A Stand-off in Euroland: Athens on a Knife-Edge

By Jonathan Story , INSEAD Emeritus Professor of International Political Economy

The future of the Eurozone has been thrust into uncertainty as Berlin and Athens descend further into mutual resentment.

Since the January 2015 electoral victory of the far left Syriza party to govern Greece, speculation has been rife in the European media about a profligate left wing government in Athens intent on extracting more money from European creditors in order to continue living above Greek means. The prognosis is that either Greece will crash out of the Euro, or Syriza will have to eat humble pie.

The story is more interesting than that. Never before has “Brussels” — the lazy shorthand for the complex EU policy process — had to face such a challenge to an agreed policy. This time round, Athens is suggesting that the policy has failed, and should be reversed. One reason for the reluctance to engage in that debate is that if the EU conceded, there would be a long list of policies up for grabs.

The EU’s Holy Cow

The Greek government is trying to slaughter a holy cow of EU praxis: l'acquis communautaire. This states that what has been achieved by the complex process of political consensus in the EU cannot be undone, or at least can only be tweaked on the margins.

Paradoxically, the aquis communautaire idea is rooted in the ideological baggage of what its advocates call "progressive" politics. This idea holds that over the years, and through the accumulative weight of small decisions and bigger leaps, a historical ratchet process ensures that the EU project moves forward to the sunnier uplands of an integrated union, operating on the world stage as a great power.

The trouble is that the sunnier uplands look very far away. The German public is no longer prepared to play paymaster to a vague ambition, while conditions in Greece five years out from the May 2010 revelation of the true state of Greek public finances remain dire. Better, the tone in Euroland holds, to get on dealing with the here and now, get the show back on the road, and resume the march forwards as soon as possible.

Syriza's Appeal to Berlin

That is not how the new Syriza government conceived of things. From the start, Prime Minister Tsipras made a direct appeal to Berlin to take a more critical view of EU policy. The bailouts and workouts required in 2010 and 2012 had not yielded expected results. A new approach was required.

"Nein" came the answer from Berlin. The old agreements had to be implemented. And the best way for Athens to show compliance, the EU Finance Ministers kept trying to tell Yanis Varoufakis, was to produce a lengthy report, replete with charts and figures that they could all discuss in order to return to where they started. No further Euroland bailout, but more Greek workout.

Personal relationships between Varoufakis and his fellow finance ministers became so bitter that Tspiras replaced him as the head of Greece's team of negotiators with a junior foreign minister, Euclid Tsakalotos. The atmosphere became more benign, but the underlying differences have not been resolved.

Berlin Lays Down the Law

What are the differences? Since the Lisbon Treaty of 2009, followed by the Greek drama of May 2010, the rules of the game have been clearly laid down by Europe’s new Gestaltungsmacht, Germany.

The EU is no more than an alliance of sovereign states, the Constitutional Court opined on Lisbon, so it follows that in Euroland every member state is responsible for their own finances. Despite tightly fought battles in the ECB, and over a variety of EU funds, there can be no bailout, only workouts for countries which don’t balance their books.

This was not something which successive French Presidents agreed with. In the 2010 negotiations, President Sarkozy suggested that Germany put money on the table first, and then everyone could agree on how it could be used. His successor Hollande told the French electorate in 2012 that if they elected him, he would use French clout to change Berlin’s position. He soon discovered that his clout counted for little, and his popularity has languished since.

The French Mediterranean coalition, assembled in the previous decade to ensure a growth oriented EU, also broke under the weight of German insistence. Messrs Papandreou and Berlusconi were politically defenestrated when they threatened to hold elections about austerity, while the government in Madrid and Dublin pushed through wage deflation, fiscal retrenchment, and recovery by exports. There has been no southern support for Syriza’s demands.

WWII, Redux

That leaves Berlin and Athens in a stand-off. National resentments have been fanned, harking back to the second world war, and Tspiras has indicated that he would make a deal with Moscow at the EU’s expense.

But the essence of the stand-off is that both Berlin and Athens are constrained by domestic policy. Berlin’s de facto espousal of a Europe of states responsibly looking after their own financial affairs, with assistance provided conditionally or only on the margins, is popular at home. Athens has received a popular mandate to negotiate a different policy.

A Likely Compromise

What is the outcome likely to be? Behind all the posturing, negotiations proceed. Athens is sitting on a knife edge, and can plunge into bankruptcy and or out of the Euro as early as mid-May. Grexit may leave the Euro stronger, or as Mr. Juncker fears, may leave the Euro at the mercy of “Anglo

Saxon” speculators based in “the City of London”.

There is no reason to introduce such racial epithets to clarify the European landscape. The simple point is that we don’t know the future. Both Euroland and Athens are running scared of the future. They are most likely to vote for compromise.

That means tinkering with the acquis. The UK is looking on with great interest.

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