



# Don't Expect a 'Grexit': Greece Can't Escape Europe

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Global financial markets currently obsess about the fate of a small Balkan country's sovereign debt and its impact on the Eurozone. However, if the burden of Greek debt were to disappear overnight, the miracle would just reveal the underlying weakness of the Greek economy and its dependency on Europe for the foreseeable future.

Since the Hellenic Republic entered the European project (then the EC) in 1981, the brutal truth is that only massive European transfer payments have separated Greece from the status of de facto third-world economy. The Greek economy is both narrow and shallow, and has been for many generations. The country's most valuable export has been people, whose talents and achievements do not merit the recent jibes of the German tabloids. Even today, Greece produces relatively little and can export even less. The domestic economy does not remotely earn enough to pay for the country's vital imports, especially energy. Greece lives on—lives on, mind you, not just maintains its lifestyle with—externalities: tourism, shipping, remittances and EU subsidies. The modern face of contemporary Greece—its highways, airports and the Athens Metro—were largely paid for by EU counterpart funds. The most vital aspect of EU membership for Greece is the freedom of its people to work elsewhere in Europe at will and then send money home. Thus, even without the debt crisis, Greece is no more fully sovereign in economics than it is in military security.

Greek households are not the problem. Indeed, the average Greek is a model of financial probity (except as a taxpayer). Greek households maintain little debt, value education for their children (no small task, given the atrocious state of public higher education) and use increasing prosperity to acquire real property—mostly real estate—rather than to finance short-term consumption. Greeks are not inherently indolent, but nor do they justify their self image revealed in a recent Pew Trust study as the hardest workers in Europe. Context determines their efforts. When properly motivated, Greeks are diligent, but many Greek institutions—above all, the massive state sector—motivate in the wrong direction. It is instructive to look at Greeks in other contexts, such as America and Canada, Australia and New Zealand, South Africa and Kenya, and even Germany. Greek effort and enterprise abroad are a tribute to what people coming from an inherently hardscrabble heritage can achieve.

The Greek state is quite another matter. There is nothing novel about the current debt crisis. Since attaining independence in the early 1830s, the modern Greek state (whether kingdom or republic) has been in default the majority of the time. Many people thought entry into European institutions would bring that tradition to an end, but exactly the opposite was the case. The financial profligacy of the Greek government in the 1980s under the leadership of Andreas Papandreou and his PASOK party is well known, but it was modest in comparison with the period after Greek entry into the Eurozone in 2001, and especially under the center-right New Democracy government of Constantine Karamanlis. It was a pro-business government of the right in Athens that ran surreptitious state deficits comparable to those of Venezuela today, but without oil revenues.

Greece could obtain massive loans because it benefited from the widely held fantasy that all Eurozone sovereign debt was more or less equally safe due to an implied (though fictional) guarantee of the European Central Bank. Had Greece remained outside the Eurozone, its ability to borrow would have been constrained by market realities. In the event, Wall Street assisted Athens to behave like a nineteenth-century banana republic on the assumption that Eurozone governments had a safety net in Frankfurt.

The financial crisis facing the new PASOK government of George Papandreou in 2009 required a basic choice: should Greece follow its traditional path and default on its debts [4], or behave like a good European state and manage its obligations in cooperation with its Eurozone partners? The younger Papandreou, a former foreign minister deeply dedicated to his country's European future, chose the latter. In retrospect, this may have been a blunder. A default would have inflicted massive short-term damage on the Greek economy, but much of the financial pain would have been exported to France and Germany, whose banks and pension funds were major holders of Greek government bonds. The ensuing EU "bailout" of Greece was actually nothing of the kind. Governments in Berlin and Paris desperately wanted to avoid domestic bailouts of their overstretched banks, so financed a restructuring of Greek debt in order to keep the contagion at a distance. The consequence for Greeks was even more austerity than might have followed a default. Many Greeks believe they have suffered to maintain German prosperity, and they may be right.

The political consequences of Papandreou's choice were the effective destruction of PASOK and massive electoral losses for New Democracy after Antonis Samaras pursued similar policies while in office. The result was the end of political dominance by large center-left and center-right parties, electoral fragmentation and the coming to power of a leftist coalition called SYRIZA [5] with support from a small right-nationalist party, ANEL [6]. Beyond the personal charisma of Alexis Tsipras and his government's sartorial choices lies a sobering reality. SYRIZA is, at its core, Trotskyite in political philosophy. This is a novelty for Europe. Many countries have been led by leftist governments and many have active Trotskyite parties, but only the Greek crisis has brought Trotskyites to power. In the Greek tradition, Trotskyism can be highly ethnocentric and nationalist, which is why the alliance with ANEL was no surprise. Trotskyites are often noteworthy both for intelligence and for intellectual arrogance. Greeks are well known for intense self-absorption and collective vanity. The combination of these qualities is likely to be problematic in accommodating the perspectives of other European governments.

Make no mistake: SYRIZA and Tsipras are quite serious about their sense of mission and their democratic legitimacy. They are entirely sincere when they proclaim (as they do regularly) that Europe needs Greece more than Greece needs Europe. On its face, this assertion might seem absurd, until you appreciate what they mean. The new Greek leadership perceives its mandate as pan-European. They believe they were elected to lead a broad transformation of the entire European project, away from a neoliberal economic identity toward a more statist and collectivist one, and away from both an Atlanticist orientation and an excessive influence of Germany in European institutions. For such a radical agenda, Europe does indeed "need" Greece.

It is unfortunate that the two poles of the European dialogue should now be Greek and German, as it is difficult to think of two European societies with such unsympathetic views of each other. Having lived in both, I can testify to the mixture of envy, resentment and simple annoyance that marks the relationship, leavened by some genuine mutual admiration. On the Greek side, the key failing is a shameless but pervasive sense of entitlement toward Europe and especially Germany. It is no exaggeration to say that many Greeks believe—with complete sincerity—that they "deserve" a debt bailout from Brussels and Berlin, just because they are Greek. This is nothing new. Greece was the "bad boy" of the European project from the outset—but in the early years, the price tag to subsidize the lifestyle of such a small country was acceptable for a booming Germany. Today, German attitudes have changed, while Greek ones have not.

There is ample fault on the German side as well. Nobody forced German banks to purchase masses of Greek debt, and the inherent weakness of the Greek economy was no secret in Frankfurt. (Indeed, German firms have been exposed as some of the worst contributors to Greek corruption.) The current German prescription for European recovery of "redemption from sin through austerity" is both faulty economics and inconsistent with shared European responsibilities. It must also be said that Germany, which has worked so hard to reconcile with Jews, Poles, Russians, French and others, has been strikingly insensitive toward Greece. The visit last year of President Joachim Gauck to one of the many villages annihilated by German forces during the War was a welcome step, but decades overdue. Much of the German mass media exhibits a combination of historical amnesia and near-racist condescension toward Greece, which fuels Greek resentment and a perception that Germans have not changed since the War.

Much of the SYRIZA vote was for a government that would stand up to Berlin, almost regardless of the potential cost. Tsipras often notes (correctly) that there would have been no German "economic miracle" without the write-off of German debts at the 1953 London conference, at which Greece was a participant. Similarly, renewed Greek demands for reparations for the wartime occupation do not reflect actual expectations on the Greek side, but are a response to German tabloid demands that Greece sell some of its scenic islands to pay off its debts.

As the international drama over Greek debt develops, several realities need recognition. First, much of the debt will never be paid (reflecting bookkeeping as much as economics), nor written off in the near term (reflecting German politics). Thus, the problem must be "managed" in some way, but with the ever-present danger that Athens will seize the option foregone five years earlier of deliberate default. Second, austerity in Greece is not at an end, but must be moderated—and soon. Greeks have been digging deeper into this hole and they need to stop. It is unreasonable to expect an entire generation to sacrifice itself on the altar of the Germanic confusion of economics and theology. Third, and perhaps most important, resolving the debt problem, even if only in a cosmetic way, does not resolve the basic dependency relationship of Greece to Europe. Even if Greece leaves the Euro, it will remain in the EU and be a large net financial recipient as it was for two decades before it blundered into the Eurozone.

There are many things a hard-charging Greek administration could do to make things better, above all to improve tax collection and reduce wasteful public spending. However, the basic clientelism of the Greek economy is so deeply inbred and so pervasive that it can only be modified, not fundamentally reformed. Clientelism is the reflection in the market of the fissiparous and family-centered nature of Greek society; in a real way, clientelism is what makes the Greek economy work, albeit badly. Greece is by no means alone in this respect, and a principle of the European project is that member states maintain their national characteristics. Despite a few large-scale Chinese and Russian investments [7], Greece will remain on the European dole indefinitely. The alternative is to risk the failure, not just of a small economy, but of constitutional democracy in a European country. That is more important than money—or at least it should be.

Finally, it is quite true that Greeks feel a sense of warmth and comradeship with Russia, but there is less to this aspect of the new government in Athens than many fear. The links of history, religion and culture are real, but by no means deep. What unites Athens and Moscow today is a shared sense of victimhood, of being losers in globalization and in the post-Cold War reordering of the world. It is certainly disquieting to see a foreign minister in an EU and NATO capital who has close ties with Alexander Dugin and a defense minister with more acquaintances in Moscow than in Brussels, but this would not be the first time that Greek officials have been "ringfenced," nor the first time that Greek positions have been relegated to footnotes in positions agreed in Brussels. The degree of Greek official conniving with Moscow will vary directly with the degree of Greek tension with Brussels, Berlin and Washington. Moscow will benefit to the extent that Athens feels isolated from its Western partners and no further.

Washington reportedly is asking the Europeans to cut Greece some slack on the debt issue, but there is no significant American money on the table. A generation ago, the United States gratefully agreed to let the European Union take the lead on the care and feeding of Greece. This is never an easy task, nor will it be in the months ahead with a Trotskyite-nationalist government in Athens. Europe's leaders must wrestle not only with the pressing debt issue, but also with deeper challenges. Is the European periphery better off if Greece is financially saved or if it fails? Is the Euro better off with or without Greece? Can Europe maintain its fragile cohesion toward Russia if Greece chooses to use this issue to demonstrate its independence? Can the European project restore its often-wayward Balkan member to something like full membership and a path toward an eventual European identity? In these and other challenges with Athens, Europe faces a series of dilemmas.