

When Populism Fails

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Editor **By Kevin Featherstone**

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Some years ago at the start of the crisis, I wrote in 'Kathimerini' that Greece might have to experience a 'catastrophe' before it would truly reform and get onto a better economic path. I hoped that such an outcome might be avoided by the emergence of a broad reform coalition able to take the necessary measures. In the event, too many reforms were thwarted, not implemented, or their logic denied. This last week, we saw Greece and its creditors face the reality of catastrophe. The ground shook. Neither the government nor its European counterparts were up to the challenge: there were no heroes or villains, we were left to decry the mess both sides had created and we held our breath. And we still are: who knows what agreement will be finally secured and whether it can last? The ramifications are immense.



Greece risked and risks catastrophe because it was seduced. Last January, Greeks could vote for an end to austerity while staying in the euro-zone. Populism and nationalism were brought into a perfect harmony: the 'people' had suffered too much, Greek leaders had been too weak and craven, and it was time to stand up for Greece. Days before the election, a GPO poll had asked voters what would happen if the new Greek government came into conflict with its creditors. Some 53% of Greeks believed that the creditors would back down. In the TV election interviews, the Greeks had been reassured by new leaders who were strong, confident and fresh: 'believe me, they will back down'.

The country also indulged in new political theatre. A media-savvy academic economist, Yanis Varoufakis, emerged on the world stage as a unique phenomenon: a celebrity game-theorist. The country's negotiations became dependent on his tactics. Successive European leaders found his manner offensive and their private conversations sometimes mis-reported. Historians may record that the most remarkable effect of the new negotiating approach was that Greece united all of its European partners. Despite political and national differences that might have played in their favour – the cases of France and Italy stand out – the new government in Athens failed to build coalitions and create allies. As Italian Premier Renzi pointed out, Greece had not only lost allies it had provoked derision even from the poorer EU nations and some in the larger EU states seemed to prefer 'GREXIT'. The response to the Greek proposals last Tuesday while vicious also showed the frustration with the government's tactics.

Christine Lagarde's patronising remark that she was waiting for 'adults' to come to the negotiating table signalled a deeper truth. Athens had offered bland assertions that lacked technical support and failed to convince. There seemed to be genuinely no 'Plan B', no further thinking about how to respond with alternatives. It was as if the SYRIZA government was shocked that its European partners wouldn't give in, even after they said they wouldn't.

The outcome looks set to be a blatant contradiction of what SYRIZA had promised at the last election. Austerity is not over and Greece is holding onto its euro-zone status by its finger-tips. Further, it is very difficult to see a deal now that is in any way significantly different from what was on offer previously. Indeed, if we consider the 'Hardouvelis email' of last year, it looks much worse.

The tragedy is that both the government and its creditors have been on the wrong agenda. A smart stance by the rest of Europe would have been to shift the negotiations to a programme of structural reforms that would increase the long-term competitiveness of the Greek economy. Many of these measures would be ideologically difficult for the SYRIZA government to accept. The political fall-out would then have been to empower the reformers of the political mainstream in Greece and influence public opinion. Offering a choice between further privatisation, better market regulation and more effective institutions or more austerity and higher taxes would at least help shift the debate to matters of economic model. Europe should challenge the government on its state-economy model for all to see.

It is this alternative agenda that previous governments in Athens struggled with and the present government is blinkered from. How confident would we be that if Athens was offered a lower primary budget surplus it would be spent wisely and in a way that led to long-term benefit? That doubt is part of the reason why Greece is where it is now and why the agenda needs to shift.

The political fall-out from this last week may well be huge. The cause will be European myopia and Greek populism.

Kevin Featherstone is Eleftherios Venizelos Professor of Contemporary Greek Studies and Professor of European Politics at the London School of Economics.