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## Europe and the Greek issue: Profits, losses, missteps and uncertainties

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Just a few days after Greece and its European partners reached their 13 July agreement, there are a number of reasons why we might feel that we have for some time been revolving around the same point, fewer reasons to feel that we have taken a substantial step forward, and still fewer reasons for optimism.

While the 17-hour negotiation did reduce the risk of a Grexit, there is a strong sense that the possibility has only been postponed, with said scenario having in fact been set down in an official EU document and presented to the Greek government. What is more worrying is not whether the German side and some of its satellites were serious in proposing a five-year Greek timeout from the eurozone, but that extremist circles on both sides have been strengthened by the latest developments.

### German hegemony, French resurgence, Greek inadequacy

In a substantial portion of Europe, unequivocal anti-Greek sentiment is lurking and growing, pointing to Greece as unwilling or unable to take unpleasant decisions at a political cost. The mounting anger at Greece's obvious failure to promote structural reforms – as part of a broader programme in which, it is now clear, few ministers in the last four governments believed – modulated, aided by the comportment of Greece's former finance minister, into a lack of trust in, and victimization and isolation of, a Greece uniquely toxic, which significantly pushed up the price of last Monday's agreement.

In fact, states still striving to bond with Europe culturally and in terms of identity are acting "more kingly than the king" in order to ingratiate themselves with the leader, of which they are a natural extension, and to whom they look to safeguard their economic interests. These states, after all, have a tradition of seeking protectors, having in the past looked to totalitarian regimes, such as the Soviet Union. And this had something of an impact on their conduct towards Athens: the fact that we flirted with Russia – to no effect – at a time when the latter appeared to be threatening the security of the Baltic states and Eastern Europe. Meanwhile, Northern and Central European countries have adopted the German model a priori, identifying with the triptych of low inflation, low interest rates and low growth rates.

In the eyes of these states, a country that stubbornly refuses to reform itself, to bring itself into line with the European norms in a number of policy areas (e.g., early retirement, cost of pensions as a percentage of GDP, rationalization of the public sector, market function), and to put its house in order – much less move ahead with the adjustment programme's many and unjust conditions, which perpetuate austerity – must be forced into a strategic retreat or be ejected from the European framework. The Greek government's "recalcitrant indiscipline" – in combination with its attempt to change not only the mix of the Greek programme, but also the European model as a whole – as well as its often extreme rhetoric, triggered the reflexes of the most systemic and establishment actors in the European formula.

Given the slow adaptation of a bureaucratic and cumbersome mechanism, the freshness of the new Greek government was more suggestive of ignorance of how the EU functions than of a comprehensive plan for reversing dominant mindsets. I would add that, in the midst of negotiations and an inability to achieve a sustainable solution, we gave the sense that our intention to "change Europe" ran through provoking a rupture – which forced even states that looked kindly on Greece's demands to seek support at the stronger poles – and adopting another policy mix for Athens.

So, a problematic Greece essentially identified any amendments to its existing programme with broader upheaval in Europe. Thus, while we found sympathetic ears and supporters in oppositions and civil society, we faced off against the whole of the EU leadership, on whom depended the successful completion of the negotiations so critical to our future. There were also those who, however unfairly, linked us with anti-European and Eurosceptic forces, which, in turn, and for completely different reasons, supported the Greek government's efforts. All of this unfolded while what was mainly at stake for Athens was still, and remains, up in the air. It would have been wiser and probably more productive if any moves against an admittedly skewed model for European integration had been made after we had achieved stability and returned to relative normalcy, standing on solid ground.

In any case, it is clear that the above resulted in a flagrant discrepancy between the clear need to restore the trust that had been lost between the involved parties and the taking of measures punitive, if not debilitating, in effect. Whatever happened, the Europe of solidarity and honest compromise is now a thing of the past, at least as far as the Greek problem is concerned.

In fact, the effort to humiliate Athens, following on the decision to hold a referendum, stirred France and Italy from slumber, if only after the fact. In the bigger picture, uncompromising stances and general lack of flexibility create divisions and stereotypes, increasing the risk of disharmony among political elite and societies, which perceptibly hampers the efforts towards substantial deepening of Europe, with the sole exception of the financial sector. However, Paris and Rome were obliged to stand up to Berlin in the face of the real fear that, if they did not moderate Germany's overambitious agenda (with which they disagreed on many points, in any case), the situation would be irreversible, creating dire precedents. Obviously, they realized that their erstwhile alignment with Germany no longer provided them with the necessary guarantees that they would remain above the fray (given their intrinsic weaknesses, which require structural measures) if the Germans stuck to the same motif. It appears that France had been attempting of late not to agitate its relations with Germany, endeavoring, as usual, to protect the latter from itself by keeping Berlin's worst tendencies in check.

In a way, the intensive marginalization of Athens, and mainly the real danger of an exit from the European family, forced Paris, or gave it the opportunity, to stand tall, or at least play a mediating role, "selling" its services – perhaps to cash in correspondingly, later on – to Athens and Berlin, distancing itself somewhat from the latter, but not to the extent of outright disagreement. If this trend continues in the long term, we may have a new balance of power on the Franco-German axis, a necessary ingredient for a smoothly functioning EU. Finally, president Hollande's more active involvement in the process set him apart from his probable challenger in the 2017 presidential elections, Nicolas Sarkozy, who identified from the outset with the German Chancellor, which proved problematic later on, despite the fact that a portion of France's economic elite are pursuing an understanding, if not alignment, with the German economic model.

## The unstable domestic front sparks developments, but in an unknown direction

Things will certainly be difficult enough from here on in. This is mainly because the Greek government is being called upon to serve something that goes against its political DNA. Even more unwieldy is the implementation of a programme that the prime minister himself claims is the result of brutal extortion and sees as highly problematic and recessionary. So, how can the current government implement a package of measures in which it doesn't believe, which, objectively, it cannot make its own, and which it condemns as being the result of an attempted coup (even if part of the rhetoric is constructed to bring round dissenters within the governing party)? That is, we are facing this paradox: for the government to try – while already hemorrhaging in parliament, and having based its agenda and election on its anti-memorandum identity – to implement measures that are in some cases harsher than those of the previous memoranda. Even if we accept that, under the pressure of given conditions, there will be forced implementation of the agreement, there are, on the one hand, strong doubts as to whether the prime minister will last or even wants to last; he may instead invoke some pretext or other for halting the process and starting from scratch. And on the other hand, the fragile parliamentary majority could at any time set in motion developments that would block the completion of the process agreed upon with the partners, regardless of whether the prime minister wants such an outcome. Not within Parliament – where the opposition votes are certain to support the adoption of all the policies necessary for ensuring the bridge loan in the initial phase and, subsequently, whatever is required to partially restore the functioning of the economy – but on the streets and on the party level, where controversy will be more intense. It is obvious that when a parliamentary majority, with a minimum of 151 out of 300 votes, drops to 124 (following the loss of 39 MPs) in the first round of voting on the prerequisites, with similar, if not worse, numbers expected in the coming phases of the process, its medium-term survival, in its present form, is highly unlikely.

Beyond that, another worrying trend is that those who have risen from obscurity of late to see their stock skyrocket via Syriza's ambiguities and contradictions – who divided Greek citizens into "good anti-memorandum" and "bad anti-memorandum", essentially stratifying ideological differences along class lines – appear to have taken the upper hand, or at least become the catalysts in domestic processes, with a direct impact on Greece's image abroad. Paradoxically, an informal alliance has taken shape (in and beyond Greece) between extremists on either end of the political spectrum, who have ended up feeding from the same trough. It is not that they are both in favor of going to a new currency or that they are working up plans for issuing IOUs for domestic payments, plans for parallel currencies. It is that they are indirectly supporting one another, given that the stubborn insistence of a portion of our lenders on creating conditions of asphyxiating pressure for the Greek economy, with successive governments being forced to adopt programmes doomed to failure (aimed at increasing revenues, but perpetuating the vicious cycle of austerity), strengthens, in a sense legitimizes, and multiplies the voices within Greece that are proposing the rejection of said programmes, which in turn creates uncertainty among our partners as to the extent that Greece has the necessary resolve and social majority to push through with difficult reforms.

Even worse, the anti-Greek sentiment in a portion of Europe is mirrored by Greek anti-Europeans, with a real danger, following the realization that Syriza, too, failed to transcend the memorandum policies, of recourse to more radical solutions. And at the same time it is clear that the demonization and targeting of these extremists, as well as of systemic circles in Europe, renders the negotiations significantly more difficult, making the climate ever more tense and deepening the rift between the moderate elements on both sides.

The fact that dissenting MPs from the governing coalition are pointing to the existence of alternative paths to the euro and Europe – even though this is clearly self-delusion and, by extension, fraud – may spark developments, including broader political upheavals. In any case, the characteristic delays on the part of the government, whether due to tactical ingenuousness or fear of reaching a decision on an unpleasant programme in the face of strong intra-party opposition, cost us economically and in the negotiations (loss of capital), and worsened the terms of the third memorandum, which was agreed to under the exigent dilemma of whether to stay in or leave the euro.

The hybrid situation we have arrived at – with government MPs voting against measures but saying they support the government, with the opposition obliged to support the prime minister but refusing, for the time being, to participate in a special-purpose government, which the prime minister says he doesn't want, while nevertheless looking to the votes of the opposition parties, having essentially lost his parliamentary majority – has essentially trapped and neutralized all of the

domestic players. So, if the Greek prime minister remains firm in his unwillingness to open up the political game, preferring an ambiguous pact for completion of the parliamentary process of passing the programme, without real and multidimensional consensus, then autumn elections will be unavoidable- provided that we meet the deadlines set by the recent agreement.

## Viable A-Greek-ment or Exit at the end of the course

The agreement itself can be regarded, in macroeconomic terms and under some conditions, as relatively balanced and viable, but the proposed reforms (apart from the structural reforms that should already have been implemented by the Greek side, without being imposed by external forces) will extend the recession, as they hit harder at productive economic activity and lack a growth perspective, in the absence of a safety net for those most vulnerable. Of course, the ever growing discussion of a restructuring of the Greek debt, through extension, lower interest rates, and a longer grace period, is cultivating visible expectations, enabling the Greece side to quell domestic reactions. The question remains of how the apparent need for initiatives, whether in the direction of creating a special-purpose government or recourse to elections, will be reconciled with the obligation to finalize the agreement, at least until the banking system's return to partial operation can be secured, along with partial funding for covering obligations coming due in the next four-six weeks. Unless things get out of control due to domestic developments. In the end, might the agreement in question (political and technical, initially, and subsequently social) be rendered manageable by the fear of the incalculable cost of failure? Given that both Greece and the partners (and Germany first and foremost) are emerging wounded from recent events, it remains to be seen whether they will choose to manage the damage jointly, under the prism of collective European interest, or individually, with each side targeting the other. This, in large part, will decide whether last Monday's transitional agreement, with its many flaws, will be – in combination with other actions – a step towards a final solution or merely an antechamber to exiting the euro, with the Grexit pushed back and responsibility shirked and shifted in the logic of the blame game.

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