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Greek Debt, German Hubris

The Capitulation of Athens and the Implications for Europe

By Stelios Kouloglou

In 416 BC, during the Peloponnesian War, representatives of the powerful city-state of Athens gave the people of Melos an ultimatum: the small island in the Cyclades either had to join the Delian League, an alliance controlled by Athenian imperialism, or be destroyed. Members of the League had to follow the military strategy of Athens against archenemy Sparta and pay an annual tribute. In his history of the Peloponnesian War, Thucydides describes the encounter between the Athenian envoys and the Melos authorities. The envoys were asked why Melos must join the League; after all the island had remained neutral during the first twenty years of the war and did not represent a danger for Athenian democracy. But for the representatives of Athens, anyone who is not with them was against them. "The strong do what they have the power to do, and the weak accept what they have to accept," the Athenians responded. It was a matter of obedience, a question of who is the master of the game. Catastrophe soon befell Melos, an Athenian lesson for any others who would dare to disobey.

This is essentially what happened in the negotiations between the Greek government elected in January 2015 and Greece's partners and creditors, mainly Germany. The government was elected on the basis of a program that would put an end to the austerity that the same forces had imposed on previous Greek governments with disastrous results: fall of the gross domestic product (GDP) by 25 percent; an economic decline greater than that of the United States during the Great Depression; unemployment among young people nearing 60 percent; political and social destruction.

The new government stated upfront that it had no intention of challenging the rules governing the eurozone countries, the nineteen European Union (EU) nations (out of twenty-eight) that have adopted the euro as their common currency. "My government is planning, and I am planning, to compromise, compromise, and compromise, but we're not

◁ Customers queuing outside a bank, Athens, July 1, 2015. *Marios Lolosaz/Xinhua/Sipa USA* going to be compromised," the then-Minister of Finance Yanis Varoufakis repeatedly affirmed to his colleagues. Varoufakis simply wanted a revision of the agreements in order to give space and time for development. Almost all serious economists agreed, including Joseph Stiglitz and Paul Krugman, winners of the Nobel Prize in economics, that Varoufakis' proposal was the only realistic plan that could pull Greece out of its economic crisis.

However, from the beginning of negotiations that would last five months, Greece's creditors had exactly the opposite goal. "I've lost count of how many times we faced the threat of closure of our banks because we rejected a program which had demonstrated its inefficiency," Varoufakis wrote in *Le Monde Diplomatique* in July. "The creditors and the Eurogroup closed their ears to our economic arguments. They wanted us to surrender." In the end, and while there was not a single euro left in the Greek treasury, the Greek government was faced with an ultimatum comparable to that faced by Melos twenty-five centuries ago. The main difference was that this time the weak faced not a mighty fleet and the swords of the strong, but the European Central Bank and other powerful economic weapons of the European Alliance. Greece's dilemma was to either reject the ultimatum, which would result in the collapse of Greek banks followed by economic and political chaos, or sign up for yet another devastating austerity program.

The shock therapy imposed on Greece as well as on other countries of the European south has been presented—to international and especially German public opinion—as programs of free help and salvation. In fact they are loans; and even in 2010 when the first memorandum was signed between Greece and its lenders, the loans carried high interest rates (although in subsequent programs those punishing rates were reduced). The main issue is that in reality countries such as Greece, and Portugal, were not rescued. Naturally, the Greek government and others took advantage of entry into the euro currency in the early 2000s to shamelessly borrow at low interest rates. In the case of Greece, these loans were used for making corrupt weapons purchase deals (basically with French and German companies) or for financing political clientelism and Pharaonic projects—at the time, Greece was preparing to host the 2004 Summer Olympic Games in Athens. These projects were being realized with the participation of companies originating from the northern, industrialized countries of Europe, Germany being at the top of the list.

However, when the global economic crisis in 2008 dried up the sources of low-cost borrowing capital, not only were the Greek and other governments exposed, but also German, French, and northern banks that had lent them money without serious safeguards. When the question was raised whether to save Greece or their own banks, Paris and Berlin did not hesitate for a moment: they rescued their banks. They disregarded the effect of austerity measures on countries that were obliged to sign the infamous memorandums and to accept that the hated troika—the European Central Bank, International Monetary Fund (IMF), and European Commission—would have a decisive role in shaping their national economic policies. Since then, various IMF representatives have publicly stated that in the case of Greece it was clear from the outset that the debt was so large in relation to GDP (120 percent) that the draconian measures were doomed to fail.

The whole dirty deal is one of the largest debt transfers in history: Greek bonds were transferred from the exposed private banks to European Union member states and the IMF, against an IMF statute that prohibits lending to countries with unsustainable debt. However, for the voters in the creditor countries who did not understand the fraudulent transaction, a scapegoat was invented: the lazy and disorganized southern Europeans who cannot put their financial houses in order. In a speech in the summer of 2011, German Chancellor Angela Merkel accused the Spaniards, the Portuguese, and the Greeks of working less, retiring earlier, and enjoying more vacation time. In fact, it is the German citizens who have more privileges in these areas, not to mention wages that are much higher in Germany. In the case of Greece, the defamation campaign took on racist overtones, as the Greeks were accused of all the evils of the world, from laziness to stupidity. It is also worth noting that, according to official European data for 2014, Greeks work a lot more hours per year (2,042) than the Germans do (1,371). It is true that productivity is lower and corruption is higher in Greece than in Germany, but it takes two to tango: Greek officials and Siemens, one of the largest German companies, are starring in the biggest corruption scandal of the last decades in Greece.

As the "salvation" programs had other purposes than what was publicly claimed, the result was disastrous. Apart from the recession and the unemployment they caused, even in the case of Greece's debt, which was assumed to be its main problem, it actually increased from 120 percent when the crisis started to 180 percent as a percentage of GDP. Besides, about 93 percent of the loan money never really landed in Athens: it was used to repay the previous loans.

The lenders justified the negative effects of the austerity programs by arguing that Greece did not move forward with the agreed fiscal discipline measures and consolidation of its public sector. These charges have nothing to do with reality. In accordance with the report of the European Commission on Greece for 2014, Greece's total public sector employment declined from 907,351 in 2009 to 651,717 in 2014, a decrease of more than 255,000 representing a drop of more than 25 percent. As for public deficit, Greece has reduced its fiscal deficit from 15.6 percent of GDP in 2009 to 2.5 percent in 2014, "a scale of deficit reduction not seen anywhere else in the world," Karl Whelan, economics professor at University College Dublin, wrote on his blog. "Stories about

Greeks retiring early appear to have had a major impact on the hardline attitude of the German public towards Greece over the past few years." In reality, he added, "Greece has undertaken the most significant pension reform in Europe."

There are two reasons that the German leadership and some of its allies in the north do not want to accept the results of their policy. One is economic and the other political. On the economic front, the German government and other northern governments benefit from the eurozone crisis. According to a recent survey by Germany's Halle Institute for Economic Research, the savings of the German budget are estimated to be more than 100 billion euros (or in excess of 3 percent of GDP) during the course of 2010 to 2015. "The balanced budget in Germany," explained the Halle Institute, "is largely the result of lower interest payments due to the European debt crisis. Research shows that the debt crisis resulted in a reduction in German bond rates of about 300 basis points. A significant part of this reduction is directly attributable to the Greek crisis. When discussing the costs to the German taxpayer of saving Greece, these benefits should not be overlooked, as they tend to be larger than the expenses, even in a scenario where Greece does not repay any of its debts."

This estimation takes into account neither the benefits for German exports from the rate of the euro that remains weak because of the crisis, nor the direct German profits from the interest on the loan given to Greece, estimated to be about a half billion euros as of September 2015.

The Halle Institute report contains another very important conclusion: "Faced with crisis, investors look for safe investments (flight to safety). During the debt crisis within the euro area, Germany benefited disproportionally from this effect: Any time there was bad news about Greece, yields on German government bonds fell, and any time there was good news about Greece, German government bond yields rose."

That conclusion introduces us to the political basis of German behavior: hubris. François Mitterrand, president of France when the Berlin Wall fell, was afraid that a big Germany in the middle of Europe might seek political dominance once again. British Prime Minister Margaret Thatcher believed so, too. German author Günter Grass believed his country would return to its old hubris, its arrogance, feelings of superiority, and eventually abuse of its power.

The Maastricht Treaty in 1992 and the introduction of the common currency later was intended to prevent recurrence of Europe's bloody history, to ensure the integration of Germany so that it would not seek again to dominate Europe. At the same time, the common currency and the measures supposed to accompany it, aimed to reduce the differences between the rich countries of the north with the poorer regional countries and those in southern Europe. Neither target has been achieved. Rich countries took advantage of what to their economies was effectively a weak euro to further strengthen their industry and exports, while the poor ones were forced to use what to them amounted to a relatively strong currency and became de-industrialized. Since balancing mechanisms like currency devaluation do not exist in the eurozone, helping the poor is left to the goodwill of the powerful.

Based on its skills of discipline and organization, Germany managed to prevail. In the first decade of the twenty-first century, the German government implemented austerity policies and fiscal discipline, long before other European governments. When the global financial crisis erupted in 2008, by the time it crossed the Atlantic and reached Europe in 2009 through Greece, Germany had its economic situation in order along with fiscal reserves. It was the Aesop fable of the foresighted, hardworking ant and the careless, unprepared grasshopper. After unification the most populous and financially strongest country in Europe, Germany, was in an advantageous position. Since the turn of the millennium and the introduction of the euro, Germany's trade surplus has almost quadrupled and now stands at 217 billion euros ($236.4 billion). The common currency, which was originally meant to bind Germany to Europe, has had in the end the opposite effect. Thanks also to the Greek crisis, an account surplus of 7.5 percent of GDP gives Berlin absolute superiority. After reunification, Germany also managed to take almost all ex-communist countries of Eastern Europe under its control, using its own economic power and taking advantage of the satellite mentality that still pervades countries that were under Soviet rule.

The Semi-Hegemon

From the first moments of the European Common Market, the economic union that preceded the EU, Germany was the strongest country economically in Europe. However, the postwar German strategy was based on consultation with European allies, to echo the leading German intellectual Thomas Mann: we should never again seek a German Europe but a European Germany.

Nonetheless, when in 2009 the euro crisis erupted, at the Berlin chancellery there was a politician who did not belong to the war generation, as did her predecessor in the leadership of the Christian Democrat party, Helmut Kohl. She had not been nurtured by the ideas of the European Union either. Angela Merkel was 35 years old when the wall fell and managed to pass from East to West Germany. In the People's Republic of Germany there was really never a substantial criticism of Nazism (which was attributed to the capitalists of the West) and of course they had no idea about the plans of a united Europe, as they had grown up with COMECON, the Warsaw Pact, and had their eyes looking toward Moscow.

Merkel is a politician who hesitates to decide. She never says a clear yes or no; she says yes and no. But if you have the money and the other side is waiting for you to lend it, this leadership weakness transforms itself into a strategic advantage. The other countries of Europe began to depend on Berlin's hesitations and decisions. "Today all of Europe speaks German," Volker Kauder, the conservatives' German parliament floor leader, triumphantly concluded in his speech at a party conference of Merkel's Christian Democrats in Leipzig. "This is not a monetary union," the *Financial Times* wrote in May 2012. "It is far more like an empire."

The change in Germany's approach to Europe has been dramatic. Previous German leaders sought to avoid isolation at all costs when it came to important negotiations, but Merkel has completely rejected that approach. "I am rather alone in the EU, but I don't care," she said to a group of advisors, according to the weekly magazine *Der Spiegel*. "We are in Europe what the Americans are in the world: the unloved leading power."

Again in the twenty-first century, Europe is trying to cope with the same problem that gave birth to so many tragedies: the German question. Germany is too strong in Europe, but too small to rule over Europe by itself. History is repeating itself. After victories over Denmark, Austria, and France, the Kaiserreich that Bismarck founded in 1871 was soon dominated by the German hubris we see and hear almost daily these days: a feeling of being superior to others, to know better and to be better. Germany was acting like a "semi-hegemon," German historian Ludwig Dehio said when describing Germany's position in Europe after 1871. The then-powerful Germany, yet too small to rule Europe alone, had to form alliances that ended up in the First World War. The apotheosis of hubris, Hitler used his powerful war machine to dominate but was unable to defeat the Allies in the second war Germany had provoked in a century.

Nevertheless, unlike the United States after the Second World War, Germany the semi-hegemon is not taking full responsibility for its new role. It has a significant say in the fates of millions of people from other countries, but it only wants the benefits of that. Germans are not at all ready for an American-style Marshall Plan.

They deny Greece and other heavily indebted eurozone countries the possibility of a debt trim, forgetting that it was German debt's drastic haircut in 1953 that allowed the German economic miracle to unfold. They refuse to issue Eurobonds that would serve the countries of the south, even to provide salary increases to German workers to facilitate consumption and imports in Germany. This is a skimping, selfish empire, but one ready to point fingers at the weak. A lawyer by profession, German Finance Minister Wolfgang Schäuble has imposed Germany's own dogma: if you apply austerity and respect the given rules, you will do well. If you question or try to change them, you will suffer. It is as simple as that.

Within this environment, the new Greek government tried as of January 2015 to challenge the German austerity doctrine. The response was clear from the beginning, according to the Greek finance minister: "In fact, they had one goal: to humiliate our government and force us to capitulate. Even if it meant the definitive inability of lending countries to recover their money or failure of the reform agenda that only we could convince Greeks to accept."

The election result was treated with the same hubris. Schäuble said, according to Varoufakis: "When there's a program that everybody has agreed to, that's it. Elections cannot change anything, because, then, every time there's an election everything will change." This view was expressed publicly by several allies and satellites of Herr Schäuble.

The negotiations lasted for months, but while the Greek economy was paralyzed, the German government benefited from actually having lower interest rates with every new episode of the crisis. As the Halle Institute report said, "The effects are symmetric and amount to 20 to 30 base points a day for important events, such as the time in January of this year when the likelihood of a Syriza party victory in the elections became high, or a little later when the new [Alexis] Tsipras government refused any further talks with the troika."

At the end of June, an exhausted Greek government stated its readiness to capitulate. It insisted only on a small debt restructuring without a haircut, through the exchange of shares. It had accepted nine-tenths of the requirements of partners and lenders, asking for a small return, in order to present to the Greek public opinion something that seemed like a fair deal. As a response, it received a disastrous program in the form of an ultimatum: "Take it or leave it."

Prime Minister Tsipras had few options. He was almost forced to ask the Greek people in a referendum if they were willing to accept such a disastrous agreement. He hoped that he would use the result as a bargaining chip. He received retaliations as a response. In the negotiations that followed, Berlin would not accept even an offer of drastic austerity measures worth more than thirteen billion euros that Athens had drawn up in collaboration with Paris. Merkel's government threatened a temporary exclusion of Greece from the euro and demanded the transfer of Greek state assets worth fifty billion euros to an obscure trust fund controlled from Germany and Schäuble personally. It was like a proposition coming from a hit man, not from an EU minister.

Finally Greece had to surrender to almost all German demands. As the Athenian envoys said in Melos long ago, "The strong do what they have the power to do, and the weak accept what they have to accept." Melos was eventually destroyed, but Athens lost the moral superiority that every decent hegemon needs to rule. And never recovered after that.