Greece needs to be part of a European solution

Loukas Tsoukalis

Greece finally has a government: a coalition of three parties from centre-right to centre-left with a comfortable majority in parliament. The new government will have the difficult task of restoring confidence and stability in a country where the economy has been going through the agony of slow strangulation, society is in despair with unemployment at 22% and rising, while youth unemployment is over 50%, and the political order is crumbling. The new government will also have to regain the trust of its European partners, some of which seem to be convinced that Greece is a lost case.

Many unthinkables have happened during the last two years or so, including a reduction in Greece’s budget deficit of 6.5% of a steadily declining GDP, more than any OECD country has achieved for decades, and an internal devaluation of around 15% which has restored part of the lost competitiveness of the economy: no small achievement and with a huge political cost. But Greece has been slow on reforms, especially the reform of a bloated and inefficient public sector which remains today the biggest obstacle to economic development. Admittedly, reforms are politically very difficult when the economic pie is shrinking, although this is not the only reason. Greece’s political class, many of its members being already on their way out, sometimes gives the impression of being congenitally incapable of reforming the state and the clientele system that it has built around it.

Greece needs nothing short of a peaceful revolution; the old model of economic development is clearly bankrupt. And such a revolution will have to go through a radical renewal of its political class. But this takes time in a democracy. You can’t change everything in two or three years, even less so when the economy is caught in a deadly spiral with austerity and recession feeding into each other. By the end of this year, Greece will have lost approximately 20% of its GDP in four years, and there is as yet no sight of the end of the tunnel. Even with the best of intentions of Greece’s political masters, admittedly a strong assumption, there was no way that the country could deliver all that was expected of it by its debtors as well as by the priests of economic orthodoxy. Luckily, this is now being increasingly realized, while it is also dawning upon people that when you reduce drastically the supply of oxygen (and liquidity) through the budget and the banks, there is a high probability that the patient will die.

Greece is different, perhaps even extreme in some respects. But it is certainly not unique, not even the main problem in the euro area. This is what many of its European partners chose to believe, or pretended to believe, when the crisis broke out. They were wrong, as subsequent developments have amply demonstrated. We need to recognize the limits of the strategy followed until now and change course. Otherwise, Greece risks showing the way that other countries of the European periphery will soon follow – and it looks like the way to hell.

We need to combine structural reform with measures that promote growth as Europe moves painfully slowly towards banking and fiscal union as the necessary counterparts to monetary union. The Germans are of course right when they argue that political union should be an integral part of the new grand bargain required to save the euro and European integration. As for Greece, it will need to prove the hard way that it deserves to be part of the European solution.