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**Greece Closer to Defying Austerity**

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The debate over “cancelling” austerity is one step closer to being tested in practice, after the Greek Parliament failed to elect a President on December 29. In accordance to the constitution, PM Antonis Samaras asked the outgoing Greek President Karolos Papoulias to dissolve the Parliament and organize snap elections to be held on January 25.

The anti-austerity, left wing Syriza party is leading the polls as of December 28 with 28.1% over Samaras’ New Democracy party, which has 25.1%. Syriza’s president, Alexis Tsipras, promised to renegotiate Greece’s bailout program and seek a write-down of the country’s debt, similarly to the German debt write-off after the Second World War.

Greece’s economy has yet to rebound after six years of austerity measures that followed the financial crisis. Economic reforms mandated by “troika” (ECB, IMF, and the EU Commission) as conditions for the €240bn bailout package brought unemployment as high as 28%, in August 2013. As of August 2014, Greece’s unemployment rate was 25.9%.
After the failed vote in the Parliament on December 29, Tsipras declared a “historic day for Greek democracy” and vowed that “with the will of our people, in a few days, the austerity agreements will also belong to the past.”

Tsipras’ plan assumes that Greece’s creditors will renegotiate the bailout terms. German finance minister Wolfgang Schäuble already announced that this would not be the case: “New elections will not change the agreements we have struck with the Greek government.”

After all, what guarantees can Greece give to the EU that the excessive spending of the past would not be repeated?

EU policies since 2012 have insulated the Eurozone from the effects of a Greek default. By now, most of Greece’s debt is not owned by private investors, but by other member states. Hence, a default would not have much of an impact outside Greece.

Since its uses the euro, Greece cannot devalue its currency temporarily. Similarly, in the 1930s, Germany was not able devalue its currency, which was tied back then to the gold standard. The parallels stop here: the flirt between voters and the extreme right Golden Dawn party in Greece was short lived. Syriza might be a populist party, but it is strongly pro-European (unlike populists in Italy, France, the UK, and elsewhere), and Tsipras advocates for continued Eurozone membership.

**Greece, an Example for EU Austerity**

The political evolution in Athens has greater significance for austerity in France and Italy, countries with far larger economies. Both Paris and Rome were allowed by the EU to break the rules and have higher budget deficits for 2015, while Greece had to adhere to strict terms.

Former French president Nicholas Sarkozy, an austerity champion, lost the 2012 election to socialist Francois Hollande, who ran on a pro-growth ticket: “Austerity can no longer be the only option for Europe (...) May 6 gave us a new start for Europe, a new hope for the world,” said Hollande in his victory speech. Yet he converted in 2014 to a keen austerity supporter. Policies both prior and after the “conversion” paid no results: France’s high unemployment broke record after record, turning Hollande into the most unpopular president in modern France.

Hollande’s campaign manager in 2012, Pierre Moscovici, now EU Commissioner for Economic and Financial Affairs, Taxation and Customs, is calling on Greek voters to continue backing the economic reforms required by the
bailout agreements. In his visit to Athens earlier this month, Moscovici refused to meet Tsipras. He offered instead to meet Tsipras in Brussels “in the weeks or months to come.”

MEPs questioned Moscovici on impartiality when it comes to budget rules, during his confirmation hearings for EU Commissioner in September. “I will make sure that all Member States, big or small, apply the rules fully, without any exception” was his response, before invoking the “flexibilities” allowed by the Stability and Growth Pact.

**Highly Visible Anti-Austerity Backers**

Following Hollande’s turnaround, Italian PM Matteo Renzi took the lead on advocating against austerity. He used growth policies as a condition for supporting Jean-Claude Juncker’s nomination for the presidency of the EU Commission.

Even European Central Bank president, Mario Draghi, changed his pro-austerity mindset at a conference in Jackson Hole in August. Frankfurter Allgemeine Zeitung anticipates Draghi to launch in January 2015 a quantitative easing (QE) program worth €1trn.

*EuroPoint*: Whether Greece will break by force EU’s austerity measures matters mostly internally. It could however, encourage a lack of budget discipline in France and Italy, in which case austerity will become an object of the past.