ISPI Commentary
ISTITUTO PER GLI STUDI DI POLITICA INTERNAZIONALE

4 March 2010

Of Greeks and Gifts

Antonio Missiroli (*)

Vergil has experienced an unexpected revival lately. Indeed, his famous «beware of Greeks bearing gifts» [*Timeo Danaos et dona ferentes*] has been quoted or paraphrased frequently in the international media coverage of the Greek sovereign debt crisis – mostly to underline how poisoned, alas, the gift was. But is it?

The specific reasons that prompted the crisis are well-known and need no further analysis here. Perhaps one should add that the policy context in which it has been brewing up did not help: with the EU about to deliberate on new regulatory provisions for financial markets, in fact, said financial markets have decided to test the would-be regulator, concentrating their firepower on the euro-zone's weakest link – notably Greece. By doing so, they have exposed the structural flaws, the half-hidden tricks and the unresolved problems of monetary union (EMU).

Until then, to be fair, the euro-zone as a whole had withstood the global financial crisis reasonably well. The European Central Bank (ECB) had displayed an unexpected degree of flexibility in managing monetary policy, thus vindicating the old saying whereby, when dealing with financial markets, certain things are said but not done and others done but not said. Moreover, whenever a euro-zone member (Ireland) or a close relative (Hungary, Latvia) had found itself teetering on the brink, the IMF – led, like the ECB, by a Frenchman – had duly come to the rescue. After all, the EU members taken together still control roughly one third of voting shares in the IMF: a questionable legacy of the past century that needs to be addressed, but definitely a handy one under the above mentioned circumstances.

The Greek crisis, however, is not comparable to Ireland's – nor is it comparable to the previous Greek mini-crisis of 2004, when the accounting tricks used by the PASOK government led by Costas Simitis were first unveiled and then quickly swept under the carpet – only to become worse under the ND government led by Costas Caramanlis. Back then, Greece was arguably not the only euro-zone country to have cheated a bit with Eurostat rules. This time around, while the triggering factor has been the discovery of the real size of the country's public deficit (in itself no bigger than Ireland's or the UK's), the structural weaknesses of the Greek economy have generated a lethal multiplier effect – catching the rest of the Union unprepared and divided.

This is also why there has been so much hesitation to cure Greece in the same way as Ireland. This is indeed a *political* crisis of EMU and its constitutive "pacts". Resorting to the IMF would be seen as a declaration of impotence by both the euro-zone core members and the outside world, whereas *not* resorting to the IMF raises crucial dilemmas for the functioning of EMU, especially since the law – as anchored in the ECB statute, the existing treaties, and the Stability and Growth Pact (SGP) itself – makes it impossible to resort to "community" instruments to address it. Hence the current agony over who should step in to bail out Greece, on what conditions and with what future implications – especially in terms of (shared) sovereignty, solidarity and policy guidance.

That the Greek crisis is somewhat existential for EMU as we know it has been sadly confirmed also by the awful political rhetoric it has produced among officials and media alike, especially in Germany, in Greece itself, and between them. A combination of deeply rooted mistrust, populism

(*) *Antonio Missiroli is Director of Studies, European Policy Centre, Brussels.*

and short-sighted policy approaches has further deepened the lingering intra-European rift and impacted also on exchange rates (although seasoned observers have underlined how appropriate a depreciation of the euro was anyway).

The forthcoming days are likely to be crucial for taming the crisis, with PM Papandreou meeting first with Chancellor Angela Merkel then with President Barack Obama. Decisive and credible action – most probably from Germany, however presented – could deter financial markets and prevent another wave of attacks on, say, Portugal and Spain. Or not: in which case, the IMF option would become inevitable and prove even more humiliating (for both Greece and Germany) than it would have been some weeks ago.

But the structural problem is not going to dither away: the rules established in the last decade of the 20th century to run the euro-zone are clearly not up to the challenges of the post-crisis environment of the 21st. The criteria for public deficits and inflation have become hardly credible and are being met only by a qualified minority of EU countries. Conversely, concerns over debt have climbed up the agenda, while long-term competitiveness (largely ignored by the SGP) is now a major policy priority. Furthermore, imposing heavy fines for non-compliance would clearly make matters worse, and is therefore neither desirable nor applicable. Similarly, the rules for joining the euro-zone in the first place appear out of step with the European realities of today.

The trouble is that all these rules cannot be changed overnight, even if there was broad political agreement to do so. And there isn't, by the way, at least not yet: renegotiating the SGP from scratch could open up a Pandora's box and, at any rate, the past decade has abundantly proved how difficult it has become to modify treaties at 27 and ratify them afterwards. It is not by accident that the new Lisbon Treaty hardly alters the existing norms on EMU (it merely institutionalises the Eurogroup) – but these are almost 20 years old and were agreed upon in a completely different geopolitical and financial context.

Reform is necessary, therefore, but seems also virtually impossible. The Greek crisis may indeed become – Vergil *docet* – a Trojan horse for EMU. Yet the European integration project has often showed its best side when put under existential pressure. Recovering from the edge of the abyss – of sovereign default, mutual distrust, historical recriminations, and policy vacuum – is still possible and manageable, provided any contingent plan to rescue Greece is couched in a longer-term policy perspective and aimed at addressing the structural problems not only of Greece – which is not alone in its weakness – but of the entire euro-zone.

This is unlikely to amount to a fully-fledged and explicit treaty revision or to the solemn announcement of a new "gouvernance économique européenne". It is more likely to lead to a new agreed "interpretation" of the SGP, to more coordination on taxation and fiscal policy across the Union, to the identification of quantifiable public policy targets linked to long-term competitiveness (the "Europe 2020" blueprint), and also to some trade-offs between key member states in a number of related areas – encompassing top jobs in relevant bodies and, arguably, a partial reform of EU and euro-zone representation in international fora, including the IMF.

All this is by no means a foregone conclusion. If something like that materialises, however, the Greek crisis will eventually prove to have been also a blessing – and indeed a gift in disguise – for Europe.

La ricerca ISPI analizza le dinamiche politiche, strategiche ed economiche del sistema internazionale con il duplice obiettivo di informare e di orientare le scelte di policy.

I risultati della ricerca vengono divulgati attraverso pubblicazioni ed eventi, focalizzati su tematiche di particolare interesse per l'Italia e le sue relazioni internazionali.

ISPI
Palazzo Clerici
Via Clerici, 5
I - 20121 Milano
www.ispionline.it

© ISPI 2010