Forbes

Greeks Vote Against Euro And European Union And For Home Rule And Democracy

By Doug Bandow

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It has been centuries since Greece mattered much in world affairs. But Syriza's striking victory in the Greek parliamentary election Sunday could reshape Europe. In voting for the radical left-wing party the Greek people have reinvigorated home rule and democracy across the continent and challenged the "European project," embodied by the European Union.

Greece has been in economic crisis seemingly for eternity. Always an economic laggard, the congenitally inefficient south European state manipulated statistics to meet the entry criteria for the Euro, or common currency. The other European governments knew they were being lied to but didn't care.

Once in the Euro, Athens politicians threw a big party. The government borrowed at near-German interest rates and spent wildly. Nominal conservatives were little different than supposed socialists. The two main parties alternated in power and created a shared system of statist entitlement. Observed Denis MacShane, former British minister for Europe, politicians "awarded jobs and contracts to their friends and allowed the professional middle classes and public sector unions to avoid all responsibility for paying taxes. And they shunned the actual task of governing—that is, reforming the state so it can deliver public services fairly and to all."

Such a system could not generate the growth necessary to repay the debt: the economy was hamstrung by enervating work rules, corrupting political influences, profiteering economic cartels, and debilitating cultural norms. Greece was a wonderful place to visit. But Athens did not welcome entrepreneurs.

The inevitable crisis hit in 2009. Athens couldn't make its debt payments. It no longer could borrow at affordable rates to roll over its obligations. Nor could Greece devalue its currency to make its products and services more competitive.

An ugly economic hangover after the spending binge was inevitable. Although the economy finally is growing, it shrank a fourth from the start of the crisis. Unemployment remains at 26 percent. The European Union offered a painful rescue plan. Cut deficits and borrow even more money to pay off existing debts. The European "Troika" (European Central Bank, European Commission, and International Monetary Fund) negotiated and enforced loan conditions, becoming the symbol of foreign economic oppression.

Political slaughter ensued. Prime Minister Georgios Papandreou, a third generation premier, fell. The ruling Panhellenic Socialist Movement (Pasok), long the country's dominant political force, lost most of its support. The main opposition party, New Democracy, which shared responsibility for Greece's plight, also hemorrhaged votes but cobbled together a narrow coalition. New parties arose, including Syriza, meaning Coalition of the Radical Left, a hard-line force headed by former communist Alexis Tsipras.

The longer austerity persisted the more support Syriza received. Last year the party won the most votes in the European Parliament elections. Parliament's inability to choose a new president, the ceremonial head of state, last month triggered early elections. New Democracy's Prime Minister Antonis Samaras ran a scare campaign, warning that a Syriza victory would force an exit from the Euro and much worse. One commercial suggested that mobs would fill streets, banks would close, and medicine would disappear. European leaders made a similar pitch. European Commission President Jean-Claude Juncker said that he preferred "known faces" in Athens and denounced "extreme forces."

Greek voters were not persuaded. Syriza received only 4.6 percent of the vote in 2009 but this time won 36.2 percent and 149 seats, two short of a majority. New Democracy came in second, almost nine points behind. Pasok was essentially wiped out, winning just 13 seats.

Syriza offered a positive message. “Our national humiliation will be over,” declared Tsipras, who campaigned under a banner stating “Hope is on the way.” The party’s platform reflected dreamy unreality. Tsipras promised to restore prior minimum wage levels and employment restrictions. The party pledged $4.5 billion in public spending to “reverse the injustices” of prior cuts. There will be free health care and electricity along with food subsidies, pension increases, salary hikes, and more public sector jobs. How will all this be paid for? Syriza predicted that billions in new revenue would appear. The issue is a matter of “dignity,” Tsipras insisted. Unfortunately, similar left-wing programs in Europe during the 1960s and 1970s resulted in stasis and stagnation.

Most important, Syriza pledged international debt renegotiation, with a goal of a 50 percent cut or more. Current debt runs a crushing $270 billion, or 175 percent of GDP (up from 109 percent in 2008). Only Japan, a much wealthier nation, suffers a higher burden. Tsipras pledged “to erase the largest part of the debt.” He also called for a European Debt Conference. The victorious candidate said the new government “will be willing to collaborate and negotiate with our European counterparts for a fair solution,” but insisted that the voters’ decision had “made the Troika a thing of the past.”

European officials expressed hope that Tsipras would follow past radicals in moving to the center after winning office. After all, economic stagnation forced even socialist French President Francois Hollande to advance labor market reforms. During the recent campaign Tsipras did moderate his rhetoric and reverse Syriza’s earlier promise to exit the Eurozone (“Grexit”). But three-quarters of Greeks supported keeping the Euro.

Other retreats seems unlikely. Tsipras, an admirer of Cuban revolutionary Che Guevara, seems fully in the radical camp. Abandoning the promises that got him elected would wreck his credibility with European leaders and political supporters alike. Doing so also would threaten the unity of Syriza, a heterogeneous collection of smaller parties.

Moreover, Tsipras struck a coalition deal with the rightwing ANEL, or Independent Greeks, with 13 seats. ANEL, a breakaway group from New Democracy, takes a conservative stance on social issues but opposes austerity. Compromise becomes more difficult with the two parties united only on the latter. Explained Greek political analyst Nick Malkoutzis, the bailout question "is the key to Syriza's being right now."

Indeed, Tsipras' first official act as prime minister was to lay roses at a memorial for communist members of the Greek resistance executed by Nazi occupiers in 1944, a gesture clearly directed at what he sees as Greece's financial overlords today. ANEL leader Panos Kammenos previously complained about Europe being run by "German neo-Nazis."

However, Athens does not have much time to win concessions. The current bailout plan expires at the end of February. Without a replacement program Greek banks, several with heavy state participation, would no longer have access to the European Central Bank. (They were relying on an estimated $70 to $80 billion in ECB bank guarantees as of last month.) The ECB also might end Athens' access to the Emergency Liquidity Assistance program. Finally, the Troika likely would not release the final roughly $8 billion disbursement under the existing bail-out.

Athens has few other revenue sources. Tax collections plummeted as elections approached, since many Greeks assumed the new government would eliminate an unpopular property levy and be lenient with tax laggards. Borrowing would be difficult without international backing—European institutions and private buyers would stay away and Greek banks would lack liquidity.

Since the Syriza government cannot print Euros, it would have no way to fund a budget estimated to be in the red even before any new spending. Moreover, Athens would face default on its debt payments. The government has cash reserves of only $2 or so billion, yet needs roughly $8 billion for bond repayments through August, and $30 billion over the next two years. The prospect of an essentially bankrupt government could accelerate withdrawals by skittish depositors from under-capitalized banks, triggering a financial crisis.

At this point the only answer might look like Grexit, which would allow Athens to print money freely. In this case, noted London economist Holger Schmieding, "No longer subject to any outside constraint and in a charged atmosphere, Greece may undo many of its previous supply-side reforms, turning itself into a Venezuela without oil or an Argentina without the beef."

However, Grexit also would free Athens to learn from its mistakes and find its own path. The fundamental problem for Greece, and even larger EU members including France and Italy, is the lack of international competitiveness due to stultifying restrictions on work and innovation. Outside of the Euro Greeks could return to their heritage of relaxed inefficiency by maintaining their own currency, which could depreciate when necessary to maintain balance with their harder-working northern neighbors.

Still, Syriza says it remains committed to a negotiated settlement within the Eurozone. But European leaders so far insist that the bail-out essentials cannot be renegotiated. Said German Finance Minister Wolfgang Schaeuble, any debt reductions were "out of the question." Mario Draghi, head of the European Central Bank, declared that the Eurozone's policies are "irreversible." The IMF's executive director, Christine Lagarde, said "There are rules that must be met in the Eurozone." Announced Dutch Finance Minister Jeroen Dijsselbloem, who chairs the Euro group of finance ministers: "if you remain in the Eurozone you stick to the rules we have."

At most, suggest some observers, European creditors might be willing to reduce interest rates and extend repayment schedules, which would leave the underlying debt burden unchanged. However, this already has occurred through two bail-out programs: the average maturity on Greek debt is twice that of Germany and Italy and roughly 50 percent greater than of fellow bail-out states Ireland and Portugal. Interest payments as a percentage of GDP are below Italy and Portugal. Any new reductions would not likely be granted without some concessions in return.

Syriza assumes its creditors are bluffing because they want to keep Greece in the Euro. That's no longer clear, however. A Greek exit would be messy, but that nation accounts for just two percent the Eurozone's collective GDP. And Greece's departure so often has been threatened that the possibility no longer triggers panic elsewhere in Europe. European fears of "contagion" have lessened since constructing a continental financial safety net; Europe's banks are better capitalized and thus less vulnerable today. Moreover, European leaders are tired of being pilloried by Greeks despite transferring their citizens' wealth to Athens.

Indeed, if the EU does not hang tough, it will encourage other hard-hit governments to demand similar concessions. Syriza spokesman Panos Skourletis declared: "we have won a historic victory that sends a message that does not only concern the Greek people, but all European peoples." In November Tsipras visited Italy and Spain to, according to the Syriza website, "explore the possibilities of forging a front of southern European countries against austerity and against adherence to the neo-liberal policies imposed by Berlin."

In Spain, which faces national elections in December, the left-wing Podemos party has hit 20 percent in the polls; deputy leader Inigo Errojon lauded Greece's rejection of "the subjugation of Merkel." The Five Star Movement could play a similar role in Italy. Portugal has gone through an unpopular austerity program and would like relief.*Independent* columnist Shane Ross taunted Irish Prime Minister Enda Kenny for winning election four years ago after insisting on renegotiation, only to do capitulate "to Merkel, the bankers and the bondholders." Dublin would feel pressure to demand comparable concessions.

However, debtor governments would be unlikely to favor benefits they did not receive. Zsolt Darvas, a researcher at the Bruegel think tank, asked the *Financial Times*: "How can the Spanish or Italian prime minister tell voters that Greece has a lower interest burden than we have, but we still need to give them debt forgiveness?"

Moreover, a slowing economy further reduces the German public's willingness to act as Europe's banker of last resort. A recent poll found that seven of ten Germans opposed a debt cut for Greece and six of ten said Athens should drop the Euro if it can't pay. Conservative members of Chancellor Angela Merkel's coalition are warning against additional bail-outs. Bavarian Finance Minister Markus Soeder said: "It is clear that there must be no more burdens for Germany." The deputy leader of Merkel's parliamentary group, Hans Peter Friedrich, argued: "The Greeks have the right to vote for whoever they want, but we have the right to no longer finance Greek debt." A new party, Alternative for Germany, has arisen challenging Berlin's Euro support. AfD head Bernd Lucke endorsed Grexit.

Managing a Euro exit would be challenging, but the political consequences might be more important than the economic impact. The problem with the continental currency union is that it has encouraged "moral hazard," that is, individual countries can act irresponsibly and then shift some of the cost and risk onto their neighbors. That worked for Athens until the crash.

But with the bail-out basic decisions over economic and budget policy now are made outside of Athens. The Troika micromanages the Greek economy, based on an agreed "memorandum" that covers public employment, pension levels, customs procedures, and much more. Cyprus, Ireland, Portugal, and Spain have suffered similarly. In Greece a parliament representing democratic process going back thousands of years is essentially a rubber-stamp for foreign bureaucrats and politicians. Tsipras promised no more "kowtowing," but that will be difficult so long as he attempts to hold Greece in the Eurozone. Only Grexit would allow the Greeks to again truly control their own destiny. Then Tsipras could deliver on his promise: "Democracy will return to Greece."

Grexit also might stop further continental consolidation. The 19-member Eurozone is unstable because the unified monetary policy is not matched by unified budgetary policy. This problem was widely recognized at the time of creation, but Eurocrats hoped to expand their control over time. Explained Chancellor Merkel: "We must overcome the architectural flaws that worked their way into the economic and monetary union during its formation." The Troika is part of a process to exert stronger outside control over member economic policies.

Moreover, while the Eurozone is separate from the 28-member European Union, a fracturing of the first would exacerbate tensions in the second. Merkel argued that creating a "common political and economic union" was "the opportunity of the [Euro] crisis." No longer. The objective today is to hold the existing organization together. Yiannis Kitromilides of Cambridge University contended that "The survival of the Eurozone is vital if the original dream of a united Europe is to be fulfilled." But that vision might not survive multiple challenges, beginning with Greece. Esteban Gonzalez Pons, a Spanish member of the European Parliament, warned: "If we start playing this game of 'the more radical you are, the more debt we're going to forgive you,' we're simply opening the door to have the European Union dismembered."

A Eurocratic elite, consisting of politicians, academics, businessmen, journalists, bureaucrats, and lobbyists based in Brussels and national capitals, favors continental consolidation in part because the system suppresses self-rule and public accountability. Former Czech President Vaclav Klaus was a pariah in Brussels because he spoke of the EU's "democratic deficit." But now popular opposition is exploding.

Euroskeptic parties did well in last year's election for the European Parliament and having been gaining votes in national contests as well. UKIP threatens both major parties in Great Britain's upcoming election. The National Front's presidential candidate could make the run-off in 2017. Party head Marine Le Pen called the Greek result a "victory for the people against European oligarchy" and a "monstrous democratic slap … administered to the European Union." Germany's AfG has entered state parliaments and likely will break into the Bundestag in the next national election. Anti-immigration parties have done well in Denmark, Netherlands, and Sweden. If Syriza successfully flouts the Brussels consensus, whether in or out of the Eurozone, popular opposition to the EU as well as Euro is likely to grow substantially.

Syriza has done Greece and all of Europe a favor by challenging the status quo. In Athens Pasok and New Democracy destroyed their nation's economic future by creating a corrupt, inefficient state which offered deformed security without liberty or prosperity. Greece "leaves behind five years of humiliation and suffering," declared Tspiras. But it is not enough for Greeks to toss aside past corrupt actors. If Syriza adopts the failed policies of the past—treating the Athens government as Santa Claus, dispensing an array of economic goodies with no way to pay for them, and expanding the reach of a state which has consistently stifled economic growth—an even worse crisis will result. The new government instead must free the Greek people to create economic growth.

Whatever direction Athens goes, it has encouraged resistance against the ever increasing aggregation of power in Brussels. Eurocrats are attempting to take advantage of the Eurocrisis to create new European institutions, but, argued Mark Leonard of the European Council on Foreign Relations, "economically, culturally and politically, [centralization] is driving Europe apart." European peoples do not share the desire of European leaders for European unity. And the Greek election demonstrates that heretofore ignored voters can seize control of their destinies.

Europe will survive, whatever the fate of Greece, the Euro, and the EU. But the latest election in the birthplace of democracy offers hope for greater popular accountability and control across the continent. For that reason Alexis Tsipras and Syriza deserve Europe's thanks irrespective of what happens next in Greece.

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