

Third Greek Bailout: Unmet Aspirations in the Age of Austerity

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Despite the successive bailout packages since 2010, Greece continues to face a critical juncture. The arrival in power of the radical left-wing party SYRIZA in January 2015 brought an end to the maximalist aspirations for economic and social change in Greece. A few months of negotiations during the first half of 2015 were enough for SYRIZA to understand that the EU's economic agenda exercises full control over a large spectrum of national public policies, even more so when dealing with highly indebted countries. The third loan agreement, worth 86 billion euros, and the memorandum of understanding concluded on July 2015 between the SYRIZA-led government and its EU/IMF creditors further reinforced the EU's extensive apparatus of surveillance, audit and evaluation of the Greek economy. However, the stringent requirements in the third economic adjustment programme continue to generate the negative socio-economic effects related to recession and unemployment, making it more difficult for Greece to reach its expected fiscal objectives.

SYRIZA Governance

The first SYRIZA-led government was mainly composed of longstanding politicians coming from the reformist left or socialist fringe of the political spec-

trum that occupied almost all the key positions. Alexis Tsipras was confronted with the eurozone's stringent requirements and European capitalism's imperatives from the very beginning of his term in office. The official announcement of the government programme, drew attention to the humanitarian crisis brought on by austerity. In March 2015, the anti-poverty law was adopted, which had been considered as a unilateral action from the EU side.¹ Nothing was mentioned in relation to SYRIZA's pre-electoral promises to wipe out most of the debt or nationalize the banks; even as far as the minimum wage of 751 euros was concerned, Tsipras declared that it would be restored gradually until 2016.

SYRIZA didn't seriously prepare its ascendancy to power considering that the political renegotiation of the agreement could be a sufficient condition to deal with austerity. However, overturning the conditionality agreements concluded by previous ND-PASOK governments was not only a major political challenge, but also a technical one. To take up this challenge, well-performing, local technocratic elites and an efficient bureaucracy were required in order to prepare a solid negotiating tactic based on reliable quantified expertise. SYRIZA did not fully take the opportunity to exploit the available synergies by leading anti-austerity thinkers. Instead, the Greek administration continued to steadily operate under the stress of structural reforms and to see its capacity for action to be mainly restricted to the internal coordination of their implementation.

At the beginning of the negotiations, Tsipras insisted that the memoranda reach their end and that he would only negotiate for a new loan agreement without conditionality. While the official line

¹ The Law 4320/2015 introduced anti-poverty programmes to tackle the humanitarian crisis such as free electricity and rent subsidies in households below the poverty line and food subsidy programmes with food coupons to poor families.

of the SYRIZA-led government consisted in either dealing with short-term lending support or asking for the mobilization of European financial instruments to support new Greek public investment, austerity and structural reforms were imposed by the EU/IMF creditors as a condition prior to receiving finance.

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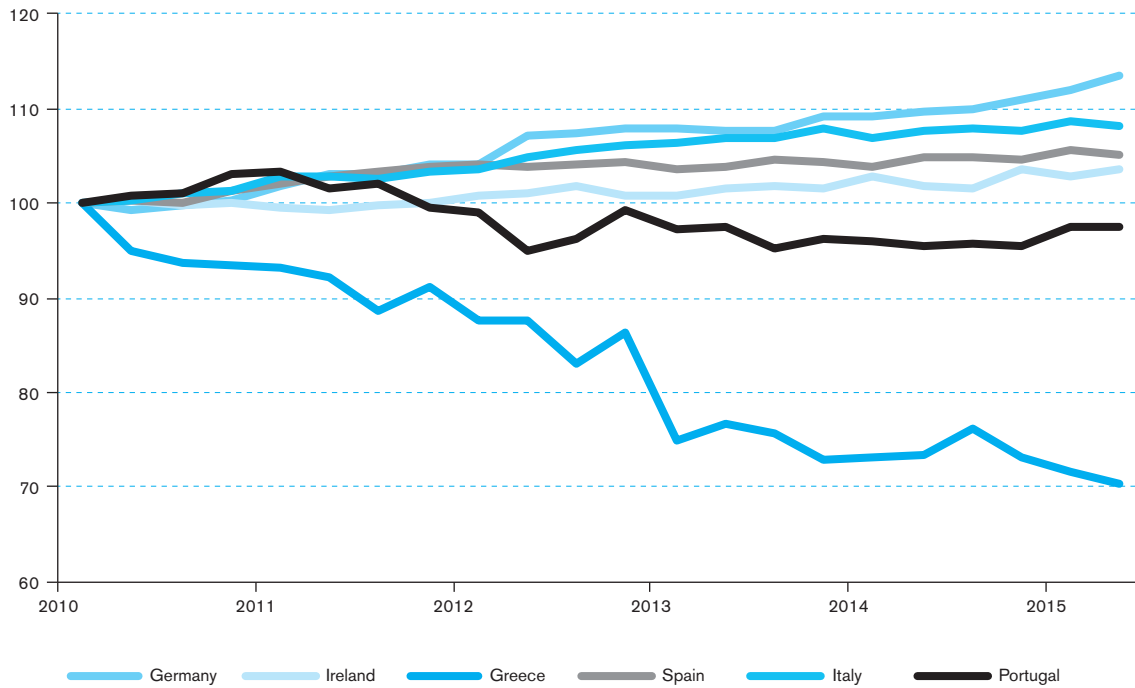
After the interim agreement of February 2015, Tsipras understood progressively that his margin for manoeuvre was narrow. Yanis Varoufakis, the political outsider who was already exploiting his high-media profile, took up a new public anti-austerity, though pro-European, discourse. His tactic for asserting influence in eurozone policy making, however, was in complete dissonance with the political habitus in Brussels. Tsipras considered that Varoufakis' nuisance capacity in the Eurogroup could be useful in reaching a less severe agreement; but instead, this contributed to further erosion of the Greek government's negotiation capacity, and led to the negotiation round being extended until the summer of 2015, by which time the State's cash reserves had dried up. In a context of overheating pressure due to capital controls, Tsipras' ambivalent position on the referendum that took place on 5 July 2015² was already a sign of his embarrassment at having trapped himself into maximalist politics that had generated unachievable expectations in Greek society.

The Tightening of the Third Memorandum Conditions

After the capitulation of July 2015, Tsipras had begun to use normalizing rhetoric, arguing that despite austerity rules his government intended to develop a parallel growth agenda. Since then, this discourse has further evolved towards a more individual-oriented approach aimed at protecting the most vulnerable during the austerity era. At that time, Tsipras went as far as to claim that it was possible to propose 'equivalent' measures in order to reduce or contain the social effects of structural reforms; but it would need serious technocratic work to specifically determine, quantify and evaluate what types of measures these would be.

In fact, the September 2015 election endorsed the EU austerity agenda rather than reformulating it. It confirmed the definitive transformation of a grassroots movement into a governing party ruled now by a small group of professional politicians attempting to convince the population that they could 'mitigate the social effects of economic adjustment.' Tsipras committed to respecting Greece's engagements with its creditors, accepted the creditors' targets for the primary budget surplus, although less tough as originally envisaged – according to the creditors this is the only way to render the debt viable - abandoned once and for all the annulation of the debt and dropped the plan of national reconstruction. The third memorandum is much more restrictive and specific than those previously agreed. As an attempt to address previous failures, it imposes continuous evaluations, the possibility of revising the measures, while including, among others, administrative reforms aimed at further strengthening the independence of budget and tax authorities in order to reinforce their capacity to implement restrictive fiscal policies. EU/IMF creditors repeatedly explained that the non-strict application of the programme would lead to its interruption ('zero tolerance' programme), thus emphasizing the importance of its full, proper and timely implementation. This memorandum stipulates that at any time the creditors consider that the assigned objectives are not being achieved, they can replace the

² After a long-running standoff with creditors, the Greek government called a snap referendum on the proposals they had advanced, i.e. the draft Agreement submitted by the EU/IMF to the Eurogroup of 25 June 2015. Under intense pressure to fail, the referendum appeared as the only political alternative for the Greek government to continue the negotiations. (see especially CHATZISTAVROU, Filippa. "The 2015 Greek Referendum." *EPIN Commentary* No. 24, 3 July 2015.



Source: Eurostat.

adopted measures with others. Under daily institutional surveillance and financial control, the Greek government is being called to satisfy predetermined fiscal targets that are barely achievable.

The agreement involves measures totalling 5.4 billion euros, which corresponds to 3% of the GDP. The SYRIZA-led government already implemented measures amounting to 2.8 billion euros, further contributing to salary deflation with a 30% decrease in hourly wages in the private sphere (see Chart 11). Greece will implement the remaining measures over the next 2.5 years, totalling 2.6 billion, which amounts to an average annual cost of 1.1 billion. No doubt, the majority of Greek society considers that the packages of tax, pension and social security reforms promulgated until now do not share the burden of the adjustment according to social justice principles, although SYRIZA claims the opposite. Critics argue that the social security system is losing its redistributive role, being confined mainly to its welfare function; while the redistributive component of the system was previously aimed at reducing social inequalities, the cur-

rent focus, basically on minimum social welfare measures, only provides limited assistance to the country's weakest and poorest.

In this context, recent polls show rising discontent among Greeks. While Eurosceptics and Grexit supporters have not enjoyed parliamentary representation since the September 2015 general election – with the exception of the Greek Communist Party – rising Euroscepticism is becoming increasingly embedded at various layers of Greek society. The support to stay in the euro dropped to 60.3% according to a survey by Kapa Research published in March 2016,³ compared with 72.9% that was recorded in a survey conducted in 2015. According to the standard Eurobarometer of autumn 2015, 97% of respondents characterize the state of the Greek economy as 'bad,' while 70% believe it will get worse over the next 12 months (a 24% increase compared to the previous Eurobarometer). 77% of respondents answered that things are going in the wrong direction in Greece (+ 28% compared with the corresponding findings of the Eurobarometer in

³ Survey Report on the latest political developments in Greece, KAPA Research, 17.4.2016, p. 15 (see http://kaparesearch.com/index.php?option=com_k2&view=item&id=100:april-2016-poll&Itemid=137&lang=en).

the spring of 2015), while an equally large proportion has no confidence in the government (82%) or the EU (81%). As far as the EU is concerned, 45% of Greeks surveyed replied that it is going in the 'wrong' direction towards resolving the crisis and dealing with major international challenges, while 26% believe that it is taking the 'right' direction. In fact, the left and right divide within the Greek political space no longer concerns economic issues – which have all been subsumed in the European dimension –, but rather the division between those who favour a self-blaming attitude towards the crisis and an unconditional Europhilic attitude, and those who favour a blaming-others attitude towards the crisis and a Eurosceptic or anti-European attitude.

Current Stakes and Contradictions

The April-May 2016 negotiations on the first review of the third bailout programme revealed better than ever the internal contradictions of the eurozone governance system. The EU/IMF creditors are increasingly concerned about how to assign the 'unilateral responsibility' of the bailout plan to Greece in such a manner as to ensure that its implementation might not be seen as their failure.

The IMF asked for additional preventive, not precautionary, measures⁴ totaling €3.6 billion, which corresponds to 2% of the GDP, in case the fiscal targets of 2018 are not met. The IMF directly contested the data provided by EUROSTAT in April 2016,⁵ based on which a better picture of the Greek economy has been given in relation to the negative IMF forecasts. But even if we consider the data reliable, they do not seem promising, as they show that in all likelihood the country will not be able to achieve the assigned fiscal targets over the coming years.⁶ The EU is claiming to believe that the European Commission's forecasts do hold water, without taking into account the fact that this method of fixing extremely ambitious fiscal targets undermines any chance of economic recovery.

That is why, in addition to the demand for exceptional measures to be taken, the IMF called imperatively for a debt haircut. Following the outburst of the Greek crisis in 2010, fears of contamination were evoked. The IMF agreed to finance the Greek programme, putting aside the fact that normally the institution is not supposed to agree to finance countries that are not financially solvent. Under pressure from Europeans and Americans, the Fund spent an amount greater than three times what is normally allowed by changing its regulations under such extraordinary circumstances. But within the IMF, this was not welcome. This is why during the recent negotiations in the spring of 2016, the IMF maintained an intransigent position, calling imperatively for debt relief for Greece, which, for the time being, means more of a rescheduling than a real restructuring of the debt.

Under daily institutional surveillance and financial control, the Greek government is being called to satisfy predetermined fiscal targets that are barely achievable

Initially, the discussion on the debt was scheduled for October 2015 but it was repeatedly postponed given the EU's reluctance to get involved in the matter. From the very beginning of the SYRIZA government, the issue of the debt has been used by the EU as a future reward for implementing austerity policies. However, for a debt arrangement to be effective a balanced and coherent policy mix must be put in place; otherwise debt will be re-engendered.

During negotiations in the spring of 2016, Greece's creditors seemed to agree that these emergency additional measures should be completely automatic, which is why they must be specified and their cost assessed in advance, noting that many countries have such measures in their budget. As mentioned below, the third memorandum allows for the adoption of new/supplementary measures, even if they can re-

⁴ Preventive measures consist in anticipating expected bad developments while precautionary measures may be prescribed in cases where any doubt exists about future developments.

⁵ According to Eurostat data, there is a small debt reduction, a small reduction of the deficit from 3.6 to 3.2 (without including banks' recapitalization) and the surplus is in the range of 0.7 instead of 0.2 as projected (excluding debt service).

⁶ According to the terms of the third bailout plan, in 2016 the primary surplus - the balance not including debt service - should be 0.5%, followed by 1.75% in 2017 and 3.5% in 2018.

inforce the deflationary trend that makes it more difficult to pay off debt. It provides for corrective actions and introduces a mechanism of quasi-automatic expense reduction through horizontal spending cuts in case there is a failure to comply with fiscal targets. Despite there being legal obstacles within the Greek Constitution to adopting preventive measures by going through the national Parliament, the creditors were ready to go even further; they considered it appropriate to determine in advance the nominal expenditures to be cut without leaving any discretionary power to the Finance Minister.

The conclusion of the spring negotiation round on the first review of the third bailout programme came as no surprise. The creditors agreed to consider Greek debt reduction, if needed, after the current bailout and the end of the next German election in 2018, without making any specific commitments. An agreement has been reached on a new privatization fund and the contingency fiscal mechanism regarding the possible adoption of additional structural, including revenue-related, measures. From the creditors' perspective this could help Greece to meet the ambitious primary surplus targets of the ESM programme. Finally, provided that the bailout deal will be fully respected by the Greek government (reforms in exchange for loan tranche), a technical package of short and medium-term debt re-profiling measures could be implemented (lengthening of maturities, smoothing or reduction of interest rates, deferral of interest payments). Apparently, this last point of the total agreement has been found to be the best possible solution available in order to disguise the profound disagreement between the EU and the IMF on the issue of debt, which corresponds to 180% of the Greek GDP.

Conclusion

What are the prospects for a country of 11 million people with 2.7 million pensioners and 1.2 million unemployed? For the creditors, the management of the Greek problem will take years. European leaders have no desire to engage in another round of risky diplomacy with Greece, while facing a host of other challenges such as the role of the UK in Europe, the Syrian conflict and the refugee crisis. The aim of the IMF is to make the prospect of loan repayment from the Greek side more realistic and to push

for tough austerity measures and assurances that Athens will hold to reforms.

The IMF will not participate in another aid plan while the EU seems unwilling to reform eurozone governance in order to put an end to the conditionality approach now embedded in the EU system

At the beginning of 2015, there was a belief that it was possible to change and break the EU's economic policies and rules through traditional interstate negotiation processes. Since then, although the effects of the three bailout plans have mainly been negative, Greece is currently more interested in lowering risk. The country seems unable even to use its comparative advantage as a major player in the refugee crisis. The request for relaxation of austerity does not seem to be a sufficient condition anymore for dealing with conceptual and systemic incoherencies of eurozone governance. Even under a fictional high-growth scenario, Greek public debt remains unsustainable. The IMF will not participate in another aid plan while the EU seems unwilling to reform eurozone governance in order to put an end to the conditionality approach now embedded in the EU system, circumventing the EU's and Member States' economic, social and political acquis. While political and institutional changes occur over long periods of time, economic urgency does not have the same luxury.

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