



Lack of Trust Is Preventing a Long-Term Greek Solution

Any outcome of the current negotiations between Greece and its European creditors won't satisfy either party.

As the Eurozone and Greece go through the last hours of a negotiation to ensure the release of additional funds from the previous agreement, and possibly setting the basis for the next one, it is becoming clear that a lack of trust is holding back a sustainable agreement.

The latest leaked Greek proposal and the Eurozone counterproposal is full of details and discussions around technical issues (for example, whether the pension reform is effective from October 31st or July 1st), which suggest the outcome of this negotiation are unlikely to satisfy any of the parties.

Reading between the lines of the technical details we see the Eurozone asking Greece for a strong package of front-loaded fiscal measures many of which the Greek government wanted to avoid as they go against the electoral platform on which they were elected.

It would be very easy to criticise Germany, Brussels (and the IMF) for failing to see that we are possibly making the same mistakes as in previous agreements and that this one is also bound to fail. But the reality is that it is very difficult to imagine any other type of agreement given the lack of trust between the two parties.

Growth is needed

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Many argue that this government should not be asked to pay for the mistakes of previous governments. After all, Syriza was not in power when the Greek government and the Greek economy were running very large deficits. This is correct but it is also true that Syriza was not elected on a platform of economic reform, even if some of the economic reforms being discussed are not contrary to their ideas.

I am very sympathetic to the logic of Greek finance minister Yanis Varoufakis that Greece needs growth first and that insisting on fiscal austerity will not deliver the growth the country needs. But I also understand the Eurozone view when negotiating with a Greek government that was elected on a platform that doesn't promise to deliver sustainable growth. Because of the lack of trust, what the Eurozone is looking for in this negotiation is a strong early commitment from the Greek government that it is willing to take steps that might go against its own electoral platform. In an ideal world those steps would all be fostering growth and reforms in an environment where demand is not a constraint for growth. But many reforms cannot be implemented in the short run so the only way to get a signal of commitment is to use a set of fiscal measures to improve primary balances, exactly what the Greek government wanted to avoid.

Here we go again

So we are back to a proposal that looks very much like the previous ones and even if there is an agreement over the coming hours or days, we will very likely witness yet another negotiation between Greece and the Eurozone once it is clear that the current plan will not work.

This reflects a negotiation that started without trust between the two parties and where the only possible outcomes were both suboptimal: either another unrealistic agreement or a breakup of the negotiations, which leads to a Greek default and possibly exit from the Euro area. In the next days we will see which of the two (bad) scenarios turns into reality.

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