

Why the EU Is Fed Up With Greece

In 2011, imagining a Greek exit from the euro zone was terrifying. Today, impatience reigns

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Greek Prime Minister Alexis Tsipras waits for a televised interview to start inside a studio of state broadcaster ERT in Athens on June 29.

On Sept. 6, 1946, U.S. Secretary of State James Byrnes gave a speech in Stuttgart, Germany. A movement was afoot to penalize the Germans for their role in World War II by deindustrializing the country. Byrnes opposed anything resembling economic spite and promised the country a fair chance to rebuild. “Germany is a part of Europe,” Byrnes said, “and recovery in Europe will be slow indeed if Germany with her great resources of iron and coal is turned into a poorhouse.” It became known as the Speech of Hope.

Whatever he lacks in efficacy, Greek Finance Minister Yanis Varoufakis knows his history. On June 7, in an op-ed for the website Project Syndicate, he harked back to Byrnes. “Today, it is my country that is locked in such circumstances and in need of

hope. Moralistic objections to helping Greece abound, denying its people a shot at achieving their own renaissance,” he wrote. He called on German Chancellor Angela Merkel to come to Greece and give a similar speech—“a break with the past five years of adding new loans on top of already unsustainable debt, conditional on further doses of punitive austerity.”

Varoufakis on Greece's Future in Two Minutes

Merkel, of course, will do no such thing. She and many of her European peers appear increasingly open to the possibility that Greece will crash out of the euro currency. What makes Varoufakis’s op-ed poignant is that he’s largely right about the damage wrought by austerity. Even before the latest chaos, the economy had shrunk by a quarter from its peak. Greece needs debt reduction far more than spending cuts and tax hikes. “I can think of no depression, ever, that has been so deliberate and had such catastrophic consequences,” Columbia University economist Joseph Stiglitz wrote on his blog on June 29.

But the rest of Europe doesn’t want to hear what Greece has to say anymore. In vowing that he has the upper hand in negotiations, Greek Prime Minister Alexis Tsipras sounds as detached from reality as the Iraqi information minister who promised Western reporters in 2003 that U.S. troops would be smashed by the forces of Saddam Hussein. Varoufakis is a bad-boy academic who likes showing up on a motorcycle and wagging his finger at the diplomats. Here’s Varoufakis again, this time from a Twitter message in April: “FDR, 1936: ‘They are unanimous in their hate for me; and I welcome their hatred.’ A quotation close to my heart (& reality) these days.” This needs to be about Greece, not Yanis.

It’s not just Germans who are tired of Greece. The leaders of Spain, Ireland, and Portugal, who might have been natural allies, have been some of the Greeks’ toughest critics. They argue that their countries swallowed the austerity medicine and that Greece should, too. Concessions to Greece now would embolden leftist critics in their own countries, such as the Podemos party in Spain. Even Bulgaria, which joined the European Union only in 2007 and is still trying to shape up its economy to accede to the euro, is fed up. “We are much poorer than the Greeks, but we have performed reforms,” Bulgarian President Rosen Plevneliev told the *New York Times*.

“The costs of the breakdown in negotiations appear to be falling almost entirely on Greece”

The upshot is that events are unfolding roughly as foreseen by the wily German finance minister, Wolfgang Schäuble: The disaster befalling Greece is scaring other European nations into following the straight and narrow. According to former Treasury Secretary Timothy Geithner in his book *Stress Test: Reflections on Financial Crises*, Schäuble told him in 2012 that—in Geithner’s words—some people were arguing “that letting Greece burn would make it easier to build a stronger Europe with a more credible firewall.”

Greece wasn't yet on the outs in 2011, when Prime Minister George Papandreou announced a referendum on austerity measures demanded by international creditors. Other European leaders pressed him to change the referendum into a yes-or-no vote on euro membership, betting on a clear yes from the Greek people. Instead Papandreou canceled the vote, the opposition called for immediate elections, and the prime minister agreed to step down. This time, with a referendum slated for July 5, the rest of Europe is almost blasé. That's partly because the EU has new mechanisms to prevent contagion, and partly because a Greek exit, if it occurs, will likely be so ugly that no one will be tempted to follow it out the door. At this stage, "acquiescing to Greek intransigence on economic reforms" seems like "a greater existential threat to the euro zone than the potential spillover effects of a Greek exit," Eswar Prasad, a professor of trade policy at Cornell University, wrote in an e-mail. "The costs of the breakdown in negotiations appear to be falling almost entirely on Greece."

Europe may not even need to expel Greece from the common currency to be relieved of it. The country has already been cut off by the European Central Bank from increases in emergency liquidity assistance and may soon lose access to other lending channels. "You can kind of leave Greece in this state of suspended animation in which the whole issue of Grexit becomes neutered," says Huw Pill, a former European Central Bank official who is chief European economist for Goldman Sachs International.

If the euro zone is shorn of its most unreliable member, the other 18 countries could build trust with each other and band together more tightly. It's conceivable that the governments would agree someday to a fiscal union—i.e., centralized taxing and spending—making the euro zone a single economic entity like the U.S. That would fix the biggest flaw in the euro experiment. Because they share a currency, countries in recession can't resort to the safety valve of a currency depreciation. In the U.S., of course, hard-hit regions get automatic relief because their tax payments fall while benefits like food stamps rise. Europe's stabilizers are tiny: The entire EU budget is only 1 percent of the region's gross domestic product.

But it's equally possible the euro zone will go in the other direction, away from unification. The cultural, historical, and linguistic differences between Greeks and Germans remain far deeper than those between, say, Texans and Floridians. An EU survey of citizens in 28 member nations last November found that 52 percent felt very attached to their cities, towns, or villages, and 54 percent felt very attached to their countries, but only 9 percent felt very attached to the EU itself. The bailouts triggered by the financial crisis didn't help matters, feeding into ancient stereotypes by pitting mostly northern creditor nations against mostly southern borrowers (not just Greece). In 2011, European Parliament member Jussi Halla-aho of Finland suggested Greece needed a junta "to rein in the strikers and demonstrators ... with tanks."

In retrospect, Europe's first mistake was letting Greece into the euro zone in 2001. Germans wagered correctly that Greek accession would enlarge the market for their exports. But they were wrong in thinking that Greece would be inspired or forced to fix its rickety economy. Corruption and bureaucratic inefficiency went unabated. The second

mistake was allowing Greeks to overborrow; optimistic investors accepted yields on sovereign debt nearly as low as those Germany paid. The third mistake was to treat the problem by piling on official loans rather than by restructuring the private-sector debt more severely. Greece would have had a better chance of recovery, and Europe would have been less exposed: “I don’t think anybody would have seen it as bending the rules if the composition of fiscal adjustment had been different,” says Alessandro Leipold, chief economist at the Lisbon Council, a Brussels-based think tank and policy network.

The Europeans mishandled Greece. Tsipras and Varoufakis responded with hubris. Now Greece stands at the center of its own drama, surrounded by a wailing chorus, as erstwhile allies prepare to say goodbye.

Correction: CORRECTS second paragraph from end to clarify that the debt restructuring did impose losses on private-sector creditors.