

Forget the rhetoric, Greece has no control

'NO one can ignore the message of determination of a people taking its destiny in its own hands," said the Prime Minister of Greece, Alex Tsipras, on the weekend. Tsipras is pleased that Greece voted no to the proposed terms of a financial bailout offered by the European Union, the European Central Bank and the IMF.

But if he thinks that by rejecting these terms Greece has now taken control of its own destiny, he is seriously delusional.

Greece has run out of money. The Government can't pay back its debt — it can't make the full interest payments on its debt. The banks can't pay their depositors. That's why they are closed except to allow depositors to withdraw 60 euros a day.

No one wants to lend more money to the Greek Government and the Greek banks. For the sake of preventing fallout from the Greek crisis spreading through Europe, the Europeans and the IMF came up with a new lending



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proposal on June 25. It included some pretty strict terms. Greece has just rejected them.

If Greece were in control of its destiny, the Government would now get on with its own policy ideas. It would fund them by borrowing and issuing Greek bonds to investors. But no one will buy them.

So Tsipras will get off to Brussels at the first available opportunity to seek new terms on a proposed loan package. Greek destiny will be decided in Brussels. The referendum was just a negotiating tactic. It was designed to convince the Europeans that since Greece wouldn't accept the previous conditions, Europe should offer better ones.

It is clear who holds the destiny of Greece. The only question is the

terms on which they hold it.

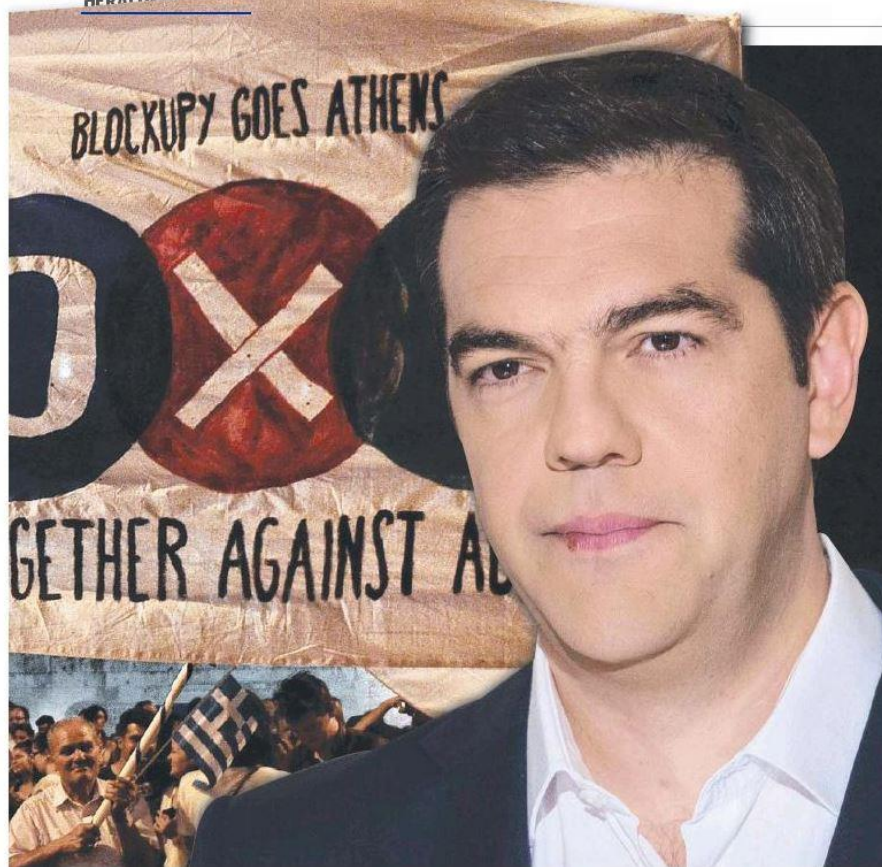
If the Greeks were really concerned about their sovereignty and destiny, the time to have shown it was long before now.

All through the 1990s and 2000s Greece was paying people pensions that it couldn't afford. It awarded itself pay rises that couldn't be justified. Tax rates were well below the level that was required to pay for all that spending. And that's if they were actually being paid as opposed to routinely avoided.

The whole country was living high on the hog and doing it by borrowing (and spending) other people's money. That works quite well right up until the point that other people don't want to lend you any more. That's when you have lost control of your destiny.

There is a lesson here for other countries. The time to worry about debt is before it gets out of control. The Australian Government is still borrowing \$100 million a day. It can easily borrow that, but you wouldn't want to do it indefinitely.

Tsipras began his career in the Greek Communist Party. His Party, Syriza, is a coalition of the



radical Left. You might think, listening to all the talk coming out of Greece, that he is opposed to austerity. But he has accepted that. The only question is how much.

His Government has offered to increase GST, increase pensioners' health contributions, increase the retirement age, reduce pension rates. The fact that he has already endorsed all those proposals shows just how far he has lost control of the policy agenda. The only question now is whether Europe will insist on more than he has offered. If it relents, it will not be for the sake of Greece. It will be for the sake of Europe.

If Europe refuses to bend, it would trigger Greek default and exit from the euro. That would cause significant gyrations on the currency in the short term.

At first the currency would fall but in the longer term it would strengthen because Europe would be stronger without its weakest link. Ironically, that would not be to the liking of Europe's strongest link, Germany. The one thing Greece does for it is keep the value

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of the currency down and help German exporters.

The Germans also worry that if Greece exits, others might follow and endanger the whole European project. That looked very likely in 2010 when Ireland, Spain, and Portugal were in similar positions. But they appear to have put their affairs in order.

For its part, Greece could actually benefit from exiting the euro if it were able to manage the transition. That's a big "if". By adopting a new currency (such as the drachma) it could engage in massive devaluation and get competitive again. A massive devaluation would impose austerity on the whole population much quicker and more decisively than the various austerity programs the country is offering

up. Of course, it would be less targeted.

So why is the Greek Government adamantly opposed to dropping out of the euro?

First, there would be huge technical issues in redenominating euro debt and obligations into drachma. This Government doesn't have much expertise or experience to draw on.

Second, if Greece drops out of the euro, it would wound national pride. Somehow Greece would feel, and be seen to be, less than European.

Third, my suspicion is that the Government doesn't trust itself, or the public. Without the constraint of Europe, who would stand up to the crazies wanting more and more from the Government while paying less and less in taxes?

It may just suit all sides of politics to have some higher authority to call out the recklessness. When Greece did control its own affairs the results weren't that encouraging.

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