FINANCIAL POST

Terence Corcoran: Stop the handwringing, Greece is going nowhere

Terence Corcoran

January 26, 2015

Instead of an exit from Europe, Greece wants more cash from Europe

Will the handwringing over the uncertain future of Greece within Europe and the future of the euro now please stop. Enough of this talk about "Grexit" and the fall of Spain and maybe ultimately the break up of the European Union.

Greece is going nowhere. The country may have a new leftist government headed by former student radical Alexis Tsipras, but nobody likely knows better than Mr. Tsipras that Greece without Europe is an economic basket case.

Europe has become Greece's cash machine, dispensing billions of euros to bail the Greek government out of debt and provide fresh funds for spending and economic reform. Since 2010, Greece has received 214-billion euros (about US$300-billion) in bailout funding from Europe and the International Monetary Fund.

That's enough to pay down 60% of the country's 300-billion euro gross debt. But the debt, having soared as a percentage of GDP to 175%, remains in place, mostly unchanged since the bailouts started.

Mr. Tsipras and his Syriza Party associates have no intention of giving up the flow of fresh cash, nor do they entertain leaving the Eurozone. "We do not support any sort of Euroscepticism," Mr. Tsipras said early last year. In December, one of his Syriza partners, Dimitris Papadimoulis, said "there is absolutely no case for Grexit," the word coined to refer to a hypothetical Greek exist from the Eurozone. "We will seek a decision for Greece within the Eurozone," he said.

Instead of an exit from Europe, Greece wants more cash from Europe — either loan forgiveness or outright transfers, or whatever else the politicians can wangle out of the EU and the European Central Bank — and the IMF.

The main theme of the election campaign that led to Mr. Tsipras' victory, as portrayed outside Greece, was a call for an end to "austerity," the allegedly crippling fiscal restraint imposed on Greece by EU officials.

Austerity was the international media "poster child" for the election, says Steve Hanke, professor of economics at Johns Hopkins University and one of the world's leading currency experts. But where, exactly, is the austerity. According to Eurostat data, between 2006 and 2013, total spending by Greek governments as a percent of GDP rose from 45% to 59%. Central government spending soared from 33% to 49%.

In cash terms, spending in 2014 of 90-billion euros was about the same as in 2006, with very little inflation over the period. In between those years, Greece ran massive deficits that failed to "stimulate" the economy. Big deficits and continued spending hardly qualify as austerity.

The problem in Greece, as with all of Europe, is that economic growth has not kept pace with government spending. Economists have a host of explanations for the Eurozone's failure to generate growth. They range from excessive regulation, high tax rates, welfare-state policies and an overall inability or unwillingness to institute real economic reforms.

The whole continent, even Germany, has failed to recover from the 2008 financial crisis, falling behind Canada and even the United States.

What is now shaping up in Europe is a decade-long era of complex political infighting along standard ideological lines, with calls for more government and continued welfare statism from the left against more conservative forces that balk at turning poor national policies in Greece and Spain into Europe-wide regimes. Each country within the European Union is split along such lines, and the political wars will be fought over the redistribution of wealth — as they are in any political union.

Whether Europe has the institutional structure to work out its divisions remains to be seen.

For the moment, Greece leads the continental left within the EU structure. No country is going anywhere, especially Greece. "What the new Greek government wants is more bailout money and more transfers," says Prof. Hanke. He says a poll of Greeks shows 75% want to stay within the Eurozone. They know where the money is, and the future.

And so now the endless bickering and brinkmanship begin. New negotiations will pit Mr. Tsipras as the leading voice, at least for now, of the leftist opposition in a new Europe-wide fight over the sharing of resources and redistribution of wealth.

Mr. Tsipras does not want out of Europe or out of the euro. He wants another Europe. What he wants, he has said, is "a Europe of peace, Democracy and growth." What he does not want is the "neo-liberal Europe of [German Chancellor Angela] Merkel," Or, as he put it, "We are the true alternative of Angela Merkel's Europe."

Within a united Europe, years of political fighting — over money, policy, power and ideology — are just getting underway. We should all just get used to it.