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Are EU Officials Plotting Regime Change in Greece?

Destablizing the Greek Economy and Government

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There are various narratives for what is happening to Greece as another deadline looms – the April 24 gathering of finance ministers in Riga — and European officials show no sign of compromise. The most common is that this is a game of brinkmanship, with the Germans and their allies pushing for "reforms" that the Syriza government in Greece doesn't want to adopt. Most of the media seems more partial to the European officials than to Greece. But even among those who are more neutral or sympathetic to Greece, it is still a story about hardline European officials threatening to use their control over funding to the Greek government and banking system in order to bring Greece to its knees.

But this narrative misses the elephant on the middle of the negotiating table. While the Greek government cannot do anything to replace its negotiating partners with people more to their liking, the European officials on the other side seem to believe they can do exactly that. And it is becoming increasingly clear that this is their current strategy.

The idea is to do enough damage to the Greek economy during the negotiating process so as to undermine support for the current government, and ultimately replace it. The destabilization actually began before the January 25 election, when officials from the then-ruling New Democracy Party announced that if Syriza won the election, Greece would leave the euro and people would not be able to get money from their bank accounts. In a nasty breach of protocol, they were supported by important European officials.

As I have noted previously, the European Central Bank (ECB) not only trained their guns on the new government but started firing on February 4, just nine days after the election. That is when they cut off the main line of credit to the Greek government even though they had weeks to make this decision. This was followed by limits on the amount that Greek banks could lend to the government – limits that the ECB did not impose on the previous government.

These moves and repeated destabilizing statements from European officials (and the IMF) have had an enormous impact on the Greek economy. Bank deposits have fled the country; they hit a 10-year low in February, with about 24 billion euros having left since early December. As Greek finance minister Yanis Varoufakis pointed out last week during a visit to Washington during the IMF/World Bank spring meetings, the ECB is cutting off liquidity to the banking system at the same time that they are increasing demand for liquidity by encouraging people to sell off domestic assets and take their money out of the banking system. On Monday, some Greek sovereign bonds hit record yields and the government ordered local governments to place their cash reserves at the central bank. The financial turmoil is also affecting the real economy, and could push the economy back into recession this year if it continues.

If all this seems like foul and malevolent behavior on the part of European authorities, that's because it is. Greece has already lost a quarter of its national income over the past six years and put more than 25 percent of its labor force and the majority of its youth out of work. Whatever anyone might say about the responsibility of prior governments for the initial recession (one that the United States and almost all of Europe shared), it was the troika (the ECB, European Commission, and IMF) that turned it into a Great Depression for Greece. They really should accept some responsibility for the current situation, instead of simply insisting that the Greek government continue with a failed program as if there had been no election.

Since 2008, I have debated IMF economists at their spring or fall meetings numerous times [PDF] about their policies in Europe, and they increasingly appeared not to believe in what the IMF was doing in Greece and the eurozone. At the meetings this past week they declined to send anyone to a panel discussion. I doubt very much that any economist from the Fund would want to defend the 4.5 percent of GDP primary budget surpluses, to be run indefinitely, that are part of the IMF's agreement with the prior Greek government. And as Reza Moghadam, the former head of the IMF European department, wrote in the *Financial Times* two weeks ago, "Europe is demanding implementation, in the next few weeks, of a long and comprehensive list of actions that previous governments were unable to deliver in the space of a few years."

Is "Europe" making impossible demands of the current Greek government as part of a strategy to get rid of it? Varoufakis met with President Obama last week and there were press reports that he asked the president to encourage European officials to negotiate in good faith. In early February,

President Obama appeared to be doing this, stating “You cannot keep on squeezing countries that are in the midst of depression.” But he has not said anything similar since then.

Obama very much does not want Greece to leave the euro, and neither does Chancellor Angela Merkel of Germany. So despite a number of catastrophic predictions this week – many of them probably politically motivated — it is very unlikely to happen. But the strategy of trying to destabilize the Greek economy and government without forcing Greece out of the euro has its risks. It is also profoundly anti-democratic and wrong.