All We are Saying is Give Greece a Chance!*

Frank Hoffer

Greek unit labour costs are down to the level of 2006, pensions have been slashed, the budget deficit largely eliminated, public sector employment has been reduced by 25%, determination to improve tax collection and deal with tax evasion is stronger than ever before, labour markets have been liberalised, bureaucratic barriers for entrepreneurship have been lowered. Real output, at the end of 2014, was below its 2000 level, marking a more than 26 per cent plunge from its peak in 2007, while an even larger fall—30 per cent—in employment has been recorded. More than one million workers have lost their jobs relative to the previous peak in 2008, with an increase of 800,000 in the unemployed – the total now stands above 1.2m – while the active population is shrinking, as workers leave the country in search of better opportunities abroad. Real wages have fallen by more than 30 per cent during the last five years.

Whatever one thinks about the austerity policies of the Troika, there can be no doubt that many of them have been implemented in Greece. To say Greece has done nothing is propaganda, pure and simple. Sure, there is much that can be improved in Greece; the remaining reforms cannot, however, be implemented overnight. At least Athens – unlike Berlin – does not have an airport that has overrun budgeted costs by €5bn and, instead of opening in 2012, is now set to open in 2018 only. Incompetence and mismanagement are not a Greek privilege. The patient has swallowed most of the medicine, but is sicker than ever. The doctors, while highly paid, have proven themselves to be utterly incompetent. Their prognosis was wrong: recovery did not happen. Not all of the medicine was mis-prescribed. The Greek pension system needed streamlining, public administration needs to be improved, tax collection needs to be strengthened etc… But there was a clear over-prescription of austerity measures and an accompanying lack of the investment needed to restart the economy.

In January 2015 the patient revolted. Thank God most Greek people turned to a pro-European, pro-democracy and anti-poverty party and not towards a xenophobic fascist alternative. The new government naively assumed that the crisis was about economics and that after five years of failure there would be some willingness to consider that more of the same was not the solution.

> Prolonging the current failed programme, extend(ing) economic hardship beyond reason and prolong(ing) the agony and the divisive tensions between debtors and creditors would be disastrous.

This is not the conclusion of Yanis Varoufakis or Alexis Tsipras, but a recent comment from Dominique Strauss-Kahn, whose economic competence as a former head of the IMF is – despite his moral failures – never questioned. It seems that keeping Greece in the Euro will be impossible with a continuation of the failed policies of the past. The Greek government needs a genuine chance, one which it has not been given so far.

The Greek government, voted into power by a majority of its citizens, is being humiliated by the creditors' demands; the Eurogroup is annoyed that the government is rejecting its "generous" offer. The last few weeks have been a dialogue of the deaf and the level of misunderstanding is high. Reading the latest proposals and counter-proposals, some of the Eurogroup's proposals do not look as generous as claimed. On 22 June the Greek government, for example, proposed to the creditors:

> The authorities will review through a consultation process the existing frameworks for collective bargaining and industrial relations taking into account best practices elsewhere in Europe. Further input to the review described above will be provided by international organisations including the ILO.

And that is how it reads in the famous "take it or leave it" proposal of the Eurogroup four days later:

> Launch a consultation process similar to that foreseen for the determination of the level of the minimum wage (Art. 103 of Law 4172/2013) to review the existing frameworks of collective dismissals, industrial action, and collective bargaining, taking into account best practices elsewhere in Europe. Further input to the review described above will be provided by international organisations, in cluding the ILO. The organization and timelines shall be drawn up in consultation with the institutions. No changes to the current collective bargaining framework will be made prior to the conclusion of the review and in any case not before end-2015. Any proposed changes to the legislative frameworks will only be adopted in agreement with the EC/ECB/IMF. (italics FH)

This does not really show a spirit of compromise, but seems prescriptive, restricting the policy space of an elected government. The narrow micromanagement of Greece is neither economically necessary nor democratic. It is justified by the argument that external technocrats can impose better policies upon Greece. Having failed for five years, one wonders what it is that gives them the confidence to deny the democratically elected Greek government the possibility to review and – if they deem necessary – to change their labour market regulations.

Angela Merkel repeated on Monday her statement: "if the Euro fails, Europe fails". But if that is the case, why is she acting as she does? Greece is only the tip of the iceberg. A common currency without coordinated fiscal, taxation and economic policies and yes, without transfers between countries, is not sustainable. Grexit will do unforeseen damage to the Euro and to European integration. It will show that what was meant to be an irreversible process of closer integration is, in fact, reversible.

A future historian might ask why the larger European governments and in particular Angela Merkel and her social democratic partners in Germany allowed a tiny country such as Greece to trigger the unravelling of the European project. Was it lack of economic understanding, narrowly defined national interests, political hostility towards Syriza, semi-religious belief in the magic of "ordo-liberalism", fear of an electoral backlash or incompetence?

Germany has gained significant political power during this crisis, but has also lost political sympathy in many crisis-hit countries. This is probably the crucial moment for investing political capital in moving Europe forward and overcoming some of the bitterness and resentment created during this crisis. Forget about the unpleasant negotiations of the last months and some personal animosities. The stakes are too high. It's time for a pragmatic and open-minded restart.

Given the urgency we need a simple and workable solution instead of endless debates about whether the corporate tax rate in Greece shall be 26, 28 or 29 per cent. There is also no point in the public creditors constantly negotiating with Greece about new credits, the sole purpose of which is to pay back the old credits to the same institutions.

Dominique Strauss-Kahn made a simple suggestion in this respect:

> My proposal is the following: Greece should get no more new financing from the EU or the IMF but it should get a generous maturity extension and significant nominal debt reduction from the official sector.

This would still mean tough times ahead for Greece, but it would give the responsibility back to the Greek people and their government(s) to live within their means. It would give them the time and space to implement the changes needed to rebuild their economy. It would also ensure that the creditors do not lose all their money. It is certainly a better alternative than Grexit or continued agony. For the sake of Greece and the sake of Europe they need this chance. Better Syriza succeeds than Europe fails!

In the heated public atmosphere this will be a hard sell to the public in Germany and other countries, but Angela Merkel is a skilled political leader and, together with her coalition partners, she can do it. Otherwise she might end up being known as the women who lost Europe.

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