Greece and the EU: United in Diversity

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LOUIE WOODALL, JUL 12 2011

Within the offices of Brussels, Luxembourg, and Athens, European leaders are preparing to make another roll of the dice and bet that a new round of emergency loans to Greece will sustain the country's crumbling economy and avert a much-feared default. This time around, there can be little doubt that the long-term future of the Eurozone hangs on the success or failure of this latest rescue, as indicated by the febrile atmosphere within the European community. The controversy over the EU's €12 billion bail-out, approved on July 2nd, has prompted Europeans across the continent to take direct and unprecedented action. In Germany, a collection of academics, led by Markus Kerber- an economics professor- claim that these bail-outs violate national sovereignty and are challenging the EU's right to provide them in the German Constitutional Court.[1] Meanwhile, in Greece's embattled capital, protesters rail against the latest austerity programme approved by parliament: a bitter cocktail of raised taxes and privatisation. To the angry hordes on the streets of Athens, the cry raised is against further surrenders to the EU and the IMF, against the Euro, and against those politicians accused of selling off the country's sovereignty.

However, those who raise their voices against the bail-out and the EU as a supranational governing institution are misguided. In a Europe more integrated than ever before, to shrink away from the responsibilities of economic cooperation and abandon weaker members of the community to their fate would be to condemn the continent to years of chaos.

The severity of the Greek crisis cannot be underestimated. The national debt is forecast to surpass 160% of GDP, this year the economy is expected to shrink by 5%, and latest calculations estimate that without aid the state will be bankrupt by mid-July.[2] The Eurozone solution is to provide a €12 billion loan to allow the government to honour its commitments to creditors and civil servants, and keep the state solvent for the immediate future. McGlinchey argues that such measures are "akin to throwing money down a bottomless pit", as the bail-out will not solve the debt crisis but simply grant Greece a temporary reprieve. Such an analysis may well seem accurate in the here and now, but in the context of the long-term security of the Eurozone it should be seen as money well spent. The alternative to these relief funds is for Greece to default on its debts, or leave the Euro. Either option would have calamitous consequences on the continent as a whole, depressing Eurozone countries and non-Euro members one and the same.

On the first option, a default would cause colossal economic, social and psychological damage to Greece. The experience of Argentina is the most recent example of what to expect when a country declares bankruptcy. In 2001, the South American republic defaulted on approximately $100 billion of debt. The repercussions have been felt ever since. In 2002, the national GDP contracted by 8%, poverty rates skyrocketed to 28% of the population, and the social divide between the haves and have-nots widened exponentially.[3] Even today, eight years after default, Argentina faces punitive measures on world credit markets. The interest on a 10-year bond hovers at approximately 9%, well in excess of the average yield on the debt of neighbouring Latin American countries. Martine Redrardo, a former president of the Argentine Bank, stated recently: "I wouldn't recommend the route taken by Argentina to any country."[4] Argentina is not the same country as Greece, and the composition of their relative economies differs greatly. However, the precedent is not good, especially considering that Greece is €330 billion in debt, and unlike Argentina is *not* a commodity producer, and thus cannot hope to accrue earnings via an export drive.

Secondly, a default would incur massive losses on banks across France and Germany, which combined account for

55% of Europe's total exposure to Greek debt.[5] These losses would also be felt in Britain, as London's financial sector is heavily entwined with that of the Eurozone. Across the Atlantic, American banks and insurance houses would be liable for billions in redeeming credit default swaps, a financial product which essentially insures a creditor from a national bust. Small wonder that Sharon Bowles, the chair of the European Parliament's Economic and Monetary Affairs Committee, stated that a default would "be bad for everybody".[6]

On the second option, a withdrawal from the Euro would condemn Greece to economic ruin and societal disintegration. The Deputy Prime Minister, Theodoros Pangalos, stated in the Spanish daily, *El Mundo*, that abandoning the Euro would necessitate the imposition of martial law as Greeks would be compelled to raid local banks for their deposits and strip shops bare in a spate of panic-buying.[7] This gloomy prediction has been seconded by a group of Greek academics, who argue that the suspension of the Euro and introduction of a new drachma would cause public sector wages to plummet, trigger hyperinflation and force the country out of world credit markets for years. Those outside the Hellenic Republic concur with such an analysis- even the German finance minister, Wolfgang Schauble, stated that any such move would be economic suicide.[8]

It is clear that neither scenario can be condoned by any responsible governing authority. To suggest that the EU leadership must "be cruel to be kind" and perhaps even "cast aside" problematic nations like Greece in order to survive is to overlook the inconvenient truth that, in today's Europe, the economic vitality of one constituent state is inextricably linked to that of all the others.[9] The genie of 'contagion' is already out of the bottle and cannot be forced back in. Agitation over sovereign debt has already consumed Ireland and Portugal, and speculation on the durability of Spain's finances led the market to demand record levels of interest on bonds auctioned on July 7th.[10] Other nations suspected of being vulnerable to a future default include Britain and Italy, the 8th and 11th largest economies in the world.[11] If Greece were to default, it would send a signal to world markets that sovereign debt failures can happen in the West and pile additional pressures on those nations under threat. A Lehmann Brothers style 'domino effect' could potentially lead to the ruin of Europe.

In the shadow of such a crisis, domestic austerity programmes are no remedy. In Ireland and Greece, they have failed to convince creditors that further investment in Europe is a safe bet. A sustained project of financial aid and an increased focus on the economic governance of the Eurozone is what is really needed to lessen fears that a collapse of the Union's constituent economies is imminent and ameliorate the spreading damage caused by the poison emanating from Greece. If European governments were to simply retreat behind their national borders and attempt to tackle their budget deficits in isolation of one another, a cycle of sluggish growth and recession could become systemic. Austerity programmes stymie economic recovery – a fact borne out in the UK where the annual growth forecast was revised down to 1.7% GDP from 2.1% following a March Budget that slashed public spending. In its online report, PriceWaterhouseCooper stated that although his Budget was "fiscally neutral", the Chancellor of the Exchequer "may need to revisit his plans later this year if the economic recovery shows signs of stalling."[12]

The real path to survival can be found rather in an accelerated process of European integration and economic governance. This policy has been systematically rejected by such figures as Yves Leterme (the Belgian Prime Minister) and Brain Cowen (former Taoiseach of Ireland), who insist that the unique traditions and practices of each member state prohibit the homogenisation of economic policy across the union. However, in recent weeks calls for further integration have come from some unexpected quarters. On 20th June, the Acting Head of the IMF- John Lipsky- argued that within Europe "the path to more growth is through more economic integration" and that the European Financial Stability Facility "should be boosted and allowed to buy the bonds of troubled states."[13] This can be read as an urgent call to EU leaders to take the plunge and reactivate the debate on further economic governance, and not shy away from the politically difficult task of paying for the mistakes of irresponsible members. If those members of the union who seek economic convergence, such as Germany and France, continue to sustain the economies of struggling members, they may be rewarded with the political capital needed to push such reforms past the opposition. The dissenting voices in the Union may hopefully spy the bargain offered by the Euro heavyweights- access to the EU's emergency reserve *without* the threat of punitive action, in exchange for some intrusive economic controls.

The time has long past when European politicians could have washed their hands of Greece and handed it over to the IMF for a managed default. It is clear now that the Greek government doctored its economic record in order to guarantee membership to the EU and has been less than forthcoming with the current state of its finances. But the European community cannot stand idly by when one of its own members faces disintegration. A default may still occur. The bail-outs may be suspended by the judicial action of European citizens. The EU may fatally unwind, and the 'PIIGS' (Portugal, Ireland, Italy, Greece, Spain) be exposed to the undiluted ravages of the world credit market. However, this would not be the just outcome. The European Union's motto is: "United in diversity". Now, more than ever, the EU must live up to this ideal.

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[3] NPR, 'What can Greece learn from Argentina's past woes?', June 28 2011 http://www.npr.org/player/v2/mediaPlayer.html?action=1&t=1&islist=false&id=137480094&m=137480086

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[9] Stephen McGlinchey, 'Greece: The European Union's existential threat', June 27th http://www.e-ir.info/?p=9780

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