The damage (to Greece, Europe and Germany) and how to undo it

International

Klaus Neumann

16 July 2015

Although this week's agreement has kept Greece in the eurozone, its impact will be dire, writes Klaus Neumann. But alternatives still remain.

A protester outside the Greek parliament during the twenty-four-hour public sector and pharmacists strike on Wednesday this week. Andreas Solaro/AFP Photo

When the Greek parliament voted overwhelmingly in favour of the legislation demanded this week by its European creditors, the spectre of a Grexit – a Greek exit from the eurozone – seemed to be averted, at least for the time being. But this is no cause for celebration. The provisional agreement between Greece and the other eurozone members, and the means by which it came about, is appallingly bad for Greece, for Europe and, not least, for Germany.

For Greece, the agreement is unlikely to improve the lives of ordinary citizens in the short to medium term. With a large proportion of government resources servicing and repaying the country’s debts, economic recovery is likely to be slow and incremental at best. Unemployment will remain high. As the Nobel Prize-winning economist Paul Krugman put it in the New York Times: "No matter how willing a nation is to suffer, no matter how willing to run primary surpluses on a scale that is very rare in history, trying to pay off high debt through austerity without any kind of monetary offset is basically a recipe for debt deflation and failure."

The Tsipras government was given just two days to draft a host of laws and have them debated and passed – and this was just one of the conditions imposed on a government that had been bullied and blackmailed into submission. Others include a new trust fund to allow Greece’s creditors to sell some of the country’s assets, including ports and airports, to repay its debt.

In return for agreeing to these conditions and passing the legislation demanded by eurozone leaders, all that Greece gains is an undertaking that its creditors will consider a new bailout package. Whether there will be negotiations for that package, which would probably last weeks, is not yet certain. First the parliaments of several eurozone member states must agree to talks about a third bailout. The German Bundestag will meet this Friday; its president Norbert Lammert had warned parliamentarians “not to swim too far out” when farewelling them at the beginning of the summer break.

On Monday, former Greek finance minister Yanis Varoufakis told Late Night Live’s Phillip Adams that the deal struck earlier that day amounted to a new Versailles, the peace treaty designed to punish and humiliate Germany after the end of the first world war. But Greece didn’t invade its European partners, and was not responsible for the deaths of scores of their citizens, so the comparison makes little sense. A more apt analogy came from Antje Vollmer, a former Bundestag vice-president and a widely respected Green Party politician. She recalled that after the Prague Spring was put down by Warsaw Pact forces in August 1968, Alexander Dubček and other Czech leaders were made to sign protocols denouncing their own reforms.

For Europe, the agreement reached early this week privileges an economic over a political solution, and conveys the message that the selfish interests of individual eurozone members trump the common good. The political
project of a united Europe, built on solidarity rather than the presumed interests of individual countries (and banks and other corporations based there), may not survive this blow.

The humiliation of Greece is also a terrible result for Germany. Finance minister Wolfgang Schäuble, with the tacit support of Angela Merkel, has destroyed Germany’s reputation (not entirely undeserved) as generous, environmentally progressive, socially innovative and largely benevolent. He has revived the image of the ugly German. Rather than collaborating with their French counterparts to lead Europe out of the current crisis, German government ministers joined the nay-sayers, led by the Netherlands and the Baltic states, and turned their backs on the idea of a Europe that transcends nationalistic interests.

Within Germany, Schäuble and Merkel provided licence for racist comments, including from prominent members of their own party. On Tuesday, Thomas Strobl – deputy leader of the Christian Democrats, party leader in the state of Baden-Württemberg and, incidentally, Schäuble’s son-in-law – told reporters, “Der Griechе hat jetzt genug genervt” (“The Greeks have been getting on our nerves for too long”).

How did it come to this? The first grave errors were made a decade and a half ago. It was obvious then that the Greek government had manipulated official statistics in order to qualify for admission to the eurozone, and that its economy and political culture were marked by a level of corruption and clientelism that was incompatible with other members’ approaches.

It was also a mistake to insist that the eurozone would not be a transfer union, in which wealth would be shared between the comparatively rich countries in the north and the poor countries in the south. After all, countries such as Germany, Finland and the Netherlands were benefiting from the introduction of the euro because the value of the new currency was lower in relation to countries outside the zone, creating a huge bonus for national economies that relied heavily on exports.

After the global financial crisis hit, and with Greek insolvency looming, the institutions and governments responsible for the bailout packages of 2010 and 2012 decided to shield irresponsible lenders (namely, European banks) from the fallout. Rather than recognise that most of Greece’s debts had to be written off, they prescribed an austerity regime that all but crippled the Greek economy.

When the first two bailout packages proved insufficient, new negotiations became necessary – this time with the leftist Tsipras government. But by this stage the negotiators representing the two key players, Greece and Germany, were preoccupied with domestic agendas. Alexis Tsipras was concerned to keep his own MPs and party members on side and hold onto wider popular support. To rally public backing he announced a snap referendum at a point when a compromise solution seemed imminent. The wait for the outcome of that vote cost Greece the billions of euros of extra funds now needed to recapitalise its banks. After the referendum, to placate her own party members who were reluctant to support another bailout, German chancellor Angela Merkel insisted on measures that were far harsher.

Tsipras and Merkel both seemed to be oblivious to the fact that the other was performing for a domestic audience. Tsipras failed to recognise that Merkel felt she couldn’t back debt relief without losing support at home, and Merkel seemed personally affronted when Tsipras called the referendum and campaigned for a “no” vote.

The resulting personal animosities poisoned the negotiations. Schäuble and some of his Eurogroup colleagues were incensed by the approach taken by the Greek negotiators; their insistence on humiliating and punitive conditions seemed informed by vengefulness.

Where to now? Significant debt relief is vital. While the eurozone leaders (with the exception of France’s François Hollande, Italy’s Matteo Renzi, and Nicos Anastasiades of Cyprus) have ruled out this option, the International Monetary Fund has already said that a solution without a significant “haircut” for Greece’s creditors is unrealistic.

History is full of examples of countries defaulting on their loans, receiving debt relief, and then returning to prosperity – and the best example of all is provided by postwar West Germany. In 1953, the Adenauer government negotiated a deal with its Western creditors, including Greece, which resulted in a very significant
reduction of German debts and an extension of the grace period for their eventual repayment. As far back as three years ago, Tsipras told members of the European parliament that the 1953 deal should be the blueprint for a similar arrangement with Greece. He invoked it again in his speech in the Greek parliament on Thursday morning, prompting applause not just from members of his own party.

Europe’s leaders would do well to support Tsipras, irrespective of the ideological differences they have with him and his party. Unlike previous Greek prime ministers, who kowtowed when confronted with demands by Greece’s creditors and who lost the respect of most Greeks, Tsipras may yet be able to promote a compromise solution that is acceptable to the peoples of Europe and allows the Greek economy to recover.

Finally, Germany, more so than any other European country, must come to Greece’s rescue, possibly through bilateral assistance. This might seem unrealistic in the light of Schäuble’s and Merkel’s pettiness and lack of leadership over the past week, and of vice-chancellor Sigmar Gabriel’s hostility. (The latter prompted one German commentator to say that Gabriel had lost all credibility as an alternative to Merkel.) But such assistance is not out of the question, particularly given the developments of the past week and their toxic fallout for Germany.

The vast majority of Germans still support the political project of a united Europe. A party that advocates Euroscepticism has never managed to gain more than the 5 per cent of votes nationally that are required for representation in the Bundestag. And, according to a recent poll, most Germans empathise with the Greeks, supported Tsipras’s decision to hold a referendum and want Greece to remain in the eurozone. While Germany’s largest tabloid, Bild, has advocated a Grexit, the majority of published opinion has been critical, if not scathing, of the hard line taken by the German government, particularly in the last few days.

Germans may also be open to the concept of a transfer union. After all, they have a lot of experience with such a union. Since 1990, there has been a significant transfer of wealth from West Germany to the new Länder (which previously made up the German Democratic Republic). Many West Germans were initially reluctant to agree to such transfers, but the long-term benefits for both sides soon became apparent. (Few Germans, however, would have fond memories of the entity the proposed Greek trust fund appears to be modelled on, the Treuhandanstalt, which administered and tried to sell off former state-owned enterprises in East Germany.)

Similarly, the European Union has transferred wealth through its system of grants for disadvantaged regions in Europe. For decades Germany has been the main donor, without too much adverse public reaction in Germany.

Merkel does favour austerity measures. But that’s not because she is beholden to a neoliberal school of thought. A Christian Democrat by name, she is a Social Democrat by persuasion. Unlike in Britain, neoliberalism was never particularly popular in Germany, and Merkel and her predecessors have been wary of implementing policies that could be seen to imitate those of Reagan and Thatcher. If German politicians advocate austerity, it is because they fear inflation. This is not only because of its anticipated impact on the German economy; the hyperinflation Germany experienced in the 1920s wiped out savings and traumatised those who lived through it, leaving the fear of inflation deeply rooted in German collective memory.

Germany’s leaders undo the damage done by Merkel and, in particular, Schäuble, by entering into negotiations about repaying the money owed to Greece as a result of financial transfers during the German occupation, which I discussed in a previous Inside Story essay. These would be loan repayments rather than reparations, but reparations for the suffering Greece endured at the hands of Nazi Germany could also come into the picture.

Again, this might seem farfetched. Aren’t the events of the second world war now too far in the past to warrant reparation payments? Well, it was only last week that Germany officially recognised for the first time that the murder of thousands of Herero and Nama people of southwest Africa between 1904 and 1908 amounted to genocide. Reparations to Namibia, which seemed out of the question just months ago, now seem a distinct possibility.

And while Germany may not want to call bilateral assistance to Greece “reparations” because it would then invite other Nazi-occupied countries to lodge claims, such a decision could recognise the special relationship between Germany and Greece. Many Germans have little difficulty acknowledging this relationship, and might appreciate
it if Merkel at last extends a helping hand to a government that can't be held responsible for Greece's current predicament.

The damage is done – to Greece, to the idea of a solidary Europe, and to the reputation of Germany. The next weeks and months will show whether some of it can be undone. The ball is in Angela Merkel's court.