DOI: 10.1007/s10272-015-0520-8

The End of Austerity?

The first month of 2015 ended with two big-bang events for European policymaking: in Athens, the Greek electorate brought to power a radical-left party which built its electoral campaign on an anti-austerity, anti-memorandum platform; in Frankfurt, the European Central Bank (ECB) took the long-awaited but stubbornly challenged decision to launch a large programme of quantitative easing to instil liquidity and re-ignite inflation in the sluggish eurozone economy. And while the ECB's move was immediately received as a significant "critical juncture" (by both advocates and opponents of the decision), it was the election in Athens that sent the strongest shockwaves through the political scene in Europe. Following years of half-hearted and half-effective austerity policies, SYRIZA's impressive victory in the snap election of 25 January signalled a clear public mandate for the pursuit of a different path to fiscal consolidation, with new priority given to pro-growth policies and the reversal of the austerity policies and structural reform agenda of the past five years. Soon after the announcement of the election result, the leader of SYRIZA, Alexis Tsipras, declared proudly to a jubilant crowd of SYRIZA supporters – including representatives of left parties from Italy and Spain – that the election result marked the end of austerity, both in Greece and in Europe.

Although the 36.3 per cent of votes gained by SYRIZA left the party just two parliamentary seats short of achieving an absolute majority in parliament, it was able to very quickly strike a deal with the "Independent Greeks", a 13-seat strong party located in the traditional right with a strong anti-austerity and – especially – anti-memorandum agenda, for the formation of a coalition government. The two parties put aside their vast ideological differences on social, national security and other issues and agreed on a simple cooperation platform to pursue a new round of negotiations with Greece's main creditors. Their aims are to secure a generous reduction in the servicing of the country's public debt (not excluding debt forgiveness but, more likely, through a reduction in interest charged and an extension of the debt repayment period) and to revise the country's fiscal adjustment programme (including the targets on future primary surpluses, which were rather unrealistic anyway). Crucially for the new Greek government, this negotiation is to take place outside the "troika" framework and to be conducted instead at a strictly political level, presumably within the Eurogroup and European Council, as well as bilaterally with some key European governments.

Domestically, the new government is set to implement with "immediate effect" some of the core pre-election pledges of SYRIZA to "reversing austerity". These include restoring the minimum wage to its pre-crisis levels, reinstating the 13-month year for low-level pensions, raising the income tax threshold to above the poverty line, legislating a write-off for non-performing household loans, re-hiring public sector employees made redundant by the previous government, re-introducing recently abolished collective bargaining arrangements, and prospectively introducing a radically more progressive income and property tax system. Although valid objections can be levied against some of these policy choices, a good number of them seem to make sense. For example, raising the minimum wage will no doubt help boost domestic demand and shift a considerable part of the Greek labour force out of poverty. It is widely acknowledged that the reduction in the minimum wage by 25 per cent in 2012 did not help much with Greece's unemployment problem and largely failed as an internal devaluation strategy. Exports hardly improved, as these were constrained more by the country's weak export base, red tape and high distribution costs, and domestic consumption plummeted further, intensifying the recession as the loss in consumption power was greater than the cost savings that domestic producers and retailers could pass on to the consumers – espe-

cially in an environment of ever-rising taxation, illiquidity and heightened uncertainty. For the long-suffering Greek public (and for many of their sympathisers across Europe), as well as for many analysts of the Greek economy, many of SYRIZA's proposals are not only non-harmful but also perhaps necessary.

But this is not how the situation reads from the perspective of countries like Germany or Finland, which champion strict adherence to fiscal discipline and have a deep-rooted aversion to inflationary policies. For them, SYRIZA's victory and programmatic pledges raise the prospect not only of yet another derailment of Greece's fiscal adjustment programme but – perhaps more importantly – of a strengthening of anti-austerity voices elsewhere in Europe, such as in Spain, where the Podemos movement seems to be making similar advances to those of SYRIZA, as well as in Italy, Portugal and France. This would then represent a real threat to the main premise of the so-called Brussels-Frankfurt consensus, the established arrangement whereby the ECB is to pursue price stability with political neutrality and no direct concern over potential problems in the real economy; national fiscal authorities are assigned the responsibility of delivering budget discipline and non-inflationary (balanced) fiscal positions; and economic competitiveness is to be attained by the pursuit of – supply-side – structural reforms to spur investment, innovation and productivity gains. As the European banking sector is now largely insulated from the risks of Greek debt, cracks in the consensus are much more of a concern for the eurozone "north" – and the ECB's decision on quantitative easing is certainly not helping to ease this concern. Advocates of fiscal discipline have already taken a critical stance on quantitative easing, arguing that it will water down incentives for non-competitive and highly indebted countries to implement structural reforms. SYRIZA's pledges to re-regulate the labour market, to annul some of the previously implemented public sector reforms, to abolish the privatisation programme, and even to launch a programme of renationalisation of previously state-owned enterprises combine to make these concerns all the more alarming to advocates of the Brussels-Frankfurt consensus.

Ultimately, it is these concerns that the new Greek government will have to address, or overcome, if it is to be successful in steering the Greek economy out of the Clashing Rocks of potential default (and a "Grexit") and austerity-induced recession. And while these concerns may become a matter of renewed debate for the rest of the eurozone in the months and years ahead – about the ills of austerity and the wisdom of the fiscal discipline canon – for Greece the challenges are much more immediate. The country faces a very real and acute constraint in the near term, as there is a prohibitive amount of maturing sovereign debt in the coming months (a total of €22.6bn in 2015). The country's banking sector has a limited ability to provide short-term financing to the state budget (e.g. via purchase of Treasury bills), itself being very much dependent on the ECB's Emergency Liquidity Assistance. Consequently, Greece will not be able to refinance without the assistance of the IMF or the eurozone. So, while its eurozone partners may indeed be committed to keeping Greece in the EMU, and while they may be amenable to some renegotiation of the terms of the loan agreements and the targets of the fiscal adjustment programme (so as to provide just sufficient fiscal space for the new government to implement some of its economic relief measures), they are extremely unlikely to accept anything less than a firm and unequivocal adherence to fiscal discipline (i.e. running primary surpluses) and a similar commitment to market-liberalising structural reforms. For Greece, and for the immediate future, the election result does not signal the end of austerity. Rather, it simply constitutes yet another episode in the seemingly endless Greek-crisis saga. We can only hope that all parties involved will show the same commitment to maintaining the integrity of the eurozone as they did in the past – only this time making good use of the lessons learned from the previous episodes of this crisis.

Vassilis Monastiriotis,
European Insitute, London School of Economics, UK.