Averting a Greek Tragedy – For Now*

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The citizens of Greece are not the only ones who have been watching the tense negotiations between the new government in Athens (led by the radical party Syriza) and the European Union (led de facto by the Germans). Not just in Europe, but everywhere in the world, people are watching with bated breath this most recent skirmish, part of a battle in what may turn out to be a protracted war between democracy and finance. Because this current struggle is really about much more than whether Greece should continue with its fiscal austerity programme or the contradictions of remaining within the Eurozone. It puts to test one of the more critical questions of our times: can elected governments actually take measures to fulfil their promises to the people in the face of opposition from global finance and their agents in establishment?

Consider the immediate background. Ever since the Eurozone crisis broke around five years ago, the economy of Greece has suffered unmitigated decline. National income has declined by around a quarter; unemployment has increased dramatically and the official open unemployment rate is now at 25 per cent, with youth unemployment almost 50 per cent. These high rates of unemployment persist even though the labour force has shrunk, with bright educated people leaving Greece in ever larger numbers and discouraged workers simply abandoning the search for jobs, with little or no prospects of employment in the country.

Fiscal austerity imposed by the hated "troika" (the EU, the ECB and the IMF) has involved massive cuts in public sector jobs and wages and compression and even elimination of all sorts of public services. This has dramatically worsened the quality of life and has even led to public health crises, as diseases like malaria and HIV-AIDS that were under control even a decade ago have made massive comebacks. The social effects are also frightening, with rising inequality and incidence of crime, violence against migrants and the emergence of extremely rightwing and openly fascistic neo-Nazi groups like Golden Dawn.

Despite all this, the government's external debt shows no sign of shrinking, and the public debt now stands at 175 per cent of GDP compared to just around 110 per cent when the crisis erupted. Some of this reflects the very design of the original bailout and so-called "adjustment" package, under which any rescheduled interest payments were simply added on to the principal. As in so many other cases, the bailouts that were purported to save the country were actually designed to save private finance from the implications of its own irresponsibility. The several attempts to "save" Greece really did no such thing – they essentially saved the European banks (including those from Germany, Austria and the Netherlands) that had lent to public and private borrowers in Greece. By now, private finance has more or less washed its hands off that country, having passed their holding of Greek assets to the European Central Bank and other European Union institutions along with the International Monetary Fund. There is nonetheless stubborn resistance on the part of creditor governments to any kind of Greek debt restructuring – which is bizarre since it is clear to everyone involved in this complex financial ritual that there is no way in which this debt could conceivably be repaid in the foreseeable future, even with continued economic pain being inflicted upon the Greek people. Indeed, with the continuation of policies that prevent economic activity from expanding once more, the chances of any recovery of output that would allow the economy to grow out of the debt are even slimmer.

It is in this context that Syriza – led by the charismatic Alexis Tsipras, now Prime Minister – came to power in the recent elections, promising an end to this apparently endless and meaningless austerity. Syriza offered hope because it rejected the seemingly endless downward spiral of ever-greater austerity and misery that would involve several lost generations. It promised a programme that would rebuild Greece on four pillars: confronting the humanitarian crisis; restarting the economy and promoting tax justice; regaining employment; and transforming the political system to deepen democracy.

But none of these is even remotely possible under the terms of the current bailout agreement with the EU. This is why Syriza originally also promised that it would not extend the bailout. In his very first speech to parliament as Prime Minister, Mr Tsipras said that "the Greek people gave a strong and clear mandate to immediately end austerity and change policies. ...Therefore the bailout was first cancelled by its very own failure and its destructive results."

Instead, Syriza's government asked for the write-off ("restructuring") of a significant part of the Greek debt on the basis of a debt conference; a temporary moratorium on debt payments until the economic conditions improved; repayment of the remaining debt tied to economic growth rather than to the Greek budget; and purchase of Greek sovereign bonds under the European Central Bank's monthly programme of quantitative easing. In addition, Syriza felt that Germany should repay reparations for a loan that the Nazis forced the Bank of Greece to pay during the occupation of the Second World War, which would amount to around €11bn today.

The first set of requests consists of fairly sensible policies that are similar to those routinely available to companies facing liquidity problems, under debt workout laws in many developed countries. But because sovereign debt workouts are still not adequately dealt with, these suggestions have proved to be red rags to the European mainstream's bull. In particular, Germany's response has been aggressive and resolutely uncompromising. This could also be related to a fear of a domino effect, as the new party Podemos in Spain, also fervently anti-austerity, gathers political strength before the upcoming Spanish elections.

The ensuing war of nerves brought negotiations down to the wire, and until the point when a last minute compromise was somehow hammered out on Friday 13 February, it seemed that Greece would have no option but to default, generating a run on its banks and perhaps leading to exit from the European monetary union. But this last ditch agreement has in fact kicked the can down the road for another four months, even though the basic issues remain unresolved.

On the face of it, it looks like Athens has lost this round and been forced to do a U-turn. The Greek government has agreed to "the successful completion" of the present bailout "on the basis of the conditions in the current arrangement" – which effectively means that it has to abide by the existing bailout agreement that was so comprehensively rejected by Syriza. It has also got nothing in terms of any offers of debt renegotiation, and Germany has already declared that it will not even agree to discuss any possible debt restructuring. This is why some left wingers within Syriza have already condemned the deal. Thus Manolis Glezos (a 92-year-old Member of the European Parliament from Syriza) said this was just "rechristening fish as meat" and apologised to the Greek people "for participating in this illusion".

It is true that the Greek government was under extreme pressure, as capital flight from Greece is already well advanced and the ECB had already put in place restrictions that would in effect prevent the economy and government from running after February 28. This judgement may also be too extreme, as Syriza has managed some partial success in two crucial areas. The EU expected Greece to run a primary surplus (budget surplus before interest payments) of 3 per cent of economic output this year and 4.5 per cent in 2016 and 2017. Athens has been asking for a surplus of 1.5 per cent, and it is likely to get some concession close to that figure, which would imply at least some relaxation of fiscal austerity measures.

Most importantly, it has won the right to decide on how this is to be achieved through its own package of proposals. Given previous promises, the new package is likely to reject privatisation of state assets to raise resources, and instead include various other measures, including tax reforms that heavily punish evasion, collect unpaid tax dues, crack down on tobacco and petrol smuggling and raise taxes on the wealthy. It will scrap the unpopular property tax and instead tax luxury homes and large second properties. It will avoid implementing pension cuts and VAT rises and instead focus on making the civil administration more effective.

These breathing spaces are very important to even try and implement Syriza's other promises, such as 300,000 new jobs in the private, public and social sectors, and a substantial increase in the minimum monthly, or up to 300 KW of free electricity and food subsidies for families below the poverty line, free medical care for those without jobs and medical insurance, and so on.

At the time of writing, the outcome is still unclear, since the Greek proposals were yet to be considered (and approved) by the EU. And much can change over the next four months before the next bailout (or otherwise) is due. Ultimately, unless there is much greater accommodation by the ruling powers in Europe, it will prove near-impossible for the Greek government to fulfil even its more limited progressive agenda and still remain within the eurozone. Yet Syriza has insisted that it does not want to leave the euro, and the dominant public opinion within the country also still favours this.

So things are still fluid: for Greece, for Europe, for democracy versus finance. It is important at this stage to work out a Plan B, a fallback option that would allow the Greek government to negotiate from a position of strength knowing that it has some other schemes worked out for life beyond the euro. The famous revolutionary composer Mikis Thedorakis expressed his own position on this succinctly: "There is hope. And that is for the leaders of Syriza to find the strength to say, even now, OXI [NO] to Schauble's NEIN."

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