

Greece alone cannot convince Europe to pursue a different economic course

 blogs.lse.ac.uk/europpblog/2015/02/03/greece-alone-cannot-convince-europe-to-pursue-a-different-economic-course/

03/02/2015

The new Greek government, led by Alexis Tsipras' Syriza, has announced its intention to renegotiate the repayment of the country's debt. [Aris Trantidis](#) writes that while some limited concessions may be possible, Syriza's broader aims of encouraging Europe to adopt a different economic strategy will be far harder to achieve in the absence of any clear allies in other EU countries.



The election of a new government in Greece led by the left-wing party Syriza brings to the political stage a debate that has been taking place among economic experts and academics since the outbreak of the 2008 financial crisis. This is a debate between two contrasting paradigms on economic policy: on the one side, the economically 'orthodox' approach, which is embedded in the institutional architecture of the EU and, on the other, a 'neo-Keynesian' approach which has been [revived](#) and promoted by several economists.

A clash of paradigms and the Greek case

Economic 'orthodoxy' describes a set of economic and fiscal policies aiming at [government budgetary discipline](#), [low inflation](#), [supply-side growth](#) and [relatively tight monetary policy](#). These policies are often dubbed 'neoliberal'. This is a rather ill-defined term, but it remains a pithy word in public debate. Orthodox economic prescriptions have been followed by EU governments quite inconsistently (especially with regard to the level of taxation and the size of government expenditure) but they largely set the tone in policy recommendations by European Union institutions. In the aftermath of the crisis, these policy prescriptions were translated into a clear mandate of fiscal austerity and deep-cutting structural reforms that was addressed to heavily indebted countries such as Greece. In this view, fiscal stabilisation and structural reforms will help Greece stabilise its public finances and return to economic growth through ensuing gains in competitiveness.

On the other side, hybrid versions of neo-Keynesianism such as the one we can trace in the [US economic and fiscal policies](#) after 2008, have been proposed by several leading economists as part of the solution to the simmering crisis most Western economies have been facing since 2009. They essentially reverse the arrow of causality between fiscal consolidation and growth. In the neo-Keynesian approach causality moves from [demand-led growth](#) to fiscal stabilisation thanks to a once again growing economy. The merits and perils of both the orthodox and the neo-Keynesian approaches have been fiercely debated among economists and policy-makers.

Alexis Tsipras, Credit: [subversive festival media](#) (CC-BY-SA-3.0)

The Greek election result can be interpreted as a verdict against 'orthodox' economic policies implemented in the country since 2010. Fiscal austerity in Greece was sharp and aimed at achieving a primary budget surplus in the hope that the country would restore its capacity to borrow from private markets and would be able to leave the European bailout mechanism, just as Ireland and Portugal eventually did. Greece was then expected to 'restart' its economy with private investment mostly geared toward export-oriented activities.

Both fiscal adjustment and economic recovery were unsuccessful. The primary budget surplus was achieved mostly through high taxes and hasty cuts in public spending. The rate of growth recorded for the first time in five years was anaemic and largely the result of a booming tourist season. Since the onset of the crisis Greece has lost almost a third of its GDP, and has an unemployment rate of 30 per cent.

The unprecedented scale of economic output contraction in Greece suggests that the policy remedy was not a 'success story' as the former Greek government advertised it. The opponents of strict austerity have won the domestic debate on the grounds that Greece's dire situation is largely the result of an 'obsessive' quest for primary budget surpluses and the highly experimental policy of [internal devaluation](#) of wages and assets that was supposed to serve as a substitute for currency devaluation. In this view, this policy mix reduced domestic demand, shook the banking system and undermined the conditions for investment and job creation. In short, the economic 'remedy' applied in Greece is killing the 'patient'.



Greece as a case of policy failure strengthens those who point to the risks of sharp austerity-driven economic adjustment. Implementing rapid and deep-cutting structural reforms may help restore growth in the long term, but sharp rises in taxation, for instance, or any form of intervention to achieve high primary surpluses to serve a (primarily) external debt will lead to rapidly contracting domestic demand, which affects growth rates, unemployment levels and the state of public finances. The EU and the IMF unrealistically expected Greece to achieve a pace of economic restructuring toward export-led growth which no economy can meet without a long time lag and without experiencing a degree of social dislocation that is politically unsustainable.

Syriza, Greece and the fight against austerity policies

The question that arises from the Greek electorate's verdict on economic policy is the following: how likely is it for Greece to be the leading force behind a shift in the economic ideas underpinning EU policies?

In many respects, this is unlikely because there are multiple diagnoses of the crisis in the Eurozone. The quest for the causes of the Eurozone crisis extends beyond Syriza's narrative, while Greece is widely seen as a special case. Part of Greece's economic decline – and to some extent Europe's stagnation – has been attributed to persistent structural rigidities that existed prior to 2009. In Greece, local conditions played their role too. Decades of corrupt government created a two-tier form of state-sponsored capitalism: on the one hand, blatant favouritism towards the a small economic elite, the so-called '[Greek oligarchs](#)' and an army of party supporters in key positions in public administration; on the other, a hostile environment for entrepreneurs outside the circle of the political protégés, low-paid key private and public sector employees and the unemployed.

The second reason why momentum for change is unlikely to be Europe-wide is that Syriza's message – that ending austerity and boosting domestic demand will combine together to restore sizeable growth rates in Europe – is intrinsically linked to the Greek case for an EU agreement to restructure the country's debt. This particular claim has the support of [world-renowned economists](#) who believe that the Greek debt as it stands is [not viable](#) and that sharp austerity measures needed to generate large surpluses in the future will continue to stifle growth and unemployment. But to gain broader support among a wider European audience, Syriza has to make a general case appealing to all. At the moment, both the Greek-centred version of the argument and its call for an EU-wide conference on European public debt, similar to the [London Conference of 1953](#), have failed to entice countries who lent money to Greece and do not see their debt as unsustainable.

Moreover, Syriza's message for Europe does not clarify how competitiveness and growth will be restored in Greece and in Europe. For domestic political and ideological reasons, Syriza has so far avoided addressing the question of how to rectify the structural causes of Greek economic malaise. Previous Greek governments also shied away from

implementing far-ranging structural reforms. Syriza's political background does not prevent its government from reforming the Greek public sector and the tax system, but it makes it politically costly to endorse in its policies labour market liberalisation and privatisation, given the party's electoral platform was based on staunch opposition to structural reforms.

Second, for the general public in Europe, Syriza's appeal is damaged by its popular portrayal in the European media as an extreme left-wing party led by staunch Marxists, which borders on a caricature. Its message may also be undermined by arguments which place 'collective blame' on the Greek people for '[living beyond their means](#)'. This is a rather inconsistent accusation, since current levels of government debt (public and private) and budget deficits in many European countries are close to where Greece was in 2008. Still, a public discourse largely reproducing a vindictive stereotype of Greek society as inherently dysfunctional can also serve as a 'moral' buffer against Syriza's attempt to lead an anti-austerity campaign across Europe.

A more solid argument is the so called '[moral hazard](#)' of offering debt relief to unreformed economies. For currently [sceptical](#) EU governments this is also a matter of political consistency as Syriza's position poses a direct [challenge](#) to the economic policies they have now been following for a sustained period. EU governments even in countries with troubled economies prefer not to identify themselves with the case of Greece.

Syriza has not yet forged strong alliances across Europe and it is less likely to do so in the near future. Fears of a political 'spill over' effect may also outweigh any desire to examine how sound Syriza's case for debt relief actually is. This political environment does not necessarily make it prohibitive for Greece to achieve better terms in the [repayment of its public debt](#). Most probably some concessions will be offered after tough negotiations, but they will not be celebrated as a change in Europe's dominant economic paradigm.

Lack of a convincing 'positive' proposal

Even if Syriza manages to convey a moderate image and assuage these fears, the economic proposal it brings to the table is vague and incoherent as it stands. It denounces privatisation in public utilities and infrastructure and invokes neo-Keynesian arguments in fiscal policy, which are still a minority view in economics. In political terms, it advocates fiscal policy relaxation and a return to a more active role of the state in the economy, which is a risky idea if it means that the hands of governments in both the North and the South of Europe are left unrestrained against the lure of fiscally profligacy.

While Syriza's proposal may not be seen as a convincing policy alternative for Europe as a whole, its criticism of austerity may yet gain [momentum](#). Recently, the new Greek finance minister, economist Yanis Varoufakis, launched an attack on what he described as 'pyramid austerity' – austerity disproportionately targeting the economically weaker segments of society. This critique could lead a Europe-wide debate on austerity with a pragmatic and essentially political argument over what austerity costs in terms of social cohesion and political extremism. Syriza's alternative 'moral' argument cuts across national divides over fairness in economic adjustment in Europe: which social groups must *not* bear most of its cost, and what happens if economic and political nationalism prevails following a 'collective blame' narrative.

It is still uncertain whether Syriza's victory will usher in a noticeable change of policy and new attitudes toward economic recovery in Europe and beyond. The EU institutions have been designed to block attempts to radically revise mainstream economic policies in Europe. But political developments do not always follow the relative strength of economic ideas. The ECB's recent decision to pursue quantitative easing indicates that nothing is set in stone. Political developments are not determined by path-dependency. Like all complex systems, political systems are dense networks of players whose local adaptations, even in response to a minor initial change (a trigger), may generate network dynamics and a domino effect of interactions that could lead to radical change.

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Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

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