

Greece Debt Default: German Intransigence Raises Spectre for 'Grexit'

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Greece's newly elected government, led by the leftist Syriza coalition that swept into power in January on an anti-austerity platform, finds itself in a highly unenviable position. Athens is burdened by colossal debt, imminent liquidity problems and a looming banking collapse. What is at stake for Greece now is its very ability to survive economically within the euro-zone.

The Syriza coalition emerged from various offshoots of the Greek radical left, which set itself apart from the political mainstream by taking an anti-capitalist position emphasizing wealth redistribution and class struggle, while allying itself with alter-globalization movements and trade unions. The ascension of Syriza represents the most leftward shift in European politics in decades.

Once a negligible force at the ballot box, Syriza has gradually succeeded in commanding support among the wage-earning class and the urban unemployed, who view the coalition as the only political force capable of pulling the country off the trajectory of austerity, imposed by Greece's creditors – primarily Germany.

The new government of Prime Minister Alexis Tsipras has captured the broad popular support of Greek society as the country faces an asymmetric struggle to negotiate a restructuring of Athens' debts and a reversal of austerity policies attached to a previous €240 billion bailout agreement, which Germany and the European Central Bank (ECB) remain inflexibly opposed to.

Austerity Assault

Greece's debt crisis reflects the contradictions of the European monetary union, which has benefited the economies within the euro-zone's core at the expense of those of the periphery. German banks, flushed with cash from Germany's sizable trade surpluses between other euro-zone members, played a primary role spurring on the Greek insolvency dilemma.

Berlin, benefiting from lower exchange rates than it would have under its own currency regime, recycled capital from euro-zone export markets back into periphery economies in search of higher returns, fueling asset bubbles, predatory lending and severe deflation in debtor economies.

Greece's public debt, the majority of it held by German banks, became unserviceable in 2010. In exchange for a €240 billion bailout agreement used to recapitalize the Greek banking sector, Athens was obliged to accept rigid austerity measures that mandated mass

privatizations, drastic cuts in public expenditures, the selling-off of public assets and across-the-board deregulation.

Greece's wage earners and pensioners have shouldered the burden of German-imposed austerity at great human cost. Since 2010, the Greek economy has contracted by 26 percent, while wages have declined at least 33 percent. Unemployment has [risen](#) from 8 to 26 percent, whereas youth employment has hovered at 60 percent. Spending cuts and tax increases have amounted to more than 45 per cent of household disposable income.

Homelessness increased by 25 percent from 2009 to 2011, imperiling members of the middle-class with medium or higher educational backgrounds. Access to healthcare has eroded, while incidents of suicide have reached record levels, increasing by 65 percent from 2009 to 2011. Greece is now cut off from markets, having endured thousands of job losses and the massive scaling-back of social protections.

Syriza's Objectives

Syriza is committed to ending austerity in the belief that Athens' ability to service its debt is conditional to growth-stimulating policies. The current gridlock between Germany and Greece can be explained as the latter seeking a window of financial stability to implement growth-inducing reforms and humanitarian policies, while the former has frozen the remainder of bailout financing until Syriza consents to continued austerity.

Yanis Varoufakis, the Syriza government's finance minister, [explained](#) this position in his column in the New York Times: *"The great difference between this government and previous Greek governments is twofold: We are determined to clash with mighty vested interests in order to reboot Greece and gain our partners' trust. We are also determined not to be treated as a debt colony that should suffer what it must."*

The latest round of negotiations between the Greek government and its creditors in late February has been a major subject of contention within the Syriza coalition and the international left more generally. Some have characterized the Greek government's negotiating strategy as capitulating to the Eurogroup, while others have argued that Syriza has opted for a tactical retreat that succeeded in buying time.

Syriza essentially entered into the negotiations with inadequate leverage, seeking financing to ease imminent liquidity fears and enact basic redistributive measures, but unwilling to play the 'Grexit' card. Athens is keenly aware that the effects of a disorderly exit from the euro-zone would be domestically destabilizing, at least in the near term, with ramifications that could potentially see other euro-zone debtor economies default, causing a humanitarian crisis and wider political upheaval.

Athens has resisted austerity in the short-term, but reluctantly consented to the February 20 agreement, committing it to continuing ongoing and outstanding privatizations, and measures that would require Greece's creditors to approve prospective state policies to determine whether they can be implemented. It is on this basis that the European Commission condemned Greece for acting 'unilaterally' when it recently [attempted](#) to pass a law enabling social assistance.

Creative Solutions, Negotiated Exit

It is utterly untenable for Greece's creditors to continue maintaining the delusion that the country would ever be able meet its obligations through tighter, growth-contracting austerity. German intransigence has inevitably raised the spectre of Grexit, having pushed Athens into a corner where it can only resist austerity and avoid a banking collapse by tapping into the cash reserves of pension funds and public sector entities.

Though the Greek leadership should certainly be encouraged to propose alternative solutions to ease deflationary pressures and address the liquidity crisis as practical measures to implement in the near term, the unwillingness of Athens' lenders to concede to a modicum of relief for the social economy renders ineffective any strategy to restructure Greece's debt within the euro framework.

If all options are exhausted, Syriza should be prepared to implement an alternative strategy that would imply a negotiated exit from the euro-zone, so as to regain sovereignty over monetary policy and open up a process of debt restructuring. Any exit would be chaotic due to the immense organizational and logistical challenges demanded by a new currency regime, which would allow Athens to regain a competitive advantage conducive to stimulating productive activity.

Strict public control would need to be exercised over the banking system, while a parallel currency denominated in euros could be utilized during a transition to provide short-term liquidity in concurrence with stringent capital control measures to prevent any excessive devaluation of a successor currency. Yanis Varoufakis has also [discussed](#) a variation of this option, advocating a state-backed cryptocurrency built on a transparent algorithm that could be utilized to hedge against deflation independent of the ECB.

If Germany and the Eurogroup intend to keep the monetary union together, which is certainly in their interest, a reduction in the nominal value of Greece's outstanding debt and basic flexibility on social expenditure would be enough to ensure that Athens remained in the euro-zone. A growth-focused debt restructuring strategy centered on a repayment scheme tethered to GDP would be another measure in the interest of both Greece and its creditors.

There is no shortage of policy alternatives that can be explored to address the ongoing deadlock. If Syriza fails to steer Greece toward a new trajectory, elements of the extreme right – such as the Golden Dawn party, an openly neo-Nazi political force fast gaining momentum among disaffected segments of society – will ultimately stand to benefit from the fallout. As it stands, the primary obstacle facing Greece is the rigid inflexibility at the heart of European institutions.

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