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63

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Maybe Greek MPs would be right to say No

By Wolfgang Münchau

The Greek parliament is today scheduled to start the most important parliamentary debate in the country's recent history. If a majority approves the agreed austerity package in a vote due on Tuesday, all is well. For now. The European Union and the International Monetary Fund will continue to provide credits. If not, Greece might default within days.

How should Greek MPs vote?

Until last week, I would have said: definitely Yes. The country is running a large primary deficit. The austerity imposed by the EU and the IMF is mild compared with the austerity that would be required if the country were to be cut off from any source of external finance. A messy default would destabilise the global financial system and could force Greece to abandon the euro.

Such an argument is vulnerable to relatively subtle shifts in circumstances. One such shift may have occurred last week, when EU and IMF negotiators imposed a new tranche of austerity. The measures included a cut in the tax-free allowance, and a tax levy of €100-€300 for the self-employed. The decision triggered angry protests in Athens. I see it as a political provocation and an act of economic vandalism. It could derail the entire crisis resolution process.

There is no doubt that Greece needed a large fiscal adjustment. And, yes, the Greek government backtracked a little on the previously agreed programme to win support for last week's vote of confidence. The latest slice of austerity was intended to plug this gap. But it would be a mistake to deprive Greece of all means of political manoeuvre.

Politically, the new austerity programme is backfiring already. It strengthens the position of Antonis Samaras, the Greek opposition leader, who opposes it. Fellow centre-right EU leaders last week put pressure on him. He resisted. His argument is that austerity is killing the economy and that Greece now needs a jolt to get it back to a growth path.

By unwittingly strengthening Mr Samaras's resolve and his public support, the EU destroys any chances of the national unity it so desperately seeks. This is, after all, going to be a programme lasting several years. If the present government were to fall, Mr Samaras would stand a good chance of winning. He is already ahead in the polls. If elected, he would ask the EU to renegotiate. The EU and the IMF might decline. The whole strategy could unravel at that point.

Mr Samaras's argument against austerity is hard to refute on economic grounds. Austerity was clearly necessary at the start of the programme, but this is the time for the emphasis to shift towards growth, which Greece needs under any scenario – default or no default, exit or no exit.

The EU wasted weeks on the silly debate of private sector participation, instead of focusing on the issues that really matter.

The problem is that the entire process remains sensitive to sudden electoral mood swings in the creditor countries.

The first priority of German, Dutch and Finnish politicians has been to reduce the costs of the programme as much as possible. They even went so far as to earmark uncertain Greek privatisation receipts as an integral part of the next finance package, rather than for debt reduction. Under the scheme now likely to be agreed, any shortfall in privatisation receipts would therefore open a finance gap. The creditor countries would then almost certainly ask Greece to plug the gap through even more austerity. Such a strategy is financially reckless and politically irresponsible.

No wonder the Greeks are becoming wary of extreme austerity. They will only ever accept it over long periods if there is a plausible endgame. EU economics officials and their political masters are ideological supply-siders. They misjudged the effects of the Greek austerity programme on growth the first time round. They do so now. They will do it again. And this ruins the endgame for the Greeks.

The combination of a half-hearted financial support programme and dogmatism are reasons why even perfectly rational Greek MPs might end up voting No tomorrow. The programme, as it stands, is politically, economically and morally hard to justify. The only reason to vote Yes would be to delay the default until the Greek public sector achieves primary balance, which will not happen before 2012. The EU's strategy reduces the choice of the Greeks to defaulting either next month, or next year.

The Greek government has a narrow majority and is putting heavy pressure on its MPs to vote in favour of the programme. The government may yet prevail. If it does, this will be because of arm-twisting more than to the strength of the argument, which is no longer clear-cut.

Greek MPs should be asking both sides for more clarification. The problem with Mr Samaras's position is that a vote against austerity would trigger more austerity in the very short run. Mr Samaras needs to explain how Greece can fund itself when no outside finance is available. What is his strategy? And the Yes camp needs to explain why austerity can work now when it failed before.

Greek MPs are now facing the choice between a lie and a disaster. Considering what is at stake, the EU and the IMF should never have put Greece in that position.

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