A Greek Tragedy that could have been Avoided*

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The endgame nears in Greece. The latest rejection by the Eurozone Finance Ministers of any extension of the proposed bailout plan was followed by the decision of the Greek Prime Minister Alexis Tsipras (subsequently supported by a majority vote in Parliament) to put the terms of the bailout to the Greek people in a referendum. Since that would put the country into technical default to the IMF by Tuesday 30 June, and a run on the banks was inevitable, by Monday 29 June Athens had been forced to impose a bank holiday and capital controls, at least until the proposed referendum on 5 July and possibly even thereafter. This would put a temporary stop to the almost continuous leeching of funds from the Greek banks that has intensified over the past month, as people withdraw their money in anticipation of "Grexit", or Greek ejection from the eurozone.

The euro ship is now in uncharted waters, and the outcomes in both Greece and the rest of Europe are truly unknown. In the mainstream media in Europe, the blame for this is being laid squarely on the shoulders of the Leftist Syriza government in Greece, but in truth it is the handling of the crisis by the European authorities that has been utterly shambolic. It is difficult to think of a more unnecessary catastrophe that could have been averted at any time in the past five years with just a little more vision and flexibility on the part of European leaders.

The essence of the problem is that Greece is now saddled with a debt that it simply can never repay. Much of this debt is indeed not because of recent "new" loans, but rather the accumulation of unpaid interest compounded into the principal amount, so that the debt to GDP ratio has actually increased from less than 100 per cent to more than 175 per cent of GDP over the past few years, without any funds coming into the economy. The so-called "bailouts" provided by the European Union and the European Central Bank have really gone to repay banks in Germany, Austria, the Netherlands, etc., while the Greek people have not benefited at all.

The obvious and inevitable solution is a restructuring of the Greek debt. In fact, at one point this was even explicitly recognised by the IMF. But so far the EU has stubbornly resisted even contemplating this option, or recognised that Greece's problem is one of insolvency, of debts that cannot conceivably be repaid in full. Instead, it has insisted on grinding austerity measures that have already caused national income to collapse by more than a quarter over the past five years, destroyed employment and basic social services, and along with that the hopes of an entire generation. It has already created massive inequality and growing hardship for the ordinary citizens, as social services are cut and even public order is difficult to maintain.

Yet the EU and its leadership have persisted in "kicking the can down the road" rather than actually address the issue of debt restructuring, and force the Greek people into even greater hardship. What is more, the latest negotiations indicate that the troika (the EU, the ECB and the IMF) are unwilling to bend even with respect to the details of the austerity programme, requiring cuts in public sector workers wages and pensions and other cuts in public spending, rather than accepting the Greek government's proposals for other measures that could increase direct tax revenues.

The manner of the negotiations was also suggestive of the desire to somehow force regime change in Greece, by making the position of the Syriza government untenable and making it impossible for them to function, much less provide some of the relief that they had promised the electorate. This approach is not just diabolical but truly cynical. The distaste amongst European leaders for a government that wants to listen to its people and protect the citizenry from further economic damage was matched by the fear that any success for Syriza could have domino effects in encouraging similar movements elsewhere (such as the rising party Podemos in Spain).

The decision by Prime Minister Alex Tsipras to put the terms of the bailout to a referendum of the Greek people was greeted with shock and horror in Brussels as well as other European capitals, and even criticised by IMF Managing Director Christine Lagarde. The EU chief Jean-Claude Juncker declared that he felt "betrayed" by the "egotism" and "populism" of the Greek leadership that actually chose to consult its own people (rather than accepting terms that would greatly affect them without any consultation). But the referendum was indeed the only sensible way to proceed given the terrible options that Tsipras had been offered: either to agree to the punitive and aggressive bailout terms and thereby lose all credibility with his people; or to hold out against those terms and thereby be accused of precipitating the Greek default and potential exit from the common currency.

For Greeks, the continued pledge to even more grinding austerity with no end in sight and no apparent economic reward for this sacrifice in this generation is clearly an undesired choice. But it is possible that they may still choose that these deeply punishing terms be imposed, if the fear of leaving the eurozone turns out to be greater. This is clearly such a significant choice that it should not be made by a government if the referendum option that will reflect the will of the electorate is available.

But the EU, by reacting with outrage and refusing to delay the extension of the bailout renewal decision, has effectively sought to punish the Greek government for this democratic attempt to consult the people on what would affect them so deeply. This confirms the contemporary tendency of capital – and finance capital in particular – to abhor the practice of democracy, and to create and support governments and supra-national institutions that actively seek to suppress it.

For Greece, there is no doubt that there are worse times ahead in the short term. Banks are likely to fail, there will be some amount of chaos and associated instability, and economic activity will be hugely disrupted, with adverse social consequences as well. But, if the country is forced back into another currency (drachma or something else) then a significant devaluation will at least allow the economy to recover over time. Further, since the country currently runs both a budget surplus and a current account surplus, it can manage for some time, and even seek to grow its way out of the mess through implementing policies that allow demand to recover and emphasise employment generation.

For the rest of the European Union, however, there are even greater long run concerns. At present various European leaders seem to feel that they have managed to ring-fence Greece (which is anyway a relatively small economy within the Eurozone) and will suffer minimal disruption because of its departure from the Eurozone. But this is short-sighted indeed, and the entire process is likely to boomerang on them because of unanticipated outcomes.

Since faith in the single currency is strongly linked to perceptions of solidarity and support within the currency union, this rejection of support is likely to have serious effects. Indeed, one commentator (Larry Elliott writing in The Guardian) has already called it the EU's "Sarajevo moment", drawing parallels with the assassination of the Archduke Rudolf in Sarajevo that was subsequently recognised to have led up to the First World War, even though at the time that event in a relatively small country in Europe were generally dismissed as not so important.

This is likely to be the start of the unravelling of the currency union, and may well have implications beyond that to other aspects of the European Union, both economic and political. The economic and geostrategic fallout is immense. Already US President Obama has called German Chancellor Angela Merkel to express his concern.

The current events – and on particular the aggressive intransigence of EU leaders – will seriously undermine confidence that the union will sustain. And so the attention of financial investors will inevitably turn to other perceived weak links, of which some names of countries in the Eurozone periphery are already being bandied about, from Portugal to Spain to even Italy. Once finance capital starts to bet on the possibility of such enforced departures, no amount of pious declarations by European leaders will be able to divert them, once the lack of commitment and solidarity has been proved in one case.

This need not happen immediately, but certainly both the idea and the implementation of the Eurozone will be dramatically weakened. And this will affect both the strong and the weak in the eurozone. Indeed, Germany, which has been one of the biggest winners out of this currency union, may well be the biggest loser from the beginning of its dissolution.

But there is more than economics at stake here. The very idea of European unity was in some ways a deeply idealistic one, even though in practice it was driven by corporate interests. But going back on the economic union – no matter the size or strength of the economy that is ejected – will definitely have political and strategic effects as well. A Greece abandoned by its former partners will be forced to seek allies elsewhere, and these may not always be to the taste or interest of other European countries. Worse still, if the process creates political instability and turmoil in Greece, the repercussions will necessarily be felt among its neighbours and further afield.

It cannot be that other European leaders do not see all this. So their entire approach to this problem remains a source of wonder. What can they be thinking? And what obsessive desire to placate finance capital can be so strong as to put under threat the entire European project, simply to punish the government of a small country that dared to speak up for its people? In the war between finance and democracy, this particular battle may not be the decisive one, but it should certainly clarify minds as to the real stakes involved.

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