Event Report

The Greek Surge against Austerity: A Blessing or a Curse for the Eurozone?[1]

Even though the eurozone economy ended 2014 with its worst quarter for a year, the mood among eurozone leaders remained remarkably complacent. The eurozone had survived another year; modest progress seemed to be have been made without fundamental policy or institutional changes and on 1.1. 2015 Lithuania joined the club of now 19 countries. But this general complacency was rudely interrupted by the outcome of the election in Greece and the arrival on the (euro)scene of a new self-confident Greek government which had promised its vexed voters the end of austerity and a cancellation of part of Greece's unsustainable €315 billion debt burden. Suddenly, the rules of the game seemed to be changing; crucial decisions had to be taken immediately unless one wanted to risk a Grexit and its political, financial and economic consequences. Almost two months after the Greek elections ─ following four weeks of intense showdowns and tense negotiations between the Greek and their eurozone creditors ─ a compromise was found in the form of a four-month bailout extension for Athens. But where do we go from here? In these four months it is not only the Greek government that has to think about its strategy, but also the eurozone leadership. The Greek surge against austerity could turn out to be a blessing for the eurozone, if it led to its democratic restructuring. But, is there a real chance that the austerity policies which have proven so destructive will be changed and that genuine reforms will happen in the eurozone ─ and in Greece? Or will the new Greek government fail and collapse with a complete break-down of democracy in Greece as a possible outcome? What reforms are needed to improve the functioning of the eurozone and make decision-making more democratic? Finally, by the end of 2015, will we have a better eurozone and a better Greece or will we have to face a failed eurozone and a failed state?

Having come to power with the promise to challenge the eurozone's austerity orthodoxy, the new Greek government made use of a tremendous degree of political anger among the public. The nation's mood was captured suitably by Alexis Tsipras' electoral mantra of "hope begins today'. However, this newfound 'sovereignty', which the government experienced when trying to shut down EU-IMF mandated policies, was quickly disabled by the country's heavy debt repayment obligations and its growing liquidity squeeze. With the exception of a new concept called 'Grexident' or 'Graccident', indicating the possibility of an accidental Greek exit from the euro, the current situation is more of a return to Groundhog Day. After bitter negotiations, Greece was granted an extension of its second bailout programme which is to be monitored by the 'institutions", or 'Brussels Group', formerly known as the Troika. Despite the programme extension, the Greek surge against austerity has led to a break-down of trust between Greece and its partners and to an unforeseen level of public political anger which is trickling down to the European people.

[111] The event took place on 26 March 2015. Guest speakers were: **Dr Cinzia Alcidi**, Head of Economic Policy Unit and LUISS Research Fellow, The Centre for European Policy Studies (CEPS), **Sven Giegold**, Member of the European Parliament, Group of the Greens/European Free Alliance (Greens/EFA), **Dr Eleni Panagiotarea**, Research Fellow, Hellenic Foundation for European & Foreign Policy (ELIAMEP). The event was moderated by the director of the Heinrich-Böll-Stiftung European Union, **Klaus Linsenmeier**. The opinions expressed do not necessarily represent the opinions of the Heinrich-Böll-Stiftung.

Mistakes of the Greek government

Although no one could disagree that austerity was excessive in the Greek case or that the programme for fiscal consolidation has failed, the Greek government has made several mistakes once in office: mistakes of reasoning, rule-following, strategy and communication. First, while a lot can be said about programme design or 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 bailout programme as an 'unwelcome imposition from above'. Poor results cannot be dissociated from a collective denial of long-overdue reforms. Second, the government has demonstrated limited knowledge of how institutions work; for instance, by pressuring the ECB to lift the cap on the amount of T-Bills the banks can buy. The same applies to how rules constrain. If one member state insists on its popular will and clear mandate to be respected, it prompts that the other eighteen members of the Union will ask for their popular will to be respected, too. Third, the negotiating strategy of leaked documents, hostile commentaries, and constant U-turns in policy substance quickly distanced Greece even from potential allies, burning bridges rather than building them. Counting on Germany's cooperation with its economic strength and asking them to recalculate the reparation demands, are two approaches which are almost impossible to have at the same time. Last, there has been a lack of communication from the Greek government when it comes to promoting job creation and investment in Greece. As a result, it has been very difficult for external parties to find positive signals as to why one should be confident to invest in Greece and why there would be a new growth dynamic evolving. One could even say it was an invitation for capital flight.

To make things worse, these failures have been accompanied by further miscalculations. When the Tsipras-government presented its action plan, it had an impossible trinity in mind. Besides affirming membership to the euro area, the programme emphasised the government's will to restructure the debt burden and the idea of reverting austerity. For a country in a monetary union, these elements are, however, impossible to achieve altogether. Once the government became aware that a discussion about debt restructuring would cease any talks with the European partners, this argument was the first one to be dropped. Throughout the general debate, the government used programme failure and the effects of austerity as a platform to promote its claims of securing a debt relief and fiscal space, unravelling structural reforms previously implemented and freezing the few privatisations that were taking off. In terms of substance, what it has delivered so far is a re-working of good old Greek statism, with a radical left flavour. At this point, it seems that the Greek surge against austerity is hollow; it lacks credibility, has no plan and offers no alternative narrative. With the situation deteriorating, we are inevitably returning to the issue of reforms.

Absence of reforms

Structural reforms are necessary to punt the country back on a path of economic growth; but in spite of the favourable environment for difficult reforms, which the depreciation of the euro, the ECB's QE programme and the European Commission's Investment Plan have created, the Greek government is procrastinating the implementation of reforms which would unlock funding. There are several reasons why this is the case. For one thing, the force of inertia is a key factor. It serves as an explanation why, after five years of recession and two bailout programmes, the Greek government has still not put forward a national growth plan to make the Greek economy more robust and competitive. This fatigue of reform is especially noticeable among the public.

After years of economic hardship, people have the impression that reforms have been implemented all along, but without tangible improvements. As a consequence, the part of the electorate which believes that reforms ought to be implemented is a minority. Another reason for the constant postponement of reforms is their effects. In a short-term perspective, reforms create destruction and may cause unemployment; only in a longer-term perspective, they are able to turn into a success story. For politicians, this is an unfortunate truth since they are judged by short-term results. Therefore, there is little incentive for politicians to pursue this way unless they possess a very long-sighted vision about the country's future.
By the end of April 2015, Greece is expected to arrive at a definite list of reforms without which it is very likely to default on its obligations. This should function as a wakeup call both for Greek policy makers, who should pick up the pace, and for eurozone leaders, who should step back from their dogmatic stance. Unfortunately, a mistake which has been made before seems to be recurring. The last agreement signed by Greece and its creditors contained a long list of structural reforms to be implemented, but what it lacked were set priorities. Any new agreement should clearly define what issues are to be prioritized; these priorities need to include the establishment of a more efficient public administration, the fight against corruption and tax evasion as well as the implementation of a wealth tax.

Prospects of the future

Although the past weeks have witnessed the creation of new terms such as Graccident, it is safe to assume that the eurozone leaders do not wish to test the resilience of a Greek default and Greece's exit from the euro which would most probably follow. There is space for optimism and genuine change, if the parties involved find a common ground on two so-called 'organising principles'. The first is about rules vs. flexibility. 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. In order to improve this imbalance it may be helpful to decide on rules for flexibility and how to apply them; for instance, a certain amount of flexibility for a certain type of reform. The second organising principle concerns coordination vs. sovereignty. Coordination has turned into a means of ensuring budgetary control and economic reform; unfortunately, its benefits for the individual countries are hard to detect. If a sense of sovereignty is to be restored, then the respect for rules must be complemented by concrete fiscal advantages. In this context, 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 to politically costly overhauls.

Conclusion

The EU and IMF's demands on Greece have been excessive. Asking a country, where people are starving, where they do not have access to health services and where they are driven out of their homes, to speed up on its debt repayment is excessive. At the same time, the Greek government has not made it easy for its partners to arrive at a common denominator. On both sides, there has been a strong tendency of blaming the other for the disastrous situation; but, if this behaviour is overcome, there will still be a chance of an honourable compromise leaving both parties with an agreeable outcome. In this case, the Greek government can use its popular approval to proceed with a realistic programme of reform to cut bureaucracy where it hinders attempts to create an investor-friendly business environment, to combat tax evasion and to deregulate the product market. As for the eurozone, it could decide on a realistic primary surplus and some kind of debt relief to signal investors that a process of restructuring and repair is underway. Such an agreement would enhance Greece's debt sustainability and increase the economy's prospects of 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. After all, the logic of the market implies that one country's surplus means another country's deficit; thus, one cannot defend one's own surplus and complain that others are in deficit. This contradicts basic logic, and logic we learned from Greece.