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The Berlin Bulldozer and the Sack of Athens

Philippe Legrain, 13 July 2015

Europe's creditor in chief has trampled over values like democracy and national sovereignty, and left a vassal state in its wake. Which country will be next?

When finalizing my book *European Spring* last year, I hesitated before describing the eurozone as a "glorified debtors' prison." After this weekend's brutal, vindictive, and shortsighted exercise of German power against Greece, backed up by the Frankfurt-based European Central Bank's illegal threat to pull the plug on the entire Greek banking system, I take it back. There is nothing glorious about the eurozone: It is a monstrous, undemocratic creditors' racket.

Greece's submission to the conditions that Germany demanded, merely to start negotiations about further funding to refinance its unsustainable debts, may stave off the prospect of imminent bank collapse and Greece's exit from the eurozone. But far from solving the Greek problem, doubling down on the creditors' disastrous strategy of the past five years will only further depress the economy, increase the unbearable debt burden, and trample on democracy. Even Deutsche Bank, one of the German banks bailed out by European taxpayers' forced loans to the Greek government in 2010, says Greece is now tantamount to a vassal state.

But this is much bigger than Greece. It is clearer than ever that Europe's dysfunctional monetary union has a German problem, too. As creditor in chief in a monetary union bereft of common political institutions, Germany is proving to be a calamitous hegemon. Paris may have tempered Berlin's petulant threat to force Greece out of the euro, but German Chancellor Angela Merkel undoubtedly calls the shots. The deal that Greek Prime Minister Alexis Tsipras capitulated to mirrored German demands, not the proposals he drafted with French help last week. By pointing out the futility of resistance if Greece wished to remain in the euro, Paris has, in a sense, acted as Berlin's agent in securing Athens's acquiescence.

Yes, small countries such as Slovakia and Finland agreed with Germany. But their voices are hardly decisive. From Berlin's perspective, they are the useful idiots who provide cover for its narrow interests. Remember that, through their loans to Greece, Finns and Slovaks bailed out German banks, not Finnish and Slovak ones. It is naïve to think that Berlin wouldn't bulldoze them if they stood in its way.

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Let's be clear. What Berlin and Frankfurt have done to Greece, they can — and will — do to others. In 2010, they blackmailed the Irish government into imposing 64 billion euros in bank debt on Irish taxpayers. In 2011, they forced out the elected prime minister of Italy, Silvio Berlusconi. They would surely hammer a future Portuguese government, itself flirting with insolvency. And yes, they'd bully Slovakia and the others currently cheering them on.

That's the point of brutalizing Greece: to deter anyone else from getting out of line. Why vote for parties that challenge the Berlin Consensus if they will be beaten into submission, too? Created to bring Europeans closer together, the eurozone is now held together by little except fear.

For Tsipras, the humiliation is complete. He called a referendum and won a massive mandate from the Greek people. But far from strengthening his negotiating hand, the German-led creditors twisted his arm until he folded. Constrained by Greeks' quaint attachment to a currency that now enslaves them and blackmailed by the ECB's threat to blow up the Greek banking system, Tsipras dared not refuse Berlin's iniquitous conditions.

By this Wednesday and next, the Greek parliament must approve controversial reforms to value-added tax, pensions, and many other measures. These include an economically insane fiscal ratchet that would impose "quasi-automatic spending cuts" when fiscal targets are missed — as they inevitably will be, since the creditors systematically underestimate the harmful impact that both excessive austerity and the government's insolvency have on economic growth. The hated troika will return to Athens as colonial masters who can rewrite and veto Greek laws they dislike. All the measures enacted by the Greek Parliament since its election in January need to be undone.

Those are merely some of the conditions not to secure a third EU-IMF loan program, but simply to start negotiations on its terms, subject to parliamentary approval in Germany, Finland, Slovakia, and three other countries. Eurozone authorities will also provide an immediate bridge loan to clear Greece's arrears to the IMF and make the looming bond and interest payments to the ECB on July 20.

After two weeks of ECB-imposed capital and bank controls, the Greek economy is in dire straits. Sensible policymakers would prioritize rekindling growth. But the creditors are demanding even greater austerity, which will deepen the economic hole and increase Greece's unsustainable debt burden. As for debt relief, which Greece desperately needs, it is indefinitely postponed: The creditors disingenuously say that this might be necessary at some point, although only because of Syriza's mismanagement, of course. Shamefully, the IMF, having recently admitted that Greek debts are unsustainable, has again agreed to break its own rules by lending more to an insolvent Greece.

For now, many Greeks believe any deal is worth doing to keep Greece in the euro. But as depression bites and the reality of German-imposed technocratic rule sinks in, the political backlash will surely grow. So the prospect of default and Grexit are hardly gone.

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Greeks ought to use their extended stay in debtors' prison to better plan their escape. To default safely within the eurozone, Greece needs to secure its banks. On prudential grounds, of course, Athens ought to force them to keep their holdings of bonds guaranteed by the Greek government to a minimum and recapitalize them with assets more tangible than tax credits on future profits. That way the ECB cannot shut them down again.

The eurozone as a whole remains an economic basket case and a democratic disgrace. It is trapped in a nightmarish limbo where politics precludes the creation of common institutions that would cage German power and put the ECB in its place, while fear prevents its victims from leaving. So much for the European dream.