

Tsipras Will Have to Put His Cards on the Table

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Alexis Tsipras, the new Greek prime minister, has announced that he intends to terminate the policy of austerity and that “subservience is over.” How will this affect policymaking in the euro-zone? Is the troika going to reconsider its positions? Will the other crisis-ridden states join in the rebellion? And what has all this got to do with the European Central Bank and “quantitative easing?” Henrik Enderlein, who is Professor of Political Economy at the Hertie School of Governance and Director of Jacques Delors Institut – Berlin, provides some answers to these questions.

Bertelsmann Stiftung: Most political observers and market participants were expecting Alexis Tsipras and his left-wing Syriza party to win the elections. Were you taken aback by the magnitude of their victory, and the fact that they were close to an absolute majority?

Henrik Enderlein: It should be pointed out that the size of their victory is also due to the Greek electoral system, which gives the largest party 50

bonus seats. To put it another way, Syriza obtained 36.5 percent of the votes, but this does not amount to an absolute majority of Greek voters. However, it is quite obviously a resounding victory for Tsipras, and many people were stunned by the fact that Syriza did not have to conduct serious negotiations about a coalition with another party. It needed only two votes in order to be certain of an absolute majority. Thus there can be no doubt about the fact that prime minister Tsipras is the new strong man and will himself be able to decide which path he wishes to pursue. So he should now put his cards on the table.

In the wake of the crisis that has been in evidence since 2012, the election results can be construed as a vote against the policy of austerity. But Greece continues to be embroiled in negotiations with the troika in general, and the European Commission in particular. What do you think of the headline in SPIEGEL-ONLINE which said that the Greeks had booted Angela Merkel out of office?

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I am completely against blowing up the situation out of all proportion in the wake of the elections and doing as if we were heading for a showdown between Tsipras and Merkel. That is not what is going to happen. I think that Tsipras will notice very quickly that he now has responsibility for a whole country. Of course he will go into new negotiations making tough demands. But initially the Europeans are also going to be intransigent, and will insist on adherence to contractual obligations. Subsequently – not tomorrow or the day after tomorrow, but over the course of the next few weeks or even months – the people involved will quietly try to elucidate if there is room for manoeuvre and some kind of compromise. Both sides will have to make concessions.

It is clear that the Greek debt burden is currently a serious problem. A debt cut – and here we are not talking about a private debt cut, but about a debt cut by the public sector, that is, by the European governments – a debt cut of this kind would in fact create far more room for manoeuvre. There are many ways in which this could be implemented. For example, debt servicing could be tied to Greek growth rates. The level of interest payments and repayment of principal would be defined by the gross domestic product. I believe that this should have been done before the elections. Perhaps it would have been a way of showing support for Samaras and his government, which did a lot of hard work.

But now – immediately after the elections – such a step would look a bit like a concession, and for this reason I am assuming that there will be a reduction of the debt burden in the medium term, though not in the near future. Before this happens Tsipras will have to promise not to terminate the structural reforms and not to dispense with the policy of austerity in its entirety.

When all is said and done, in political terms we will probably have gridlock. In contrast to what the highly dramatic media reports predict, I think that we are unlikely to see a showdown any time soon, and that we will have to wait several weeks and perhaps even months before a new

negotiating approach emerges.

Immediately after the elections the Socialists & Democrats in the European Parliament said it was time to renegotiate Greek debt. You yourself have said that another round of debt relief is virtually unavoidable. Is it perhaps a wrong signal if what we want states to do is to implement even more structural reforms, and especially in the case of Portugal and Ireland?

It is a difficult balancing act between recognizing a democratic electoral process on the one hand and a duty not to jettison agreements once they have been concluded on the other. Changed political majorities do not mean that Greece no longer has to honour its contractual obligations. The negotiations will be watched very closely in other countries. That is why I am certain that initially Tsipras is not going to be getting any concessions in the weeks ahead. The troika is surely not interested in strengthening the left-wing and right-wing populist movements opposed to the euro-zone in Spain, Italy and France by reaching an agreement with Syriza too fast and too soon.

This is especially important in the case of Spain. Thus the local Podemos movement tends to take its bearings from Syriza. The number of potential Podemos voters in Spain rises whenever Tsipras notches up a success. The elections in Spain at the end of the year may well create a difficult political situation, though in a far larger and, in systemic terms, a far more important member state.

Was the European Central Bank (ECB) decision of what is known as “quantitative easing” that was taken on 22 January 2015 also to the benefit of Greece, a programme country?

No. The decision of the European Central Bank has nothing whatsoever to do with the elections or the political situation in Greece. With

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“quantitative easing” the ECB is making one final attempt to deal with the threat of deflation in the euro-zone. The International Monetary fund (IMF) believes that there is a 40 percent probability of deflation. Thus the risk should not be underestimated. It is the reason why the ECB prepared for this move in a long and difficult political process.

As a member state Greece is too small to play a role in this more fundamental area. That is why the ECB has introduced internal rules on bond purchases, and as a result no Greek debt can be purchased before the summer at the earliest.

The Bundesbank does not think that there is a risk of deflation. Why did the ECB have to take action?

If, as a medical doctor, you are confronted with a patient who in your opinion is significantly at risk and may well become dangerously ill, it is your duty to deal with the disease in a preventive manner. Even if the medicines have side effects. That is precisely what the European Central Bank is doing. As we have seen, the IMF thinks that there is a 40 percent chance of deflation. This means we are not sure that there is going to be deflation, but the possibility certainly cannot be excluded. I am baffled by the Bundesbank's lack of concern and the fact that it considers the risk of deflation to be non-existent. To exclude a risk quite explicitly whilst others consider it to be significant is a dangerous and rather irresponsible strategy.

And in contrast to the ECB's OMT programme, which was restricted to selective purchases of government bonds from the crisis-ridden countries, the broadly-based purchases of the programme that has now been adopted have not been challenged for legal reasons.

There has been a slump in the value of the euro. Is the ECB weakening the currency?

The ECB would not put it that way, but bond purchases are having their intended effect, which is to drive the euro down. We should not forget, especially in Germany, that in times of low growth a weak exchange rate can also have a positive and indeed dynamic effect on the German economy. We are world export champions. Our goods are less expensive when there is a weaker euro, and this is injecting an extra dose of dynamism into the country. Once growth returns to the euro-zone – which is what we all hope will happen – and if this causes inflation to pick up, the ECB will terminate its bond purchasing programme very quickly. Immediately, in fact. And interest rates will go up and act as a brake on rising prices. The value of the euro will start to rise. In crisis situations of this kind a currency acts as a natural shock absorber.

And by the way, this has nothing to do with Germany's high balance of trade surplus within the euro-zone. It is not exacerbated by the weak euro. In point of fact the external value of the euro affects all of the euro countries in the same way. A weaker euro also makes French, Spanish and Italian products more competitive on an international level. I think that in the present situation it can sometimes be a real boon, although of course a weak currency should never be a long-term economic policy goal.

The ECB policy is becoming a problem as far as the currencies of Poland and Denmark are concerned. Can we simply play down the importance of the problems emanating from the fight against deflationary tendencies?

The exchange-rate regimes of the Polish zloty, the Danish krone and also of the Swiss franc before it was revalued show why the euro countries have joined forces. In times of crisis in particular monetary union provides security for exporters and importers, who are not at the mercy of sudden revaluation or devaluation by the Central Bank. The controversy surrounding the decision of the Swiss Central Bank has shown how difficult it is in emotional and political

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terms to talk about the correct external value of a currency.

With regard to the ECB, it has no other option than to combat the risk of deflation. It is its stated duty. In fact, as far as I am concerned it waited far too long. Japan has been fighting deflation for 25 years and has still not found a way of dealing with it. I hope that this is not what is going to happen in the euro-zone, and if I have an opportunity to contain the risk of deflation rather quickly, even if it means accepting a few side effects, then I should make use of it. In the final analysis it is simply a question of getting the rate of inflation back to the 2 percentage points that the ECB has set as its target. As soon as inflation begins to pick up, the threat of deflation will no longer be an issue. The ECB will then stop buying up bonds, and the whole episode will be a thing of the past.

In Germany in particular I would like to see a debate about the risks of deflation that is conducted with the same intensity as the debate on providing relief for crisis-ridden countries. I keep reading that the ECB has put together a programme of support for southern European states. That is not true. And I simply cannot understand how people can keep repeating such wrong-headed interpretations of the facts.

The interviewer was:

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The Jacques Delors Institut – Berlin and Bertelsmann Stiftung collaborate closely in the project "Completing the Economic Union," which is part of the foundations programme "Europe's Future."

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