predecessors.

Already some in Europe seem to be looking ahead to the prospect of Greece's abandoning the euro. "There is absolutely no 'man overboard' if we miss someone from the euro zone," Neelie Kroes, a member of the European Commission, told a Dutch newspaper this week, adding that the claim that the "whole edifice" would collapse if one country left the euro zone "is simply not true."

There is, of course, no legal way for Greece, or any other country, to leave the zone, and it is hard to see how a departure could avoid being very messy. But nothing that has been done so far provides any reason to hope that Greece will be able to revive its economy without an exit and a substantial devaluation of the new Greek currency. And without an economy that offers growth and hope, Greek tax revenue will continue to be disappointing.

The troika negotiating with the Greeks — the International Monetary Fund, the European Central Bank and the European Commission — sought some of the advantages a devaluation would offer by demanding a reduction in the Greek minimum wage. It appears to have gotten that, and the expectation is that other private sector wages will be reduced as well. That idea sounds horrifying to

Greeks, who assume their personal obligations, for food and clothes and housing costs, will not also be cut.

There is nothing new in leading European states' insisting that debts owed to their banks and citizens by sovereign states must take precedence over any other call on a debtor nation's resources. It is not, however, a particularly noble tradition.

In 1902, Venezuela seemed to be unwilling to discuss settling international debts incurred during a series of civil wars. Germany, Italy and Britain responded by sending in gunboats. German ships bombarded a Venezuelan fort — the Germans said the Venezuelans fired first — and some civilians were killed.

In the end, Venezuela agreed that 30 percent of its revenue from tariffs on imports would be diverted to debt service. Some of the debts — which included reimbursing the European powers for the costs of sending the warships — were reduced.

In those days, international arbitration was available at The Hague under elaborate rules, and the case wound up in arbitration. Not, however, on the issue of whether it was proper to send in warships. Instead the issue was whether the countries that did send in the ships should have priority in collecting the debt payments over citizens from other countries, like the United States, that had not resorted to military force.

The Russian czar was chosen to appoint a panel to consider the case, and chose two Russians and one Austrian. The panel ruled that it made perfect sense for those that manned the warships to be paid first. The "neutral powers," as the noncombatants were called, would otherwise get equal benefit from a war they did not pay for.

There was more than a little international revulsion to that whole affair, and in 1907 the Hague conventions were modified to outlaw the use of military force to settle debts.

There is no military force here, of course. But it appears the result may be about the same. Greece is being allowed to reduce what it owes, but the European powers of this era will make sure that the remaining debts have "absolute priority" over any other obligations.