

Greece and the EU

Lessons from a long-lasting crisis

Pol Morillas and Thanos Dokos (eds.)

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Elisabets, 12
08001 Barcelona
Tel.: 933 026 495
www.cidob.org
cidob@cidob.org

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INTRODUCTION

Pol Morillas

Research Fellow in European Affairs, CIDOB
pmorillas@cidob.org

Thanos Dokos

Director General, ELIAMEP
thanos.eliamep@gmail.com

Less than a year ago, the Greek crisis reached its highest level of tension. After arduous negotiations, the Greek government and its creditors signed the agreement for a third bailout in July 2015, which should provide liquidity to the Greek public sector in return for a severe programme of deficit adjustment and structural reforms. At the time of finalising this edited volume, the spectre of Grexit seems much less likely, although not yet impossible (especially if there is Brexit). After six years of painful austerity and the adoption of a number of structural reforms, the original sins of the Greek economy, the structural governance deficits of the eurozone and the imbalances between the European economies remain almost unchanged. The crisis that dominated the European debate in the summer of 2015 changed the perception of Greece and the EU for good.

The contents of this monograph aim at providing a comprehensive view on the changing landscape of both Greek and European politics as a consequence of the eurozone crisis. It presents the results of a research workshop jointly organised by CIDOB and ELIAMEP on December 18th 2015, which departed from the following hypothesis: If the Greek crisis became the epicentre of the eurozone crisis and Europe's economic and monetary downturn became an existential threat to the European project, then the consequences of the crisis should have transformed the behaviour of Greek authorities towards Europe and of the European authorities in facing the crisis. In other words, Greece and the EU should have adopted new visions reflecting both the transformation of the Greek political scene and the eurozone's response to a systemic crisis. The objective of the seminar and this publication is to analyse the extent of such changes at three different levels.

First, a series of papers depict the negotiations of the Syriza government in Europe and the transformation of this former opposition force into a mainstream political party. George Pagoulatos and Panagiotis Vlachos look at Syriza's negotiation tactics in Brussels and provide a broad perspective on Greece's relations with its creditors and the anti-austerity rhetoric that has dominated the Greek government, even before the election of Syriza. They argue that Syriza has been unable to cultivate

effective coalitions with other European progressive forces and build a climate of trust and credibility that would have secured better results during the negotiations and help amplify its anti-austerity message.

In chapter 3, Dimitris Katsikas takes a closer look at the contents of the negotiations of the third bailout agreement and unveils the mistakes that the Syriza negotiators committed, such as delaying the conclusion of the negotiations for too long and creating ambiguity in the objectives of the negotiations, which resulted in a loss of credibility in the eyes of the creditors and peer European governments. Katsikas argues that credibility should be a top priority for any government engaged in eurozone negotiations and that more detailed plans for dealing with internal reforms would also have secured a better outcome for Syriza.

The final contribution of the first block looks at the efforts of the Syriza government to Europeanise the Greek crisis via criticism directed towards the European elites, the lack of legitimacy of the decisions taken and the need for alternative economic policies in Europe. Filippa Chatzistavrou addresses Tsipras's first attempts to build an alliance with other leftist movements in Europe and the progressive shift towards a more pragmatic alliance strategy, including European centre-left political forces. As a result, Chatzistavrou sees the emergence of a post-left managerialism attitude in the Syriza government, tacitly accepting the premises of the third bailout programme and adjusting to its pro-austerity prerogatives.

Second, two papers take a broader look at the Greek crisis by analysing its geopolitical dimensions and the historical trends that determine the response of the Syriza government to the crisis and its relations with its European counterparts. Thanos Dokos refers to the strategic mistake that has led European governments to look at the Greek crisis from only an economic perspective. Dokos warns that allowing Greece to become a semi-failed state would have a direct impact on the capacity of the EU to provide security within the continent and to be a powerful player on the world stage. Greece's role is key to ensuring stability in the western Balkans, providing energy security, promoting peace in the southern neighbourhood and effectively tackling the refugee crisis. Its position as a buffer country and the recently established bilateral relations with other world powers such as China and Russia should lead the EU to consider the Greek crisis through broader geopolitical lenses.

In chapter 6, Effie G.H. Pedaliu looks at the geographical position of Greece as a cultural, socioeconomic, political and religious border *par excellence* and the effects of this centrality on its internal politics. For Pedaliu, studying the history of Greece unveils a propensity towards reliance on foreign borrowing to secure growth without development, fostering clientelism within, excessively counting on the support of external actors and allies and blaming external forces as the cause of all its ills. Pedaliu analyses how the DNA of the country has influenced the Greek government's position on the debt crisis and the formation of a new political system in Greece dominated by Syriza.

The last block is aimed at analysing the effects of the Greek crisis on eurozone governance and the European policies to tackle the economic crisis. Eleni Panagiotarea provides a substantial analysis of the response

of the Greek crisis and the eurozone institutional engineering that ensued. Panagiotarea argues that the response to the Greek crisis reveals a lack of coherent vision of a true economic and monetary union, where rules are matched with solidarity measures and where a more sustainable route towards long-term economic growth is promoted. The absence of proposals regarding fiscal federalism, debt mutualisation or economic convergence of the eurozone economies preclude substantive reform of the eurozone's deficiencies and explain the recent surge in intergovernmentalism and an "à la carte" method of European politics.

From a different viewpoint, Cinzia Alcidi problematises the traditional belief in the fiscal union as a solution to the eurozone's malaise. She argues that while it would be desirable from institutional and legitimacy points of view, it would not automatically end the Economic and Monetary Union's troubles. To make her case, she compares the situation in Greece with those in Puerto Rico and the Italian Mezzogiorno, only to find that structural problems of borrowing economies are not overcome via fiscal transfers. In addition, she argues that a stand-alone fiscal union recipe might exacerbate the structural problems of the Greek economy and a culture of complaint, where reliance on external assistance prevents macroeconomic stabilisation.

The contributions of this volume present insightful views on Syriza's management of the crisis in Greece and of the eurozone's policies to tackle the most severe threat to its survival to date. Behind the contributions lie profound debates about the future of new left political forces, their European agenda, their coalitions within the European political space, the democratic deficit of the eurozone and the EU and the future of austerity-driven economic policies. The effects of the Greek crisis on European policies currently occupy a prominent place in the academic and think tank debates on European politics. This publication aims to keep this debate alive.

This publication also pays special attention to the lessons learned process. Europe's rather unsuccessful management of the Greek crisis may be partly attributed to its understandably limited experience in saving a member-state of the eurozone. The Greek crisis will probably be taught at academic institutions as a case study of amateurish crisis management by both Greek and European authorities. But it is extremely important that we draw the necessary conclusions in order to avoid similar mistakes in the future.

MISSION IMPOSSIBLE OR AN ABSOLUTE BEGINNER? SYRIZA'S EUROPEAN POLICY CHOICES ON THE WAY TO GREECE'S 3rd BAILOUT PROGRAMME

George Pagoulatos

*Professor, Athens University of Economics and Business; Visiting Professor,
College of Europe in Bruges; Member of the Governing Board, Hellenic
Foundation for European and Foreign Policy (ELIAMEP)
george.pagoulatos@gmail.com*

Panagiotis Vlachos

*Leader of "Forward Greece", LSE MSc, HKSG MPA, f.
Adviser to the Greek government
panagiotisvlachos@gmail.com*

Introduction

January 2015 brought Syriza to power on the promise to annul Greece's 2nd economic adjustment programme (the 2nd bailout programme or Memorandum of Understanding, MoU, with the troika of creditors – European Commission/ ECB/ IMF) and manage the apparently impossible task of ending austerity while keeping the country in the eurozone.

In the 6-month bailout talks, the government's negotiation strategy, implemented by Prime Minister Tsipras and Finance Minister Varoufakis, was to push international partners and lenders to the edge in the effort to obtain a better deal for Greece. Syriza's combative leftist-patriotic tone was directed towards consolidating its political imperium at home as well as formulating a heterogeneous alliance abroad, including anti-austerity Keynesians, European left-radicals, British Eurosceptics, the Spanish Podemos, Latin-American leftist sympathizers, and even far-right populists (after all, the ultra-right populist "Independent Greeks"/ANEL party has been Syriza's coalition partner in both Tsipras governments). However, this loose and heterogeneous alliance of sorts produced nothing close to a sufficient or credible shield against the eurozone institutional and political status quo, which had been overwhelmed by the never-ending Greek crisis for five years.

Arguably, Syriza's extravagant electoral promises, its inadequate preparation for government, and poor understanding of the Eurosystem (all of which have been admitted at various opportunities by Syriza officials), combined with Varoufakis' radical and outspoken negotiation style, produced the opposite result and isolated the already cash-strapped country. Tsipras's decision to call a referendum and support the "No" vote, thus leading to capital controls, ignited the Grexit scenario, and came very close to realising the hidden agenda of European conservative circles for a core eurozone. On the brink of a catastrophic bankruptcy, and divested of any possible ally in the EU, Tsipras finally signed Greece's third bailout programme. The paralysing negotiation up to June 2015, the near-death experience of the referendum

and the lasting impact of the capital controls that followed ended up reversing the fragile recovery of 2014, adding two more years of recession to the country's already depressed economy.

This essay assesses Syriza's European economic policy and its limitations, with a focus on three particular aspects: European institutions and globalisation constraints, Syriza's political agenda and ideological identity, and finally the negotiation tactics followed by Tsipras and Varoufakis.

Syriza's painful trilemma

A fundamental eurozone rule is that single monetary policy requires prudent fiscal policies in member states, leaving little space for flexibility. From the day Greece came close to defaulting and delegated its fiscal policy to the troika, no Greek government has taken full ownership of the adjustment programme. State reform stalled, governments were reluctant to surrender political control over public administration, powerful interest groups continued to enjoy favourable regulatory treatment, tax administration reform and the crackdown on tax evasion progressed at an underwhelming pace. Horizontal spending cuts and heavy taxation were the last resort to keep the programme relatively on track and avoid the political cost of deeper structural reforms.

Social and political unrest have contributed to five snap general elections and one referendum since 2009. Major opposition parties, be they the centre-right ND in 2010-11 or the radical left Syriza in 2012-14, practiced inflammatory anti-austerity, "anti-Memorandum" populism. Any support for even the most glaringly necessary and sensible government reforms was automatically rejected by the opposition. Nationalist sentiment was systematically ignited against the "occupation forces" of the troika; hate speech against the 2010-14 government officials, divisive rhetoric, and media sensationalism carried the day. Of course, right after the elections, expectations would meet reality, and the new government would begin implementing the deal with the troika or sign a new one. However, neither PASOK nor ND raised the bar of popular expectations to such unrealistic levels as Syriza did.

A comparison between Syriza's political agenda and the country's undertaken obligations in the context of the second bailout programme revealed serious inconsistencies and glaringly improbable assumptions. Like the two government coalition parties in the past, Syriza claimed it could have it all together: a primary budget surplus and more spending, and the abolition of the new progressive property tax (also known as ENFIA). When in opposition, Syriza promised to overcome those contradictions by abolishing the MoU and repealing its implementing legislation, and pledged to eliminate tax evasion "within a few months". Syriza also claimed it would strengthen Greece's position in the eurozone by pursuing the popular demand that the country's public debt be written-off at the expense of (official sector) creditors without any special memorandum, obligations or conditions.

Very few things in real world governance can be hoped to be achieved without compromises and concessions. To secure more of one thing you need to sacrifice another. "There are no solutions, only trade-offs", as

Thomas Sowell has put it. In supranational settings that inevitably constrain national sovereignty, the challenge of democratic politics is for policies to be “packaged” in such way that losses in one area can be offset by gains in another. European integration has moved forward through “grand bargains” and positive-sum package deals where everyone stood to gain something, though not necessarily to the same extent. Those able to maximise their gains are not just the stronger players but those who know how to promote their interests by cultivating effective coalitions, building trust and credibility, and pursuing mutually beneficial compromises. That should leave no room for intransigence, rigidity and grandiose denunciations.

Occasionally, external constraints present themselves in the form of a “trilemma” or an “impossible trinity”. Dani Rodrik (2011: xviii) has articulated the well-known “trilemma” of the globalised economy. In his words “we cannot simultaneously pursue democracy, national determination and economic globalization”. Out of these three desired objectives, a government can only have two. It is impossible to have all three at the same time, one must give.

In the context of the eurozone, further economic integration competes with national sovereignty and democratic politics. The pre-crisis EMU had nurtured hopes that another impossible trinity could actually occur: no bailout of member states, no euro exit, no default. The well-known banking and sovereign debt crisis (promulgated by a “sudden stop” of capital inflows to the periphery) brought the eurozone leaders before this unwanted trilemma and urged them to introduce financing mechanisms overnight to avert collapse. After 2010, Greece, Portugal, Ireland and Cyprus all sacrificed significant degrees of economic sovereignty to avoid a disorderly default and secure their stay in the eurozone through a bailout agreement dictated by the troika.

As a result of unprecedented – by contemporary European standards – fiscal constraints, national political systems experience painful tensions. The euro-crisis and the subsequent interference of the troika lenders in national decision-making have pushed national democracies towards breaking point. International reports (e.g. European Parliament) have revealed considerable concessions in the democratic process and, especially, in the realm of social rights in the countries undergoing austerity. There have been painful compromises in the operation of national parliaments: voting legislation without sufficient debate, lack of social dialogue and transparency, and so on. So too in the exercise of national sovereignty, as the weakness of borrower countries shifted power in Europe to non-accountable institutions and in favour of the creditors.

Fiscal rules were no longer a case of national decision-making. The troika sets the fiscal targets and leaves some space to the sovereign to decide between painful alternatives. Popular mandate and general elections face the unchangeable “pacta” of the adjustment programmes. People gradually lose hope in the democratic process and the political elites. Reforms become associated with cuts and layoffs in the eyes of the average citizen. Low voter turnout, social radicalisation and segmentation of the political system favour nationalist and populist forces that use simplistic narratives and extremist hate-rhetoric to corner their opponents as “traitors”, “Germanophiles” or “Merkelists”, as has been the case in Greece.

Weakening national democracy could be tantamount to its strengthening in the face of globalisation, if the transfer of national control ends up reinforcing the common European roof. Given the stalled process towards a genuine economic (let alone political) union for the eurozone, this has not yet been the case. On the contrary, the common eurozone roof is still broken and the EU has lost face in the indebted states, having been depicted as the reinforcer of an unprecedented, unjust and harsh austerity.

Although both the socialist PASOK in 2009 and, more vociferously, the centre-right ND in 2012 came to power by rejecting austerity and promising "growth", it was Syriza (from the left) and the Independent Greeks (ANEL) (from the ultra-right) that played the "anti-memorandum" and "anti-establishment" card most forcefully. Both aimed at appealing to disillusioned voters who sought an economic alternative after five years of recession and a clear break with the old establishment parties (PASOK, ND) that were deemed responsible for the country's surrender to the creditors' will.

Syriza came to power faced with its own trilemma, its own impossible trinity: remaining in government, sticking to its electoral pledges (annul the MoU), and keeping Greece in the euro (Pagoulatos, 2014b). Simplified, it promised to govern by ending austerity without sacrificing the euro. Given that Greece was already bound by the 2nd adjustment programme, it was impossible for all three to happen at the same time. One would have to give. Tsipras chose to stick to power, and a disastrous euro exit would be impossible to handle.

Sadly, the lack of any solid plan of how to implement an economic programme whose numbers did not even add up (as Varoufakis later admitted) became evident soon after the new government had been notified by the Eurogroup leaders about its institutional and contractual obligations under the second MoU. Predictably, Syriza's electoral pledges to restore wages and abolish property taxes were sacrificed, but not before the country had undergone its near-death experience of closed banks, capital controls, and a fully detailed, commission-drafted Grexit manual on the eurozone table.

Syriza also overlooked the fact that alternative scenarios on the future of the eurozone had resurfaced during the crisis. An intellectual debate was already unfolding, producing or updating approaches of differentiated integration. Most notable among those who had seriously questioned the irreversibility of euro-membership for Greece were members of the prominent German Council of Economic Advisers and the German finance minister himself, Wolfgang Schäuble.

The Greek crisis relapse in 2015 accentuated the pre-existing tension between core and peripheral member states. According to proponents of the idea of "core Europe", states that are dysfunctional, unwilling or unable to follow common rules or to ensure sufficient economic performance should be left behind. Syriza's combative and uncompromising tone, combined with the lack of any proposal of seriously elaborated reforms, provided Schäuble with a pretext to unfold the "Grexit" option on the negotiation table and explicitly question Greece's eurozone membership. Hence the Tsipras-Varoufakis idea to implicitly blackmail the eurozone with default or Grexit in order to extract more concessions became the equivalent of threatening someone holding you at gunpoint with suicide.

Discovering the limits of the left: Are left-wing policies feasible within the eurozone?

The European Single Market is constraining – monetary union even more so – upon leftist policy objectives. The euro was never cordially embraced by the left and especially by its radical version, as it came with anti-inflationary policy requirements, provisions of low budget deficits, independent central banks and a cosy relationship with the world of finance (Vlachos, 2014). The introduction of the euro demanded a historical compromise between national sovereignty and the markets, the latter being a traditional foe of the anti-globalisation left.

In reality, the euro divided the European left into two camps. On the one hand, the reformist centre-left or the governing social democrats, like the socialist PASOK in Greece, chose to adjust their national economies towards meeting the convergence criteria dictated by the Maastricht Treaty to avoid the risk of being excluded from the EMU. For European social democrats, EMU participation constituted a major national political objective, as well as a necessary gateway to Europe's political and social unification that could address inequality and humanise class struggle in the future. Others, like the Greek socialists or the Italian progressives set the euro as a programmatic priority in order to strengthen their electoral influence among the middle class and higher socioeconomic strata (Moschonas, 2001: 358). At the same time, access to cheap credit, market liberalisation, booming public investment and the high growth rates that came with the euro for almost a decade accommodated the efficient financing of social welfare; hence the euro was generally acknowledged as a contributor to social and economic development.

On the other hand, the small group "European Left", comprising reformists, radicals and neo-Marxist leftists, greens and anti-globalisation movements, was always expressing scepticism about the euro as a neoliberal project that undermines social solidarity. For them, the EU, let alone the eurozone, exacerbated tensions between Brussels and the nation states or between the North and the South and was constantly undermining the bottom-up formation of a real democratic "Europe of the Peoples". Although this left alliance was using populist overtones against the status quo of powerful multinationals and the democratic deficits of the EU, it never explicitly or unanimously rejected the euro. With the exception of few intellectuals and despite its often sovereigntist approach, European Left did not prompt national governments to abandon the eurozone for fear of a rollback into the dark days of nationalism and conflict in Europe.

In the context of the "impossible trinity", left-wing Eurosceptics in Greece, Spain, Italy and Portugal have demanded a lot from the EU (debt relief, euro bonds, more budget funds, a new Marshall Plan), while refusing to make any strong commitments to the eurozone. They have pursued rights with a minimum commitment to obligations or (as the Syriza slogan for the 2014 European Parliament elections had it) "no sacrifice for the euro". Obviously, no Europe of solidarity can be built without commitment to national policy responsibility, and no debt mutualisation and risk-sharing can ever occur without guarantees of fiscal discipline.

After 2008 and under the leadership of Tsipras, Syriza gradually marginalised its pro-EU reformist faction and acquired the identity of a protest

party, evolving into a diverse coalition of leftist reformists, old socialists, neo-Marxists, communists, unionists and social activists, united under a populist rhetoric often reminiscent of the nationalist overtones of Andreas Papandreou's PASOK in the 70s and the 80s. Tsipras became the left's iconic figure against austerity and the European Left party's candidate for president of the European Commission in the 2014 EP elections. As Greece was digging deeper into the crisis, Syriza was growing as an amplifier of European Left's anti-austerity protest rhetoric and at the same time, as a revival of the old patriotic version of PASOK, conveying messages of national self-determination, popular dignity and liberation from the onerous "Memoranda". Although Tsipras never explicitly supported Greece's return to its former national currency, the drachma, neither did he ever embrace the euro without caveats and in a convincing manner.

In addition, Syriza maintained another unique characteristic. It actually abolished the frontier between the left and the right in Greece following its decision to partner with the Independent Greeks (ANEL), a far-right nativist party with xenophobic, bigoted and anti-West rhetoric. This partnership might have puzzled Western eyes (even Podemos have expressed their scepticism), however it demonstrates the "mutant" identity of Syriza and its opening up to some sort of Balkan exclusivist nationalism rather than the inclusive populism of Podemos or similar movements in Latin America.

This identity, Matsaganis (2015) argues, was built through the exploitation of "the politics of resentment" combined with "long held, widely shared beliefs about Greece's (exceptional) but proper place in the world" ("cradle of civilisation", "birthplace of democracy", etc.). This postmodern political cocktail was served to the electorate with simple and clear messaging: there is one enemy (the troika, international creditors and their Greek allies) who can be defeated with one solution (abolition of the bail-out agreement), so that people can claim back their dignity, their sovereignty and their democracy. This narrative, already amplified by the heterogeneous movement of the Greek "indignados", which occupied Athens' central square in the summer of 2011, gave birth to a social coalition: a new political "brotherhood" between the radical left and the far-right, legitimising their struggle against the old parties, the establishment, and the "occupiers" of the country (i.e. the troika lenders).

In theory, the left should normally seek to reduce poverty and inequality, increase opportunities for the weak, and strengthen social and intergenerational justice. A serious progressive government would seek to make its interventions stick for the longer term through, for example, a permanent minimum guaranteed income scheme rather than temporary clientelistic handouts to the poor. It would also try to make sure that such interventions would be sustainable in the face of economic downturn and certainly avoid introducing measures that would accelerate a macroeconomic deterioration. Furthermore, a modern left should be able to appreciate the fact that the social crisis in a country like Greece in 2015 is mainly and directly associated with intolerably high levels of unemployment. So with unemployment at 26%, the government's first concern should not be to raise the minimum wage, but rather to foster the incentives that can create jobs, new businesses and investment. The priorities of the left under high unemployment are not the same as under full employment (Pagoulatos, 2015).

What is a left-wing government to do if obliged to maintain a framework of austerity? As Pagoulatos (2015) has argued, it should at least aim at a fair distribution of the costs of austerity, and at growth-enhancing policies. It should tax wealth progressively and keep VAT high on consumption, but reduce employer contributions in order to provide incentives for hiring and employment in the formal labour market and not in the informal economy. A leftist government should thus be at the forefront of seeking to increase investment (public and private), reform the state, streamline the performance of the judicial system, complete the land register, improve the various “ease of doing business” indicators, aim at better linking education and training with the job market, raise the average size of businesses (as micro-firms tend to be identified with informal employment), and strengthen exports and the tradable sectors, all towards “left-wing” objectives: to raise overall productivity, enhance competitiveness and export-oriented growth, and offset pressures towards competitive wage deflation, instead allowing wages to rise over time as productivity improves. All this, however, requires a serious – that is social-democratic or progressive – left (Pagoulatos, 2015). Needless to say, very little if any of the above have been pursued by the Tsipras government.

Although Syriza had softened some of its positions to fit into the costume of the “party in power” and win the 2015 general election, it continued to accommodate radicals and proponents of euro-exit among its leading party officials. In Tsipras’s first cabinet, some of them were appointed in key ministries. As negotiations with the troika were underway, the ministers of infrastructure and labour, the speaker of the parliament and many MPs were using populist anti-euro and anti-EU overtones on a regular basis. Communication with the business community was sparse, suspicion or hostility to private investment hardly disguised. The mass shutdowns and exodus of firms from the country following the imposition of capital controls in summer 2015 were treated as inevitable and barely averted. Verbal clashes with the lenders, invocations of the Greek anti-Nazi resistance in WWII, claims for war reparations against Germany or the establishment of a special parliamentary committee to declare Greece’s public debt “odious and illegal” (a category that applies to tyrannical and kleptocratic regimes) were utilised as propaganda items for domestic consumption. The civil war and cold war epos of heroic albeit futile resistance of the left was exploited to the full.

So, despite Tsipras’s successful campaign to internationalise the anti-austerity message of Syriza and the European left, it was the post-referendum experience of summer 2015 when any illusions of a so-called “left-wing alternative” to the euro and the Memorandum collapsed. The economy fell apart following an erratic, even farcical, five-month negotiation; the country underwent a near-death experience with closed banks and an imminent threat of either chaotically defaulting within the euro or ending up outside its confines. The outcome was to sign up to a painful 3rd bailout and MoU, which had been made heavier and more onerous as a result of the severe economic deterioration.

Was an old-school left-wing policy alternative ever possible inside the euro? Not under the objective constraints of integrated markets, trade globalisation and the free movement of capital in a small, open economy overdependent on imports and consumption and lacking natural resources. Not under the constraints of a bailout conditionality and the limitations on

national economic sovereignty. Not under a Eurosceptic and nationalistic political narrative or an old-school Marxist governing style that was alienating the country from its euro-partners and the government from its potential ideological allies, i.e. European social democrats. And certainly not under short-sighted, ill-designed policies that focused on the political control of the state and neglected private sector incentives, private investment, job creation and public sector modernisation.

A more pragmatic, progressive approach by Syriza would have utilised the global anti-austerity momentum and advocacy for debt relief to placate the markets, close the deal with the lenders, join the ECB's QE programme, benefit from available European investment funding, maximise fiscal flexibility to limit austerity, conclude a debt relief agreement in exchange for credible reforms (such as collecting revenue from tax evasion), and focus on job creation. In a series of interviews that followed the events of summer 2015, Tsipras acknowledged that his government should have seized the mainstream anti-austerity momentum and concluded the deal soon after its January election. Instead it chose to play for time. But close to the brink, the weaker side (or the one standing to lose the most) will inevitably be the one forced to blink first.

Syriza's negotiation: Holding a gun to its own head

In the first half of 2015 Syriza engaged in a lengthy negotiation with Greece's lenders to change the terms of the agreement and fulfil its electoral promise to end austerity. Following months of unsuccessful talks, Tsipras resorted to a referendum on the draft plan proposed by the eurozone lenders.

Tsipras and the eurozone began to negotiate from different standpoints. Tsipras-Varoufakis sought to amplify the "end austerity" message in the international arena in an effort to forge intellectual and political alliances and exert pressure on the European institutions. They sought to deliver – at least rhetorically – Syriza's electoral promises and to negotiate a better agreement, to consolidate domestic support while keeping the party and the heterogeneous government coalition united. They politicised the policy agreement (2nd MoU) signed between Greece and the three institutions (European Commission, ECB, IMF) and questioned Germany's leadership.

The Tsipras government exhibited an overall cavalier attitude towards eurozone rules, norms and decision-making processes. They argued that the democratic will of the Greek people against austerity should be adhered to by the European institutions. Their argument was perceived as ignorant and condescending by the other 18 elected eurozone governments. Tsipras sought to engage in separate meetings with European leaders such as German Chancellor Merkel, Commission President Juncker, and ECB President Draghi, asking them for a "political solution", implying that no decisions should be made by the institutions and the troika.

Several symbolic moves exacerbated tensions. Tsipras's visit to Vladimir Putin on June 18th conveyed a message that Greece was looking for alternative sources of finance and opportunities outside the EU framework.

Struggling itself economically under the sanctions imposed by the EU, Russia was of course unable to bail out cash-strapped Greece. Similar efforts directed towards China and even Iran were also doomed to fail.

In Athens, technical negotiations were essentially halted, as the institutions were demanding concrete figures and the government officials were responding with generic commitments and vague lists of ill-thought-out reforms. Review meetings took place in hotel rooms to demonstrate that troika officials were not welcome on government premises.

On the other hand, the eurozone held the keys to Greece's liquidity. The government resorted to seizing cash from all general government entities in order to pay salaries and pensions and meet funding needs, as the Eurosystem's credit line was tied to the progress of the programme. Political uncertainty caused capital flight and froze business activity.

As expected, the eurozone partners were not willing to accept a solution outside the agreed programme framework and eurozone rules. Socialist leaders were advising Tsipras to negotiate an improvement of the existing programme, to respect his country's obligations and strike a deal before it was too late. The German government, obsessed with moral hazard, was bound not to yield to Syriza's demands, as it would also face great difficulties in its own Bundestag and a domestic public opinion that was growing increasingly irritated by the over-publicised tactics of Tsipras-Varoufakis. German social democrats were siding with Merkel; even leftist parties like Podemos and Die Linke were carefully distancing themselves.

Various experts have assessed the Tsipras-Varoufakis negotiation strategy as inefficient from the start. By framing the negotiation between Greece and the EU as a power struggle, Tsipras fell victim to the "fixed-pie bias" trap, "a systematic mistake that does not allow people to expand the pie and build win-win agreements" (Arvanitis, 2016). Tsipras-Varoufakis were hoping the EU would capitulate to their demands and sign a new deal, a misperception based on overconfidence, poor understanding of EU politics and poor bargaining tactics. A good negotiator would never threaten the other side in the absence of the Best Alternative To a Negotiated Agreement (BATNA). The costs of negotiation failure were far from symmetrical between Greece and the eurozone. Greece's best alternative was a catastrophic default sliding towards Grexit, hence the threat was turned against Greece, not against the EU. Schäuble's offer of a humanitarian aid package to cushion the effects of Grexit was the epilogue to Varoufakis' ill-conceived strategy.

Indeed, as Matsaganis (2015) has observed, "(Varoufakis') brinkmanship rested on the assumption that Grexit ... would be costlier for the country's European partners than for Greece itself". That might have been true in 2010, when French and German commercial banks were exposed to the bulk of Greek public debt. Certainly it was not in 2015, when the eurozone firewalls were functioning and the ECB's asset purchasing (QE) program was ready to absorb any systemically important shocks. Thus the Greek government could not have credibly threatened to default in order to obtain more generous bailout terms. "That would have relegated Greece to the status of a pariah state, cut off from the markets, its people facing untold hardship" (Matsaganis, 2015). As Tsebelis (2015) has noted, "in all bargaining situations, the most impatient player has to make the

most concessions. The Greek government [was pointing out] that a failure in negotiations would be detrimental to the EU as well as to Greece. That might be true, but not over the same time frame”.

After four months of unsuccessful bargaining, in June 2015 the Greek government ended up faced with only two options: agree (and violate Syriza’s programmatic redlines) or default (and manage the chaos of a slide towards Grexit). Tsipras delegated the critical decision to the people and imposed capital controls. With the banks shut down and a new recession cycle *ante portas*, the referendum’s resounding “No” (62%) was addressed against a new round of austerity but not against the euro: over 70% of Greeks continued to support the euro as a safety net against geopolitical insecurity and a much steeper deterioration of economic conditions in the country.

The activation of the Grexit scenario by the German finance minister, amplified by the severe costs on the economy, led Tsipras to a capitulation that would have been far less costly for the economy and less humiliating for his government had his initial demands and expectations been more realistic. A week later, on July 13th, Tsipras signed the third bailout programme, committing Greece to three more years of austerity and structural reforms.

An epilogue

Syriza’s meteoric rise to power combined populist rhetoric with a fervent critique of eurozone austerity and a poorly conceived negotiation strategy that exacerbated Greece’s relations with its lenders and ended up further deteriorating an already enfeebled economy. Syriza’s claims lacked programmatic depth and demonstrated an insufficient understanding of actual European political and institutional dynamics.

Instead of capitalising on the momentum of its historic victory and the spreading backlash against austerity, Tsipras and Varoufakis ended up in what was perceived to be a game of chicken with the eurozone. This triggered patriotic sentiment at home and inflamed leftist rhetoric against eurozone orthodoxy that isolated Syriza further from mainstream European political forces and even from like-minded parties.

From a programmatic and ideological standpoint, Syriza failed to provide a consistent policy alternative or to engage further with mainstream progressive political forces in Europe. The latter were advocating a moderate and forward-looking negotiation strategy that could benefit Greece in 2015 (growth-enhancing reforms, participation in QE, milder austerity, debt relief). However, polarising tactics and successive mistakes paved the way towards the critical referendum that set Greece on the course of sharp economic deterioration.

Syriza’s delusions derailed the Greek economy and dragged it back into recession after a fledgling recovery in 2014. Although the core of exporting companies survived capital controls, small and medium-sized enterprises suffered significant losses and thousands moved their domicile to neighbouring countries. The downward trend of unemployment decelerated. A new 3rd bailout programme, approved by 80% of Greek MPs,

is to be disbursed to Greece until 2018 under strict conditionality. It includes measures and structural reforms which Syriza had fervently opposed in the past, such as pension reform, heavy taxation, privatisation of public assets and public administration reform. Although Tsipras won the September 2015 election on the pragmatic pledge to implement the bailout agreement, it remains to be seen whether the delusions of the recent past have been cast aside along with the leftist radicals and communists who left Syriza or whether they will resurface in the negotiations with Greece's partners and lenders.

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AN OLD CRISIS, A NEW GOVERNMENT AND THE CREDITORS: “PLUS ÇA CHANGE, PLUS C’EST LA MÊME CHOSE”?

Dimitris Katsikas

*Head, Crisis Observatory, Hellenic Foundation for European
and Foreign Policy (ELIAMEP)
dkatsikas@eliamep.gr*

Introduction

The Greek crisis was the catalyst that sparked the wider Eurozone debt crisis that engulfed a number of countries, primarily in the European Union (EU) periphery. However, as other crisis-stricken countries have started to recover and gradually emerge from the crisis, the Greek crisis continues unabated and remains to date the most difficult and challenging to resolve. Over the past seven years the country has suffered a tremendous economic downturn, losing more than 25% of its output. The deep and prolonged recession has led to an unprecedented social crisis, as unemployment rose to a peak of 27% in 2013, with poverty and social exclusion rates following suit. These developments have had a profound effect on the Greek political system, which has gone through a major transformation since 2009. The two parties that dominated the modern democratic, post-junta period, the centre-left PASOK and the centre-right New Democracy saw a dramatic decline in their popular support, with the former being almost completely wiped off the Greek political map. New parties have been created during the crisis and old fringe parties have risen to prominence.

The emergence of Syriza as the undisputed winner of the national elections in January 2015 represents a defining moment in this transformation of the Greek political scene. Syriza, active in various guises in Greek politics since the early 1990s, was a fringe party of the radical left, whose electoral ambition was to reach the 3% public vote threshold in the Greek parliament. All this changed with the coming of the crisis. Adopting an aggressive populist rhetoric, which denounced the austerity-inspired policy programme imposed by the country's creditors as the root cause of Greece's problems, Syriza gradually increased its popular support, becoming the major opposition party in the 2012 elections and eventually the principal governing coalition partner in January 2015. What is more, Syriza's dominance of the new Greek political scene was emphatically reaffirmed, both in a referendum called during the negotiations on a new bailout agreement in July 2015 and a snap election in September 2015, despite the complete U-turn in terms of policy that had transpired in the meantime.

The aim of this paper is to document this turnaround in policy, in order to see to what degree, if at all, the Syriza-ANEL government's demands have affected the EU's approach to dealing with the Greek crisis and have balanced pro-austerity policies.¹ The next section will introduce some of the key characteristics of the Greek crisis which, as will be shown, is an old crisis, both in terms of origins and duration. Next, a review of Syriza's policy programme and stance before the 2015 elections will be presented, followed by a structured comparison of pre-election objectives and claims with the basic parameters and policy measures outlined in the bailout agreement, which the government has been implementing since October 2015. Following the analysis of the new government's record, the next section will briefly review and discuss the stance of the creditors vis-à-vis the new government. A concluding section considers the evidence and offers the rather sombre conclusion that nothing has essentially changed in the way the Greek crisis is being handled since the change in government; indeed if anything can be said to have changed, it is not the stance of the Eurozone towards Greece, but rather the policy, rhetoric and, ultimately, identity of Syriza itself.

An old crisis

Although one could hardly dismiss the notion that the policy conditionality imposed on Greece by its creditors is responsible to a significant degree for the depth and duration of the Greek crisis, the root causes of the crisis are much older and more structural and have to do with the characteristics of the Greek growth model and political economy. Greece's growth for a long time was fuelled primarily by domestic consumption of non-tradable products and services (Figure 1).

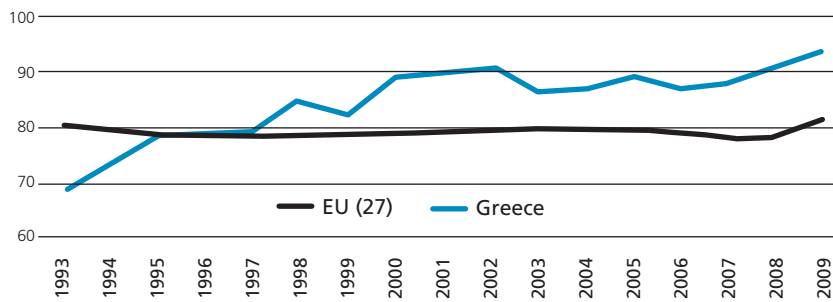
Such levels of consumption were made possible through Greece's twin deficits. Successive governments' "largesse" led to a derailment of public finances as expenditures rose, while revenues remained flat and in some years declined, driving the fiscal deficit to an unprecedented 15.2% of GDP in 2009 (Figure 2). It is noteworthy that this happened during a period of high growth rates, which means that simply retaining the same levels of expenditure and taxation should have led to a reduction of the fiscal deficit.

A similar picture emerges when one examines the external balance of the country. Greece imported most of what it consumed, a tendency that led to an increasing current account deficit, which peaked at the level of 14.9% in 2008 (Figure 3).

Greece was able to sustain the twin deficits through the increased indebtedness of both the public (Figure 4) and private sectors (Figure 5). Following Greece's entry to the Eurozone, in an era of excess liquidity and complacency about the evidently divergent paths of the economies of the Eurozone member states, especially on the periphery, the international financial markets were eager to provide cheap credit to both the Greek state and the Greek banking system.²

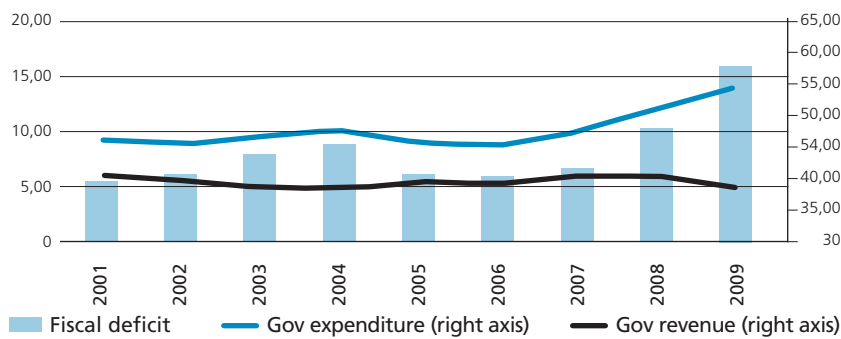
1. ANEL (Independent Greeks) is a party of the nationalist and populist right. It is essentially a splinter party from New Democracy, the centre-right pole of the Greek political system and was formed in 2012, following New Democracy's endorsement and vote in parliament on the 2nd bailout agreement and MoU.
2. Greece's entry into the Eurozone led to a spectacular decline of Greek government bond spreads throughout the 2000s. Effectively, the Greek government was able to borrow at rates very close to those of Germany, despite the fact that, as evident from the analysis above, the Greek economy suffered from serious structural problems.

Figure 1. Consumption (%GDP)



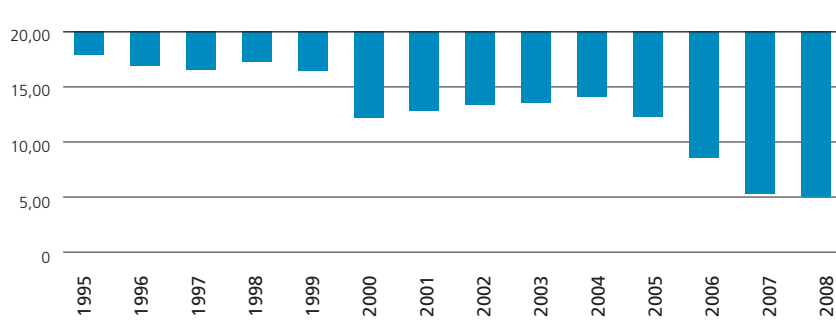
Source: Eurostat.

Figure 2. Greece's Fiscal Performance (% of DGP)



Source: Eurostat.

Figure 3. Current account balance (% of DGP)

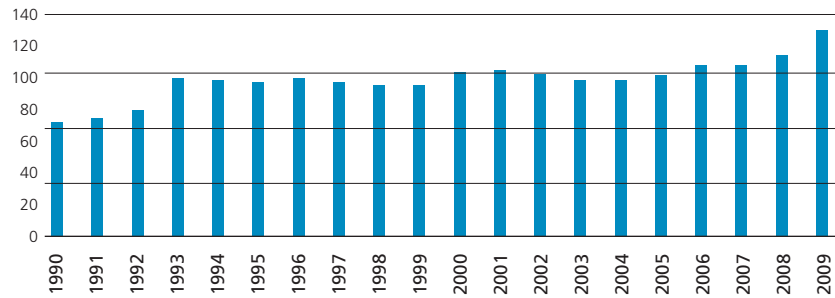


Source: IMF.

In this context, the debacle over the fiscal deficit in late 2009 was enough to spark the crisis. Following a change in government after the October elections, the Greek state's fiscal deficit was revealed to be more than twice as high as the previous government's projections. This news, which completely undermined the already weak credibility of the country, came in the aftermath of the global financial crisis when investors

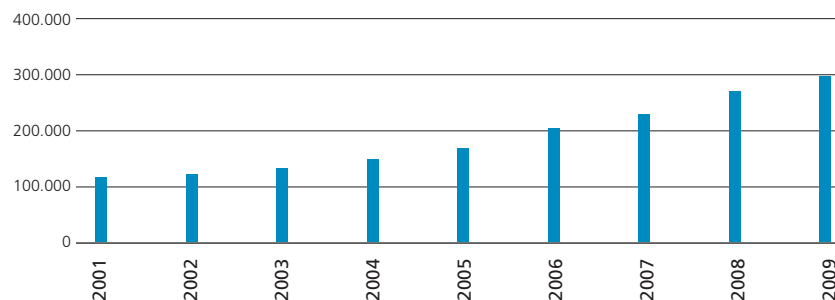
– who had suffered tremendous losses during the crisis – were increasingly turning to quality and safe assets, which Greek government bonds were no longer considered to be. The inability of the Greek government to quickly a comprehensive plan that would reassure the EU and the markets made matters worse and in a few months Greece lost access to market funding and was forced to request official lending in the spring of 2010. With the conduits of market credit closed off, Greece’s consumption-oriented, debt-sustained growth model collapsed.

Figure 4. Public debt (% of DGP)



Source: Eurostat.

Figure 5. Credit to domestic economy* (mil. euros)



*Includes funding given by the Greek financial system to the government, private companies and households.
Source: Bank of Greece.

The Greek government signed a Memorandum of Understanding (MoU), which detailed the specific fiscal, financial and structural policies to be implemented, under the supervision of three organisations: the European Commission (EC), the European Central Bank (ECB) and the International Monetary Fund (IMF), which together form the so-called troika. An array of factors, such as the inappropriateness of the memorandum policy design, which is partially responsible for the unprecedented recession that afflicted the Greek economy, the poor implementation record of significant reforms by the Greek government and the polarised and intense political climate cultivated by the opposition parties, led to continual problems in the implementation of the programme, which ultimately led to its abandonment and the signing of a second bailout agreement in early 2012. Following the election of the Syriza-ANEL

government, which pursued a different negotiating strategy, the second bailout programme also expired without being completed in June 2015. It was replaced by a third bailout agreement and a new MoU approved by the Greek parliament in August 2015. All in all, through these three agreements Greece has borrowed a total of €331 billion.

A new government

The reason for this brief exposition of Greece's economic problems before the crisis is to demonstrate that although one can have serious reservations about the appropriateness of the MoU policies for Greece, particularly in terms of their priorities and timing, these policies were not what brought Greece to a crisis. This is an important point to make because it undermines the dominant rhetoric employed by most of the opposition parties during the crisis, including the current government coalition partners, Syriza and ANEL.

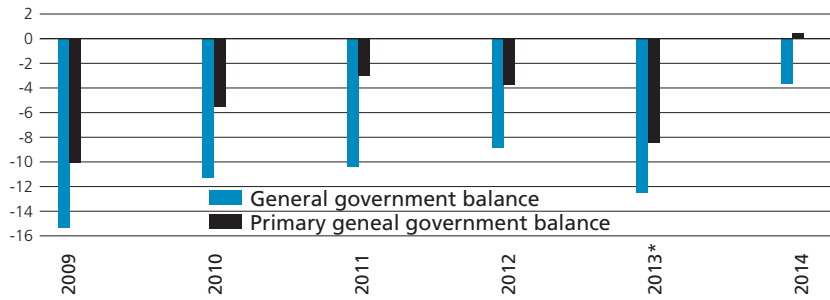
Opposition parties during the crisis adopted a populist rhetoric, which to a large degree comprised elements of blame shifting and exclusivity with regard to other groups, often with significant intensity (Vasilopoulou et al., 2014). This strategy does not constitute a change for Greece, as populism has been the dominant strategy of political parties in Greece in the modern democratic, post-junta (*metapolitefsi*) era (Pappas, 2014). Indeed, one of the core features of populism is the pronouncement of a single issue as the main factor that explains all problems in a society and the accompanying identification of certain groups – the *others* – as responsible (Pappas, 2014, 2015); it follows that the removal of the *others* from power is a prerequisite for society's deliverance from its problems. In the case of Greece during the crisis, the single issue that was pronounced the source of all of Greece's problems was the MoU. Opposition parties led a fierce confrontation with successive governments on the grounds of an anti-MoU campaign, which split society along a MoU/anti-MoU dividing line and increased polarisation to unprecedented levels.

The critique of the problematic policy recipe offered by the MoU made by opposition parties was often legitimate and shared by many experts both inside and outside Greece; however, it was typically couched in an aggressive, populist and all too often Eurosceptic discourse and unaccompanied by any realistic alternative policy proposals. Accordingly, opposition parties did not offer the slightest consensus in parliament, systematically rejecting all legislation brought by the government, even when there were positive signs in terms of restoring growth potential or addressing social grievances. Of course, such tactics were facilitated by the usual practice of successive governments bringing to parliament voluminous legislative packages, with a margin of only a few days (or even hours) for the MPs to consider before voting on them. All in all, the democratic functioning of the Greek parliament during the crisis has been one of its most important casualties and the responsibility for this falls to all political parties as well as the troika.

The rhetoric of Syriza and ANEL prior to 2015 proved very popular.³ Syriza rose to the position of major opposition in 2012 and ultimately won the elections in 2015, while ANEL has retained a solid presence in parliament in successive elections.

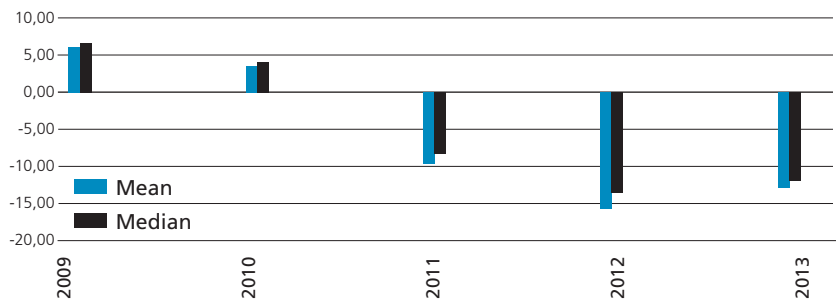
3. It has to be said that while the rhetoric of Syriza and ANEL were quite similar in substance, they were couched in somewhat different terms, which among other things reflected the very different ideological origins of the two parties. Thus, while ANEL adopted a very hostile and aggressive stance, emphasising the loss of national sovereignty and targeting both the Greek governments and the EU establishment – especially Germany – Syriza presented the same critique in the context of a more positive message, which advocated the possibility of creating a “new Europe”, free from the fetters of German-led austerity. For more details on the attitudes and public discourse of Greek politicians and parties see Zafiropoulou et al. (2015) and Katsikas (2015a).

Figure 6. General Government Fiscal Accounts 2009-2014 (% to GDP)



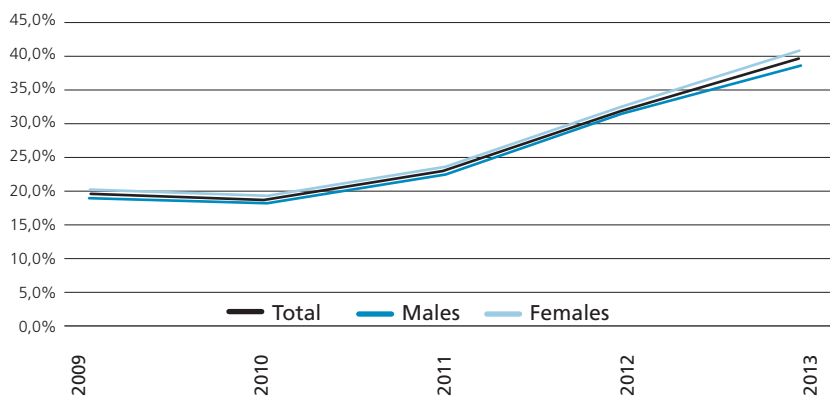
*In 2013, the figures appear to increase, primarily due to the recapitalisation of Greek banks. Without this one-off expenditure (this and a number of other items are not included in the deficit definition of the MoU), the general government deficit was estimated at 3.2% and the primary balance exhibited a 0.8% surplus (European Commission, 2014).
Source: European Commission.

Figure 7. Annual changes in mean and median disposable income (%2009-2013)



Source: Katsikas et al., (2015).

Figure 8. Poverty rates in Greece using a fixed poverty line* (%2009-2013)



* In periods of large movements of the economy (upwards or downwards), the comparison between people's economic situation now with that of a few years back (before the change) can provide us with better insights into the development of poverty. This is accomplished with the use of a fixed (as opposed to relative) poverty line (60% of the median disposable income reported in 2009 (income of 2008), adjusted for inflation).
Source: Katsikas et al., (2015).

The decline in disposable incomes and the rise of poverty (and social exclusion) rates have been truly unprecedented. The frustration and anger of large parts of society found expression in the aggressive anti-MoU discourse of opposition parties of all hues.

Once in power, the new government engaged in lengthy negotiations to change the terms of the agreement between Greece and its creditors.

However, the government's negotiating strategy presented serious problems. More specifically, it was characterised by three important negotiating mistakes:⁴

(a) The government delayed the conclusion of the negotiations for too long. Time always runs in favour of the more powerful party in a negotiation. Given that throughout the negotiation period there was increased uncertainty as to its outcome, the real economy stalled as investment and consumption decisions were suspended, while Greek citizens began to withdraw their deposits from the banks effectively causing a "slow" bank run. Under these circumstances, the Greek banks started to depend on the emergency liquidity assistance mechanism (ELA) for their liquidity and ultimately for their survival, whereas the Greek government became increasingly dependent on the disbursement of funding by the creditors. In other words, with every additional day of delay the Greek government was becoming more dependent on its counterparts in the negotiation. The fact that the first months of negotiations were wasted on purely symbolic issues (such as the new name of the troika, or the place the technocrats would meet) resulted in a prolongation of negotiations which undermined the Greek side's bargaining power, while at the same time increasing the cost of any agreement, due to the recession, uncertainty and the resulting decline in government revenues.

(b) The government adopted the strategy of "creative ambiguity". Again, it is well known that ambiguity always favours the more powerful party in a negotiation. For several months, the Greek side refrained from submitting concrete proposals in the negotiation and pursued a "political" solution. Specific commitments at the very beginning of the negotiation by a government with a fresh popular mandate for renegotiation, could have been the basis of a fair agreement, especially since external conditions (the quantitative easing programme, Juncker's investment plan and economic recovery in the eurozone) left considerable room for optimism that the implementation of the agreement would be more easily achieved in the medium term.

(c) The Greek government lost its credibility. Following the debacle with the Greek statistics which sparked the crisis, the credibility of Greek governments was low. Nevertheless, the new Greek government was given the benefit of the doubt due to the fact that it had not exercised power in the past, which was taken as evidence of its independence from vested interests and its distance from the questionable practices of the ruling parties of the past. This stock of credibility was quickly depleted, however, as a series of actions gave rise to doubts about the intentions of the Greek government: declarations by leading ministers expressing their opposition – often with harsh wording – to the content and direction of ongoing negotiations, at the same time as the finance minister and the prime minister himself were declaring progress in the negotiations and an imminent agreement; double-talk, with statements of utterly different content

4. The following section is largely based on Katsikas (2015b).

and style when addressed to domestic audiences and when abroad; implementation of unilateral actions, such as the reinstatement of civil servants, even though the government had committed to abandoning such plans based on the agreement of February 20th 2015; delay in the submission of specific proposals as described above, and so on.

The result of this unsuccessful negotiation was the debacle of the summer of 2015, when the deadline for reaching an agreement expired, leaving the country without a programme, and therefore without funding and the banks without access to ELA. Predictably the country defaulted on an IMF payment, the banks were closed and capital controls were imposed to prevent a bank run and capital flight. Despite the fact that the government won a hurriedly conducted referendum on a proposed draft agreement, with 61% of people rejecting the agreement (as was the government's proposal), the immediate danger of a Grexit ultimately led the government to sign an agreement for a new bailout programme, accompanied by a new MoU. The agreement was approved by the Greek parliament in August 2015.

The new MoU continues where the previous left off, adding new austerity measures to make up for the negative developments in the economy and the banking system in 2015. Whereas before the January elections the projection was for the Greek economy to grow by 2.9% in 2015 and 3.6% in 2016 (European Commission, 2014), the current projections are for zero growth in 2015 and a new recession of 0.7% in 2016 (European Commission, 2016). Moreover, the situation in the banking system deteriorated further following a slow bank run between late 2014 (once early elections were announced) and June 2015, which led to almost €40bn leaving the system, while non-performing loans increased to 42% of the banks' total loan portfolio (Bank of Greece, 2015).

The turnaround in terms of policy was truly dramatic. As Table 1 makes evident, virtually all Syriza's pre-election promises were abandoned; the policies adopted following the signature of the 3rd bailout agreement are the same that Syriza and ANEL consistently condemned for the preceding five years. The government has defended itself by saying that this was an emergency situation and that there was no other alternative. However, the TINA argument was the basic argument also employed by the previous governments and at the time was dismissed by the opposition parties as a strategy intended to present the people with a false dilemma: membership of the eurozone with a policy programme or Grexit. It is the same dilemma that was now being invoked by the government to justify the signature and implementation of the 3rd bailout agreement. In view of these developments, the prime minister, Alexis Tsipras, called for a new round of early elections in order to obtain a popular mandate for implementing the programme. Syriza won again, but lost several hundred thousand voters as participation rates plummeted to approximately 55%, the lowest in the *metapolitefsi* era. The reversal of policy and rhetoric was so dramatic that it led Syriza to an internal crisis and eventually to a split, with some of the most prominent anti-MoU figures of the previous years leaving Syriza to form a new party, Popular Unity, keeping faithfully to the anti-austerity line of argument, even if that meant a Grexit. The new party failed to reach the 3% threshold and was left out of the Greek parliament in the September elections.

Table 1. A new government: Pre-election promises and post-election policies

Syriza's pre-election programme*	3 rd bailout agreement [#]
Fundamental priorities	
Abolish MoU and repeal MoU legislation	New (3rd) MoU/ Autumn 2015: abolition of first half of 2015 laws that abolished 2nd MoU legislation.
Write-off of majority of public debt** • Growth clause • Moratorium/ grace period	Debt restructuring along the lines of the 2012 agreement: “... in line with the spirit of the Eurogroup statement of November 2012, the Eurogroup stands ready to consider, if necessary, possible additional measures (possible longer grace and payment periods) aiming at ensuring that gross financing needs remain at a sustainable level. These measures will be conditional upon full implementation of the measures to be agreed in a possible new programme and will be considered after the first positive completion of a review” (Euro Summit Statement, July 12, 2015).
Main policy objectives	
Stop austerity policies	Continuation of austerity policies, primarily based on the revenue side (€5.7bn worth of measures for 2016 alone).
Undo neoliberal structural reforms	Continue and complete previous MoU reforms: • Product markets: Implement pending OECD toolkit recommendations from previous MoU – with some exceptions – and proceed with implementation of toolkit II; • Labour Markets: Deliberation with European and international organisations to modernise Greek labour market, according to best practices – no return to previous status quo.
Undo privatisations • Stop further privatisations • Retake, where possible, control of previously privatised public corporations of strategic importance (energy, telecommunications, ports, trains, etc.) • Public control of banks***	Continuation of previous privatisation programme, including all major strategic assets (airports – contract recently signed – ports, train company, etc.): • Overall target of €50bn revived, over the course of loan's life; • Establishment of fund for privatisation proceeds –50% will repay bank recapitalisation (much less required following recent recapitalisation), 25% for debt reduction and 25% for investment; • Banks recapitalised mainly with participation of private investors; state's participation reduced substantially; value of previous capitalisation wiped out, but debt remains.
Basic policies in key policy areas	
Fiscal targets • Balanced primary budgets (with the exception of public investment)†	Continuation of primary surpluses policy – somewhat milder, but with significantly worse GDP outlook: • Primary deficit 0.25% in 2015 - Primary surplus: 0.5% in 2016/ 1.75% in 2017/ 3.5% from 2018.
Tax policy • Reduce indirect taxation (esp. VAT) • Increase the tax-free limit to €12,000 for all • Abolish property tax	Austerity policies based primarily on revenue side – increased burden of taxation: • Increased VAT; • No change in tax-free regime; • Retention of property tax and revenue target; • Overall: increased focus on tax policy and reform; in 2015 already more than 10 measures that increase tax burden.
Pension system • No further pension cuts • Restore 13 th pension • Reduce retirement age	New reductions in both supplementary and main pensions made and more expected: • No return to previous regime; • No reduction of retirement age; • Overall, an entirely new pension system to be introduced, almost certainly with reduced payments across the board.
Labour market • Restore minimum wage to pre-crisis levels • Restore unemployment benefits to pre-crisis levels • Abolish market liberalisation measures	• No restoration of minimum wage or unemployment benefits to pre-crisis levels; • Deliberation with European and international organisations to modernise the Greek labour market – no return to previous status quo.
Private debt and arrears • Seisachtheia: Full write-off for bank loans of households that cannot repay them • Abolish forceful seizure or liquidation of property for bank debts (including primary residence foreclosures) • Repayment plan for arrears to the state • No buyout of bad loans from distressed funds	• Assistance for very poor households that cannot repay their mortgage loans; • New legislation which protects only the primary residence of the most “vulnerable” groups (25% of loan-holders) defined using income and assets criteria; • Repayment plan introduced in spring 2015; it improved previous scheme, but recent changes introduced, which make it less debtor friendly; • New provisions for specialised companies – Greek and foreign to buy bad loans; creation of secondary market for bad loans.

* According to Syriza's policy programme. ** According to September 2014 “Thessaloniki” policy programme. *** According to the declaration of Syriza's founding political conference, 2013 (not included in pre-election programme). † According to updated “Thessaloniki” policy programme, January 2015. # According to new MoU and related legislation during the autumn of 2015.

The creditors

What has the creditors' stance been during this time? Greece's European counterparts seemed to receive the new government with a relatively sympathetic attitude during their first meetings in February. There appeared to be a degree of acknowledgment and understanding of the social impasses that austerity had produced in Greece, an issue prioritised and made visible to an international audience by Syriza. Accordingly, in an early preliminary agreement in February, Greece's creditors conceded a reduction of the targets for primary fiscal surpluses for the coming years, which meant that the new government would have to implement much reduced fiscal consolidation (austerity) measures. This has to be credited as a success to the Greek government, but one which was not, however, capitalised on, as the handling of the negotiation, as argued previously, led to a collapse of the government's credibility.

It seems that since the beginning of the negotiations the Greek side conceived of them as a game of "chicken", i.e. a negotiation where both sides appear unyielding until someone succumbs. Beyond the obvious observation that in such an unbalanced negotiation, in terms of power, there could only be one winner (and that it was not Greece) it is a mistake to view the negotiation in this way in the first place. Negotiations like these, which take place between the Greek government and its European partners, are "repeated games", where *ex ante* knowledge that the same parties will have to negotiate again in the future makes the issue of credibility a top priority, as well as a requirement to achieve better results for everyone. The adoption of tactics that reduce credibility inexorably leads to negative results. Over the course of the next few months the Greek government failed to produce a concrete, detailed and quantified plan for dealing with the crisis and was continuously seeking a "political solution" to the negotiation. This frustrated its European counterparts and led to some unprecedented scenes in several of the Eurogroup meetings that followed, with the Greek finance minister, Yanis Varoufakis becoming completely isolated and scorned by his colleagues. This also meant that gradually the negative attitude of many Eurozone countries towards Greece hardened considerably, and the idea of Grexit re-emerged for the first time since the 2012 elections. In the run-up to the events of the summer of 2015, the hard line became the dominant approach among Greece's creditors and the Greek government was left with very few allies. In the dramatic European Council of July 12th, the possibility of a Eurozone exit was proposed for the first time to a Eurozone government as a potential solution. Ultimately, and predictably, the Greek government had to capitulate and accept a new bailout agreement.

The third loan agreement and accompanying MoU that was offered to Greece effectively continued where the previous one had stopped. The approach continued to be the same, with fiscal consolidation the top priority, albeit with reduced fiscal targets in the short-term, which were by now deemed necessary given the downturn of the economy during the negotiating period, the closure of banks and the imposition of capital controls. From 2018 onwards a fiscal target of primary surpluses of 3.5% has replaced the previous, slightly more ambitious target of 4.5% as the way to ensure debt sustainability, although the IMF's debt sustainability analysis shows this to be unrealistic without additional measures, including debt restructuring (IMF, 2015).

As is evident from Table 1, policy in all significant issue-areas continued for the most part along the same principles and priorities as before, including the issuing of public debt, the privatisation programme and most of the structural reforms. A €35 billion “growth” package was offered to Greece, which did not, however, bring new funds but effectively included resources that Greece was already entitled to from the 2014-2020 EU budget; the main difference was added flexibility and speed in the use of the funds. All in all, the picture from Greece is a repetition of the same policy recipe, which faces similar failures in dealing with the need to consolidate the fiscal position of the government in a recessionary environment with very high unemployment, an ongoing social crisis and political polarisation and uncertainty. The haggling over the first assessment of the programme is all too reminiscent of previous assessments, with tough bargaining between the government and the troika going on for months, while the economy is mired in uncertainty. Despite the obvious shortcomings of the recipe, the failure of the previous Greek government to implement reforms following the European elections of 2014 and the suspension of the programme during the new government’s negotiation, combined with the completion of the Portuguese and Irish programmes and the projected successful exit of Cyprus from its own programme (despite the fact that Cyprus signed a MoU much later than Greece and under extremely difficult circumstances, which included capital controls, bail-in and the closure of the country’s second largest bank), all seem to have reinforced the view of those who think that it is not the recipe which is the problem, but rather its implementation in Greece. In this context, barring any major exogenous developments (e.g. related to the refugee crisis), it is highly unlikely that the creditors’ views on the handling of the Greek crisis will change.

Concluding remarks: Plus ça change, plus c’est la même chose?

For many people, particularly on the left, Syriza’s victory in January 2015 was a welcome development, which had the potential to shake up the European status quo and help bring about a change of the widely criticised austerity recipe, which has become the policy canon for dealing with the Greek and the wider Eurozone debt crisis.⁵ One year after Syriza’s rise to power, one can hardly dispute the fact that these hopes have not been borne out. In a drastic turnaround of policy amidst dramatic circumstances during the summer of 2015, Syriza not only did not abolish the austerity-based MoU, as was its fundamental pre-election promise, but on the contrary, signed a new 3-year loan agreement, accompanied by a new austerity-inspired MoU.

A cursory review of Table 1 clearly demonstrates the adherence of the Syriza-ANEL government to the previously followed recipe, despite all pre-election promises and post-elections claims to the contrary. The answer to the question of whether something has changed in the handling of the Greek crisis following Syriza’s advance to power is therefore unequivocal: nothing has essentially changed. The same approach, the same priorities and the same policy measures have been adopted as before.

If something can be said to have changed, it is Syriza itself. It now employs all the argumentation and communications tactics of previous

5. See for example, Gow, David, “Tsipras and Syriza’s Win Reboots European Social Democracy”, *Social Europe*. January 26th 2015 [date accessed 05.01.2016] <http://www.socialeurope.eu/2015/01/syriza/> and Jones, Owen, “Greece’s radical left could kill off austerity in the EU”. *The Guardian*. December 22nd 2014 [date accessed 05.01.2016]. <http://www.theguardian.com/commentisfree/2014/dec/22/greece-radical-left-austerity-syriza-poll>

governments that implemented MoUs. Indeed, the turnaround has been so dramatic, so much in contrast to what the party was campaigning for all the previous years and so much against its pronounced core ideological pillars, that most of its prominent members have been forced to abandon it, some setting up Popular Unity, while others left the political scene altogether. The rapid rise of Syriza to power and its course thereafter offer significant insights into Greek politics. Beyond that, however, and irrespective of the many faults of the Syriza-ANEL government's negotiating approach, the complete reversal of policy that Syriza was forced to accept also sends a sombre message on the state of democracy in Europe, as well as on the state of the left itself. It seems that whatever the ideological orientation and policy preferences of elected governments the policy package promoted by the creditors and the EU institutions is fixed and non-negotiable, with little if any room for flexibility. On the other hand, it is obvious that the prevalence of this policy straightjacket is also due to the left's inability to articulate realistic and effective policy proposals that address the economic rigidities of EU peripheral economies while catering for social cohesion and reducing economic inequality.

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THE POLITICS OF SYRIZA IN EUROPE: FROM LEFT-WING RADICALISM TO POST-LEFT MANAGERIALISM

Filippa Chatzistavrou

*Research Fellow, Hellenic Foundation for European
and Foreign Policy (ELIAMEP)
f.chatzistavrou@gmail.com*

During the last six years, Greece has experienced a crisis that has progressively become embedded as a permanent structure in the political, economic and social fabric of the country. This article considers Syriza's transformation during 2015 by describing the process of its political mutation in terms of rhetoric and coalition-building strategy.

It attempts to understand how and why this political mutation has occurred since its election, which has further aggravated the erosion of Greece's society and governance system.

The first part of the article focuses on the anti-EU establishment rhetoric underpinning Syriza's radical political discourse. It further describes how the party succeeded in developing another type of Europeanised political discourse. The second part of the article examines how the left-wing Syriza party has dealt with the coalitional, ideological and strategic challenges and risks it has faced. It sheds light on its two-fold strategy for building coalitions with the radical left as well as with the centre-left and the centre of the European political spectrum. The third part of the article explains how Syriza joined mainstream politics and considers its political mutation as an emblematic case of post-left managerialism in the European regime of austerity.

Syriza as a European political force of an adversarial and anti-establishment radicalism

Syriza erupted onto the Greek political scene with the promise that first it would mitigate, delay or even get rid of the effects of the neoliberal agenda imposed brutally and relatively late in Greece compared to other European states, and second it would restore the gains of the post-war social compromise by rectifying their inequitable distribution.

This eruption took place in a political vacuum where the dominant figures of recent Greek politics had already left active political life. Before the outbreak of the crisis, the centre-left and centre-right governments never enacted a straightforward embrace of neoliberalism. Despite their role in "restructuring" and shutting down large sections of medium-sized

Greek industry, they continued to indulge in particular forms of state intervention, mainly in providing liquidity for the oligopolistic internal capital market, in maintaining the political system through forms of paternalistic syndicalism and in mitigating the effects of an inherently unequal economic and social system through the public pension system.

The far-left led government that emerged from the legislative elections of January 2015, under the premiership of Alexis Tsipras, expressed a willingness to pursue policies explicitly based on a policy agenda that was different not only from the EU's proclaimed economic reform agenda, but also from the domestic agenda of the long-established nepotistic political parties. Almost paradoxically, Syriza's pre-electoral claims to offer real policy alternatives to the dominant neoliberal consensus seemed credible. Until then, the classic rhetoric of traditional mainstream governing parties on Greece's European policy was mainly based on the idea of "Greek exceptionalism". Syriza succeeded in developing another type of Europeanised political discourse, accusing the EU of exporting crisis. The attempt consisted of blaming the EU's reactionary forces for producing the crisis. This discourse defied the dominant neoclassical interpretation that the 2008 economic crisis was caused by the dysfunctions of the national economy, and more precisely that it was caused by governments adopting an interventionist approach to developing their economies (Overbeek and Van Apeldoorn, 2012). Instead of talking a bout the exit from the crisis, the radical leftist discourse of Syriza, refusing to assign any intrinsic naturalness to the phenomenon of the crisis, placed the emphasis on the crisis of the EU integration model.

From this perspective, the crisis is not a starting point but the key to understanding the long process of European integration (Mégie and Vauchez, 2014). The non-outbreak of the crisis is shown as a sign of temporary and weakly legitimised EU supranational power. In this sense, the early Syriza¹ embraced the top-down approach of politics and society proposed by critical analysts working within a post-Marxist paradigm to understand neoliberalism as something imposed from above on an unwilling or impotent citizenry, thus emphasising the historical arbitrariness of the EU's cultural and institutional legitimacy; in this view, EU arbitrariness consists of the fact that its foundations lie in the misrecognition of a power relationship between states, social groups and classes (Lahire, 1999). Syriza developed this argument on the foundation of a Manichean vision within which the unchallengeable hegemony of neoliberal ideas and the complicity of the media in that hegemony prevail (Onfray, 2002). The intrusion of its anti-EU establishment rhetoric into the European public space was, in the first place, extremely successful in providing critical accounts of neoliberalism, i.e. its rise to dominance, its mode of operation and the best ways to combat it.

Early Syriza's "rhetorical triangle" consisted of three elements. First, it brought to the fore the promotion of new policy tools for radical reform of the rules of economic governance and coordination at European level, i.e. breaking the spiral of austerity by changing the economic methodology, loosening the budget rules, activating an investment clause and Europeanising sovereign debt management.

Second, Syriza's leadership made vehement criticism of the EU elite dominance model by undertaking high-risk political activism against the

1. The "early Syriza" phase includes the pre-election period and the first half of 2015.

reactionary nature of established elites seeking to protect and expand their existing privileges and the political role of supranational technocracy. In the first half of 2015, the governing Syriza party tried to distance itself from the domestic technocratic elite and the operations of supranational bodies such as the EU and the IMF.

Third, it initiated a new vision of the European project and Europeanised the Greek question. Syriza's claim consisted of saying that the Greek crisis is a European crisis and should be resolved within the European framework by a reformed and socially sensitive EU. It supported the promotion of a citizen-centric strategy by focusing on policy issues of social and societal relevance, recalling the party's tradition of developing and supporting grassroots social movements; bear in mind that Syriza became a unitary political party in the summer of 2013 (Chatzistavrou and Michalaki, 2014a).²

But to what extent has this adversarial and anti-establishment rhetorical radicalism been deeply rooted in the reality of the party? Although part of Syriza's partisan base has a left-wing and activist political background, Syriza came from the reformist branch of the Greek left (KKE-Interior, Synaspismos) in which the dominant view abandoned the revolution and communism and over time accepted the EU, NATO and the "bourgeois" compromise with the institutions of contemporary capitalism.

The rhetorical devices mentioned above have mostly been addressed to the European elites that promote German monetarism without expressing hostile attitudes towards people of other nations. The rejection of the EU model has been founded on social and economic arguments and has not been based on issues of national identity and sovereignty. Actually, Syriza's early political discourse combined an economic patriotism mixed with an alternative Europeanism. Initially, the party's quite favourable attitude toward monetary sovereignty was a defensive response to the EU's "austeritarian" proposal for resolving the Greek crisis, considering the national currency to be an economic tool for weak states to manage globalisation.

The ideology, rhetoric and targeting of the early Syriza party, particularly in its programmatic writings, maintained a Marxian terminology. Some traces of its historical origins on the communist left have been preserved in the oratory. At Syriza's founding congress in 2013, socialism was defined as a strategic objective.³ At the same time, Syriza was, and still is, also involved in populist tactics – in the neoliberal sense currently used of flattery and demagoguery of people and their needs, and in the way that populism generally governs all systemic parties given the political representation crisis that currently plagues them.

Although it has progressively abandoned the term of socialism, it has maintained some rudimentary political features of workers' ideology. In fact, the pre-electoral Syriza party and the early Syriza-led government displayed greater sensitivity than the mainstream parties in their concern for popular interests and workers' welfare. At the same time, their discourse also conveyed elements of left-populist communication that addressed the question of the impoverishment and pauperisation of the "people" – as a concept going beyond classes – more than the interests and the role of classes and their social hierarchy.⁴

2. "(...) Syriza's goal is the creation of a new model of the Left developed through dialogue, joint action and a propulsive synthesis of ideas. This is the founding contract of Syriza and only strict compliance by all sides will enable the left to meet its historical responsibility. The left that resolves disputes with factionalism and divisions has no future (...)", G. Dragasakis, vice-president of the Hellenic Parliament and Syriza MP, *VIMA*, Sunday edition, 20.07.2014.
3. Syriza's founding declaration stipulated that "Our Europe is the complete opposite of the Europe of today, the Europe of the Enlightenment and its radical critique, the Europe of revolutions, of the welfare state and of democracy of mass movements".
4. In his public speech *a year after Syriza's rise to power*, given on January 24, 2016, Tsipras referred to "the people of the low and middle classes whose enemy is the austerity and not the government" without making any reference to class struggle, Speech by Prime Minister A. Tsipras on the first year of Syriza governance, Faliro, Athens, 24/01/2016.

The Syriza-led government's transnational networking in Europe: trapped by contradictory ambitions

In order to explain Syriza's coalitional tactic with other European political forces, it seems necessary to take into account where the party stood ideologically in the pre-electoral phase and relate this to the strategic factors of its political viability in the oppressive post-election environment that in the first half of 2015 involved continuous negotiations with the EU and the IMF. Originally, Syriza developed ideological biases against all the basic principles of neoliberalism, i.e. structural adjustment, fiscal austerity and free trade. But the party leadership knew very well from the very beginning of its rise to power that staying in the arena of radical left politics in Europe couldn't provide substantial gains for renegotiating the Greek problem within the European political and institutional framework.

At the European level, Syriza embraced a two-fold strategy. First, the alliance with left-wing movements in Europe addressed the big challenge of shaping the conditions for creating a broad and solid "European opposition front". Different initiatives were launched on the basis of this common political commitment: Tsipras's candidacy for the European Commission presidency in 2014 supported by the political group European Left; the later alliance with Podemos following the election of P. Iglesias to the head of the movement; or even, later, Syriza's rapprochement with Sinn Féin after Tsipras's first electoral victory in the beginning of 2015. Second, once the Syriza-led government entered into harsh negotiations with the EU institutions and the IMF, the rapprochement with European centre-left governments (the Parti socialiste français and the Italian Partito Democratico) opened up the possibility of using them as bridges/facilitators in order to mitigate lenders' very demanding expectations and to further politicise the Greek question.

Early Syriza's strategy involved an inherent contradiction between different purposes. During the pre-electoral period, it adopted a protest and Euro-critical attitude with a radical leftist stance. Here, the idea of a new, broad sociopolitical cluster coalition fighting neoliberalism, austerity and the EU-IMF memoranda policy in Greece and Europe prevailed (Chatzistavrou and Michalaki, 2014b). Two rival plans for the future of Europe were opposed, from the one side, "the plan for a Europe of banks and multinational companies, of neoliberal and austerity policies, the Europe of Merkel and Schulz" and, from the other, "the plan of the European Left for the peoples of Europe".⁵ This frontal positioning put to the fore the idea that the EU openly promotes an ordo-liberal world of economic society that seems to be perfectly self-regulating in an apolitical manner. It rejected the reactionary political evolution of eurozone governance towards a de facto majoritarian and, as a result, asymmetrical intergovernmentalism (Chatzistavrou, 2016b), i.e. a not rule-based intergovernmentalism operating within weak European and national parliamentarisms, delegating growing discretionary powers to the EU executive institutions without being subject to any political control at European level. In this regard, Syriza also criticized the centre-left parties, arguing that their alignment with neoliberalism proved to be an astute strategy to secure their political viability. In fact, according to the party the dividing line between the radical and the moderate left lay in the

5. Syriza manifesto, Declaration on the 2014 EU Elections For the reversal in Greece and the foundation of the other Europe, http://www.opinionpost.gr/news/wp-content/uploads/2014/04/diakirixi_syriza-euroekloges_25.04.pdf

intolerance of austerity policies: a number of times Syriza blamed the centre-left both in Greece and in Europe for accepting or even supporting them.

During the first half of 2015, a gradual but continual shift took place. Tsipras' first visit as prime minister was to Paris in February 2015. His intention was to send a message that France was considered the guarantor of a new European deal for employment and social cohesion. In fact, from that time on, the Syriza-led government embraced a pro-European line counting on France and Italy to balance the political discourses that favoured rigorous economic policies in Europe.⁶ While both countries' centre-left governments were showing willingness to proceed on some structural reforms, simultaneously they were putting pressure in favour of a certain loosening of budgetary stability rules. More precisely, the Syriza-led government was counting on France to insert social indicators into the evaluation of member states who are forced to adopt harsh austerity policies in the fiscal compact.

By adopting a more flexible alliance strategy, Tsipras had the opportunity to oscillate to quite a large degree across the political and ideological spectrum and to seek different alliances in order to satisfy the strategic needs of the moment. This strategic move resulted, progressively, from early 2015 to the end of that year, in the adoption of a significantly more moderate political position, shrinking the field of battle above all on fiscal austerity. Actually, the role of François Hollande was decisive in pushing Tsipras towards the path of "normalisation" and economic realpolitik during the EU bailout talks in July 2015 (Chatzistavrou and Passet, 2016).

After the Greek referendum took place, Tsipras adopted the "in between" method of Hollande, stressed the importance of a national growth strategy and counted on France's eurozone reform agenda. In September 2015, Tsipras' pre-electoral promise consisted of simply moderating the negative effects of the austerity measures to come, thus accepting in a certain way the maintenance and extension of austerity politics as well as the intensification of hierarchical orderings of social and economic relations in a country that is structurally inequitable. Since his second political mandate, Tsipras' flirting with the European centre-left and the centre has been intensified.⁷

Syriza moved abruptly from political idealism to economic facticity. It seems important to understand why Tsipras integrated the objectives for eurozone governance so easily, thereby agreeing to embrace the economic culture embedded in EU structures, even though the economic and social fragmentation resulting from the crisis continued to increase steadily in Greece.

The political mutation of Syriza: towards a kind of post-left managerialism

Undoubtedly, the July 12th 2015 agreement to the EU's terms clearly showed that the Greek experience of economic adaptation continues to be a cross-party elite phenomenon, mainly driven by supranational technobureaucrats (Chatzistavrou, 2016a). Syriza explained the application of

6. The question of the French deficit will undermine the credibility of France and gradually push the country to slowly and partially adopt the "Third Way", i.e. to do some structural reforms and to adopt a more contractionary fiscal policy.
7. In autumn 2015, Tsipras didn't hesitate to ask for Hollande's help to find a political way out of the deadlock in the negotiations with the "quartet" of creditors in the framework of the first review of the third adjustment programme. In November 2015, the delegation of the Parti socialiste français visited the Syriza offices. French socialists expressed their full support for Syriza and the Greek government. They also extensively discussed the possibilities of setting up a Europe-wide opposition front against austerity with the participation of parties, movements and unions. At the same time, without putting into question Syriza's membership of the GUE/NGL group in the EP, Tsipras asked for participation as an observer in the meeting of the European political group of Socialists and Democrats ahead of European Councils. This proposal had very positive echoes among the French and Italian Socialists and some of the German social democrats; since then the proposal has been approved. Finally, the proposal of the Syriza-led government to set up a new EP informal working group to monitor the implementation of the third adjustment programme – approved at the beginning of 2016 – has become possible thanks to the support of the liberal Guy Verhofstadt and the social democrat and EP President Martin Schultz.

8. Syriza embraced the post-Marxist analysis of how neoliberalism came to enjoy its current ascendancy over the political field. In this perspective, the neoliberal doxa is understood as having been “imposed” on society through a form of “symbolic violence” (Bourdieu, 2000).
9. The most disappointed people in the EU continue to be the Greeks. Specifically, 60% of Greeks surveyed feel dissatisfied with their lives, compared with the 19% average in the EU-28. In addition, 83% of Greeks have no confidence in the future. In the EU-28 the figure is 32% and in the eurozone it is 34%. 99% of Greeks feel that the labour situation in the country is “bad” compared with an average of 67% in the EU-28 and 71% in the eurozone. However, 70% of the Greeks are in favor of the Economic and Monetary Union and the euro (EE28: 56%). Eurobarometer, autumn 2015, published 24/12/2015.
10. This is a kind of new “authoritarian populism”. This term was first used to describe the phenomenon of Thatcherism (Hall, 1988).
11. The third memorandum currently in force clearly stipulates that the creditors can replace the adopted policy measures with others at any time if they consider that the initial objectives are not met. This means that the Greek government is under daily budgetary surveillance and financial control. The fact that the macroeconomic objectives upon which the third memorandum rests cannot be readily achieved leaves the space open to legislative inflation through the adoption of new measures, whenever appropriate.
12. A key concept in Bourdieu’s sociology of domination is that of “symbolic violence”, or in other terms the imposition of a cultural code (Kauppi, 2003). In this sense, being authorised to speak in the name of a debt duty gives real existence to the national duty of repaying its debts. The re-election of Tsipras is proof of this symbolic violence exerted on the Greek population and approved through electoral consent.

neoclassical economics to public policy decisions as a fundamentally elite and foreign phenomenon, in response to pressures on the structures of monetary policy imposed by EU membership and to the demands of globalisation. This rhetorical strategy was useful even after the capitulation of July 12th 2015. Syriza used the same rhetoric, reaffirming that the neoliberal agenda had been imposed on the government from above, neutralising the party’s capacity to mobilise post-referendum popular support.⁸ Through a process of victimisation, the late Syriza-led government initiated its professionalisation as a ruling party. Syriza’s political mutation from a protest party to a party of government enabled it to maintain the Brussels policy agenda, which involves containing state expenditure, increasing taxation, negotiating inflationist policies, among others, as well as the “Brussels-dependent pyramid of clientelism” (Streck, 2015).

Syriza’s political mutation has been facilitated to a great extent by the significant popularity of euro-monetarism in Greece (Chatzistavrou and Michalaki, 2015).⁹ This feeling of irreversible belonging to the euro has been reinforced thanks to the growing populist manipulation of mainstream parties by supporting unconditionally euro-monetarist views.¹⁰ The coercive form of structural adjustment programmes led Syriza to embrace political pragmatism without being able to deny the ideological ascendancy of neoliberal ideas. In fact, the main logic of the structural adjustment programmes imposed by the EU in highly indebted countries led to the proliferation of violent and excessive legalities – a colonial practice reminiscent of a bygone era (Esmeir, 2012) – disrupting the EU’s common *acquis* and constitutional basis. The basic idea behind this pressure is that there are immutable economic imperatives in the face of which every government remains powerless. Social and economic interests are transformed into social and economic imperatives imposing specific policy instruments and catch-up targets.¹¹ In this shrinking policy space available to governments, the politicisation of social and economic policies as well as the prioritisation of national needs became more and more difficult, reducing far-left parties’ influence and confining them to an anti-systemic and anti-European role.

During the pre-electoral period in September 2015, Greece yet again faced the same dilemma. From the one side, there was no space for political choices between governing parties and voters; the discrepancy between voters’ aspirations and political parties’ interests was quite evident, reminding that the latter were incapable of channelling and representing the former (Gramme, 2013). From the other side, there was a complete dominance of the pro-austerity doxa over the mainstream media fields, in the circles of the Greek state managerial, political and corporate elites, but also of institutional experts and economists serving in academia. In this context, it has proven very difficult for minor anti-austerity political forces to challenge the discourse of debt culture.¹² Tsipras managed to exploit the power vacuum in Greek politics to the full. Syriza joined the arena of mainstream politics, engaging a new kind of relationship with citizens and its domestic political competitors and promoting itself as the “best equipped ruling force” to execute the implementation of the third adjustment programme as smoothly as possible.

The reduction of politics to governmentality means that the national policy must therefore adapt to an economic rationality that dissociates

economic policy from the political and social process (Wilson J. and Swyngedouw, 2014). This is a post-political context in which Greece has had to deal once again with the harshest version of the economic governance system which put intense pressure on national institutions and coordination mechanisms, forcing them to adapt themselves in order to deal with supranational scrutiny from the EU institutions.¹³ Moreover, the severe, punitive logic that permeates the economic governance framework – and especially the economic adjustment programmes – had significantly disrupted the unanimity rule and therefore the equality of member states in taking decisions within the eurozone.

In a context of systemic failure, after the election of September 2015 Alexis Tsipras represented a new kind of leftist Bonapartism,¹⁴ projecting himself as an unrepentant fighter who believes in state capacity and regular popular consultation and support (Chatzistavrou and Michalaki, 2015). He managed to expel – bloodlessly – all known or suspected opponents and dissidents from Syriza and keep under his control a party whose political base remains highly left-affiliated. Currently, Tsipras runs the country with the backing of a loyal core of influential political staff.

The readiness of Syriza to embrace managerialism may to a considerable extent be attributed to the fact that no other mode of governance appeared possible. Post-left managerialism is a political stage referring to a mode of governance where left-wing political parties are entrusted with the managerial and mediating tasks of running the economy and the state in the context of austerity. Post-left managerialism emphasises continuity in economic policies regardless of the governing party's political and ideological affiliation. Syriza has left in place all measures introduced during the previous years of adjustment and has fully incorporated the "Brussels consensus" about adopting restrictive fiscal policies. In this framework, it has been called upon to conduct similar, and even harsher, structural reforms legitimating the crisis policies and accepting *ex post* responsibility for decisions initiated by the EU supranational technobureaucracy. Abandoning any active attempt to reshape redistributive politics in this context of economic downturn, Syriza's remote and insulated politicians have become the managers of the economics of public debt by enforcing governmental techniques based on globally adopted market-oriented criteria.

With emphasis on "steering" rather than "rowing" (Osborne and Gaebler, 1993), this change in governance is based on a partial, technocratic approach to policy, focusing on the operation of one policy at a time (Bevir, 2010). The style of governance and the policy agenda according to which fiscal prudence and consolidation are the norms of policymaking reflect a "post-neoliberal rationality", referring to the limited capacity of the state to enforce political solutions (Bevir, 2010), thus eradicating the social role of ideology.

The institutionalisation of competitive pressures on the state's fiscal policy deprives it of the capacity to exercise discretionary policies imposing the exemplarity and routinisation of austerity policies as a state of exception (Agamben, 1998). In 1988, Paul Ricoeur analysed the concept of crisis as a "global concept" arguing that the desocialisation of the economy will transform it in a permanent structure of the *conditio Humana*. The election of Syriza in January 2015 constituted a turning point as far

13. Post-politics refers to the analysis of the foundations of society since the 1990s based on the Schumpeterian critique of market individualist forms of governance-beyond-the-state that combines the politics of consensus, public managerialism and supranational technocracy (Chatzistavrou and Michalaki, 2015).

14. The term "Bonapartism" is used in its broadest sense to mean a centralised and rather authoritarian executive relying on the regular consultation of the people through plebiscites, and thus based on the fusion of elites and popular support.

as concerns the process of “crisis acculturation”,¹⁵ mirroring not its potential reversibility, but, on the contrary, its systemic ineluctability.

Conclusion: The Syriza experiment or how to give up breaking with the EU’s austeritarian status quo

From the left revisionism of KKE Interior, the “bourgeois” socialism of Synaspismos and the grassroots activism of Syriza, the path to where Syriza stands today is not too long. No doubt, between its two tendencies, the left-radical and the reformist, the second one featuring the credo of political modernisation of social democratic parties, has until now prevailed over the first during its governance. Its political credo now relies on a mixture of Keynesianism (mixed economy, welfare state, role of the public sector) and neoliberalism (balanced budgets, sound entrepreneurship, “continuity” of the state, privatisations).

Syriza’s political mutation has had significant implications for the European left. Europe’s left-wing parties aspiring to power face historically unprecedented challenges. They aspire to govern with the willingness to oppose the “grand coalition” of centre-left and centre-right parties, to contain the rise of the extreme right in Europe and to favour agreements with “progressive forces” on the left of the political spectrum while assuring their electorates that they will not repeat the mistakes of Syriza in Greece. The failure of Syriza to impose changes on the EU’s responses to the Greek crisis encourages left-wing parties to become more moderate, opting for coalitions with systemic political parties and/or renouncing government in order to clean up the system, marginalise the traditional clientelist parties and support radical programmes that break with austerity.

Syriza’s experiment negatively affects the efforts of European Left to recompose itself, giving the opportunity to other parties to recover the social democratic discourse or allowing the stunning political revival of decaying traditional parties. Furthermore, Syriza’s political capitulation and even, more generally, European Left’s overall weakness in crisis response feeds the phenomenon of the “extreme moderates” political parties located at the centre of the political spectrum. In fact, this phenomenon indirectly proves the hidden connivance between the centre-right and the centre-left in European politics. These “extreme moderates” political parties are positioned as “pragmatic”, “un-dogmatic”, and “free of ideology”, while they accept the basic values of capitalism, push for the elimination of welfare policies and think that social problems should be rectified by piecemeal reforms and regulatory policies (Parenti, 2007).

The current trend toward the proletarianisation of European societies shows that the current tools of political struggle and governance are inadequate for meeting global economic and social challenges. The political psychodrama of Syriza may at least facilitate our understanding of why and how neoliberal politics entail the erosion of political consciousness and resistance. Obviously, political experiments are not designed to verify the hypothesis on the basis of which they operate and that’s why they have the potential to cause harm and, even more, to defeat the idea they were supposed to confirm.

15. This is a process of adopting the crisis as a pattern of thinking and behaviour.

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Thanos Dokos

*Director General, Hellenic Foundation for European
and Foreign Policy (ELIAMEP)*

thanos.eliamep@gmail.com

The key argument of this paper is that Greece's crisis (and Europe's) has been mainly – *but certainly not exclusively* – economic in nature, but that its geopolitical dimensions should not have been underestimated, as was the case inside the EU. Had Greece being forced to leave the eurozone (it may still be forced to in the future, though the risk is much lower today it is still on the radar screen), the economic and political impact for the euro and the EU would have been, according to many experts, substantial. In addition, it will be argued, there would have been severe repercussions for regional stability in southeastern Europe and the eastern Mediterranean, as well as the ability of the EU and NATO to play meaningful roles in those regions.

It can also be argued that almost completely ignoring the geopolitical consequences of the Greek and Cypriot crises has been yet another symptom of the European foreign policy malaise and that Europe's management of the Ukraine crisis also revealed some fundamental weaknesses and a certain lack of geopolitical reflexes. Europe faces the risk of sliding into strategic insignificance, losing much of its global role and influence as it is becoming more and more introverted as a result of its own economic and political crisis, as well as because of the lack of leadership and the inefficient decision-making system.

The greek crisis and Greece's geopolitical importance for the EU

In the maelstrom of the European economic crisis, the geopolitical consequences of Greece's weakening and (at least theoretically) possible collapse have been largely ignored by decision-makers and analysts. The Greek economic, political and social crisis was caused by incompetent and/or corrupt political leadership, lack of fiscal frugality and the low productivity and competitiveness of its economy in combination with insufficient reforms and limited success of modernisation efforts, as well as a consumerist mentality of significant segments of its population. Of course, the situation deteriorated significantly also because of extremely poor management of the crisis at European Union level, which failed to convince the international

markets that it was capable of solving the problem. Furthermore, the imposed austerity programmes designed by “apprentice sorcerers” that proved to be either ideologically inflexible or simply too stubborn to recognise their initial miscalculations, led to a deeper recession that pushed Greece closer to the edge of the abyss, with potentially extremely negative consequences for the rest of the eurozone. Limited experience in saving a member state of the eurozone may be part of the explanation; on the other hand, the inability to bail out a country of Greece’s economic size is not very flattering for the world’s largest economic area. Indeed, “it takes two to tango”, but a minimal knowledge of the steps and a degree of synchronisation between the partners is essential. In the management of the eurozone crisis, the rules of the game were not very clear, and neither was the synchronisation of the players anywhere near the required level. The Greek crisis will probably be taught at academic institutions as a case study of extremely amateurish crisis management by both Greek and European authorities.

In this context, no effort is being made in this paper to absolve Greece of its substantial responsibility. The question, however, is increasingly being asked in various circles of whether the policy of “punishment” and of “making an example” of Greece is a wise choice for the EU. Indeed, it can be argued quite convincingly that this approach is proving to be counter-productive for the EU as a whole, and for its individual members, including Germany, as it has contributed to the weakening of other eurozone members, such as Portugal, Spain and Italy, and has fuelled scenarios about the collapse of the eurozone itself. Furthermore, such one-dimensional austerity programmes and “country demonisation” approaches ignore the wider issue of the eurozone’s structural and institutional weaknesses, which lie at the core of this crisis.

Given the extremely unstable and fluid situation on Europe’s periphery, including the Arab uprisings, the tension with Iran, the uncertainties regarding EU-Turkish relations and the direction of Russian foreign policy in the new Putin era, can Europe afford the creation of a security vacuum and a “black hole” in this critical region? Even if the EU could live with Greece’s economic collapse (although even that hypothesis is challenged by experts, not because of the size of the Greek economy but due to the highly symbolic, but very tangible damage to the eurozone’s credibility and the possibility of contagion), one should ask whether a country with Greece’s geopolitical location and its “privileged relationship” with countries such as Russia, Israel, much of the Arab world, and even Iran, would constitute an acceptable loss for an EU with any ambitions to play a meaningful global and regional role.¹

Allowing Greece to become a weak or even a semi-failed state would have an impact well beyond its immediate borders. Under current circumstances, Greece could be defined as a pivotal state.² On the other hand, Greece is – or has the potential to become once more – quite a useful player in a number of foreign and security policy areas, including the management of migration/refugee flows, EU relations with Turkey, the Cyprus problem, EU enlargement in the western Balkans, EU and NATO policies in the eastern Mediterranean, and European energy security. On all these issues, the ability of Greece to make a positive contribution should no longer be taken for granted. It might be useful at this point to look briefly at the basic premises and priorities as well as the impact of the crisis on Greek foreign policy.

1. For a more detailed discussion, see Thanos Dokos, “Who Lost Greece: the Geopolitical Consequences of the Greek Crisis”, *ELIAMEP Policy Papers*, no. 18, February 2012 (<http://www.eliamep.gr/wp-content/uploads/2012/02/dokos.pdf>).

2. A pivotal state is defined as a state whose fate is critical for regional and international stability, which is geostrategically important for the US and its allies, that has an uncertain future, and that has the potential to have a significant beneficial or harmful effect on its region (Robert Chase, Emily Hill, Paul Kennedy [eds], *The Pivotal States*, W.W. Norton & Company, New York, 1999, pp. 6-7).

Even before the current crisis, Greece has consistently punched below its weight on most foreign and security policy issues, allowing itself to lose some of its regional role in southeastern Europe and letting its active role inside the European Union atrophy. An inward-looking and passive foreign policy mentality has led to very few foreign policy initiatives and no exploitation of opportunities for multilateral initiatives or the establishment of tactical and strategic alliances. Concerns about economic survival overshadowed the importance of foreign policy issues during the past five years. Now Greek foreign policy needs to readjust to a changing regional and global security and economic environment and make a contribution to the national effort to rebuild the economy, and it has to achieve that goal with limited resources and under time pressure.

A preliminary assessment of the impact of the crisis on Greek foreign policy would conclude that the country's image, prestige and credibility have been dealt a serious blow and its influence both inside the EU but also in its neighbourhood has been negatively affected. The economic means available for conducting foreign policy have been substantially curtailed. The decision has been taken to significantly reduce defence expenditure and, in this context, Greece's participation in international peacekeeping and other operations (ISAF/Afghanistan, KFOR/Kosovo, Active Endeavour and Operation Ocean Shield (the naval operation to combat piracy in the Red Sea) has already been trimmed down. However, Greek facilities are still being offered for use in NATO (and US) operations in the eastern Mediterranean, although the benefits of Greek membership are suboptimal for both the country and the alliance. Perhaps the only positive foreign policy development in the last few years has been the cultivation of strategic ties with Israel and the realistic prospects of a more visible footprint for Greece on the regional energy map.

Greece's – temporarily – limited foreign policy capabilities and regional role should not be confused with the country's geostrategic value. On the contrary, it can be argued that Greece remains important to the West's (and especially Europe's) geopolitical interests for four main reasons:

Stability in the western Balkans

Either as a party to a dispute, or as balancing actor between Albanian and Slavic populations in the western Balkans, Greece can still play an important stabilising role in the region. Key issues include Greece's dispute with the FYROM about the issue of its name, the recognition of Kosovo and the future role of the so-called Albanian factor in southeastern Europe. Because of its "special" – but also often complicated – relations with several candidate countries, including Serbia, Albania and FYROM (and to some extent Kosovo), Greece can also be instrumental in facilitating EU enlargement in the western Balkans. Greece's long history of bilateral political and economic relations with those countries, its familiarity with their way of thinking and its own experience of the challenges and difficulties of integration into the EU could significantly facilitate negotiation and integration processes for the countries of the western Balkans.

As mentioned in another part of the paper, the refugee/migration issue is becoming a central concern for a number of Balkan countries because of the key role played by the “western Balkan corridor” most refugees/migrants use to reach their intended final destinations in central and western Europe. The closing of the borders would cause considerable tensions between those countries (with Greece in the most disadvantageous position) and cooperation would be necessary for the successful management of the problem. Radicalisation problems and the return of jihadist fighters in countries like Bosnia-Herzegovina, Kosovo and Albania and the threat of terrorism in the region is another challenge for the EU and Greece could and should spearhead an effort for the coordination of law enforcement and intelligence agencies in the Balkans.

European energy security

The question of European energy security has brought attention to the strategic significance of southeastern Europe and the eastern Mediterranean as a transport hub for natural gas and a key region for that security. To meet increasing natural gas demand and reduce high levels of energy dependency on Russia, European authorities need to promote the implementation of projects contributing to the diversification of natural gas supply. In this context, the Southern Gas Corridor can play an important role. As the Trans-Adriatic Pipeline (TAP) – which will be crossing Greece and Albania on its way to Italy – was selected for the transportation of natural gas from Azerbaijan, it will provide a boost for Greece’s economy and regional role, as well as for regional cooperation in the Balkans (through vertical interconnectors) and European energy security.

In addition, Greece should be expected to try to enlarge its footprint on the energy map through the exploitation of potential hydrocarbon deposits in various parts of the country, notably western Greece and the maritime areas south of Crete, as well as increasing participation in energy cooperation schemes in the eastern Mediterranean involving Cyprus and Israel. The East Med Gas Corridor, involving Greece, Cyprus, Israel and, perhaps, Lebanon, is another interesting idea if additional deposits are discovered. Even Turkey could be included in the future, if it were to adopt a more constructive approach to the Cyprus problem. Although current discoveries (even if Egypt’s Zohr field is included) would not constitute a game changer, they could certainly make a welcome contribution to Europe’s energy security at a time when the EU is trying to diversify its energy suppliers (especially those of natural gas).

c) The eastern Mediterranean conundrum

The eastern Mediterranean and its adjoining regions remain an extremely turbulent and unstable neighbourhood. In addition to the brutal civil war in Syria with potentially destructive consequences for the whole region, there is considerable uncertainty about future developments regarding, among others, the emergence of Daesh (ISIS), the conflicts in Syria, Iraq, Libya and Yemen, the political situation in Egypt, the Palestinian problem, the regional implications of a change in the relationship between Iran and the West, the Cyprus problem, Turkey’s often unpredictable foreign

policy and the discovery of potentially substantial hydrocarbon deposits in the eastern Mediterranean.

Successive Greek governments have also invested in building a strategic relationship with Israel, motivated by Athens' urgent need to reacquire a role in its southern neighbourhood, boost Greece's strategic value and seek a range of potential benefits (bilateral cooperation in the energy, economic, defence/security and tourism sectors, as well as support from the Jewish lobby, which is perceived as fairly influential not only in the US Congress but also on Wall Street). At the same time, Greece has maintained its very good relations with the Palestinians and could offer its services in the context of future Palestinian-Israeli peace negotiations.

The understandable reluctance of the US and EU to participate in a military intervention in Syria and the more general trend for an increased US presence ("pivot") in the Asia-Pacific region make the need for active regional partners and allies in the eastern Mediterranean even more crucial. In view of the inherent limitations of Turkish-Israeli rapprochement (also as a result of Turkey's own regional ambitions), the US needs additional partners that would also be interlocutors acceptable to the parties involved in various regional conflicts. In addition to its geostrategic location and the facilities offered (especially Souda Bay, arguably the most important – and reliable – Allied military facility in the eastern Mediterranean), Greece, a traditional US ally, has what could be described as a privileged relationship (to varying degrees) with Israel, the Arab world, Iran and, as already mentioned, Russia and China, and could play, under specific circumstances, the role of a complementary bridge, in addition to being a reliable regional partner for the West. In this context, triangular cooperation schemes in the security, energy and economic sectors between Greece, Cyprus and Israel, and Greece, Cyprus and Egypt may be helpful in boosting sub-regional cooperation in the eastern Mediterranean and bringing those countries closer to the EU. But, of course, all this presupposes that Greece would be willing and able to successfully implement a more active and effective foreign policy.

The issue of refugee and migration flows

Already touched upon in the Balkan context, this will be discussed in greater detail below.

Relations between Greece and Russia in the context of the Greek crisis

The Syriza government, like its predecessors, appeared intent on trying to improve bilateral relations with Russia. Its contacts with Moscow have been a source of concern in some European capitals and in Washington, but have also provoked lively public debate in Athens. Had relations between Russia and the EU not deteriorated so much over the two years, the prime minister Alexis Tsipras' trip to Moscow in early April 2015 would have been a mere footnote to EU developments.

It should be mentioned that the Tsipras government was (and largely still is) strongly ideological, inexperienced and lacks a sound understanding of

how the EU functions. Frustration was strong as a result of several years of austerity that failed to lead the country back to the road of economic growth. At some point there was a public debate about the possibility of a shift in Greece's geostrategic orientation towards Russia and although few people meant it seriously, there was an effort to use the threat of such a geostrategic repositioning to put pressure on Greece's partners to get a more balanced agreement.

The effort was poorly planned, insufficiently credible and ultimately unsuccessful. It quickly became clear that such an improvement in relations with Russia (or China) could not and would not take place at the expense of Greece's other commitments vis-à-vis its Western partners and allies. Speculation that Russia might become an alternative source of funding proved groundless as Russia was both unwilling and incapable of providing financial assistance on the necessary scale. Nor should the idea of Greece's participation in the BRICS bank be taken seriously. As long as Greece remains a full member of European and transatlantic institutions, the likelihood of Greece falling into Russia's orbit, or any other fundamental shift in its strategic orientation is nil, despite Greece's widespread (justified or not) feelings of bitterness.

It was also rather unlikely from the very beginning that Athens alone would break the common European front on Russia, although it joined other like-minded countries such as Germany, Italy and France in opposing additional sanctions. Greece believes that though Russia may be a difficult neighbour for Europe, it is nevertheless an essential element of the European security architecture. Athens perceives sanctions as having a high cost for several European countries, Greece included, and as being ineffective in bringing about a change in Russian policies. Unless Russia escalates the situation in Ukraine, Greece and several other EU member states will continue to be opposed to additional sanctions. The Greek position is that it is of vital importance that Europe should avoid unnecessary confrontation and rivalry with Russia as that could well consume a significant amount of the EU's very finite foreign policy and security resources. Athens sees a combined policy of deterrence and engagement, with much emphasis on the latter, as the central element of EU policy towards Moscow.

Despite an obvious degree of hyperbole regarding Greece's relationship with Russia, it would have been difficult for any Greek government to ignore the historical ties, and most importantly, the contemporary links between the two countries. Russia supplies 57% of Greece's natural gas, is an important trade partner and potential investor and provides political support to Cyprus in the UN Security Council. Ukraine is also significant partner, and there is a Greek minority in the country. A diplomatic solution to the Ukraine crisis remains a Greek priority, and there is a remote but unavoidable similarity between the situation in Crimea and the Turkish occupation of northern Cyprus.

Energy is a field of potential cooperation between Athens and Moscow. Greece is not, in principle, opposed to the idea of the Russian-proposed "Turkish-Greek Stream", which will replace existing pipelines through Ukraine to bring Russian gas to central Europe via Greece and the Balkans. Theoretically, such a pipeline would have a neutral impact on European energy security and obvious economic and political benefits for

Greece. There are, however, serious obstacles, such as the legal dispute between the European Commission and Gazprom and, more importantly, the current state of EU-Russia relations.

Lastly, the hope in Athens has been that a balanced development of Greek-Russian relations might allow Greece to become a complementary “bridge” between the West and Russia, contributing quietly to the normalisation of relations and the development of a functional strategic and security partnership between Europe and Russia. With the passage of time, the Syriza government is becoming more pragmatic, especially regarding its foreign policy. Russia is still part of the foreign policy picture but no longer at the centre of it. Interestingly, Greece has lately been playing the American card and although the effort started with earlier governments, the emphasis and priority given to the US by the current Greek government is not something one would have expected from Syriza.

The refugee/migration crisis and the growing lack of trust in European processes and institutions

The management of migration and refugee flows from the Middle East, Asia and Africa remains an issue with important external and internal dimensions for several EU countries. However much one tries to desecuritize the migration question, relations between Europe and the Middle East or the West and Islam will also affect domestic stability in European countries with a substantial Muslim community. Greece is located at the EU's most sensitive external border (in fact, playing the role of a “buffer country” or “first line of defence” for Europe) in the context of immigration. A substantial percentage of illegal immigrants entering the EU area each year do so through Greece and were, until recently, forced to remain there, according to the provisions of the clearly outdated Dublin II Agreement. Greece has been trying to deal with the problem through a package of measures including a more efficient asylum mechanism, more reception and detention facilities, employment of FRONTEX assets in the Aegean and its land border with Turkey, as well as the construction of a security fence in a 12.5km-long section of that border. EU support for securing the cooperation of Turkey, as well as the main countries of origin to increase the numbers of migrants repatriated would be instrumental for the management of migration flows.

Although as yet there is no concrete proof of any links between refugee/migration flows and jihadist terrorism (even after the terrorists attacks in Paris in November 2015, as the majority of attackers were not refugees/immigrants but “homegrown terrorists”), the radicalisation of societies in the Muslim world and similar developments in Muslim communities residing in European countries may constitute reasons for future concern. Additionally, the fact that 55 out of 58 attackers in Cologne were not refugees but immigrants living in Germany for some time illustrates the limited success of integration policies.

The evolving refugee/migration crisis is another example of the growing lack of trust in European institutions and processes on the Greek side. In this case, Greece is not too far from adopting a siege mentality. Chancellor Merkel's decision to open Germany's doors to refugees was commendable but extremely hard to implement because of the sheer

numbers involved. In combination with the terrorists attacks in Paris in November 2015 and with pre-existing sentiments of islamophobia in European societies reinforced by the Cologne sexual attacks, this policy gradually began to cause strongly negative reactions to Europe's response to the migration crisis. Disagreements were especially pronounced in some of the eastern European countries who challenged the decisions of the European Council to bring in burden-sharing in the reallocation of refugees arriving in Italy and Greece. Leaders in some of those countries conveniently forgot that western Europe did not close its borders in 1956 or 1968.

Because of negative reactions inside Germany, even from Mrs Merkel's own party, and in some of the key countries of choice for the refugees, the mood inside the EU in the past few weeks has shifted from trying to find a European solution to the problem to one of seeking a scapegoat. The convenient target under the circumstances has been Greece, the country where the great majority of refugees/migrants has been arriving. After a number of countries closed their borders, a few days ago the European Commission sent a warning to Greece to address a number of problems in its refugee registration system or face the risk of temporary (?) exclusion from the Schengen Agreement.

There is no doubt that there have been delays and omissions on the Greek side, caused by the large number of arrivals, the lack of sufficient personnel and equipment, as well as the economic crisis and the weakness of Greek public administration. But there is also a significant lack of trust on the side of Greece due to the fact that despite a pledge to relocate 160,000 refugees in other EU countries only a few hundred have actually been transferred, which is a major source of concern.

Furthermore, it can be rather convincingly argued that it wasn't Greek policies that caused the conflicts in Syria, Libya or a number of other regional hotspots. Instead, in many cases the policy choices of a number of countries, including some EU member states, contributed to the deterioration of the security situation and led to an increase in the flow of refugees from those countries. Nor does Greece have a colonial past and related grievances against it. But the blame game leads nowhere. The priority should be to dissipate dangerous myths and present realistic policy recommendations for resolving problems.

Greece argues that European policies should be based on the following assumptions: (a) the preservation of Schengen, without unjustifiably and unfairly sacrificing any of its members, is very important; (b) we need to deal with jihadist terrorism and radicalisation in our societies; and (c) Europe has a moral duty to offer asylum to a substantial number of refugees. Unlimited access, however, is not an option, as the EU's absorption capacity is finite.

Greece should fulfil its commitments regarding hotspots and the full registration of all incoming refugees and migrants – with the provision of European economic support as well as manpower and equipment. At the same time, it should be crystal clear to all that maritime borders cannot be fully protected without cooperation from neighbours or without the use of force. "Push back" policies applied to small rubber boats filled well beyond capacity will only result in substantially

increasing the number of people – mostly women and children – drowning in the Aegean. Such policies would be both inhumane and illegal under international law. Greece cannot become a prison for several hundred thousands of irregular migrants, as recently suggested by a senior official from a founding member of the EU. The political, economic, security and, last but not least, human and moral costs involved would be enormous.

The challenges and the possible “tools” for Greek foreign policy

Greece’s economic survival has for more than six years overshadowed its foreign policy interests. Public debate is still haunted by the remote but not fictional prospect of a “Grexit”, in the context of either the economic or the refugee/migration crisis. But, on paper at least, Greek foreign policy appears much more ambitious. Greek foreign policy makers will function for the foreseeable future under the sword of Damocles of the country’s economic crisis, which is imposing a number of constraints and limitations.

As key organisations such as the EU and NATO are changing in an effort to adapt to new global and regional trends, Greece needs to find its own niche in the distribution of regional roles and influence and convince its partners and allies of its own added value in managing common security challenges. A difficult task indeed for a country with limited resources, but the alternative is strategic irrelevance and inability to protect its vital national interests. Out of necessity, the key concept for Greek foreign and security policy in the foreseeable future will be the smart use of its resources with a focus on becoming more active inside the EU and NATO, enlarging its footprint on the energy map, strengthening relations with emerging non-Western powers, enhancing regional partnerships, and regaining its role and influence in southeastern Europe and the eastern Mediterranean.

The best option – as it could have a multiplier effect – would be Greece’s active participation in shaping the new EU and transatlantic regional policies, without, however, ignoring the need for national initiatives and the further multilateralisation of Greece’s foreign policy. Furthermore, to facilitate the achievement of those priority tasks, a number of structural reforms of the Ministry of Foreign Affairs and the wider foreign policy mechanism will be necessary (with a greater emphasis on economic/energy diplomacy); in addition, a number of important changes in the sphere of national security policy (security sector reform and “smart defence” to maintain its deterrent capability at lower levels of defence expenditures) will be required.

Greece and the EU today: some concluding remarks

In the maelstrom of the European economic crisis, the geopolitical consequences of Greece’s weakening and – at least theoretical – possible collapse have been largely ignored for too long by analysts and decision-makers both at the EU level and in various European capitals. But it was also, quite interestingly, in Greece itself, where the issue

was not raised at the early stages of the crisis and Greek governments failed to convey the message to their European counterparts.

The contagion effect of the Greek crisis for other southern European economies which was quite high at the peak of the Greek crisis was one of the factors that prevented a Grexit. The contagion effect has now been significantly reduced – although not yet eliminated. However, Europe has to manage another major crisis, as the Schengen Agreement – one of Europe’s most tangible and widely recognisable achievements – is now faced with considerable, even existential, challenges. The limited enthusiasm of most EU states, with the notable exceptions of Germany and Sweden (although the former already finds itself under tremendous pressure because of the large numbers of asylum seekers), to undertake any meaningful commitments in the context of a burden-sharing agreement promoted by the European Commission, is once more testing the concept of a border-free Europe, the limits of European solidarity and the idea of common European policies.

In conclusion, the European Union is currently being faced with substantial internal and external challenges at a time of rapid and profound global changes. If it wishes to remain an important regional and global actor, it urgently needs to realistically define its strategic ambitions and reform some of the relevant institutions along the lines described above. It also needs to acquire a critical mass of decision-makers with crisis management experience and long-term strategic vision.

Europe faces the risk of sliding into strategic insignificance, losing its global role and influence as it becomes more and more introverted as a result of its own economic and political crisis, its lack of leadership and inefficient decision-making system. Almost completely ignoring the geopolitical consequences of the Greek, but also the Cypriot, crises has been yet another symptom of the European foreign policy malaise. It can be argued that Europe’s management of the Ukraine crisis also revealed some fundamental weaknesses and a certain lack of geopolitical reflexes. When dealing at EU level with various crises with an obvious geopolitical dimension, a change of mentality is needed from accounting and “bean-counting” to a more comprehensive and multi-dimensional approach (it should also be mentioned that the economic and social dimensions may also be ignored or underestimated in other cases with a strong geopolitical dimension).

Regarding its policies vis-à-vis Greece, the EU should be looking for a highly pragmatic policy which would be reasonably effective in achieving Europe’s geopolitical and geo-economic objectives and promoting its interests. What is needed is a policy that goes beyond “bean-counting” and tackles the Greek problem in the context of the EU’s regional and global role, not merely its economic policies (however important these may be). In this context, a “new Greece” could certainly be a useful partner for the EU, but also for the US and NATO, in regions of critical importance for European and transatlantic security and interests. Of course, Greece’s political leadership should step up to the challenge and take advantage of opportunities through a foreign policy whose key features will be credibility and reliability at the strategic level and flexibility at the tactical level. It should be noted, however, that a European failure to agree on common policies on the refugee/migration

crisis risks causing a humanitarian crisis in Greece, a new wave of isolationism in that country, and substantial damage to the idea of common European policies.

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Effie G. H. Pedaliu

Visiting Fellow, LSE IDEAS
effie.pedaliu@gmail.com

Introduction

The worldwide economic crisis that began in 2007 gripped Greece hard in late 2009 and nullified the economic gains the country had supposedly achieved since 1981 when it became a full member the EEC. Once taxes and inflation are deducted, the income of most Greeks has now fallen to pre-EEC entry levels. Seven long, gruelling years of a vicious circle of debt, austerity, recession and the pauperisation of significant layers of Greek society have reactivated deep-seated cultural, socioeconomic and political fault-lines that had been submerged under layers of quasi-“Europeanisation” and false prosperity since the entry of the country into the EEC.

In addition to its internal ramifications, Greece’s economic woes also have international and European dimensions. A protracted crisis of this kind inevitably excites some sympathy for the plight of Greeks, but it also encourages scrutiny of eurozone (EZ) mechanisms and sustainability. In addition, it promotes critical assessments of how the EZ has chosen to handle the issue. By extension, the EZ crisis has offered opportunities for reflecting on the fortunes of the EU but has also provided its critics with a quiver full of poisoned arrows with which to attack it during a period of acute vulnerability.

Greece is a country that has borne the brandishing scars of “foreign debt”, “creditors”, “defaults”, “troikas” and “adjustment programmes” since before it even officially achieved statehood. Indeed, Greek identity is partially based on these experiences and memories of past slights loom large and cast long shadows over how Greeks perceive the world and what their expectations are of their allies. Looking back at past experiences can be particularly useful in promoting a clearer understanding of why, after six years of crisis, Syriza, previously a miniscule protest party, emerged as the senior partner in the current governing coalition in Greece, and also why the face-off between Syriza and the EZ occurred and with what consequences.

This report will argue that the roots of the economic crisis in Greece can be traced to the inability of the Greek state to build a sustainable economy

since its establishment, but that the current crisis is the result of the political choices of successive Greek governments which have manifested both unwillingness and inertia in undertaking the necessary reforms to rectify the distortions the Greek economy has accumulated over two centuries and, in particular, after it became a member of the EEC. It will also highlight the fact that the EEC/EU and the EZ also share responsibility for exacerbating the sovereign debt crisis Greece faced in 2009 because of chronic EEC/EU and EZ institutional deficits and programme design faults as well as indecision that plunged Greece into a seemingly unstoppable downward vortex. It will also look at how the crisis has enabled the EZ to embark on further institution building and to overcome some of its shortcomings, albeit too late to assist Greece in a meaningful way.

Greece and the world

Martin Heidegger pointed out that: “spaces receive their being from locations and not from ‘space’” (Heidegger, 1975). The relevance of this statement to Greece was elucidated even further by Robert Kaplan when he stated that “Greece is where the West both begins and ends”. Both comments simply underscore the importance of Greece as a cultural, socioeconomic, political and religious border *par excellence* (Kaplan, 2012). The country is located where cleavages that cause international instability intersect – from the North-South divide to zones of conflict encountering zones of peace. The development of Greece’s political physiognomy and orientation has been defined not only by tradition, culture and ideology, but, primarily, by the fact that its geographical location was significant to the strategic calculations of stronger powers.

Greek independence from the Ottoman Empire and Greek statehood in the early 19th century were secured only when this development served the interests of the great powers of the time as the treaties of London (1827) and Adrianopole (1829) show. Ever since, modern Greece has had to cope with certain realities: economic weakness and lack of economic opportunity; political instability and venality; and a location on the map that attracts frequent foreign intervention. Foreign patronage has secured it enviable levels of membership of international fora and organisations. At different times in its history Greece has been, geopolitically, a constituent part of the Near East, Western Europe, Southern Europe, the Balkans and the Eastern Mediterranean. These identities were imposed mainly from abroad and they were not always compatible, leading Greek politicians to develop distorted images of both themselves and the country’s place in the world. Over the years these factors have combined to endow the Greek state with the following ambiguous qualities that have compromised even its most reform-minded leaders:

1. A propensity towards statism and a reliance on foreign borrowing to underpin consumption as the main driver of Greek economic activity, namely, what Tsoukalas has described as an economic model of “growth without development” (Tsoukalas, 1993);
2. A political system underpinned by clientelism and populism that tends to fracture under pressure and is unable to seek compromise and reach consensus on difficult decisions of national importance;

3. An acute reliance on its allies along with a perpetual sense of insecurity accentuated by the deep-seated fear that its allies are not trustworthy – which has led over the years to high military spending and overspending;
4. An infantilised and partly cynical electorate that has developed a profound contempt for politicians and that tends to use the ballot paper to access the domestic clientelistic system rather than to endorse good governance;
5. An almost fatalistic expectation by Greek politicians for externally prescribed, preferably imposed, *deus ex machina* solutions;
6. An impression among Greek voters, fostered over time, that the “foreign factor” can be blamed for everything and, at the same time, that it must provide everything, which has enabled the Greek political system to shirk its responsibilities.

A prehistory of the Greek debt

The Hellenic State went bankrupt in 1826 even before it was officially established. When the revolution against the Ottoman Empire became imperilled by lack of funds and civil war, Greece obtained loans in 1824 and 1825 that were embezzled by speculators in London even before they reached Greece, necessitating yet more loans. If the default of 1826 can be seen as a harbinger of Greece’s future economic problems, then Greece’s two civil wars in 1823-1824 and again in 1824-1825 can be seen as heralds of a Greek political system prone to division and polarisation. The omens for the new state were not auspicious.

Economic impecuniousness, a lack of resources and opportunity combined with internal dissent set the country on a course for three more defaults in the 19th century, in 1843, 1860 and 1893. The defaults were protracted and required external bailouts, harsh adjustment programmes and a blank refusal on the part of the lenders to accept “haircuts” only for them to relent later on, but only after the Greeks had been condemned to years of pennilessness (Reinhart and Trebesch, 1829-2015).

In between hardships, the Greek state was able to develop, experiment with different models of governance and take advantage of world politics to fight some ruinous and yet, at other times, successful irredentist wars. After the end of WWI, the spoils of victory for Greece and its hopes from the Treaty of Sèvres proved to be bitter as they led to the Asia Minor Catastrophe of 1922. The collective trauma of this national disaster had a long-lasting effect on Greek identity and on the Greek economy and politics. In addition, the “death” of the “Great Idea” led Greeks to conclude that no ally could be trusted. In 1932, the Great Depression coupled with the financial implications of hosting and resettling over a million Greek refugees from Asia Minor who had fled genocide from the “Young Turks” proved too much for a poor and politically divided state and the country defaulted once more. Rogoff and Reinhart have described the grim reality of Greek economic history prior to the onset of the cold war with laconic simplicity and accuracy: “the Greek state found itself in continuous default” (Reinhart and Rogoff, 2009).

The Greek political system was typified by fragmentation and brittleness. The institutions of Western systems of governance were adopted half-heartedly and through flawed legislation. The state became

dysfunctional and lacked legitimacy among sections of Greek society. It developed in a statist manner with an over-bureaucratic and overstaffed public administration that used nepotistic and clientelistic criteria for employment. It was dependant on emigration and remittances from abroad to make ends meet. It fell prey to military interventions in the political affairs of the country and it reflected the deep divisions between those who espoused a “traditionalist” approach to Greece’s problems and those who aspired to pull Greece out of its “pre-modern” condition and make it a meritocratic, well-governed state. In this way, it stumbled on until 1936 when the “4th August” dictatorship sought to “regenerate” the Greek economy through repression. Those Ioannis Metaxas most admired – Mussolini and Hitler – would rudely interrupt the dictator’s efforts when the Axis attacked Greece.

From bust to boom and back again

In October 1944, Greece emerged devastated from the systematic socioeconomic destruction of the country by Nazi Germany through occupation, illegal war loans, induced famine and arbitrary executions, only to renew the civil war that had been rumbling on since 1943. The civil war ended in 1949, leaving the country shattered. The emergence of the cold war ushered in the active involvement of the United States in Greek affairs. The Truman Doctrine and the Marshall Plan lifted a traumatised country overnight from a Levantine or Near East state into a state belonging to the West. The country’s security was guaranteed by its membership of NATO only three years after the end of its civil war.

American tutelage paved the way for the post-war Greek economic miracle which saw gross domestic product (GDP) growth of 8% for the 1960-65 period and 7.2% for 1965-70, which surpassed the performance of the other European economic miracles of the *Trente Glorieuses*.¹ There was also an increase in living standards, expansion of the middle class and the creation of a consumer society followed. The annual per capita income of Greece stood at \$1,950 in 1950 and within a decade it had risen to \$3,146.²

However, the impressive period of economic growth just disguised some of the perennial problems of the Greek economy. The Greek state and Greek capital re-established their symbiotic relationships; industrialisation remained weak and focused on light industry, small to medium-size companies, real estate and the financial sector. The economic model that emerged was domestic-consumer orientated and failed to develop sustainable export-driven activity. Furthermore, it was based on external borrowing because domestic capital was always prone to flights outwards seeking safer havens. From 1960 onwards the country’s balance of payments (BoP) remained in negative territory, industrial growth declined, labour costs rose and agricultural production fell.

The “economic miracle” was shadowed by a discriminatory political system. The Greek post-civil war state evinced a parliamentary mode of governance but the trauma of that recent civil war meant that it was neither fully democratic nor inclusive. From 1949 until the early 1960s, a large number of its citizens – not all of them communists –

1. <https://www.imf.org/external/pubs/ft/scr/2006/cr0605.pdf>

2. <http://www.indexmundi.com/facts/greece/gdp-per-capita>

were treated as “second class” citizens and barred from, among many other things, access to state employment, higher education and even acquiring passports. Attempts in the early 1960s to ameliorate these civil distortions were abruptly interrupted by the dictatorship that began on April 21st 1967 (Hatzivassiliou, 2006).

The junta’s economic policies were based on creating a loyal bourgeoisie and buying the acquiescence of Greeks through the approval of questionable loans and unsound financial projects. The junta exacerbated existing financial and economic problems. This unbalanced and overprotected economy had to withstand the combined shocks of the end of the Bretton Woods system in 1971 and the effects of the oil crises of 1973. In the meantime, the regime embarked on the abuse of Greek people’s human rights and civil liberties, which prompted the freezing of “the Athens Agreement” by the EEC, the withdrawal of Greece from the Council of Europe and an international outcry and campaigns against it. The dictators responded by cutting off Greece from Western influences.

The dictatorship collapsed in 1974 because of the Turkish invasion of Cyprus rather than through the concerted actions of the Greeks, who had been helpless (Pedaliu, 2011). The inheritance the junta bequeathed to democratic Greece in 1974 was tense relations with Turkey, a colossal annual inflation rate of 27.16% and a radicalised population demanding modernisation. By the end of 1974, the governor of the Bank of Greece, Xenophon Zolotas, became sufficiently concerned to warn, “If we keep trying to cover the deficit by taking on the heavy burden of new loans, we will only make things worse”.

Deficits in the BoP and industrial weakening accelerated in the early post-junta years of 1974-78. Average annual GDP growth rates dropped to 4.7% during the decade 1971-80 and dropped again just to 1.4% in 1981-90. The second oil crisis of 1979 hit Greece so hard as to propel its annual inflation rate to 24.64% by 1980 – up from 12.36% in 1977.³

After the return of democracy in the mid-1970s, the Europeanist aspirations of the Greek centre-right as expressed by Konstantinos Karamanlis coincided with the moment that the EEC was trying to achieve the twin objectives of emerging from its so called period of “Euro-sclerosis” and also fulfilling its cold war role. The sudden collapse of all the southern European dictatorships and Greece’s temporary withdrawal from the military command of NATO necessitated a stabilisation of the southern flank through the EEC (Karamouzi, 2014). The EEC’s subsequent second enlargement ensured the continuation of Greece’s Western orientation and partially cushioned it from the effects of the second oil crisis, but stagnation was not avoided.

Karamanlis had hoped that accession to the EEC would revitalise the Greek economy to develop in a more sustainable and balanced ways. The country entered the EEC in 1981 with a very narrow industrial base – unchanged from its 1970 share of 30% of GDP – an inefficient agricultural sector and an average yearly inflation rate of 24.58%.⁴ This was the dowry the country was bringing to the EEC and also the burden Andreas Papandreou’s incoming PASOK governments would need to tackle.

3. <http://www.inflation.eu/inflation-rates/greece/historic-inflation/cpi-inflation-greece-1980.aspx>

4. *Inflation EU, Worldwide Inflation Data*, <http://www.inflation.eu/inflation-rates/greece/historic-inflation/cpi-inflation-greece-1981.aspx>

Despite his training as an economist, Papandreou seemed to have exchanged economic caution for prudent foreign policy. Papandreou went back on promises to take Greece out of NATO and the EEC. He tried to appease and satisfy his supporters by establishing a clientelistic state that was more inclusive of those who had been excluded in the past in exchange for their votes. Papandreou extended welfare provision – an area in which Greece lagged behind its EEC allies – without paying any particular attention to its fiscal architectural soundness and sustainability. There were no parallel tax reforms to secure new revenues in order to underpin the viability of the welfare net. Public spending, budget deficits and public borrowing, which had already been rising since the late 1970s, accelerated in the 1980s (Sotiropoulos, 1996).

Stagflation, the oil crises and the opening of the overprotected Greek market required by the 1979 accession agreement impacted on the small Greek private manufacturing sector with many firms facing and then declaring bankruptcy. Many of these firms were absorbed into the national budget books as “problematic state enterprises”, a tactic followed by both conservative and socialist governments that turned private sector problems into burdens on the public sector.

Full adherence to the terms of the accession agreement would have further depressed the lower living standards in Greece and would have been politically unpopular, exacerbating the anti-Western feelings that were riding high in Greece after the junta’s collapse and the Turkish invasion of Cyprus. The EEC, therefore, decided to treat Greece exactly as all its previous patrons had – as a special case because of its geopolitical location. After all, the inclusion of Greece in the EEC had had little to do with economics and everything to do with the cold war. In order to unblock the process for the Iberian enlargement, the EEC gave in to the demands for economic assistance made by Papandreou’s governments in the 1980s without ensuring the necessary structural reforms were undertaken in Greece (Clogg (ed.), 1993; Lyrintzis, 1987). The impression was therefore given that the EEC was susceptible to blackmail, if a politician was resolute and wily enough.

Large amounts of EEC and, later, EU funds poured into Greece in the form of the “Integrated Mediterranean Programmes” and the “Community Support Frameworks” to name but two schemes to facilitate “convergence”, “development in the poorest regions” of the country and “cohesion”. In reality, this funding was wasted on underpinning clientelism and the creation of a state-dependent, fragile private sector that earned contracts through non-transparent processes. Greece ended up increasing its external debts to finance an oversized public sector that both PASOK and New Democracy (ND) stuffed with party acolytes, but also to feed a needy business sector that had become deeply entwined with the state. Unlike the other Mediterranean countries, Greece failed to take advantage of its membership of the EEC to grow. Its GDP trailed behind EEC/EU average growth rates.

Any attempts to reform the Greek economy came to be determined by “stop-go” initiatives to fit domestic electoral cycles. Thus, the adjustment programme of the mid-1980s was to be short-lived and ineffective and its author, Costas Simitis, the minister of national economy was ditched in 1987. This tactic continued even into the 1990s, although by now,

looming large, were future problems with regard to budget deficits, public borrowing, the sustainability of national insurance provisions, an erosion of tax compliance and continuing economic stagnation (Featherstone (ed.), 2005).

Throughout these years the EEC/EU adopted ostrich-like behaviour and not only failed to monitor and press Greek governments effectively but also ended up rewarding them for evading their obligations in both 1981 and 2000 (Kalyvas, et al. (eds.), 2012). Reformists proved to be too weak to carry out the structural reforms the country needed. The Mitsotakis government - ND - (1990-93) fell prey to the fallout from the Balkans wars of the 1990s and its own internal divisions and the third Simitis government – PASOK – (2001-2004) dropped reform in favour of short-term calculations and re-election (Featherstone and Papadimitriou, 2008). This failure by the EEC/EU and the inertia of Greek politicians kept Greece uncompetitive.

On the eve of Greece's adoption of the euro as its currency, Loukas Papademos, the governor of the Bank of Greece warned: "The adoption of the euro will change in a fundamental and irreversible way the country's monetary and economic environment. However ... important policy challenges remain to be dealt with" (Ralph et al. (eds.), 2001).

During 2000-2009, Greek governments avoided these challenges. Any attempt undertaken to promote structural reform was crushed by the forces of clientelism, party political electoral advantage and the corrupt practices of the past became embedded (Featherstone and Papadimitriou, 2013). During this period, deindustrialisation accelerated and productivity, savings and competitiveness decreased. Instead of using lower interest rates to promote economic growth based on productivity and investment, Greece used them to fuel import-based consumption financed through increased budget deficits. At a time when the fever of unregulated speculation gripped banks globally, European banks proved over-willing to finance a mountainous Greek debt. Lack of due diligence translated into increases of the country's foreign debt and substantial wealth transfers to the countries of the north. This makes Leften Stavrianos' poignant observation in 1952 that "the Greek people have had to bear a crushing foreign debt that has literally sucked their lifeblood" both reflective and prophetic (Stavrianos, 1952).

Greek debt and defence spending

Greece's geopolitical position has affected its development and sound finances. After the Turkish invasion of Cyprus in 1974, the country felt that NATO could not satisfy all of its security needs – namely a threat from its NATO ally, Turkey. This necessitated the repositioning of Greek defence strategy and turned Greece into one of the highest spenders as a percentage of GDP among NATO countries. From 1974 onwards the country spent nearly twice as much of its GDP on defence than the EU average. Defence spending averaged 6% of its GDP in the 1970s and 1980s and 3% in the first decade of the 21st century.

There was no cold war peace dividend for Greece since the post-cold war era failed to promote stability in the areas surrounding it. The Balkans wars and southern Mediterranean instability exposed it to huge pressures even during

5. <http://www.globalsecurity.org/military/world/europe/gr-budget.htm>

the “times of plenty”.⁵ The economist Angelos Philippides has suggested that if one added up the sums Greece has spent since 1974 on military spending “there would be no debt at all”.⁶ The main beneficiaries of Greek insecurity were Greece’s NATO and EU allies in particular Germany which exported just under 15% of its military products to Greece with French exports coming up close with nearly 10%.⁷ Greece even bought listing submarines with the result that Siemens, Daimler and Ferrostaal/Rheinmetall have all been implicated in cases of alleged corruption in Greece.⁸

A perfect storm

For a while, the EU viewed the 2007-2008 global financial crisis as just an Anglo-Saxon malaise and remained complacent until 2008. Joaquín Almunia, the EU’s Economic and Monetary Affairs Commissioner stated, smugly, on September 5th 2007, that “the EU’s economic fundamentals are solid and should not be significantly affected by the recent turbulence”.⁹ But the world economic crisis of 2007 did cross the pond and shook the foundations of the eurozone, exposing its structural weaknesses. It hit Greece hardest due to its heavy reliance on external debt and its inability, in the new conditions of the crisis-ridden world banking system, to refinance the debt it had accumulated over decades (Pagoulatos and Triantopoulos, 2009). The country became the EZ’s weakest link and a default on its debt could have affected badly overexposed French and German banks. Without new external financing a default appeared imminent.

Soon the words “moral hazard”, contagion, bailout and even exit (the so-called “Grexit”) would be heard in public discourse on European integration. The EU was ill-equipped, indecisive and slow to act and Greece was allowed to deteriorate almost uncontrollably. Soon the dilemma arose that if Greece was “too small to fail” then Italy and Spain were “too big to save”. Fears that contagion could spread to the economies of those states grouped together under the acronym PIIGS translated into unfettered negative propaganda against the people of Greece and southern Europe (Ntamoudi, 2014).

The EZ paralysis did not lift until the International Monetary Fund (IMF) was called in and the first Greek bailout was agreed. Greece became the sacrificial lamb for a problematic bailout that was not designed to address the country’s congenital structural problems. Voices from inside the IMF pointed out that it was designed to “save German and French banks” through piling a mountain of debt on Greeks.¹⁰ The dilemma of “memorandum (MoU) or default” and the term “troika” (the IMF alongside the European Commission and the European Central Bank (ECB)) entered political discourse within Greece with a vengeance.

The first bailout was based on an unmitigated austerity. Any notions Greek politicians may have had that it would be based on the principles of the Lausanne Conference of 1932 or the London Agreement of 1953, both of which cancelled German debt after the country had initiated two world wars proved to be fanciful thinking. The EZ decided to follow German-led policies of austerity based on Germany’s Weimar experiences and Heinrich Winkler’s interpretation of the lessons of those years, instead of following the Anglo-American line that the only way out of the crisis was “quantitative easing” (Geithner, 2014).

6. <https://www.opendemocracy.net/frank-slijper/europe's-guns-debt-and-corruption>

7. <http://www.theguardian.com/world/2012/apr/19/greece-military-spending-debt-crisis>; <http://www.sipri.org/yearbook/2009/07/07A>

8. <http://www.euractiv.com/section/justice-home-affairs/news/ngo-german-firms-mired-in-worst-greek-corruption-scandals-since-wwii/>

9. “EU debates reaction to financial turmoil”, *Euractiv*, 2007. <http://www.euractiv.com/section/euro-finance/news/eu-debates-reaction-to-financial-turmoil/>

10. Paulo Batista, executive director of the IMF, July 8th 2015. <https://www.youtube.com/watch?v=GUiYt7j1FOY>

The greek political system

The Greek political system seriously mishandled the crisis and failed to communicate the dangers of the situation fully to a Greek electorate that had grown complacent, politically apathetic and distrustful of politicians even during the “years of plenty”. The PASOK government at the beginning of the crisis found that even with a fresh mandate of 44% in September 2009 it still could not manage the crisis in the face of popular resistance. The Greek political system did what it does best in crises – it fractured and invested in a blame game that meant political consensus could not be achieved until after the country needed a second “bailout”.

Beneath the “sound and fury” what was happening was that society was really divided between those who believed that Greece had to pull itself out of the quagmire and those who still hoped for external messiahs or political leaders capable of negotiating with the “foreigners” – the creditors – the same way “Andreas” (Papandreou) had, saving them from the hard realities of life under the MoU.

The mismanagement of the initial stages of the crisis turned a serious Greek economic crisis into a profound political crisis with Syriza, in opposition, highlighting the degrading aspects of the MoU and the fact that the country had lost its fiscal sovereignty. Syriza focused on the undemocratic modes of governance that the MoU was fostering. Increasingly, PASOK relied on emergency and presidential decrees to pass legislation at the last minute. The result was that PASOK’s popularity plummeted and the onus shifted to the troika.

The problem, however, was not the troika and its “programme” but its decision to give in to the Greek political establishment’s unwillingness to clash with its “clients” and vested interests and embark on genuine reform. This had given scope to successive Greek governments to overtax and cut pensions rather than limiting and shrinking the statist economy, curtailing clientelism, pushing forward with privatisations before the value of the country’s assets collapsed and revitalising the private sector. Instead, it was the private sector that folded. Until very recently, the contraction in public sector employment has remained insignificant. Little was done to curb tax evasion, and the tax base was actually extended “downwards” to less well-off Greeks. Theodore Pelagidis, an economist, puts it thus, “Instead of insisting on full implementation of structural reforms during the programme’s first two critical years, creditors just poured helicopter money into Greece ... As a result, Europe had decoupled itself from the Greek crisis by the end of 2012, but Greece was still non-reformed, over-indebted and bankrupt”.¹¹

The sterile antagonism between ND and PASOK did not end until a technocratic government was appointed to manage a “hair cut” of the debt. Two elections in 2012 brought about a three-party coalition under Antonis Samaras, the ND leader, who had firmly opposed the signing and the implementation of the first MoU. The ND, PASOK and Democratic Left (DEMAR) governments that emerged out of the June 2012 election realised that real reform had to take place. In 2014 they were able to achieve a small primary surplus and enough tax receipts for the country to finance its budget if the debt was now renegotiated. The creditors, however, did not keep their promise to renegotiate the debt once Greece

11. *The Guardian*, January 4th 2016.

registered a primary surplus. The European Parliament elections of May 2014 were to show that Syriza's 26.89% share of the vote in June 2012 was not a "one-off". Increasingly, the ND-PASOK coalition, which had by this stage lost DEMAR's support, seemed like yesterday's men and women.

Greek society and the crisis

The inclusion of the IMF complicated matters, as its predictable "tool-kit" was, at times, different from the priorities of the EZ and the ECB. The result was that the troika members cancelled out each other's strengths and they misjudged the effects on Greece of the "third world medicine" for a "first world illness" they were dispensing. The bailout caused a dramatic increase in poverty levels of whole sections of the Greek society affecting the lower and middle class households of the country disproportionately adversely.

During the 2008-2012 period, the poorest households in Greece lost nearly 86% of their income, while the richest lost only 17-20%. The average annual net income of Greek households fell from €23,100 in 2008 to just below €17,900 in 2012. This represented a decrease of nearly 23%, something reminiscent of a wartime contraction. The decline in incomes and tax rises are still continuing apace (Giannitsis and Zografakis, 2015).

Greek retirees have suffered reductions in monthly pensions of over 40%. General unemployment has shot up to one of the highest levels in the world at 24.6% and among the young it is 49.5%.¹² A significant number of families have been reduced to relying for subsistence on the pensions of their elderly relatives. In 2013, 35.7% of the Greek population was on the verge of poverty or social exclusion – a number that has since increased. In winter, Athens and other Greek cities are overcome with fetid thick smog as many residents have become too poor to afford electricity and oil and burn anything that can be burnt to stay warm. Access to drugs for cancer patients has become erratic and infrequent. Greeks are fearful of losing their homes and the psychological impact of the crisis has taken a severe toll on their mental health. The fear of a Grexit is still palpable in Greece. A recent poll in December 2015 showed that for 61% of Greeks it remains a distinct possibility.¹³ Of those polled in late January 2016, 69.5% have declared that they are very pessimistic about the future of the country.¹⁴

The most damaging effect of the current crisis has been the massive brain drain of young and highly educated Greeks leaving the country. Figures from the OECD in November 2015 showed Greece with the highest unemployment rate among university graduates in the world. Exactly a year ago, in January 2015, it was estimated that 200,000 members of the so-called "Generation G" had left Greece. Over 2015 this trend accelerated further. The problem is now, however, that this has become an exodus and further undermines the ability of the country to rise out of its current morass.

The rise of Syriza

Greeks suffered the pain of austerity with nothing to show for it but a strong sense of injustice directed at "foreign" or local "politicians".

12. Unemployment Statistics: data up to November 2015, http://ec.europa.eu/eurostat/statisticsexplained/index.php/Unemployment_statistics

13. *The Guardian*, January 4th 2016.

14. University of Macedonia, Thessaloniki, Opinion Poll, SKAI NEWS, January 22nd 2016.

This created a vacuum for anti-system, populist, extremist and ultra-nationalistic voices to fill. It was against this background that Syriza emerged as the populist articulator of the anger of those Greeks who wished to turn the clock back, namely to keep the euro and ditch austerity. Syriza's political discourse in opposition had been based on an unrealistic rhetoric and a lack of feasible policies on how to repair Greece's socioeconomic fabric.

The party's "Thessaloniki Programme" aimed at challenging and even changing the EZ's economic policies. It was, ultimately, an old-fashioned, if not reactionary, manifesto. It proposed minimal austerity without highlighting the sacrifices that needed to be made to restore the country's bankrupt economy. The implicit expectation behind this programme was that it would be financed through the benevolence of Greece's creditors. Syriza's plan chimed well with the unrealistic expectations of some voters, appealing as much to those who wished to punish the Greek political system as those who saw it as a means of maintaining the benefits they had reaped from clientelism. The January 25th 2015 elections brought Syriza to power but short of an absolute majority. The new prime minister, Alexis Tsipras, sought a Faustian pact with ANEL (Independent Greeks) to govern the country – a party of the right rather than parties closer to its ideological roots.

Syriza in power

Syriza embarked on negotiations with Greece's creditors in February 2015, failing to appreciate the nature of the EU and basic diplomatic practice, namely, that small states "lack the margin of error and time" (Jarvis, 1978). Its negotiations with the EZ were marred by Greece's limited bargaining power and Syriza's unfounded belief that the creditors would be swayed by its arguments. The Syriza-ANEL government found itself trapped by an election result that had given it a mandate to find a solution without risking the country's membership of the EZ – something that did not change even when 60% of Greeks voted "No" at the peculiar July 2015 referendum on whether to accept the "Junker proposals" i.e. a new MoU. The coalition believed it was not bound by previous agreements Greek governments had signed up to, apparently failing to realise that by acting thus it was circumventing the fundamental principle of international relations – the continuity of decisions made by states. In opposition and in government, Syriza had failed to cultivate alliances with EZ governments of countries that suffered from austerity policies.¹⁵ The party's subsequent overtures to Moscow antagonised the central European EU countries which, after Russia's aggressive policy in Ukraine, felt understandably threatened. Syriza negotiators had apparently failed to study Metternich adequately. They thought that an election in Greece would change the attitude of the Eurogroup. As Metternich suggested, Syriza merely provoked "the hegemon" to do "its duty" and bring Greece "under its supervision", hence the "third bailout". The only real weapon Greece had in its negotiations was to threaten the EZ with a return to the drachma, a nuclear-type option that it was not prepared to use. The only success achieved by its negotiating strategy and "creative ambiguity" was to top the list of the Harvard Law School's Program on Negotiation as being the worst of 2015.

¹⁵. *To Vima*, February 27th 2015.

In the interests of balance it needs to be pointed out that Syriza was not alone in approaching the negotiations as a zero-sum game. The EZ had a multitude of reasons to ensure that it failed. MoUs had been slapped on Portugal, Ireland and Cyprus. Also, many eastern European countries had for years languished under very strict adjustment programmes. The renegotiation of a new programme for Greece based on less austerity would expose other governments that had implemented MoUs fully. It would also imply that the EZ had been following the wrong economic policies all along.

The re-election of Syriza on September 20th 2015 was a result of the demoralisation of Greek society. 43.43% of the electorate abstained in a country where not voting is a punishable offense. The neo-Nazi Golden Dawn has become the third biggest party in parliament.

The coincidence of impoverishment with unprecedented and unmanageable numbers of refugees and economic migrants trapped in a country that cannot offer proper health care, social security and education even to its own people can only lead to further social tensions, *anomie*, destabilisation and xenophobia.

The EZ and the crisis

The EZ and the Greek crisis showed how ill-prepared the EZ was for bad economic times. From its launch, it had structural faults which made it a “fair weather only” institution. Currency unions of economically mismatched countries rarely work unless they are also accompanied by fiscal unions, common budgets and common taxation policies supplemented by common monitoring, auditing and redistributory mechanisms. However, the EZ was not prepared to accept that its design was faulty, so the blame had to lie with the PIIGS. On May 23rd 2013 in Athens, Vítor Constâncio, the vice-president of the ECB put it thus: “There was essentially nothing wrong with the initial design of EMU, and the crisis resulted mostly from the fact that several peripheral countries did not respect that design – in particular the fiscal rules of the Stability and Growth Pact - which generated the sovereign debt crisis”.¹⁶

The EZ did not punish Germany and France when they broke the rules of the Stability and Growth Pact of 1999, but it cannot afford its double standards anymore. In mid-January 2016, the IMF downgraded its forecast for global economic growth for 2016 by 0.2%.¹⁷ The annual growth of the EZ’s GDP for 2015 is forecast to stand at 1.3% whereas the annual growth of US GDP stands at about 3.7%.¹⁸ Therefore, the EZ has to address the main problem facing it: how to make the European economy grow to maintain the living standards of its people. As long as this issue is not addressed convincingly, the issue of Greece will continue to resonate.

The lenders have relied on adjustment programmes that are not in tune with the needs of a developed capitalist country like Greece. To highlight the failure of the policies the troika has applied in Greece one has to look no further than the IMF’s admission in 2013 that major mistakes were made,¹⁹ and *The Economist Intelligence Unit* which stated in its

16. Vítor Constâncio, “The crisis in the euro area”, speech, May 23rd 2013, https://www.ecb.europa.eu/press/key/date/2013/html/sp130523_1.en.html

17. <http://blogs.ft.com/brusselsblog/author/peterspiegel/>, January 20th 2016.

18. *The Economist*, September 2nd 2015.

19. <http://www.spiegel.de/international/europe/the-imf-admits-serious-mistakes-on-greek-bailout-a-904093.html>, June 6th 2013.

annual country forecast report for Greece on December 16th 2015: “We attach a 60% risk to a Greek exit from the euro zone by 2020”.²⁰

The Greek crisis also revealed the secretive arrangements and ad hoc nature of the Eurogroup. It has given support to Jürgen Habermas’s analysis that the institutions of European integration were not able to keep pace with what has been called “post-national democracy”. This has led to power being exercised through a seeming arrogance, lack of transparency and a failure to engage with European citizens.

However, even in the face of adversity the EZ has shown adaptability and the crisis has encouraged a spurt of institution building. During 2010-12, the EZ held together to prevent a Grexit which could have unravelled it. In 2012, the signing of the European Stability Mechanism treaty further fortified it. On January 16th 2016, the EZ took the bold step of completing its banking union, but without the adoption of a fiscal union, the EZ will remain hopelessly handicapped and in the firing line of speculators. On February 11th 2016, the president of the Eurogroup, the Dutch finance minister, Jeroen Dijsselbloem, announced measures designed to tackle the perception of the Eurogroup as a secretive and unaccountable informal club. He admitted that more transparency is of “prime importance for the legitimacy” of its work.

Looking towards the future

In times of growth and political stability, the problems the EZ faced over Greece from January to July 2015 could have been chalked up to experience and as another step taken towards creating a stronger, more stable union. However, these are not steady times and the problem of Greece has come to shake a union that is not as strong as it thought it was and whose citizens are wracked by Euroscepticism. Grexit, Brexit and even Frexit have now become part of the political debate. This has come at a time when the EU is beleaguered by a confluence of other crises of existential proportions that include: differences over the *acquis communautaire* and *raison d’être* of the European integration process; an almost lethal mix of security threats; a mass refugee/migration crisis; limited resources and an unstable economic climate along with economic decline.

After six years of crisis the EU and the EZ need to answer the following questions:

1. In whose interest is it to create a failed state on the northern Mediterranean shore?
2. How sustainable is an EZ based on a huge transfer of wealth, both monetary and human, from the European south to the north?
3. How sustainable is prosperity in a union where some areas of the internal market are being pauperised?
4. How can social cohesion in the EU and the EZ be maintained when the average youth unemployment rate in the European south is well above 40% and while in Germany it hovers just above 7%?²¹
5. Can the EU and the EZ face the challenges of the 21st century by emulating the relationship of the Italian north with the Italian Mezzogiorno?

20. *The Economist Intelligence Unit*, December 16th 2015.

21. *The International Spectator*, December 30th 2015.

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Eleni Panagiotarea

*Research Fellow, Hellenic Foundation for European
and Foreign Policy (ELIAMEP)*
epanagiotarea@gmail.com

Introduction

The Greek debt crisis forced a rushed rethink of whether eurozone governance had proven “fit for purpose”. The institutional engineering that ensued, unprecedented in both scale and in pace, set up new surveillance systems for budgetary and economic policies, and a new budgetary timeline for the euro area. The creation of stability mechanisms and the confident emergence of the ECB as a key player with a “whatever it takes” attitude all helped weather a crisis which very quickly turned systemic. The fact that Greece became the “catalyst” for reform inadvertently influenced the gamut of the measures taken – it also sealed their short-termism.

Today, the crisis has seemingly subsided and many of its effects on national economies have theoretically been addressed. It remains a moot point, however, whether the new governance can withstand a new crisis or whether it can contribute to a return to pre-crisis growth. Risk sharing has hardly ranked high in reformers’ attitudes and investment tools have not necessarily reached those most in need. At the national level, the political will to continue on the path of fiscal prudence or on the path of structural adjustment or to coordinate the two is rapidly waning. This paper will argue that “modelling reform” on the Greek case has led to the kind of governance that lacks both a coherent vision of economic and monetary union and the tools for completing it. Arriving at a stable equilibrium, where “rules” are matched with “solidarity” offers a far more sustainable route, one that speaks to concerns about both democratic legitimacy and the long-term economic health of currency union members.

Greece: catalyst, scapegoat, prototype?

All was never well with eurozone governance. During the “good EMU years”, large cross-border capital flows went unnoticed and unchecked, while a number of governments casually defied the kind of fiscal discipline espoused in the Stability and Growth Pact. Problems of set-

up – no lender of last resort, negligible labour mobility, no common fiscal policy – went hand in hand with divergent behaviour, evidenced in, among other indicators, the different growth rates of wages and productivity between north and south. Greece did fail to put its fiscal house in order during a period when long-term interest rates declined steeply and clever management could have resulted in its debt to GDP level being put on a downward path. Greece, however, was hardly the only country on the periphery to misinterpret low interest rates as an invitation to embark on a private and/or public spending spree financed by the banking sectors of the core countries.

When the crisis hit, Greece's fiscal misbehaviour was singled out, both by the markets that had regularly refinanced Greek debt, and by eurozone partners and institutions that had casually turned a blind eye to Greece's recurring budgetary problems and poor statistics. Poor crisis management ensued: shielding the eurozone against "fiscal delinquency" offered a relatively facile approach to solving a crisis that was novel and unexpected. Even when eurozone elites reluctantly made provision for a "fire brigade", "punishing the guilty" (De Grauwe, 2010) became the overarching consideration. The markets, which were suddenly able to see the "wider picture", attacked the next weak link; contagion inadvertently set in. Eurozone elites discarded the uncomfortable realisation that the rules – no default, no bailout, no exit – proved to have been too tightly constructed; more importantly, they proved unwilling to understand the level of interdependence between the eurozone economies and the fragility that went with it (Panagiotarea, 2013).

The narrative of profligacy, which partially "captured" Greece's misbehaviour, came with at least three flaws. First, compliance with the Stability and Growth Pact did not necessarily correlate with whether a country ended up with a bailout programme or not. Ireland and Spain, poster children for fiscal prudence until 2007, ended up requesting their own bailout packages. Moreover, Belgium and Italy, the countries with the highest debt-to-GDP ratios (except for Greece) were able to sail through the eurozone crisis unharmed. Second, this narrative failed to account for the major financial imbalances that were accumulating, as large intra-eurozone capital flows built up for a decade and too much private and public debt was borrowed from abroad. The "sudden stop" in cross-border lending, a corollary of the international financial crisis, saw risk premiums rise and the banks and governments which ran huge current account deficits were severely targeted by markets. This "consensus narrative of the Eurozone crisis" (Baldwin *et al.*, 2015), unfortunately arrived rather late in public debate, when fire fighting and institution building (related to *this* stage of the crisis) were close to completion. Third, the profligacy narrative failed to account for what could be termed the "original sin" asymmetry: the structural heterogeneity that existed between the members of the monetary union at the point of entry, which was manifested by a number of diverging trends, including in their industrial base and trade patterns.

With hindsight, eurozone leaders who stuck with the "it's mostly fiscal" narrative (Constâncio, 2013) were always behind the curve, embarking on an institution-building process that merely "responded" to market pressures. Although the publicly stated intention was to ensure the financial stability of the eurozone as a whole, arriving at "stability"

became equated with institutionalising fiscal discipline. The Stability and Growth Pact, supplemented by the Fiscal Compact, the adoption of the so-called “six-pack”, the Treaty on Stability, Coordination and Governance, bolstered by the “two-pack”, were all grounded in the European Semester, the EU’s policymaking calendar. The fact that Greece was held up as the prototype explained the drive to generate clearer rules, better coordination of national policies throughout the year, regular progress follow-up and swifter sanctions for breaching the rules.

Tightening up rules that had failed in their “lighter version” or creating new ones with similar logic was supposed to insure against moral hazard, eliminate the possibility of future sovereign defaults, and restore public debt sustainability and competitiveness. In the absence of parallel moves towards fiscal federalism or debt mutualisation, this “approach” betrayed a continued ignorance of member states’ divergent economic models and how they affected national performance, misunderstood the capacity of their economies to respond to the “new” rules, and miscalculated the limits of the political capital that could be used in the process. In addition and irrespective of the window-dressing that took place, serious economic and political objections lurked (and continue to lurk) dangerously beneath the surface: the EU has no fiscal capacity, yet it has acquired a strong regulatory power to control national budgets (Hallerberg, 2014).

Do rules work? Complexity, ownership and enforcement

The strategy that has followed – fiscal consolidation and structural adjustment as the panacea for all evils – has yet to provide a meaningful return to growth or a rebalancing of divergences among member states. It has also made a dent in European solidarity, as some countries continue to shoulder a greater burden of adjustment than others. A stability culture has indeed been introduced. One, however, that does not offer a credible solution to the legacy issue: a number of countries have accumulated large public debts and the tools or the growth levels to bring them down are simply not there. Greece has experienced the worst of all worlds: fiscal consolidation has come at a steep price – the country has lost 25% of its GDP, and unemployment is stuck at 24-25% (with youth unemployment at 50%). Greece’s public debt is projected to rise to 185% of GDP in 2016, when it was 120.6% at the time that the country applied for economic help. Uncertainty about the ability of the country to implement its third bailout programme, combined with uncertainty about its ability to service its huge debt load, provide little hope that Greece can return to meaningful economic recovery in the short term.

As for the eurozone, some voices suggest that one of the reasons for *its* economic recovery (leaving aside how slow or sustainable it is) lies in the fact that “spending and growth are now under less pressure from fiscal consolidation” (Eichengreen, 2015). This is tricky, as officially, fiscal policy is expected to continue to play a supportive role in the recovery.¹ From here emerge the questions of “whose fiscal policy?” and “how do we apply the rules?” How do authorities come to decide which countries will be *exempted* from the rules, with exceptions typically justified in the context of “propping up a recovery” or “ensuring that a given economy

1. European Economy 2016 “European Economic Forecast” *Institutional Paper 020*, Winter, http://ec.europa.eu/economy_finance/publications/eeip/pdf/ip020_en.pdf.

does not fall back into recession”? Strict application is supposed to work as an anchor for financial markets, or to facilitate a regime change towards lower debts and deficits. Uneven application inevitably leads to bitter criticism of “double standards”.

Greece certainly constitutes a “case” in this respect. Fiscal consolidation is at the centre of each bailout programme; in fact, the continuation of fiscal consolidation is a prerequisite for the continuation of aid. If, however, fiscal consolidation is the only available policy option in some cases, and fiscal slippages are casually allowed in others, then the credibility effects that the revamped governance mechanisms are supposed to trigger will simply not materialise. In addition, the absence of policy options, and the absence of democratic oversight over the “institutions” that dictate the available options, raise serious legitimacy issues; these are unfortunately exacerbated, at least in Greece, by the way successive governments have chosen to rein in budget deficits: careful to protect public sector clienteles, they have repeatedly opted for measures that end up shutting the most vulnerable out of social provision or penalising consistent taxpayers.

In reality, the “sanctity” of rules has been repeatedly bashed on the ground; the relevance of rules lies more in how they are disputed by large and small countries alike than in how they evaluate policy outcomes against agreed and quantifiable benchmarks. This is evident in the way the six-pack allows national governments to exercise significant discretion. At least “allowing” discretion within the system reduces, it has been argued, output legitimacy issues that arise from stricter intrusion – the idea that more intrusion leads to better ability to deal with externalities has not been backed up by evidence (Alcidi et al., 2014). Nonetheless, as “discretion” invites uneven application it constitutes an approach to “discipline” which recalls the way “sanctions” were (not) applied under the pre-crisis Stability and Growth Pact. Equally, it remains to be seen whether penalties will be levied against countries that post excessive imbalances, with the Macroeconomic Imbalances Procedure appearing to be “blind” when it comes to determining current account surpluses. In this context, the European Semester “has been rather ineffective” (Darvas and Leandro, 2015) as a policy coordination system and as a mechanism to enforce the overhauled fiscal rules and the new macroeconomic imbalance rules; national interests continue to define how recommendations are interpreted or implemented, repeating political asymmetries of the past and negating any meaningful policy implications.

It is safe to assume that institutionalisation will increasingly become harder to defend, let alone sustain. For one, anti-European sentiment is rising right across the board, as Eurosceptic and populist parties continue to make gains by aligning “Europe” with unpopular tax hikes, spending cuts and stagnation. Anti-austerity forces gain power on agendas to temper deficit targets, while governments which oversaw programme “exit” are habitually toppled; the risk of jeopardising “progress made” and rattling investors in the bond markets appears to be palatable to voters. Moreover, the migration crisis, which shows no signs of abating, will inevitably stretch fiscal policies and undermine compliance with rules, impacting on public finances and labour markets. Even if the evolution of migrant flows is hard to estimate with any

certainty, international organisations assume that they will most likely be concentrated in specific countries.² Those still facing high levels of unemployment or those which have no fiscal space – with Greece a prime example – will be the first to feel the pressure to scale up spending while simultaneously being expected to maintain fiscal discipline. The effect of these conflicting pressures will be fed right through party systems which seem to be in fragmentation “mode”. This mode will probably gain further traction as populist sentiments become more mainstream and established parties choose to scapegoat “Brussels” and their “fiscal diktats” in order to maintain their voting base.

Rules and solidarity: Can they be balanced?

Is there momentum for change? Greece can no longer be used either as a pretext or as the perfect specimen for experimentation. For the whole of 2015, GDP rose by 1.5% in the euro area,³ while public debt (Q3 data) was at 91.6% of GDP;⁴ anaemic growth offers no guarantee that deficits can be managed or that debts can become sustainable. More importantly, Europe is facing a continuum of crises, one feeding into the other, and all highlighting how the European project’s internal cohesion is at stake. The legacy of crisis management in the eurozone, particularly in the handling of Greece, is casting its rather dark shadow: the strong resurgence of intergovernmentalism, which politicised financial support and dictated “burden-sharing”; the “kicking the can down the road” principle prevailing in the absence of a coherent strategy and a unified vision; and the depletion of EU assets (including trust in and credibility of proposed policies) compared to the political capital that national governments are expected to exert in order to push through measures at the heart of national sovereignty.

In addition, the migration crisis – Greece is once again at the epicentre – is bringing into focus all the unresolved matters that the new economic governance brushed under the carpet: the absence of a mechanism to allow member states to absorb asymmetric shocks; the area’s difficulty demography; its limited labour market mobility. A return of the Greek crisis cannot be ruled out, particularly if the EU-Turkey agreement is not enforced in a credible manner and Greece’s European partners fail to abide by the relocation scheme. Terrorist attacks will inevitably transform Europe’s migration debate into a security one, with the Schengen open borders policy coming under further strain. The implications for fiscal discipline, the effects of a possible reintroduction of internal border controls, the public security measures that will be put in place and the higher expenditures they will necessitate are all expected to weigh heavily on economic growth, further questioning the governance structures put in place.

Even as the sense of urgency is growing, the force of inertia appears stronger. National politicians appear willing to go down the à la carte path, as they stumble upon the limited appetite for further integration and as public debate is increasingly captured by the popularity of anti-European parties. In today’s circumstances, however, the convenient and well-rehearsed retreat to the maximisation of the national interest raises the possibility of the European project’s accelerated erosion if not collapse. Questions of sovereignty sharing and democratic legitimacy

2. OECD, “Is this humanitarian migration crisis different?”, *Migration Policy Debates*, no. 7, September 2015.
3. Eurostat newsreleasEUroindicators2016 “Flash Estimate for the fourth quarter of 2015”, 32/February 2016. <http://ec.europa.eu/eurostat/documents/2995521/7156138/2-12022016-BP-EN.pdf/bba8f85f-cab6-4482-a3a4-29bc087cec42>
4. Eurostat newsreleasEUroindicators2015 “Government debt fell to 92.2% of GDP in euro area”, October 2015, 187/October. <http://ec.europa.eu/eurostat/documents/2995521/7049759/2-23102015-AP-EN.pdf/76641d4c-af11-4fc4-b78f-94aaa633b8c3>
5. European Parliament, “The ECB’s Expanded Asset Purchase Programme: Will quantitative easing revive the euro area economy?”, February 2015. <http://www.europarl.europa.eu/EPRS/EPRS-Briefing-548976-The-ECBs-EAPP-FINAL.pdf>

require urgent answers, particularly when a culture of disunity is taking hold: unilateral moves trample on collective decisions, borders are closed, and economic aid is expected to compensate for the absence of a truly “European” response. This will only exacerbate the widespread discontent of Europeans who do not experience Europe’s institutional interference in national policy as “win-win” for all.

The most prudent way going forward is to strike the right balance between rule-following and showing solidarity, forging a medium-term political deal to promote sustainable growth. If the eurozone can deliver on growth, then it can help reinstate the central organising ideas of stability, security and trust that Europeans associate with belonging to a single currency. This deal should involve, first, correcting or rather fine-tuning the policy mix. The ECB’s QE programme has supported demand, yet lower yields have not really pushed funds and banks to take risks with private sector investment. It is not just that with the exception of Greece, interest rates on euro area government bonds have kept falling since July 2012;⁶ the banking sector’s willingness to lend to the real economy – it finances about 80% – is ultimately weakened under the current strained financial conditions and a global push to maintain or increase capital buffers. The ECB needs to acquire some tools that are available to ‘typical’ central banks, if it is to move towards the currently unreachable inflation target of close to 2 percent, while avoiding the collateral damage that will be eventually triggered by excessive reliance on negative interest rates and the QE programme.

National fiscal policy should be strongly counter-cyclical and where fiscal stimulus is due, an effort should be made for it to be coordinated across countries. Coordination, however, should not be confused with arriving at a rigid EU-wide fiscal stance – particularly when the “technocratic” oversight of rules that are far from “fixed” accentuates “democratic deficit” issues, or when stabilising functions are still lacking at euro area level. For the sake of garnering confidence and protecting future generations, fiscal discipline must be repackaged in a fiscal sustainability frame, ensuring the long-term sustainability of public debt. The Greek experience, particularly the problematic ownership of the reform programmes, points to the putting in place of binding national incentives, including national rules to improve the efficiency and quality of public spending. These would help affirm fiscal responsibility vis-à-vis the common project, assuage moral hazard fears, and promote, more generally, mutual trust among debtors and creditors. Structural adjustment efforts must also be reframed and re-energised to finally help economies make the “transition towards new systems of production and consumption” (Mortensen and Alcidi, 2012).

To support the countries experiencing reform fatigue, to compensate those whose fiscal consolidation has cost them lower public consumption and transfers, to help solidify the recovery in others, in essence, to honour the deal for sustainable growth, another policy priority should be to expedite the investment plan for Europe. Greece offers an extreme example in this respect; its disinvestment trajectory has been magnified by the ongoing adjustment, while Greek companies continue to suffer from limited credit and the real interest rate, low productivity, limited extroversion, and an unstable tax and regulatory environments trajectory. For private investors to actively leverage the admittedly limited European

6. European Commission “European Structural and Investment FUNDS and European Fund for Strategic Investments complementarities”, 2016. http://ec.europa.eu/regional_policy/sources/thefunds/fin_inst/pdf/efsi_esif_compl_en.pdf.

and national public investment funds, therefore, a concerted effort at both national and EU levels should be made to improve the business climate, guarantee the smooth operation of the internal market, and create a fair regulatory environment that cuts red tape and bureaucratic burdens. Breaking away from the loose, non-transparent practices of the past, targeting investment in R&D and key infrastructures should maximise positive effects and/or create positive spillover effects; given the size of the investment gap in Europe, regularly measured at 15% below pre-crisis levels,⁶ countries with large current account surpluses should seek to prioritise investment.

Obviously, completing the banking union, the third aspect of the deal for growth, would provide the stable and robust banking sector and the well-functioning capital markets that would channel accessible credit to the real economy. As countries in the eurozone have to stimulate their economies – careful not to binge on public and private sector borrowing or to create a new set of bubbles – the operation of a real Capital Markets Union would tackle investment shortages and provide much needed finance to the companies that struggle to get funding, particularly SMEs and start-ups.

Moving to a mode of governance promoting sustainable growth should make way for enhanced coordination structures, including stabilisation tools/insurance schemes for employment and social protection at European level. Job creation has yet to feature in the current *modus operandi*, while “internal devaluation” has predictably not worked as expected (aggregate demand has been dragged down), reallocating labour to more productive sectors is cumbersome, and trade surplus countries refuse to coordinate on their wage and price policies. National governments hold the key: they are and should be held responsible for aligning wage costs to productivity, alleviating heavy social insurance and tax burdens, and creating a non-burdensome business environment. Unfortunately, in Greece the way “adjustment” has been pursued has protected rent-seeking regulation, preserving oligopolistic structures in product markets, and increased the cost of introducing innovation into production and supply lines (Pelagidis and Mitsopoulos, 2014). For governments that fail to link reform with growth, but also for those trying or struggling to find the appropriate equilibrium, governance could generate a supporting buffer: repairing the financial system via the completion of the Banking Union could enhance the effectiveness of employment programmes; cohesion policy could facilitate a reindustrialisation strategy in the weaker members of the eurozone; productive investment could smooth the transition from activities in the non-tradable sector and employment in the public sector to high value-added activities. The rebalancing of the policy mix mentioned above could endorse a job-friendly fiscal policy by cutting down on wasteful spending, adopting tax measures that broaden the tax base and shielding against social security contributions that burden labour income and investment.

In addition, a European unemployment benefit scheme, designed as an automatic stabiliser mechanism that is effective in the short term, could protect against the increasing cost of economic and social marginalisation evidenced in countries with persistently high levels of unemployment, with Greece being a prime example. A concrete manifestation of European solidarity, this mechanism could be built up with an eye to pre-empting moral hazard objections, employing specific

7. Panagiotarea, E. 2015 “Eurozone Governance for the European People: Towards a path to sustained prosperity”, Policy Brief, ELIAMEP 12th European Seminar, *The EU and its discontents: Is the European Project sustainable and/or adaptable?* September

triggers when authorising transfers and utilising a “claw-back” principle based on benefits accrued (Beblavý et al., 2015). In this way, it could fill in national gaps – national stabilisers failed to absorb shocks during the crisis (Dolls et al., 2014) – and compensate for the limited labour mobility in this monetary union (Barslund et al., 2015). Given the absence of appetite for a prior harmonisation of labour markets – usually considered a “prerequisite” for a benefit of this kind – another option on the table could be a pan-European flat provision, handed out on the basis of commonly accepted principles to promote income security.

Finally, there is the issue of setting up a fiscal capacity, though the road set out for a fiscal union in the Five Presidents’ Report remains bitterly disputed. The heterogeneity of national economies should be the background condition against which alternative options should be explored, particularly in “an area where counter-cyclical automatic stabilisation only partially compensates for pro-cyclical discretionary policy” (Bénassy-Quéré et al., 2016). Such a capacity could provide, particularly for countries like Greece that are in seemingly permanent, self-defeating austerity mode, the fiscal space to spend on productive investment and on social programmes targeting poverty and social exclusion. It could also work as a safety net or as an incentive structure for renewed efforts at stabilisation. Finally, it could insure against severe downturns or asymmetric shocks, the danger of which is very much visible. Putting in place caveats would shield against moral hazard and trim government incentives to free ride on others’ fiscal responsibility. This could involve creating clear and transparent rules for the transfer of resources, agreed *ex ante*, raising funds for the fiscal capacity in the markets via a diversified strategy, and using a variety of instruments and maturities to ensure the efficiency of funding and continuous market access, as well as linking transfers to quantifiable progress in economic performance and competitiveness within a euro-level agreed time horizon.⁷

Conclusion: Making governance fit for purpose

Europe’s crises multiply and impact on one another, and yet the urgency of reform keeps eluding eurozone elites and policymakers. Eurozone governance is caught between a partial and therefore distortive narrative of fiscal profligacy and growing divergence on the ground – in terms of rule-following and economic performance. Greece remains stuck in an adjustment quagmire. Even the successful PIGS, those that have exited their programmes, continue to grapple, politically or economically or both, with the fallout from unequal burden sharing. The relative calm that has prevailed, following the near-Grexit episode of July 2015, is providing a false sense of security that governance works, even if the euro area is far from arriving at a path of sustainable growth *for all*.

The added-on migration crisis will, however, inevitably impact on rule-following and further strain current structures at a time when the external environment for the euro area as a whole has turned less than favourable. China is struggling to rebalance towards a consumption-driven growth model, global financial market volatility has re-emerged, uncertainty clouds the US’s rate-hiking path, geopolitical tensions persist and commodity prices have dropped sharply. Member states are left vulnerable to negative spillovers “via various transmission channels”.⁸

8. European Economy, “European Economic Forecast”, *Institutional Paper 020*, winter 2016. http://ec.europa.eu/economy_finance/publications/eeip/pdf/ip020_en.pdf.

The need for a “grand bargain” regularly surfaces in public debate, only to be crushed. This happened most recently with the cold reception of the Five Presidents’ Report on the Economic and Monetary Union.⁹In any area requiring “reform” the goal has become, at best, to arrive at the lowest common denominator. The price of inaction is nonetheless high and already evident in the steady ascendancy of unilateralism. A positive narrative to shift perceptions and expectations could provide a humble restart. Coordination and national sovereignty, sustainable growth and solidarity should be placed at its centre, backed up with solid instruments to support the move to a *more complete* monetary union. Bringing back real convergence holds the key: economic governance should provide both the incentives for the exercise of national responsibility and a European safety net that balances supervision and protection.

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9. European Commission, “The Five Presidents’ Report: Completing Europe’s Economic and Monetary Union”, 2015. https://ec.europa.eu/priorities/publications/five-presidents-report-completing-europes-economic-and-monetary-union_en.

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EMU GOVERNANCE AND THE MEMBER STATES: LESSONS FROM FEDERATIONS AND OTHER COUNTRIES

Cinzia Alcidi

Head of Economic Policy Unit, Centre for European Policy Studies (CEPS)
cinzia.alcidi@ceps.eu

Introduction: An overview of EMU governance

It could be argued that the original institutional setting for the Economic and Monetary Union (EMU) was based on three pillars. The first one is centralised monetary policy. Competences for monetary and exchange rate policies were moved from the national to the central level and attributed to the European Central Bank. One key assumption of this construction was that by imposing a narrow central bank mandate for price stability, financial stability would ensue as a by-product. In the 1990s, there was quite a broad consensus among economists that this would happen, driven by financial liberalisation and market efficiency.¹ The assumption seemed to be validated by the experience of great moderation, but did not last very long. The paradigm explains why financial stability was never explicitly taken into consideration in the EMU model.

The second pillar of the EMU model is a decentralised but constrained fiscal policy. Competences for budgetary policy remain the responsibility of national governments, but are limited. The Maastricht Treaty (1992) embeds the commitment of member states to limit fiscal policy discretion by adopting a framework based on common fiscal rules: the Stability and Growth Pact (SGP). National governments can still choose the tools and specific policy actions, but numerical targets have to be met, substantially reducing the room for action. The purpose of the rules is, *ex ante*, to ensure a prudent and disciplined fiscal policy. This is key to the achievement of a threefold objective: a) to reduce the occurrence of shocks at national level induced by fiscal policy that cannot be absorbed by monetary policy, which is set in response to average and not country conditions; b) to reduce the risk of negative cross-country spillover effects; and, c) to avoid any impaired transmission of monetary policy. The “no bail-out” rule included in the treaty was expected to make the rules credible and to ensure their enforcement.

The third pillar of the EMU model relates to the structure of the economy. Growing trade in goods and services, driven by the single currency and the completion of the single market, was expected to

1. See Borio and White (2004) for a different viewpoint. They argue that price stability can create a favourable environment for financial instability and inaction on the part of central banks.

boost growth and convergence among countries. The mobility of labour and capital, combined with (a certain degree of) flexibility of prices and wages was expected to provide the mechanism to absorb asymmetric shocks.

From a conceptual point of view, this framework relies heavily on the optimum currency area theory (Mundell, 1961), which was adapted to the European context where fiscal union does not exist. Despite the violation of the SGP in 2004-05 by Germany and France, which back then proved the limits of the framework, it remained unchanged until 2010. The outbreak of the crisis started a broad debate about the appropriateness of the fiscal framework and even of the EMU model. The first response consisted of reinforcing the governance framework by enhancing economic policy coordination. This resulted in a new SGP. On the fiscal side, the approach was clearly to maintain and reinforce the existing rule-based system by developing stronger surveillance mechanisms on a country-by-country basis and through a wider spectrum of semi-automatic sanctions.

These innovations were accompanied by a wide range of changes in the regulation of the financial sector and of the banking sector in particular, as well as supervision and monitoring of financial stability and systemic risks. The creation of the European Stability Mechanism (ESM), a permanent crisis management instrument for safeguarding financial stability in the euro area, demonstrates the explicit recognition that financial instability can occur even if price stability is preserved, that this instability can fundamentally threaten the functioning and even the existence of the EMU and that safety net mechanisms are necessary.

Overall, the crisis brought significant changes to the governance system but the original idea, whereby constrained fiscal policy stays under national sovereignty, remains a key pillar of the EMU framework. Five years after the introduction of the reformed fiscal governance framework, the assessment of its ability to deliver greater fiscal stability is far from being unanimously positive. Rules seem to be binding only during times of recession, and in some cases have resulted in pro-cyclical budgetary policies which amplify the recession. Against this background, in more recent times the European Commission's approach has consisted of reasserting the need for more policy coordination and, above all, a move towards a flexible interpretation of the rules.²

In fact both flexibility and coordination raise certain questions. First, a flexible interpretation of the rules implies some degree of judgement in the assessment, which confers a political character on the commission's decisions. The European Commission was not designed as a political institution.³ This is a new feature that is meant to make rules "less stupid",⁴ but which in fact undermines their value and credibility.

Second, it is unclear whether policy coordination always leads to a better outcome. Economic literature on the topic is ambiguous and fails to consider how gains from coordination may vary according to the state of the economy.⁵ Furthermore, economic policy coordination has significant limits of political and economic nature. The incentives for each country to coordinate their policies with other countries ultimately rely on expected gains from abandoning choices driven only by domestic considerations in favour of coordinated action. Yet gains are unknown as well as uncertain

2. See EC communication of January 2015 http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/2015-01-13_communication_sgp_flexibility_guidelines_en.pdf.

3. Traditionally, the European Commission is known as "the guardian of the Treaties" and its role is to defend the interests of the European Union while remaining politically neutral.

4. In 2002, Romano Prodi, then president of the European Commission, called the Stability Pact "stupid" because of its rigidity; he had already called for a more intelligent and flexible tool.

5. See Alcidi et al. (2015) for an overview of the literature on fiscal spillover effects.

and take time to materialise. By contrast, the costs (both political and economic) of coordination can materialise in the short term and be very high. Another problem of coordination is that its objective, i.e. the welfare of the eurozone, is not explicitly stated anywhere. The specific experiences of Greece and Germany can be taken as two examples of how difficult and costly coordination is. The three adjustment programmes imposed on Greece, which can be seen as extreme cases of policy coordination, clearly aimed at achieving important broad goals for the eurozone as a whole: to prevent the Greek crisis from spilling over into other countries and ultimately leading to the breakup of the EU. Coordination was forced and achieved in exchange for financial support. In more recent times, the commission and many commentators have argued that given its large current account surplus, Germany should move to a more expansionary fiscal stance. Beyond the stimulus this would give to the domestic economy, the implicit objective for the eurozone as a whole is that it could generate positive spillover effects in the other economies of the region and make it easier for debtor countries to recover.

The two examples suggest that while the existence of cross-country spillover effects (positive or negative) is the fundamental reason for coordination, the specific objectives of policy coordination can be different. They also show that national interest, or the perception of it, may not be aligned with the common interest of reducing or preventing spillover effects. Greece, by losing its creditworthiness, was losing its sovereignty and had little choice but to accept the programmes, and hence coordinate for the good of the union. By contrast, Germany, which is fully sovereign, is setting its policies according to domestic considerations.⁶

Another aspect that makes coordination difficult to achieve relates to legitimacy (Begg, 2015). Economic policy coordination, which in the EU framework includes both fiscal rules and member states' cooperation in response to shocks, works as a constraint on the discretion of national governments when setting economic policy that goes beyond the political term. This raises issues of legitimacy (Alcidi et al., 2014). In certain circumstances, the electorate can manifest its opposition to the implications of such commitments (generating a problem of time inconsistency). The Greek referendum in the summer of 2015 can be seen as a manifestation of this problem. A German, Finnish or Dutch referendum on whether to approve financial support to Greece, or any other country in trouble, would be a manifestation of the same problem.

This may even raise the question of whether the EMU is compatible with the principle of democratic legitimacy.

The broad arguments illustrated above, all lead to the conclusion that economic policy coordination, while desirable under certain circumstances, seems to have worked only partially and entails major problems. This raises the old question of whether the EMU needs a different form of governance, in particular to move from a system based on rules to one based on institutions.

This "solution" itself poses many questions about the optimal institutional design and the objectives that can and should be achieved, but above all, about how national sovereignty on budgetary policy should be relinquished in favour of central EMU governance.⁷ Without going into

6. If, in the end, a German stimulus materialises it will be because it was chosen as the response to the refugee crisis, and not necessarily to support weak demand in the euro area.

7. One intermediate solution is that some resources are centralised for specific stabilisation purposes, for example, a common European unemployment benefit scheme, to which the Five Presidents' Report refers.

detail, many have argued that a fiscal union would resolve all eurozone problems and that had one been in place in 2010 many problems would have been prevented from emerging. The Five Presidents' Report makes explicit reference to fiscal union as a future objective.⁸

This short paper attempts to show that while fiscal union is certainly desirable from an institutional/legitimacy point of view, and would be much more effective than coordination in addressing certain problems, it should not be thought of as the solution to all EMU problems.

In particular it would be a mistake to believe that such a union would solve fundamental problems in countries like Greece where the crisis really erupted and where it is more difficult to be overcome. To make the case for this idea I look into the experience of regions with characteristics comparable to those of Greece that are part of nation-states or federal states that are full fiscal unions. In particular, I look at the features and the historical experience of the Italian Mezzogiorno as part of Italy and the more recent experience of Puerto Rico as part of the United States. Of course it should be kept in mind that the Mezzogiorno is a set of administrative regions within Italy and Puerto Rico is a protectorate of the US, hence the position of each differs from the one Greece could have as part of a future European fiscal union. Yet, as will be shown below, Greece, the Mezzogiorno and Puerto Rico share important economic and institutional features and the way fiscal transfers from Italy and the US have worked in the Mezzogiorno and Puerto Rico, respectively, provide interesting insights on how fiscal transfers from the EMU could work in Greece.

Will fiscal union tackle the problems of the EMU?

Fiscal union is often advocated as a necessary step to address the fundamental problems of the eurozone. There is a certain consensus that, had monetary union also been a fiscal union, the crisis would have played out differently and not had the features and the magnitude observed since 2010. This view is founded on two main arguments, the first of which is based on the experience of the US. The US is a fully-fledged federation with economic, banking and fiscal union, which is undeniably a benchmark for future institutional developments for the EMU, and did not experience the kind of existential crisis that occurred in the EMU. This was the case even though some US states, such as Florida and Nevada, had real estate bubbles and bursts comparable to those of Ireland or Spain (Gros and Belke, 2015), California has been at risk of sovereign default for a decade (since 2004) and Puerto Rico defaulted in 2015 (Gros, 2015).

The second argument is based on the idea that monetary union must be complemented by fiscal union. The combination of multiple national fiscal policies with a single monetary policy is unsustainable, so in order to manage macroeconomic imbalances a federal structure that oversees revenue collection and expenditure is necessary. Without it, the euro will always be vulnerable to shocks. A fiscal union with proper democratic oversight will give the union strength and stability, mutualising credit risk while imposing tough fiscal discipline.

While both arguments are tenable, it is a mistake to believe that even such a fundamental change could resolve the deep-rooted and structural problems

8. http://ec.europa.eu/priorities/sites/beta-political/files/5-presidents-report_en.pdf.

of some of the EMU member states. More specifically, even if Greece were part of the fiscal union, it is unlikely that some of its fundamental characteristics would change. This is what other experiences suggest.

Local economics and institutions matter⁹

Greece, southern Italy and Puerto Rico: three tales, one plot

By the standards of small economies, Greece's is surprisingly closed. According to estimates by Bower et al. (2014), Greece exports about one-third less than a gravity trade model based on GDP, trading partners and distances would predict. In reality, Greek exports are even lower if one excludes those that do not entail significant value added.¹⁰ As a share of GDP, the "adjusted" exports of goods amount to less than 10%. Such a small value means it is easy for exports of services to be larger than those of goods, which is a very rare phenomenon for any country. Such a low degree of openness is even more puzzling if we consider that Greece joined the EU more than three decades ago and the EMU 15 years ago. The single market and the single currency have failed to integrate Greece into the EU regional economy both in terms of trade and participation in the global value chain. In fact, such a disappointing outcome is not unique in Europe.

Table 1, which shows the data for different aggregates of Italian regions, suggests that the exports of goods as a share of GDP in the southern regions of Italy and its islands, the Mezzogiorno, are of exactly the same order of magnitude as Greece's and markedly lower than those in the north of Italy. Moreover, there has been no improvement since the start of the crisis.

	South & islands	Northwest Italy	Northeast Italy
2011	10.6	27.8	31.8
2014	10.1	29.8	34.7

Source: Alcidi et al. (2015) based on ISTAT.

Limited export capacity is not the only unusual economic feature for a long-standing member state like Greece or a large region (like the Mezzogiorno). Both Greece and the Mezzogiorno have always been characterised by:

- Low female participation in the labour force (according to Eurostat, in 2014 it was 59% in Greece and only 40% in the south of Italy);
- High youth employment rates (52% in Greece and 56% in southern Italy);
- A large share of public sector employment (23% in Greece and 24% in southern Italy);
- A small manufacturing base; 8% of GDP in Greece (according to the World Bank) and 7.9% for the Mezzogiorno (according to the SVIMEZ report for 2015), whereas in northern Italy it is close to 18%;
- Low competitiveness in the manufacturing sector and small and micro-enterprises active in the low-valued added and non-traded sectors;
- Local systems and institutions that tolerate a large share of irregular and informal activity.

9. For a more detailed comparison of Greece and the Mezzogiorno, see Alcidi et al., (2016).

10. This is quite substantial given that the largest share of goods exports in Greece is fuel and Greece is not a commodity producer.

Such an economic structure is inevitably both the cause and the consequence of pervasive low productivity. Areas with these features inevitably exhibit a low degree of development and low standards of living. In some cases, however, (at least for certain periods) GDP and employment growth have been made dependent on externally funded domestic demand. When this is possible, consumption patterns become independent of the capacity of an area to produce and generate income. This results in higher standards of living that distort price and wage formation mechanisms which, in turn, do not reflect productivity and are unresponsive to market changes. From this perspective, Greece and the Italian Mezzogiorno are different yet very similar.

Since the 1970s – and still today – the Mezzogiorno has benefitted from automatic transfer mechanisms from central government. Over time this system has constituted a political commitment at national level to support the poorest regions of the country. This has resulted in substantial and de facto permanent transfers, often complemented by “extraordinary interventions” by the state, such as investment and development plans that aim to reduce the divergence between north and south.¹¹ According to data from the Italian Ministry of Economy and Finance, total transfers from central government to the regions (net of social security) amount to more than 20% of local GDP annually.

Because of the inexistence of a fiscal union at eurozone level and the absence of any sort of fiscal transfers from the central level to member states, Greece has never benefitted from such a system. However, Greece has been a net recipient of non-negligible amounts of (structural and cohesion) funds from the EU budget. In the early years of EU accession, they amounted to as much as 4-6% of GDP, while after 2001 and accession to the EMU they fell to about 2% of GDP. While EMU membership reduced access to EU “public” funds, it substantially boosted access to private funds. Since the early 2000s and for about a decade Greece benefitted from very large inflows of capital channelled by the banking sector. Resources were allocated mainly in the public sector, to finance consumption directly and indirectly, and in the real estate sector, which experienced a small bubble. But, essentially, these funds did not generate any future income capacity. When the crisis started, Greece experienced a classic sudden stop of lending and capital flows ceased abruptly. By that time external debt had reached almost 200% of GDP in gross terms and 100% in net terms. Sudden stops usually force sharp, painful adjustment because consumption (and imports) has to adapt to limited domestically generated income. This is the case unless large external support is provided. The various EU (and IMF) emergency support plans aimed to contain the cost of the adjustment, but a certain degree of correction is unavoidable unless a permanent system of transfers is put in place.

It should be noted that in an economic environment of low productivity and openness, internal devaluation – i.e. the falling prices and wages that usually follow the sudden stop – does not necessarily lead to higher exports and GDP. Since external demand is not providing any offset, the most likely and dominant effect of devaluation is the fall in domestic demand, and given its large weight in aggregate demand, in output. Such dynamics can help explain why the first two adjustment programmes for Greece led to a huge fall in GDP, even if wages fell by over 20% in absolute terms.

11. Between 1950 and 1984, the Cassa del Mezzogiorno, a public body with large administrative autonomy, was active in funding industrial development in the south of Italy, with an explicit mandate to contribute to closing the gap between north and south. The disappointing results, largely imputed to inefficiencies at various levels (from the public administration to the legality and security conditions of workers) combined with dispersion and non-transparent use of funds led to the closure of the institution. In the following years, interventions were based on common and pre-defined objective criteria.

Another important element common to both Greece and the Mezzogiorno is that, with all due exceptions, in both areas public institutions have tended to be weaker, corruption more prevalent and the public administration relatively more inefficient than in other European regions. If this is combined with the evidence that easy access to money from external sources usually tends to reduce the interest of the population in exerting control over how money is spent, transfers, either public or private, fail to produce the expected results. Even worse, in the Mezzogiorno welfare state provisions have often been abused and used to entrench political clientelism. Such considerations seem to support the view that transplanting welfare systems and transfer mechanisms conceived for regions with strong social capital into regions with poor social capital can lead to very perverse effects.

Along with the Mezzogiorno there is another case that could be taken as a benchmark for understanding what one can and should expect from fiscal union and its limits when it comes to structural problems, both economic and institutional.

This case is Puerto Rico. The state, part of the Commonwealth of the United States, became famous, or rather infamous, in 2015 for its default. As explained in detail in Gros (2015), the country is not formally a US state but can, de facto, be fully assimilated into it. Indeed, Puerto Rico uses the dollar as currency and benefits from two key elements of the US fiscal union: transfers from the federal budget to the local budget and transfers from federal programmes directly to individuals.

The experience of Puerto Rico suggests that being part of a fully-fledged federation with monetary and fiscal union is not a sufficient condition for convergence, or even enough to avoid default. The table below depicts a few basic indicators of the economic structure of Puerto Rico, Greece and southern Italy and compares each of them to the union to which they belong: the US, the EMU and Italy, respectively.

Table 1. Comparing Puerto Rico, Greece and the Mezzogiorno						
	Puerto Rico		Greece		South of Italy	
	Relative to US		Relative to EU		Relative to IT	
GDP per capita (USD for US and euro for Greece and Italy)	19,801	0.43	16,500	0.56	17,100	0.6
Wages/week (USD for US and euro for Greece and Italy)	390	0.52	458	0.64	583	0.9
Employment rate	35.0	0.76	49.4	0.77	41.9	0.8
Unemployment Rate	13.9	2.48	26.5	2.28	20.4	1.6
Poverty Rate	45.4	3.13	36	1.53	43.4	1.8
	WGI Corruption		European Quality of Government Index (EQI)*			
Governance	0.5	1.3 (level for US)	-0.96	n.a.	-1.62	-1.06 (level for IT)

* Indicator based on survey data on corruption and governance at regional level within the EU, Charron et al. (2015)
Source: For Puerto Rico, based on Gros (2015), the Commonwealth of Puerto Rico, US Bureau of Labour Statistics and World Bank; for Italy, based on Eurostat and Istat; for Greece and the EU based on Eurostat. Latest data available in all cases.

Quite stunning similarities emerge between the three areas when they are compared to the average level of the union to which they belong: low income, high unemployment and low quality of institutions, both in absolute and relative terms. One difference relates to wages: In the Mezzogiorno the ratio of regional to national wages is much higher than in the other areas. This is explained by the fact that the wage bargaining process in Italy is mainly centralised at national level, and negotiated wages are applied throughout the country regardless of productivity and unemployment differentials across the regions. The problem of the same wages but different productivity and development is exacerbated by being denominated in the same currency. This is different from the situation of Greece in the EMU, where no cartelised bargaining system exists.

When it comes to employment, unemployment and poverty, each of the three areas exhibit quite similar rates. The indicators of quality of governance, while not comparable across the areas, suggest that all three areas exhibit very low standards.

In Puerto Rico, the World Governance Index value is far below that of the US, but better than those of Italy and Greece. In EU countries and regions, governance and corruption can be compared through the EQI (the EU Quality of Government Index), which ranks EU regions and countries. According to the 2013 survey not only Greece, Italy and the Mezzogiorno exhibited negative signs, suggesting low quality, but Greece is 158th and Italy 174th out of the 199 countries and regions listed. The Italian administrative regions of the Mezzogiorno all rank above 180, with only part of Bulgaria doing worse.

All in all, while differences among the three areas exist and parallels should neither be stretched too far nor abused by populist discourses, the discussion is worth having.

Conclusions

The attempt to strengthen economic policy coordination and the more flexible approach to rules that followed the crisis both highlighted the limits of the current system of EMU governance. The rules do not work in times of crisis and discretion requires a political government, which is missing at EMU level. In this respect there is little doubt that fiscal union could improve the functioning and legitimacy of the union. However, the experience of other countries and regions that are part of fiscal unions suggests that fiscal union alone is not a panacea.

The historical experience of the Mezzogiorno, which shares many similarities with Greece, both in terms of economic structure and institutional features, suggests that being part of a fully-fledged fiscal, monetary and banking union like Italy protected the region from the dynamics of global financial markets, unlike what happened to Greece. However, the very existence and persistence of such similarities suggests that this was not enough to remove its structural weaknesses. Puerto Rico also has similarities with Greece, and being part of a fully-fledged federation like the US was not enough to ensure convergence to US standards or to avoid a default on international lenders.

Overall the experiences of the Mezzogiorno and Puerto Rico, as well as also other lagging regions in Spain and even Germany, point to the fact that a fiscal union can be a powerful tool for macroeconomic stabilisation but structural problems are much more difficult to solve. On the contrary, it can even induce perverse effects. Transfer mechanisms from the centre aiming at closing development gaps across regions can only work if strong social capital exists in the region. Building it may require institutional and cultural transformations. These can be induced by the establishment of private and public incentives towards reforms and changes in the values and beliefs systems. The starting point is certainly the acceptance of the need to explore the deep roots of contingent and recurrent problems which means avoiding the search for scapegoats and learning to reject what Robert Hughes refers to as the “culture of complaint”.

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