Happy new year?

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The start of the new year finds Greece pretty much where the last two years have left it. The country's Eurozone membership is still in question. The much-debated reforms are still pending and new measures for fiscal consolidation are still being considered. Financial stability is still not ensured and the viability of public finances is far from guaranteed. Tax evasion has still not been tackled and the recession continues apace. More importantly, and despite the political change, the government's plans also remain the same. More wage cuts, more spending cuts, more taxes and, subject to all these, if and when conditions allow, a bit more –just possibly a teeny weeny little bit more– public (and private?) investment.

Why, you would ask, things don't move on? Why do things not change? Why has Greece been so tragically unable to resolve its situation? I would highlight three main reasons, three main problems blocking the solution to the Greek crisis.

(i) First, the continuing inability of the country to run a primary surplus. This has proven the most challenging problem for Greece. In theory, creating a primary surplus is not actually that difficult: identify the expenditures with the lowest domestic multipliers (mainly those that stimulate imports, such as military procurements and transfers to upper-middle income households) and cut down on them aggressively, while generating the remaining needed savings through progressive taxation and cuts in non-frontline public services. But Greece has no idea about what multipliers operate in its economy and, given the size of tax evasion and the inability to monitor performance in the public sector, it has to rely on a strategy that results in lower consumption and lower labour demand – the worst of all possible interventions.

(ii) Second, the inability of the country to develop a bold strategy for managing the crisis and finding a route out of it. Not that Hungary should be seen as a role model, but countries like Hungary and Iceland do show that there is more to policy choice than a simple adherence to remedies that have proven to be counterproductive. Day-to-day management is necessary for the avoidance of the worst, but it is not sufficient for the achievement of the better. Being too heavily preoccupied with trying to convince our lenders to release one loan instalment after the other, while eternally pondering what to liberalise and how, the political leadership and the public administration alike seem to have forgotten about growth – the so-called 'denominator'.

(iii) And, third, the inability to restore credibility and confidence, even after the proven commitment of its Eurozone partners to do everything they can to keep Greece inside this exclusive club. I have been long arguing that this is not a crisis of economic asymmetry (Greece has been growing like crazy for years despite its corruption, inefficient institutions and 'high' unit labour costs) but rather one of political dilemmas, where the Eurozone partners cannot bring themselves to offer Greece a real solution if Greece does not produce evidence of real and comprehensive institutional change – Europeanisation, as we call it. All possible solutions, from the 'modest proposal' of Varoufakis and Holland to the 'bold proposal' of having the ECB print new money to monetise the Greek debt and to the more 'tidy proposal' of having an EFSF-sponsored buyback of Greek debt, hit the wall of the unwillingness of Germany and the other Eurozone partners to offer Greece an easy solution, one that will let Greece off the hook. For the Germans, this is a historical conjunction: if Greece does not Europeanise now, it will **never** do. And so, there is no easy solution forthcoming for Greece.

Given that Greece can do precious little to influence the political positions of its Eurozone partners, its only choice is to somehow ease their political dilemma – by finding solutions to the other two problems mentioned above. And Greece has a choice there. One is to go with the neoclassical recipe: privatise, liberalise, downsize, and let private enterprise fill the gaps and thus create jobs and generate incomes. The second is a more Keysnesian one: attack the crisis, stimulate the economy through productive investments that boost domestic demand (this needs to be always emphasised: not through import-intensive consumption but through job-creating investments) and use the additional receipts to refinance this expansion and start paying off the debt.

This sounds as a hard dilemma. Can Greece afford to be the Keynesian outlier in a market-loving world? But also, should Greece succumb to the pro-market recipes that threaten to destroy its – however rudimentary – social model? Well, in reality this is hardly a dilemma. Today's Keynesians are not anti-market and today's neoliberals are pretty comfortable with the idea of state intervention. It almost doesn't matter which of the two recipes Greece decides to follow, as it will most certainly end up following a combination of the two. As long as it tries to follow one … as long as it follows something! Because for the last two years Greece has followed neither of the two – it has followed nothing. It rejected the IMF's advice to lower its VAT rates (who is the Keynesianist here, I wonder) but also didn't follow the IMF's advice to decentralise its wage bargaining. It promised to liberalise the profession of taxi drivers when it was not requested to do so, and it failed to do so when it was finally expected to have the issue sorted. It pondered with the issue of privatisation for months and months, promising impossible receipts, and when it actually started to get going it found out that there is no market for its – otherwise – valuable assets.

Throughout the last two years, Greece's story has been one of indecisiveness and inaction, an unproductive balancing between a new-found pro-market ideology and an omni-present statist culture. It is this unproductive balancing that is responsible for the fact that nothing really has changed over the last two years. And it is the resulting inaction – not the "bad markets" nor the Eurozone partners' "absence of solidarity" – that produced the deep and prolonged recession that Greece is still experiencing. More importantly, it is this inaction and indecisiveness that has intensified the concerns of the Eurozone partners that feed into the external political constraint described above. As the new year has arrived, Greece has to produce at last a policy that will sort its fiscal problem out and deliver the elusive 'return to growth'. Can it do it? Maybe yes, probably not. But one thing is certain: this new year is Greece's last chance – the very last one.