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The Greek Surge against Austerity: A Blessing or a Curse for the Eurozone?

By Eleni Panagiotarea[1]

Syriza's advent of power was supposed to seriously challenge the eurozone's austerity orthodoxy *and* put an end to an economic adjustment programme, which saw Greece's GDP fall by 25 per cent and unemployment rise by 26 per cent. The radical-left populist party was instrumental in exploiting the social fallout from the harsh austerity experiment conducted in Greece; its leader, Alexis Tsipras, came up with an electoral mantra, 'hope begins today', which captured the mood of the nation and beyond. Forming an improbable coalition with the right-wing, nationalist Independent Greeks, he set out to shut down the harsh EU-IMF-mandated policies; this newfound 'sovereignty', however, shipwrecked on the country's debt repayment obligations and growing liquidity squeeze. It feels more like a return to Groundhog Day: after bitter negotiations, Greece achieved, with the Eurogroup agreement of 20 February, an extension of its second bailout programme. This is to be monitored by the so-called 'institutions', or 'Brussels Group', formerly known as the 'troika'. And although Greece insists – and its partners agree – that its goal is to stay in the euro, a 'Grexit' is now firmly back on the table. Perhaps the only thing distinguishing this Groundhog Day from the one of 2012 is the addition of a new concept, 'Grexident' or 'Graccident', signifying the possibility of an *accidental* exit from the euro.

The view from the ground is disheartening. There are no easy payoffs in the chaotic equilibrium of terror Greece finds itself in. The country is running out of money, the Eurogroup agreement seems to be under constant re-negotiation, the measures tabled are continuously deemed 'unsatisfactory' and the real economy is in the pause mode, if not in shock. There is a break-down of trust between Greece and its partners, and a level of public political anger never witnessed before – an anger that, in fact, is trickling down to the European people. Either the Greek Prime Minister and his eurozone partners can reach a so-called 'honourable compromise', with both sides suffering losses which are nevertheless manageable, or a rift opens up, where losses are most probably *not* manageable.

Is it too early to suggest that the new government has wasted the chance to lead the anti-austerity surge in the eurozone? Before coming to power, Syriza was certainly instrumental in riding the anti-austerity wave, which grew bigger and bigger, as senior academics and international organisations drew attention to the way austerity throttled the continent's economy and ushered in deflation. Then there were the protesting voices of the European people, in core and periphery, struggling with high levels of unemployment, poverty and social exclusion. More importantly, Syriza was adept at capitalising on the plight of the Greek people. Even if the Greeks had been living beyond their means during the good EMU years, now their lives had come crushing down.

The three mistakes of the Greek government

Creating a firm anti-austerity narrative would have certainly helped Syriza build 'the broadest possible alliances in Europe'. After all, no one could disagree that austerity

[1] Contribution to the like-named Böll Lunch debate of 26 March 2015

was excessive in the Greek case; or that the programme failed: fiscal consolidation came at an impossible social cost, debt skyrocketed to 175% (whether it is 'sustainable' is anyone's guess) and Greece has yet to re-access the markets. Once in government, however, the party has stumbled into three pitfalls: those of reasoning, of strategy and of rule-following.

First, while a lot can be said about programme design and the way IMF conditionality was implemented on the ground, the government failed to acknowledge Greece's lack of ownership and the role that the entire political order played in presenting the programme as 'an unwelcome imposition from above'. Poor results cannot be dissociated from a collective denial to implement long overdue reforms. The cutting of pensions and wages and the tax hikes became the only available 'solutions' by default. The government has also demonstrated limited knowledge of how institutions work – for example by pressuring the ECB to lift the cap on the amount of T-Bills the banks can buy – or how rules constrain. When one member state insists that its popular will and its clear mandate ought to be respected (which is as such a fair point), it prompts the other eighteen members of the union to talk about their popular will and how that should also be respected. Finally, the negotiating strategy of leaks, hostile commentary, constant U-turns in rhetoric as well as policy substance, quickly distanced Greece even from potential allies, burning bridges rather than building them.

These mistakes in reasoning, strategy and rule-following have gone hand in hand with a serious miscalculation. The government used programme failure and the effects of austerity as a platform in order to make claims and to roll back measures: it wants to secure debt relief and fiscal space to re-energise public spending, to unravel any structural reforms previously implemented, to freeze the few privatisations that were taking off and to announce that the troika and the memorandum no longer existed. In terms of substance, what it has delivered so far is *a re-working of good old Greek statism*, with a radical left flavour. In this way, it has tripped up, messed up and lost a lot of legitimacy. The Greek surge against austerity is hollow; it lacks credibility, has no plan and offers no alternative narrative. This certainly undermines the leadership role that the Syriza-led government sought in waving the anti-austerity flag; it is more than likely to affect the success or failure of other anti-austerity and populist parties elsewhere. The ultimate irony of course is that, if the state-expanding policies announced materialised, fiscal profligacy would make the adoption of another round of austerity measures mandatory.

The force of inertia

Is there still a chance for a 'win-win equilibrium', a so-called honourable compromise? The government has openly admitted a liquidity squeeze, with analysts predicting that the country could soon run out of money and options. Paradoxically, it is dragging its feet, postponing the implementation of necessary reforms that would unlock funding, while exposing Greek households and companies to a deepening economic and financial crisis. The force of inertia has certainly raised its ugly head. At the same time, the government has rushed to take traditional state clienteles under its wings, as evidenced in a series of tabled draft bills proposing to re-open the Hellenic Broadcasting Corporation, for example, or re-hire the public sector employees made redundant under a previous re-organisation process. The overly protected public sector is about to be extended and pampered again, while over one million jobs have been lost in the private sector. Still, no one talks about job creation.

The force of inertia also probably explains why, after five years of recession and two bailout programmes, there is still no national growth plan to make the Greek economy more robust and competitive. One would have thought that Syriza, which kept asking for elections for the last two years, would have come to power prepared. The absence of a plan is, in fact, most unfortunate; the government's level of political acceptance and support extends well beyond the party's electoral appeal. As anti-establishment, Syriza theoretically has no ties to the vested interests that annulled previous reform efforts. Finally, the wider environment in which difficult reforms could be undertaken is particularly favourable, shaped by continuing low oil prices, the sharp depreciation of the euro, the ECB's QE programme and the European Commission's Investment Plan.

Perhaps the cause of the inertia is the Greek people. The part of the electorate which believes that reforms must be implemented is a minority, dispersed in various political homes. The 'electorate' is, in fact, broken up in a multitude of interests, of various sizes and guises, which have become instrumental in blocking any meaningful change of the country's economic, political and production model. It is no accident that since 2010, when the Greek Loan Facility was activated, the four governments called upon to implement the bailout-mandated reforms have shared one characteristic: they voted for laws which would *not* be implemented 'on the ground' or they proposed 'equal measures' which ended up protecting the organised interests that would have been affected by the original measures.

No need to fail

With Greece expected to arrive at a definitive list of reforms by the end of April, the end game is approaching. Will it be a happy ending? In the next few weeks Greece will default on its obligations, unless it enacts long awaited and repeatedly promised reforms. This should act as a wakeup call both for Greek policy makers, who should pick up the pace, *and* for eurozone leaders who should consider moving away from their excessively dogmatic stance. Circumstances have somewhat changed since 2012 but it is safe to assume that the eurozone will not wish to test its resilience to a Greek default and the exit that would probably follow. Ending up with a failed state and a failed union is, without doubt, the worst possible outcome for all parties involved.

What are the chances that eurozone leaders step up to the task of avoiding such an outcome? While they have moved away a great deal from the mission accomplished attitude, the appetite for more change is weak. This is understandable to an extent. The reason is not just the unwillingness of the European electorate, charmed by competent populists and abandoned by 'responsible' politicians who have been unable to mobilise and explain. Game-changing options, such as a fiscal union, let alone a political union, are definitely off the table. This, however, precludes serious thinking about transfer mechanisms to help the weaker or more vulnerable members of a monetary union; it also precludes addressing deep divisions which are not sustainable in the medium term, in the eurozone jobless rate, for example. It therefore becomes futile to talk about a eurozone finance ministry or a eurozone parliament; it is unrealistic to conjure up new institutions and rules, under the circumstances. Europeans have yet to digest those already in place and, in all fairness, the excessive intergovernmentalism witnessed ever since the eurozone entered crisis management mode (but also thereafter) has exacerbated a feeling that this is not a union of equal members.

The single currency has not brought Europeans or their dissimilar economies closer. In fact, divergences have become established and have become accepted as such. No one can deny that the post-crisis institutional engineering was unprecedented or that it calmed the markets – it has, however, proven sub-optimal in terms of restoring output and jobs. The problem is how to bring back real convergence, how to get the weaker economies to grow again. There are justified fears that the recovery currently underway will not benefit, as much as needed, those worst affected by the years of recession and near stagnation.

At the same time, there is room for optimism and for genuine change, provided that some common ground is found on two *organising principles*. The first is about rules vs. flexibility. The enforcement of fiscal rules is becoming increasingly difficult, if not idiosyncratic. The perception that the big economies are let off lightly, while the small ones have to persevere with fiscal consolidation has already undermined credibility and confidence. Rather than applying flexibility in some cases and pretending that the rules are written in stone for others, it would perhaps be a good idea to decide on flexibility rules and how to apply them: this amount of flexibility for this type of reform. This would stop the silly game of de facto asking for extensions of previously granted extensions and lift the poisonous suspicion of preferential treatment; it would also make the entire procedure far more transparent and credible. Even better, it would stop the scapegoating of national politicians who finally have to explain what they intend to do with the fiscal space granted.

The second is about coordination vs. sovereignty. Co-ordination has turned into a seemingly perennial apposition of sticks to ensure budgetary discipline and economic reform. It is difficult to locate the carrots in any of the newly designed mechanisms and rules. There has, however, to be created some sort of support system for countries that may need it. Conditionality aside, a centralised budget could be built up to help countries adjust to economic shocks or to provide funds to tide them over as they proceed with politically costly overhauls. If a sense of sovereignty is to be restored, then the respect for rules must be complemented by concrete fiscal advantages. For national budgets to deliver growth, jobs and stability, the eurozone should construct a supporting set of rules, not just a monitoring and sanctioning one.

Coming back to Greece, it need not fail its citizens and it need not fail the union. Hopefully, it will reach a compromise in the eleventh hour. The government can use its popular approval to proceed with a realistic programme of reform: cut bureaucracy, particularly where it disrupts the attempts to create an investor-friendly business environment, combat tax evasion, so that the usual suspects, the salaried classes, finally can share the burden, and deregulate the product market, where oligopolies' pricing adversely affects the most vulnerable. There is also room for calculated generosity on the part of the eurozone: if Greece does produce a plan, it could decide on a realistic primary surplus and some kind of debt relief, which will signal to investors that a process of restructuring and repair is underway. This would improve Greece's debt sustainability (and the perception of Greece's sustainability in the markets) and increase the chances of the economy getting and staying on a solid growth path. A fair union of equal members would also push for the burden of adjustment to be shared and would generate a continent-wide stimulus. Creating the conditions for job growth and job security, for a better common future is the game changer that Greece and the eurozone need.