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Germany and France: Leading Actors in Greek Drama (I)

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The debates about the future of Greece are acquiring a political-geographical dimension. The interests and opinions are divided between two leading European power centers – the northern one led by Germany and the Mediterranean headed by France. The arguments and conclusions are opposing. The widening gap directly threatens the ability of the European Union to act as one economic and political entity.

In general the views of those who support the position that Germany so ardently defends are expressed in the article The Threat of Greek Debt Relief written by Christoph M. Schmidt, Chairman of the German Council of Economic Experts. It is published by US online outlet Project Syndicate known for its close ties with German business. Its recommendations are submitted straight to German Chancellor Angela Merkel. Christoph M. Schmidt excludes the very idea of writing off or even revamping Greek debts. According to the author, a restructuring of Greece's debt will jeopardize the stability of the entire Eurozone.

Schmidt recognizes the fact that while Greece's public debt is undeniably high, and evidence abounds that high debt can hold back economic growth, the country faces even stronger drags on growth, including structural weaknesses and political brinkmanship, that «must be addressed first». Aside from that, a restructuring of Greece's official debt, despite offering short-term benefits, would weaken that framework in the long run by setting a precedent for exceptions, with other eurozone countries, sooner or later, requesting the same concession. In 2013, the extension of Greece's loan maturities prompted Ireland and Portugal to demand – and receive – comparable extensions, despite their less obvious need. Schmidt believes that instead of offering concessions, which could create long-term instability in the eurozone, Europe's leaders must remain committed to creating strong incentives for all member states to maintain prudent fiscal policies. He thinks that Greece will likely depend on concessional funding from official sources in the years ahead – funding that is conditional on reforms, not debt ratios.

Greece's nominal debt stock will matter only once the country re-enters the debt markets and becomes subject to market, not concessional, borrowing terms. In the meantime, Greece must implement the structural reforms needed to restore the country's long-term growth prospects and thus to strengthen its capacity to repay its creditors without a large nominal debt reduction. Finally, the author concludes that there is no denying that short-term measures to address acute problems – such as debt relief for Greece – threaten the eurozone's long-term stability. If the European Monetary Union is to survive and ultimately thrive, its leaders must not be tempted by facile solutions.

It should be noted that the arguments put forward by the Chairman of the German Council of Economic Experts run contrary to the assessments of independent financial experts who by and large support the idea of urgently writing the debt off or implementing drastic restructuring of Greek debt. They believe that otherwise Greece and the eurozone will have to go through a rough time in the coming months. According to Bloomberg survey of 34 economists, Greece may face circumstances compelling it to leave the eurozone.

Almost half of respondents said they thought the 86 billion-euro ($93 billion) bailout package Prime Minister Alexis Tsipras is targeting will prove to be too small. Two thirds believe Greece will be forced out of the euro region by the end of 2016. The majority of experts believe that Greece needs the debt to be restructured on easier terms. According to Alan McQuaid, an economist at Merrion Capital Group (Dublin), the Greek debt burden should be significantly reduced. Otherwise the country will face dim prospects for remaining in eurozone. All experts agree with this point of view except Germans.

In this context, the information made public in July by Donald Tusk, President of the European Council, acquires special importance. According to him, right after the Greek referendum talks were held between Athens and international money lenders. The European economy was on the brink of collapse as a result of non-constructive position taken by German Chancellor Angela Merkel towards Greek Prime Minister Alexis Tsipras. According to Tusk, who took part in the negotiations, European leaders discussed the size of Greek privatization fund. Its creation was one of demands put forward by creditors before granting a new package of aid to Athens. «During the negotiations, around 0700 in the morning, when Tsipras and Merkel asked for a break, I felt that the risk that they would fail was very close», Tusk recalled. «At that time their difference was only €2.5 billion», he said. «It was at that point that I told them that if the negotiations had ended without a result, I would have been ready to announce publicly that Europe was close to catastrophe for €2.5 billion».

The main stumbling block was the demand of money lenders to create a Luxemburg-based privatization fund for Greek assets. It was also agreed to sequester 50 billion euros of public assets in a special privatization fund to act as collateral on the deal. Prime Minister Tsipras came under harsh criticism from his own Coalition of the Radical Left (SYRISA). Sources say the proposal on creating such a fund was urgently put forward by German Minister of Finance Wolfgang Schäuble when he found out that the positions between money lenders – the International Monetary Fund, the European Central Bank and the European Commission – and the Greek government got closer. The gap was narrowed thanks to the efforts applied by France. After that Berlin strongly opposed the agreement that was almost ready. It said there were no guarantees that Greece would comply with its obligations. Germany demanded to create a privatization fund otherwise it would raise the issue of expelling Greece from eurozone for at least five years.

According to Project Syndicate, it was Wolfgang Schäuble who came up with the idea of a temporary «time out» from the euro. He explained that Greece was unable to pay off even part of its debt to the structures and institutions of eurozone. Daniel Gros, Director of the Brussels-based Center for European Policy Studies, wrote on the pages of Project Syndicate that the reduction of debt was impossible for a eurozone member for political reasons. He did not elaborate.

As a result, the results of the talks on Greece's bailout benefit Germany. Eurozone will remain intact. Greek debts will not be written off. Germany strengthened its position as a financial and political leader of European Union. The newly created privatization fund is mainly controlled by German business. The contradictions inside the European Union have exacerbated because France and its allies become less willing to play by the rules established by Berlin.