

## **THE BOLD BUT RATIONAL POLICY APPROACH OF GREECE**

*Andreas Theophanous*

*Professor of Political Economy and President of the Center for European and International Affairs of the University of Nicosia*

The international media are justified in being preoccupied with the challenging of the legitimacy of the Troika and its economic philosophy by the new Greek government. Regardless of the result of the emergency Eurogroup meeting on Wednesday February 11, ahead of the European Council, it would be impossible for the new Greek government to adhere to the continued implementation of the austerity policies dictated by the Troika. Over the last five years, the GDP of Greece shrank by more than 25%, unemployment rose to 30% while among young people it approaches 60%, the demographic outflow has taken alarming proportions while the public debt increased from 125% to almost 180%.

The questioning of the Troika and the philosophy of austerity by the Tsipras government despite Germany's reaction clearly finds support at various levels in the EU and beyond. It cannot go unnoticed that even US President Obama – whose country just added 257.000 new jobs in January 2015 - underlined that the current situation and the treatment of Greece cannot continue. The message is clear: Germany cannot insist on pushing Greece and other countries into austerity policies and a vicious circle of recessions. The reality is that the German dogmatism and its hegemonic attitude have plunged Europe into deep trouble. The stance of the new Greek government is not only brave but also rational. This approach in no way condones the inherent responsibilities of the specific countries in relation to their structural economic problems and distortions. But it underlines that the recipes of the Troika and the philosophy of Germany exacerbate the problems instead of resolving them effectively. In other words the Troika's fixes have failed.

The Greek government clearly prefers to find a commonly accepted formula within the Eurozone. This may entail relaxation of the provisions of the Memorandum and specific initiatives for a return to growth so that the country can begin to repay its obligations. Greece has simultaneously revealed its plans for the restructuring of its debt. For the implementation of such a policy, the support of the EU institutions is required.

Furthermore, in addition to the monetary easing announced by the European Central Bank on January 22 there are already voices in the EU in favour of a fiscal expansionary policy as well. However, in case the European Central Bank goes ahead with its intention to refuse to accept Greek bonds, this would constitute a blatant act of blackmail as well as discrimination. Persistence in such an option would eventually lead the Eurozone itself into increased tensions and push Greece to opt for the

irreversible. Indeed, it is essential that Greece is not forced to default and return to its own national currency.

The heart of the matter is that, if Germany continues to remain inflexible and dogmatic, the Greek government will obviously be pushed towards the inevitable. Succumbing to and following the Troika's recipes will bring unforeseen adverse effects for the country. This will entail economic collapse, default and return to its national currency. Such a development though will bring a chain of reactions beyond Greece. It should be understood that Greece is not blackmailing. Instead, it has reached the limits of poverty and humiliation. Consequently, the rational option is to change the policy fundamentals not only for Greece but for South Europe and the entire Eurozone as well. In this regard Greece has also called for a New Deal for the Eurozone as a whole. This may include the financing of large scale projects by the European Investment Bank.

Developments in Greece will affect the entire European project. In this sense, Greece is leading the debate for a new Europe.

Closer to home, Cyprus should also assess these developments and respond accordingly. Should the Cypriot government continue the dogmatic adherence to the philosophy of the Troika, it will find itself in the predicament of Greece possibly in less than two years. It must be understood by the Minister of Finance of Cyprus and the Central Bank Governor that credibility does not mean a blind following of a dictated road map if that road map contradicts rationality. Even at this late stage, President Anastasiades should also act in a way that will salvage his tarnished credibility and dignity as Head of State and give the Cypriot people a meaningful prospect, confidence and above all tangible results.