The financial institutions overseeing the Greek bailouts are ignoring the domestic impacts of austerity measures

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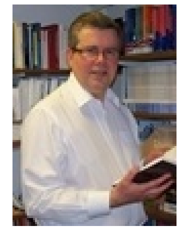
In the aftermath of the second Greek bailout, **Kevin Featherstone** *argues that the EU and IMF are obsessed with Greece's budget balance and are taking little regard for the domestic impacts of austerity.*



Who is rescued by the bailouts of the European debt crisis? The question won't go away. Last month, Greece was granted a second bailout in order to avoid a catastrophic disorderly default. Few observers believe it will be enough to avoid the need for a third bailout, at least in the medium term. It wasn't supposed to be like this: Greece's first bailout almost two years ago was to be a one-off; more recently, EU leaders have repeatedly insisted that there would be no repeat of its second package. Once again, they appear King Canute-like: whatever their claims, they cannot turn back the waves of scepticism from the markets.

The Greek banks – vital to the provision of new investment in an economy facing a sixth year of continuous recession – have certainly not been "rescued". The haircuts on the Greek debt of 53%, imposed in the name of PSI (private sector involvement), have severely damaged them, but this is compounded by their losses of about a further 20% on the new bonds they were forced to accept. The banks now face large-scale nationalisation. So, a sector that has only in the last two decades been freed to operate as private institutions and has shown a vibrancy for growth and foreign takeovers unmatched in other parts of the Greek economy, is now to be returned to the hands of a political class lambasted for its lack of economic discipline. How this might be a stimulus to a more competitive economy is decidedly unclear.

There are starker social costs, of course. In an economy without a welfare regime to speak of, the impact of five consecutive years of recession has taken its toll. Charitable foundations that used to fund educational programmes have taken a big hit themselves in their bank deposits and have now shifted to paying for soup kitchens on the streets of Athens. Neighbourhoods are marked by buildings that owners are desperate to sell or rent and a major increase in the homeless sleeping rough. Almost half of Greece's young people are unemployed, as are one in five of their older peers. Despondency is everywhere, despite the "rescue". If future Greek governments keep to the terms of the bailout, by 2020 public debt will be back to what is was when the crisis erupted in 2009.

The problem is in how Greece is being rescued. The bailouts have increasingly shifted to the imposition of severe cuts across the board. In the past two years, Greece has implemented a reduction of its budget deficit unprecedented not only in the EU, but in the entire OECD area. But the new terms insist on the sacking of 15,000 public servants each year for the next 10 years. The number has been arrived at purely from the budget constraint.

I know from my own involvement with Greek policymaking in the area of research policy that the bailout constraint is being imposed as a series of short-term fixes, eschewing efforts at long-term planning.

Crucially, there is no steer or stimulus here as to how the Greek system should be remodelled in order to shift to a better path of development. The obsession is with the budget balance, not with selectivity or design. The political effect at home is to create a simplistic divide between those for or against austerity, rather than leading a substantive debate on real structural reforms.

With such a charge, the EU and IMF representatives – composing the troika overseeing the Greek bailout – march into ministerial offices on a weekly basis to check that the targets are being met. These second- or third-level officials bask in their unprecedented authority. Stories abound of them walking into meetings with senior ministers, discarding the niceties of a polite greeting, and shouting straightaway, "So, what have you achieved, then?" Young bureaucrats from Brussels lead meetings with ministers ostentatiously giving scant attention to the oral reports offered to them, as they turn sideways and play with their BlackBerrys. In the name of "Europe", neo-colonial arrogance underscores the fixation with the budget accounts.

A real rescue requires a serious engagement with remodelling Greece. And this must recognise that a culture changes gradually, needing long-term support. But the "rescue" of the Greek economy is taking place with little regard to its domestic impacts: it could hardly be more ham-fisted. This inevitably begs a question not only of European capability, but also of will. Has the intention shifted: not to rescue Greece, but to rescue Europe from it? Athenians might well turn the aphorism around and warn their partners in Lisbon: "Beware of Europeans bearing gifts."

** This piece first appeared in The Guardian 'Comment is free' column (22 March 2012) and on the Greece@LSE blog.*

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

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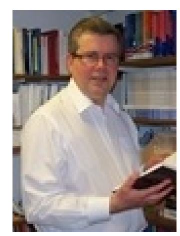

Professor Kevin Featherstone is the Eleftherios Venizelos Professor of Contemporary Greek Studies and Director of the Hellenic Observatory in the European Institute. His research has focused on the politics of the European Union and the politics of contemporary Greece; his work has been framed in the perspectives of comparative politics, public policy, political economy and processes of 'Europeanization'. His most recent books are (co-authored with D. Papadimitriou, A. Mamarelis and G. Niarchos) *The Last Ottomans: The Muslim Minority of Greece 1940-1949* (Palgrave Macmillan Publishers, 2011), and (co-authored with D. Papadimitriou) *The Limits of Europeanization: Reform Capacity and Policy Conflict in Greece* (Palgrave, 2008).

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