

Greece – What else?

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The first hundred days in office have become a benchmark for every new government. Early in May, the Tsipras coalition government will reach this date. Given the difficult financial, economic and social situation in Greece, there was no such thing as a closed season for Alexis Tsipras from day one on, and he himself could not have expected one. After all, his new government acceded office with a political agenda demanding nothing less than an end to austerity and the submission to a reform programme seen as unduly imposed on Greece by its creditors, the EU and the IMF.

Nevertheless, it was astonishing to see how quick his government isolated itself in the way the negotiations for receiving better terms on the EU-IMF bailout agreements were conducted. Ultimately, even Obama requested Athens to speed up negotiations and initiate the reforms in tax collection, labour markets or the pension system previous Greece governments had committed themselves to in turn for the 245bn Euro in credits Greece has been receiving since 2010.

Even this finger wagging has not clinched a deal and thus makes it highly unlikely that the last loan worth 7.2bn Euros of the second bail-out package

will be released anytime soon. Accordingly, speculations are flying high of how Greece will avoid to default when it has to serve its IMF debt in May.

Against this backdrop, we are asking Loukas Tsoukalis, President of the Hellenic Foundation for European and Foreign Policy (ELIAMEP), to share with us his take on the first hundred days of the Tsipras government and what he thinks will follow next.

Let us start with a background question. Is Greece so different from other countries of the Eurozone, and what can explain the rise of a radical left party to power in coalition with right wing nationalists?

It is indeed a strange combination that only a big crisis can produce. The governing coalition has been brought to power on a wave of protest against austerity policies and foreign interference. Sure, this protest carries with it strong populist undertones. But you need to remember that in the course of the adjustment programme since 2010, the economy has imploded (25% loss in GDP and 27% rate of unemployment). And so has the Greek political

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system. Greeks have suffered a dramatic decline in their incomes, an increasing number among them are in despair, and they all feel humiliated having been subjected to endless moralising and being told what to do, often in the form of diktat, and in excruciating detail.

But this painful adjustment was necessary, was it not?

As a member of the Eurozone, Greece lived for years on borrowed time and money having access to ample and cheap credit. The country was mismanaged. It accumulated debts, lost its competitiveness and came to the brink of bankruptcy after the crisis reached Europe. It was bad, extreme if you prefer, although not unique.

Since 2010, Greece has been the beneficiary of two large rescue programmes from its European partners and the IMF. The biggest bulk of money lent to Greece has gone to service and repay old loans. Greece also benefitted from a partial restructuring of the debt held in private hands in 2012, thus giving enough time to foreign creditors to offload much of their Greek sovereign debt holdings. Greece was saved and so were those foreign banks that had lent Greek governments large amounts of money without stopping to think how this debt could ever be repaid.

In exchange, Greek governments have been asked to deliver on a highly ambitious (if not unrealistic) programme of front-loaded fiscal consolidation combined with a wide range of reforms. Having to deliver fiscal adjustment of the order of 15% of GDP in five years while also being asked to change everything from public administration to the labour market and closed professions, tax collection and the pension system in conditions of financial strangulation at home and prolonged economic recession in Europe would have been difficult (perhaps impossible?) in the best run countries. Insufficient ownership of the adjustment programme by the Greek political class has combined with the general incoherence of European governance and a deeply flawed economic strategy based on

austerity in times when the private sector is deleveraging across Europe. It is not just a Greek problem, although the Greek problem is distinctly worse than others.

How do we have to read the negotiating style of the Greek government with its lenders? Is it applied game theory where the first to blink loses it all? Or does it merely express the lacking of a plan or experience or both?

It is both a matter of substance and style. I believe there is substance in the arguments put forward by the more sober members of the new government in Greece concerning the (non)sustainability of the debt and the excesses of austerity, also about some of the more ideologically loaded reforms. But the way they have gone about presenting their case has been really disastrous: lack of diplomatic skills and the capacity to translate words into numbers coupled with much cacophony and a real expertise in antagonising others. They obviously have little experience and understanding of European realities. The socialisation process is therefore bound to take time – and it will be painful for all sides concerned.

What could such a compromise look like? Where do you see room for manoeuvre left on the side of the EU given that the other programme countries, i.e. Spain, Portugal and Ireland would certainly not like to look foolish after having implemented the entire reform agendas of their respective bail-out programmes? And more importantly, how and where could we expect Tsipras to compromise on the reforms demanded by the EU without antagonizing and losing out on his party and his voters?

It is, of course, absurd to argue that the new government in Greece can impose its popular mandate on its European partners. But it is equally absurd and dangerous to argue that elections make no real difference to economic policy, alternatively that everything has gone fine

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so far in Greece and elsewhere in Europe and that we just need to persevere. Some room needs to be found for legitimate differences of opinion. Europe cannot operate on the basis of the one and only truth.

The new government in Greece needs to commit to a primary surplus in the budget, although not at the totally unrealistic levels envisaged in the adjustment programme. It needs to improve tax collection and make the pension system sustainable. It should, however, be given a much wider room for manoeuvre on other issues, notably reform of the labour market. In a country that has already gone through a large internal devaluation, insisting on further liberalisation of the labour market borders on the ideological. I do not agree that wholesale reform in a member country can be imposed by stealth from Brussels, or any other capital for that matter. It would be terrible for democracy and the European project as well.

Can the Greek Prime Minister deliver on a reasonable compromise? At best, he will need time to learn and sort out allies from opponents within his own party and beyond. This can only be done in stages. The trouble is there is little time because the state coffers are fast running out of money and commercial banks of deposits. It is often difficult to reconcile economic time with political time. Looking beyond the immediate, I think that a further realignment of political forces in Greece may be inevitable, indeed highly desirable.

In stark contrast to its relentless fight against the EU austerity agenda, what strikes many is that the Syriza party with its leftwing and even outright communist ideological background has thus far not taken on the oligarchs who are seen by many as responsible for this kind of state capture that has led Greece down. Why is it that Tsipras has not worked on taxing the rich and cut back on their privileges?

Greece is a country with clientele politics, a relatively ineffective welfare system, many inequalities and vested interests. I repeat what I have said before: Greece may be extreme in some respects, although certainly not unique. The new government could make a real difference, if only they could go about it in an organised and non-dogmatic fashion. Alas, the early signs are not encouraging. They still spend an inordinate amount of time negotiating (or pretending to negotiate) with their European partners while trying to massage domestic public opinion. As for dogma, there is plenty of it in this government. Hopefully, the clash with reality will produce positive results assuming there is still time.

What is the reason that despite the internal devaluation, which should make Greek products more competitive in the markets, other than in Portugal, Ireland or Spain Greek exports have not increased? Does Greece have a development problem rather than just one of economic reform?

The current account has improved dramatically and it is now in surplus. But this has been mainly the result of the collapse in imports, following the collapse of domestic demand. The impact on the current account has also been the result of a large increase in earnings from tourism. The Greek economy is basically a service economy with shipping and tourism as the big breadwinners. It is also an economy consisting predominantly of small enterprises geared towards domestic consumption. It needs to become more outward looking and attract investment. Greece is certainly not a basket case. For several decades, it had enjoyed high rates of growth that enabled her to join the world top league in terms of standards of living. Its main assets are location, history and brainpower. If only it could have better administration and more responsible politics...

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Biographical information,

Loukas Tsoukalis, President of the Hellenic Foundation for European and Foreign Policy (ELIAMEP) and a Professor of European Integration at the University of Athens as well as a Visiting Professor at King's College in London and the College of Europe in Bruges

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