The Greek David vs. the EU Goliath?

A cursory glance of much of recent media reporting and one could easily conclude that the EU is bullying Greece as a means of advancing its agenda of propping up the euro at the expense of the Greek economy and on the back of the Greek people. Our instinctive reaction is to support the plucky underdog in its monumental fight against the Eurocrat Goliath, especially if the undertone is that the bailout has only succeeded in helping the fat cat foreign banks, who have been making hay with the EU rescue funds while the Greek citizens starve. This could not be further from the truth, as I have previously written.

The recent media reporting has consistently demonstrated that the Syriza rhetoric which went down so well with the Greek electorate is failing to gain traction with the other eurozone countries that have been keeping the Greek economy afloat for the last few years. Instead of Mr Alexis Tsipras and Mr Yanis Varoufakis, Greece's Fine Young Radicals getting their way with their contradictory demands, they are discovering that their European partners are not for turning, despite the high stakes game of poker being played.

Game of Chicken: who blinks first, loses

This is the world's most dangerous game of chicken and everyone can see a potential crash looming ahead. Neither the EU nor the Greeks are giving way. The Greeks want to tear down the agreed programme of reform and the as they see it unreasonable conditions imposed on them by the hated “troika” (EC, IMF and ECB) and take back their sovereignty while at the same time staying in the EU and the eurozone and demanding a long list of concessions while being clearly not in position to pay for them either today or any time soon.

The obvious implication of the Greek stance is that the eurozone has foisted austerity upon the Greeks, that it is not working and that the eurozone owes the Greek people for the suffering that has been imposed on them against their will. There should be a significant debt write down, an immediate end to austerity and presumably continuing transfers from eurozone countries for the privilege of Greece not pressing the reset button by leaving the euro and defaulting on their debts. Such eurozone transfers would be expected by Greece not only now, but potentially for the foreseeable future until its economy has recovered fully and it is able to pay back its debts. Many cheer the Greek stance and their pluck in the face of the pro-austerity forces of the establishment, such as the Troika.

Interestingly though, none of the eurozone countries seem to be buying into this fairy tale despite the potentially catastrophic chain of events that could flow from such a game of chicken if contagion were to take hold in other similarly stricken eurozone countries. The lack of eurozone cave-in appears to have taken the Greek young radical leadership by surprise. Moreover, the public pronouncements being made, and not only by the Germans, appear to be hardening over time. Time is running out for Greece.
world’s biggest game of chicken is unfolding before our very eyes with potentially disastrous consequences for Greece and eurozone. Many must wonder why the eurozone countries don’t simply press the financial reset button? Why must the poor Greeks continue to suffer, whereas through a magical stroke of the EU pen, they could simply forgive the Greek debt and move on?

The Germans always pay...

When it comes to the EU, the three most significant countries have always played a consistent game. The French are the visionaries that drive the ever closer union agenda, including in the establishment of the euro. The Germans are the ones that sign the blank cheques and effectively traded off their beloved DM for reunification. The Brits are the pragmatists that have only ever been interested in trade and finance, but been sceptical about almost everything else connected with the EU and would not touch the euro with the proverbial barge pole. In this story, the simple fact is that the much vilified Germans would almost certainly have signed on the dotted line and rescued the Greeks (and probably others) were it not for two seemingly innocuous words which few people ever mention in relation to the game of chicken currently being played, namely the “transfer union”.

... except if they simply cannot: transfer union

Firstly, let us be clear about the definition. A “transfer union” is basically characterised by permanent, direct and horizontal transfers between eurozone countries. Quite simply, this is forbidden under EU and national law. The taxpayer in German and other EU countries has always been concerned that s/he might end-up assuming liability for the debts and deficits generated by other Member States. Consequently, the Maastricht Treaty and its successor treaties provided safeguards not least Article 125 of the Treaty on the Functioning of the European Union (TFEU), which contains the so-called “no bail-out” clause. It requires that EU institutions (including the European Central Bank) must not assume liability for the debts of central, regional or local governments of the member states of the eurozone, nor must one member state assume liability for the debts of another. A recent amendment to Article 136 TFEU authorises eurozone members to set up the European Stability Mechanism on an inter-governmental basis, but this does not invalidate the no bail-out clause which forbids debt burden-sharing amongst eurozone members.

These legal restrictions are reinforced by others in the national constitutions of certain member states such as that of Germany. The German Federal Constitutional Court based in Karlsruhe has been particularly vociferous in blocking anything which affects Germany’s ability to act as a fully self-governing sovereign state.

Had it not been for the constraints blocking transfer union on the basis defined above, I believe that most German politicians would have already done whatever it takes to rescue Greece and the euro. They would have written a blank cheque in 2009, they would have done so today and they would have continued to do so for the foreseeable future until their own financial system was corroded. Never underestimate the importance of war guilt in German policy-making. The instinctive reaction of German politicians, certainly until the advent of Chancellor Gerhard Schroeder, was to pay first and think last about the consequences for the German taxpayer. Fortunately for the German citizen (or more to the point, unfortunately for the Greek citizen), the problem of the transfer union is a major stumbling block which inhibits the normal course of EU politics and results in the biggest game of chicken ever.
To be sure, some vertical transfers do take place between member states and the EU and back to member states. Article 3 III of the EU Treaty refers to economic, social and territorial cohesion and solidarity between the member states as one of the aims of the Union. Measures that are financed must correspond with the aims of the Union and have been agreed by the member states in the framework of the European Treaties and secondary legislation. The competitiveness and cohesion budget focuses on three elements: i) economic convergence of the least developed regions and member states ii) regional competitiveness and employment and iii) cross-border cooperation and the integration of regions and SMEs.

But the situation becomes much trickier in the case of the euro rescue package which now comprises three elements: i) the European Financial Stabilisation Mechanism (EFSM) run by the Commission, ii) the European Financial Stability Facility (EFSF) financed by the member states and iii) IMF aid. There have been numerous attempts to block the rescue packages on the legal grounds previously mentioned. All have failed because the rescue packages have been considered to be time-limited, with clearly earmarked loans and subject to strict conditionality. Funds are not paid out until economic policy conditions connected to the framework of the structural adjustment programme, are complied with. This is the basis of the euro rescue packages, otherwise they could not have been offered. This is the basis that Greece accepted the offered rescue packages.

New Greece or eating the euro cake and having it too

Prior to the advent of Syriza, it could be questioned if the loans would ever be repaid by Greece or if the conditions attached were being met in the manner anticipated. But with the new, explicit Greek demands, the position changes radically. As I have previously discussed, Syriza goes against all uneasy compromises which have been hammered out under the previous euro rescue packages. In essence it insists on the following:

- Stay in the EU and the Euro.
- Negotiate the level of the debt burden (175% of the GDP or €318 billion) immediately
- Reboot the economy and create 300,000 jobs
- Immediate end to austerity:
  - Tax reductions (abolish taxes & social contributions for 7 years & income tax of 30%)
  - Raise the minimum wage from €586 to €751
  - Re-introduce 13th month payment for the lowest retirement pensions
  - Distribute electricity or housing coupons and free access to public transport for the poorest 300,000 households
- Introduce free healthcare for all.
- Stop privatisation on its tracks.

This is the new Greece wanting to have its euro cake and eat it at the same time, but at the expense of all the other eurozone countries that have been helping it through various rescue funds. These demands, which its Fine Young Radical leadership is pursuing with vigour, would effectively overturn the current rationale of the rescue packages totalling €240bn and contravene the principle of no transfer union since it would lead to permanent, direct and horizontal transfers between eurozone countries. By requiring an immediate renegotiation of the debt burden by half (bearing in mind that many eurozone countries are significantly poorer than Greece on a per capita basis yet would have to bear the costs of debt reduction), it would represent a clear and unambiguous bailout by the other eurozone countries. By stopping
privatisation and reintroducing a raft of measures which the country simply cannot afford to pay for, it would effectively amount to permanent, direct and horizontal transfers between the other eurozone countries and Greece, since the country cannot afford them now and is unlikely to afford them for decades. In other words, the current Greek negotiating position would represent a direct contravention of the EU treaties and, if successful, would trigger challenges at the EU level, as well as in the German Federal Constitutional Court, something which the German government rightly fears. And this is even before we discuss how the average tax payer and voter in eurozone countries will feel about contributing to increasing the minimum wage or pension in Greece to levels which they themselves do not enjoy in their countries.

In this game of chicken, Greece’s leadership has been betting that when push comes to shove, the rest of the eurozone will blink first and simply cave-in to its demands so as to keep Greece in the euro, avoid contagion in the eurozone and possibly save the EU as a whole.

But Greece’s Fine Young Radicals have underestimated the legal importance of the EU treaty and national constitutional barriers to the establishment of a transfer union. A European financial equalisation, with permanent, direct and horizontal transfers, is simply not possible, otherwise Germany and other leading eurozone national would probably have long ago given-in to the mounting economic and political pressures.

**The limits to the EU and the euro**

_The day when the Greek citizen or any other EU citizen votes to increase its wages, pensions, social expenditure, etc. yet simply expects the taxpayers of other EU countries, be it the Germans or any other nationality, to foot the resulting bill on an ongoing basis is the day that the EU and euro will be dead and buried as far as I am concerned. This massive game of chicken potentially affecting the lives of the Greeks, the eurozone countries and other including Britons (though they may feel immune to it because of their own currency) may go on for a while, but it will not last long. There will probably only be losers in this game started by Greece’s Fine Young Radicals. They will lose if things go wrong by accident or design, but nowhere as badly as the Greek people themselves who, in their desperation, have voted them in._

Ricardo Pinto, AngloDeutsch™ Blog, www.AngloDeutsch.EU