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Greece at the crossroads: what are SYRIZA's options?

For five years, Greece has been mired in a deep recession. Harsh austerity programs and neo-liberal restructuring resulted in high unemployment and widespread poverty. In January 2015, the Greeks elected a new, left government, from which they expect an end of the austerity measures. Yet the institutions of the creditors, formerly known as the "Troika", insist on the continuation of the austerity policies. What options are there for the left party SYRIZA, whose chairman, Alexis Tsipras, is serving as Prime minister of Greece?

From the financial crisis to the Euro crisis

Since 2008, the world economic is experiencing a crisis of stagnation. Despite historically low interest rates, economic growth remains dismal. Banks prefer to deposit cash with the European Central Bank, pay penalty interest rates in order to secure liquidity, rather than to lend it on to enterprises.

The financial crisis already started in 2007, when the market for sub-prime housing loans in the United States collapsed. After the bankruptcy of the US investment bank Lehman Brothers, the crisis spread to the global economic system, triggering a violent correction of bubbles and imbalances, especially in Europe. Investors from the European core economies withdrew credit from the so-called peripheral countries. This impacted on both the private and the public sector of these economies.

The changes in global economic conditions, led to a much more pessimistic assessment of the growth potential of these economies. Existing public debt was considered unsustainable, and the current net increases in debt were expected to result in an unsustainable path of public debt.

Instead of making a serious effort to support the global economy by increasing final demand in the lending countries, especially in Germany, harsh austerity measures were administered to the countries in Europe hardest hit by the crisis. Wages in Portugal, Spain, and Greece have fallen, millions of people have been fired or do not find jobs when they enter the labor market. Italy is stuck in an ongoing recession. These measures were especially drastic in the case of Greece. No other country in Europe has been subjugated to a similar amount of cuts in social benefits and pensions, no other government has interfered to the same extent in the system of collective bargaining between unions and employers.

Established parties collapse

The established parties in the southern European countries have complied with the austerity measures, which have been carried out by conservative as well as by social-democratic governments. In Greece, this has led to a dramatic loss of public support for these parties.

Greek Prime minister Alexis Tsipras continues to enjoy high approval ratings. Tsipras is the only leading politician, who is not being rejected by a majority of the respondents. Headlines in the press that suggest that Tsipras would be under pressure from a population willing to surrender all or almost all of the measures contained in SYRIZA's electoral program in order to secure a deal with the creditors are misleading. They suggest that the Left in Greece would be on the defensive and therefore needed to capitulate to the demands of the creditors. In fact, SYRIZA is the one major political force in Greece that has the trust of a large part of the Greek people and an active base in the factories and in the society at large.

Elections and opinion polls

Party	Political orientation	Parliamentary elections October 2009	Parliamentary elections January 2015	Opinion polls May 2015 (average)[1]
SYRIZA	Left	4,6 %	36,3 %	46,6 %
Nea Demokratia	Conservative	33,5 %	27,8 %	20,0 %
PASOK	Social-democratic	43,9 %	4,7 %	3,8 %
KKE	Communist	7,5 %	5,5 %	5,5 %
To Potami	Liberal	(founded in 2014)	6,1 %	6,4 %
ANEL	Nationalist	(founded in 2012)	4,8 %	3,6 %
Chrysi Avgi	Fascist	0,3 %	6,3 %	6,7 %

Support for the office of Prime minister, May 2015[2]

Party	Politician	Approve	Disprove
SYRIZA	Alexis Tsipras	50 %	26 %
Nea Demokratia	Antonis Samaras	15,5 %	61,5 %
PASOK	Evangelos Venizelos	13,5 %	69 %
KKE	Dimitris Koutsoumbas	15 %	44 %
To Potami	Stavros Theodorakis	22,5 %	42 %
ANEL	Panos Kammenos	25,5 %	47 %
Chrysi Avgi	Nikolaos Michaloliakos	6,5 %	81 %

An opinion poll of May 2015 showed that 58 % of respondents do not want the government to make concessions to the institutions of the creditors, while 37 % are prepared to make concessions. Few people, however, are willing to accept the totality of the measured that the creditors demand from the Greek government: 89 % reject cuts in regular pensions, 79 % reject cuts of supplementary pensions, 81 % are opposed to abolishing restrictions of mass layoffs.

In the same poll, 71 % express the wish to retain the Euro, while 19 % prefer returning to the Drachma. This illustrates the hope that an agreement with the creditors could be achieved that would keep Greece within the Eurozone while entailing only minimal concessions on the part of the Greek government. As the Commission of the European Union, the European Central Bank, and the International Monetary Fund all insist on a far-reaching austerity program, this objective appears to be unattainable.

1 »Syriza maintains huge lead«, http://en.enikos.gr/politics/29176,Syriza-maintains-huge-lead-over-main-opposition-New-Democracy-Poll.html, »Clear lead for Syriza«, http://en.enikos.gr/politics/29451,Clear-lead-for-Syriza-in-public-issue-poll-support-for-euro-at-71.html.

2 »Clear lead for Syriza«, http://en.enikos.gr/politics/29451,Clear-lead-for-Syriza-in-public-issue-poll-support-for-euro-at-71.html.

It is hard to predict how the Greek people, in case a referendum were held, would vote on a specific package of measures presented by the creditors. It is vitally important, however, that the leading politicians of SYRIZA do not suppress the discussion on alternatives and on a possible exit from the Euro by pointing to negotiations that are being presented as progressing and successful. It is understandable that SYRIZA, given the popular mood, does not want to be seen as the driving force behind an exit of the country from the Euro. It would be negligent, however, not to point out the fact that a rejection of the economic program presented by the creditors will in all likelihood result in Greece's factual exit from the Euro.

A European solution?

The Greek government, as well as politicians and economists following a Keynesian approach, have made suggestions on how the recession in Greece can be overcome by changing the economic policy orientation of the European Union and by various single measures.

Greek Finance minister Yanis Varoufakis, who has taught as a professor of economics at Athens University before assuming his post, has frequently commented on the financial crises, the European Monetary Union, and on the economic policies of the European Union during the last few years. He is correct in pointing out that a policy aimed at increasing final demand in Germany would be desirable, yet insufficient to solve the problems of the Greek economy on its own or within the available time frame. The same is true with regard to an (even more) expansionary policy of the European Central Bank.

Together with the economist Stuart Holland and (from the 4th edition of the text onward) with the economist James K. Galbraith, Varoufakis presented a proposal that was published with the title "A Modest Proposal for Resolving the Eurozone Crisis"[3]. The authors propose the following measures:

1. National government shall put the restructuring or bankruptcy administration of distressed banks in the hands of the European Stability Mechanism (ESM). This would result, inter alia, in relieving European countries from providing guarantees for the institutional loans to their respective financial institutions.
2. The debt of the individual countries of the European Union, up to a share of 60 % of their respective gross domestic product, shall be guaranteed by the ESM, thus reducing the interest payments for the borrowing countries.
3. The European Investment Bank and the European Investment Fund establish a far-reaching investment program that would include not only traditional infrastructure financing, but new investments in green technologies, support for small and medium-sized enterprises, and venture capital financing. This program should aim, in particular, to support the economic and technological development of the peripheral countries of the European Union.
4. Income from interest paid on the TARGET-2 balances should be used to fund programs aimed at reducing poverty and humanitarian emergencies.

In May 2012, Varoufakis argues that an exit from the Euro would not be feasible, as the change to a new currency would entail extreme risks for the functioning of the economic cycle. In addition, Greece—unlike Argentina, for example, that abandoned the peg to the U.S. dollar in 2000—would not possess export-oriented industries that would profit from a devaluation, leading to a self-sustained recovery of the economy as a whole.

Can the economic problems of Greece be solved by the measures presented in Varoufakis' proposal? These measures would certainly increase Greece's ability to increase social benefits and fund social programs, and would also reduce interest payments and fiscal risk. They would not, however, reverse the process of de-industrialization induces and accelerated by the economic framework of the EU,

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3 Y. Varoufakis, S. Holland, and J. K. Galbraith, "A Modest Proposal for Resolving the Eurozone Crisis", July 2013, http://yanisvaroufakis.eu/euro-crisis/modest-proposal/

which is based on the goal of unfettered competition in all markets. Against those market forces, unleashed by political decisions of the EU and its leading states, investment programs of the European Union will prove to be powerless. The measures will not solve the problem of wages that have fallen substantially while the cost of living have increased, overall, since the beginning of the economic crisis.

Within the Euro, a reduction of the level of prices that would restore the purchasing power of the wages with regard to domestic production, would only be possibly as a result of a deflationary situation prevailing over a larger time period. The history of the Great Depression of the 1930s, as well as the Japan's experience in the 1990s show that such prolonged periods of deflation lead to economic stagnation and rising unemployment. A reduction of the price level in Greece, within the Euro, however, is only possible as a result of such a prolonged deflationary environment, comparable to Japans "lost decade".

The Keynesian economist Rudolf Hickel advises against Greece exiting the Euro, citing incalculable economic risks. His assumption with regard to the economic trajectory of Greece after an exit from the Euro—including the hypothesis that Greek exports would barely respond to variations in the exchange rate—are indeed quite pessimistic. Indeed, exports have already grown in sectors such as agriculture and tourism, and the decline in the gross domestic product means that wages per unit of production have not fallen as much as nominal or real wages, especially when comparing the current situation not to the peak of the economic bubble, but to the year 2006, for example. (See here for some economic data on Greece trade, wages and prices.)

Yet it is certainly not possible to make any exact predictions about the development of the Greek economy for the case of an exit from the Euro. It is true that a change in the economic policies of Germany and the European Union, with a focus on strengthening final consumption, is necessary for various reasons. At the same time, it is clear that, given the economic dislocations in Greece, such an economic impulse from external final demand would be too weak and too late. It would also not change the structural problems of the European economic space, in which the economies of the periphery are being drowned out by the powerful and competitive economic players of the core economies.

The negotiations between Greece and the institutions of the creditors showed, above all, that the governments of the lending countries are not prepared to accept any major changes in the economic policy of Greece, let alone to contemplate changing their own economic policies. At the same time, European governments as well as the international financial institutions have stressed again and again that an exit of Greece from the Euro would not be an option—this was also repeatedly stated by German chancellor Angela Merkel.

The Euro—in the interest of German capital

In order to understand why the project of the European Monetary Union, despite all difficulties, enjoys the steadfast support of the predominant sections of Capital in Europe, it is helpful to take a closer look at the interest of the different actors.

The starting point for the process that finally led to the Euro was the fact that, in the 1970s, the U.S. was no longer willing to bear the cost and risks involved in stabilizing the global monetary system on its own. While the U.S. dollar remained unchallenged in its position as the leading global currency, the German mark became the currency of reference in western continental Europe. The influence of the currencies of smaller countries decreased, also within their own jurisdictions. The monetary decisions of the U.S. central bank and of the German Bundesbank increasingly impacted on the monetary situation in other countries, even if their currency was formally independent. The development of the European Monetary System (EMS) was an expression of this dependency. Yet the EMS allowed for discretionary adjustments of the exchange rates between European currencies.

Big business in Germany saw two major advantages in establishing a system of fixed exchange rates, and ultimately a common currency, in Europe: the creation of a larger market for German products without exchange rate risks, and the possibility of restricting wage growth in Germany without either plunging the economy into a deflationary spiral or losing the gains in relative competitiveness as a result of an appreciation of the German Mark with regard to the currencies of Germany's trading partners. While an appreciation of the currency increases the power of domestic Capital internationally, it also means, given sticky nominal wages, that Capital must share some of the gains with the workers, who enjoy higher wages with regard to the international prices of goods and services. The German finance sector viewed the Euro as an instrument that would help it to increase business in their "domestic currency" in Europe and beyond, thereby bolstering its position against U.S. and British financial companies in particular.

Capital in France saw the Euro as a chance to gain some influence on the monetary policy orientation and the political leadership of a common currency, rather than to engage in a competition of the French franc against the German mark that would ultimately prove futile. For the smaller countries, the Euro offered monetary stability and improved financial conditions, in particular lower interest rates. Against the growing flows of international finance, the smaller European currencies increasingly looked like nutshells on the open seas.

It may very well be that the political leaders of the countries of the European Union envisaged a much smoother development of the Euro when they took the decisions regarding the creation of the Euro and the participation of different countries, including Greece. Indeed, the introduction of the Euro, due to the elimination of exchange rate risks, led to much improved credit conditions in those countries that are generally being described as the "periphery" of the European Union. The flow of investments, especially from Germany, to these countries led to an economic boom in these economies. At the same time, it created imbalances, especially in the private sector, that were violently exposed when the financial crisis spread from the U.S. to Europe in 2008 and that were the major cause of the crises of public financing in the countries most affected by the crisis.

Despite all political and financial costs, the major economic and political players in Europe "again and again came to the conclusion that the advantages of the European common market and the leading role of the Germany in Europe would outweigh the sometimes considerable expenditures," as Hans-Jürgen Urban, member of the executive committee of the German union IG Metall, stated in 2011.[4] This statement, which characterized the policy with regard to the European Union as a whole, is also true with regard to the stabilization of the common currency.

These observations are meant to emphasize that the interests of the major actors within Europe continue to be firmly geared towards the stabilization and strengthening of the Euro. A mere change in the public discourse, without a fundamental change in of the relations of power within the major countries of Europe will therefore, at best, lead to minor corrections in the implementations of this policy, not to a political reorientation of the European Union.

The willingness of the leading political and economic forces in the European Union to support the Euro, even if this mean incurring substantial expenses, should not be confused, however, with a willingness to keep every country within the Eurozone at whatever cost. The Euro, as a currency, is means to achieve certain economic and political goal, as explained above. National government that support the goals of establishing a large European market based on cut-throat competition and a strong currency of global reach that is managed according to the interests of creditors, not borrowers, are therefore much more likely to receive substantial support than government that do not support or even openly challenge these goals. If a country threatens to set a bad precedent for the Euro area, with regard to these goals, and if efforts to bring it back into the fold fail, then even letting such a country

4 Hans-Jürgen Urban, "Stabilitätsgewinn durch Demokratieverzicht", Blätter für deutsche und internationale Politik 7/2011, p. 78.

exit from the Euro area, or forcing it out of the Euro, may be contemplated by the core countries of the Eurozone.

Greece at the crossroads

While Greece is rapidly approaching the moment of decision, the Left in Germany, but also in other European countries, is focused on demanding a Keynesian reorientation of economic policy and a European Union whose policies based on strengthening democracy and social justice. This, in principle, is correct, and it is certainly necessary with regard to Europe as a whole. Yet it does not help to find a practical solution for the urgent question: How should Greece react to the uncompromising stance of its creditors, and how should the Left in Europe position itself with regard to that practical decision?

A decision to exit the Euro would bring about a debate on economic policy that would necessarily depart from the framework of the economic order within the European Union: extensive controls on the movement of capital, a re-regulation of trade, the question of a compulsory conversion of foreign currency, including the Euro, into the new currency and the nationalization of the banking system. It will be important to ensure that a new currency in Greece will be in fact the predominant medium of exchange, unit of account and store of value. Suggestions involving a parallel currency, promissory notes or warrants, which seem to promise a softer transition, go against that goal. There must not emerge a situation in which the Greek Capital continues to calculate in terms of the Euro, while workers and pensioners receive a new currency of uncertain purchasing power.

The Left in Greece, and in the whole of Europe, cannot freely choose the conditions under which it must wage its struggle against Capital and its interests. It is unlikely that the leading countries of the Eurozone will allow Greece to exit the Euro in a managed, assisted transition, for example, by promising to support the exchange rate of a new currency to avoid a large devaluation driven by economic and political uncertainty rather than economic fundamentals. In an environment of competitive trade relations, flexible exchange rates and international mobility of capital, the cost of ensuring a stable transition of Greece out of the Euro would be high, while the leading countries would not want to set the example of a successful transition out of the Euro and the economic and political project underlying the European Union. Thus, it is mainly the risk of economic contagion or the spread of political instability that would motivate the core countries to a least refrain from actions that would make a transition more difficult and costly for Greece.

In order to keep Greece within the fold, the pressure from the core countries of the European Union, in particular from Germany, on the leadership of SYRIZA, will continue to increase. The blackmail and the threats will continue. The institutions of the creditors have already denounced delays in privatization, the re-hiring of workers that have been fired under previous governments, the re-opening of hospitals and of the public broadcasting service ERT as "unilateral actions by the Greek government". The insist on a large increase of the value added tax, implying a further cut in real wages, further attacks on workers' rights, neoliberal reforms of the labor market and further cuts in pensions.

The electoral victory of SYRIZA was an enormous setback for the Greek capitalists and the elites of the European Union. They will not give up, however, but will continue to try to force the government into surrender, to humiliate the Left and to deter the people of other European countries from seeking alternatives to their economic and political project. As long as the power of Capital in everyday life, and in the workplace in particular, is not being challenged, any political change will rest on a shaky foundation. Therefore, SYRIZA must use the political dynamic to promote and strengthen a movement for the democratization of economic power that would constitute the core of a counter-power to the EU institutions and to the Greek capitalists.

In Germany, the first task of the Left is to support those forces in Greece that fight against a surrender to the institutions of the creditors. Among the creditors, German chancellor Angela Merkel and the

German finance minister Wolfgang Schäuble are staunchest supporters of an uncompromising stance towards Greece. Vice Chancellor Sigmar Gabriel and the social-democratic party do not oppose that stance, but are admonishing the Greek government to "act responsibly". The Left in Germany, as well as trade unions and social movements, must build political pressure against the policy of blackmail pursued by the German government, and in particular, they must support Greece if the country chooses to break free from the oppressive contract of the creditors and to refuse to repay the debt.