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Commentary

A Greek tragedy foretold

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The developments in Greece have highlighted that Europe's leaders can no longer avoid one crucial question if they are serious about saving the Eurozone: Beyond providing finance to prop up Greece's public debt, what is the long-term plan? Without addressing all underlying causes of the euro crisis – not only the lack of public finance discipline and structural reform but also the lacking competitiveness of Europe's periphery and the diverging economic performance within the Eurozone – this crisis will reoccur up until electorates in weaker or in the stronger Member States say 'enough is enough', with all the negative consequences this would entail.

At this moment, Eurozone partners are in a bind. Without further support, Athens will have to default, with all the negative economic, financial and political consequences for Greece and its European partners. At the same time, the situation in Greece is becoming more precarious by the day. This should not come as a surprise: at some point, the political and economic feasibility of carrying out onerous reforms and severe austerity measures was going to wear thin. The slow death of the Greek economy, falling standards of living, the loss of control over its economic policies, the massive privatisation of state assets, a wounded national pride and increasing despair, anger and a deeply felt sense of injustice - most ordinary Greeks do not feel responsible for the crisis engulfing their country - add up to a potent and dangerous mix. When this is coupled with a lack of future perspective, with few people seeing a return to positive economic performance in the years to come, it is no surprise that Greeks are increasingly turning against reform.

No fully satisfactory solution exists in this situation - unfortunately, there is no silver bullet. But as a first step, Europe's leaders must watch their language. Berating the runner in a relay race who has lost speed - whether due to his own inability or not – is unlikely to increase overall performance. Feeling blamed and ostracized is also unlikely to engender much support in the Greek population for ongoing reforms, which help to save the Eurozone but hurt ordinary people. Equally, without a better understanding of what is at stake for everybody - regardless of the question of 'blame' - and of the benefits Eurozone countries derive from the common currency, it is hard to convince the electorates in the richer Member States.

But more understanding and mutual respect will not be enough. Continuous in-depth reforms and targeted spending cuts in Greece are needed, not only to improve economic and fiscal performance but also to prevent electorates in the strongest Eurozone countries from feeling increasingly overburdened and betrayed. But Greece also needs these European partners to engage in helping them overcome its governance deficiencies in public administration, tax collection, privatisation and economic development - and this has to happen without much delay. This support will have to come from individual Member States as these capabilities do not exist at EU-level.

Greece also needs a positive economic perspective: experiencing pain today for gains tomorrow will make the current measures more acceptable. A conscious attempt to limit the immediate negative impacts of austerity (for example by ring-fencing expenditure for economic infrastructure, health and education) as well as direct investment by the richer Eurozone members is needed. This is politically difficult but the alternative is no better: do European leaders really believe that ongoing short-term support to prop up Greek public finances with increasingly reluctant populations is a feasible or desirable option?

Whatever happens in Greece should not distract from the further development of the 'E' in EMU - the Eurozone needs to accompany the monetary union with further economic integration. The attempts in the last 15 months to enhance European economic governance are significant but not enough:

there is need for a framework which binds all Eurozone members and not just the ones which need to access support, bound together by the European framework and not by predominantly intergovernmental instruments and mechanisms which will increasingly be seen as the strong imposing conditions on the weak. All of Europe must recognise that crucial imbalances need to be addressed, including the starkly differing competitiveness and productivity developments. There is also the need to complete the Single Market, especially to encourage more mobility.

Will this solve the Eurozone's problems? Certainly not in the short term. Here, more money will be needed to prevent an uncontrolled default, as well as some 'mild' restructuring with the costs spread widely throughout Europe. But without a focus on the long-term future, based on mutual respect, investment and tackling the barriers and divergences which plague the Eurozone, populations will simply not accept the pain or payment which is needed to keep the euro alive and strong.

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