Many U.S.-based analysts, from Paul Krugman on the left to Chris Whalen on the right, claim that the biggest part of Europe’s current Greece problem is German intransigence. In particular, they claim that German politicians haven’t come clean with their voters on the issue of Greek debt.

In assessing the German position on Greece, one must distinguish between what the Germans say and what their actual long-term strategy is.

For starters, few German voters seriously expect that Greece will ultimately pay back the debt. But acknowledging that fact now publicly will do very little to achieve the ultimate goal – to get Greece onto a reform path.

Playing the long game

Most German politicians are also realistic enough to understand that Greece’s current payments on that debt, already quite minimal, could be stretched out further.

And the Germans, as well as many other partners in the Eurozone, are quite prepared to reduce Greece’s primary budget surplus requirement. With one proviso – that the Greek government implement serious economic reforms at home.

No steps other nations can take make sense unless the Greek government focuses resolutely on what it can do to reshape the country’s economic structures. That is the decisive step to ensure that the country has a better economic future.

In contrast, all the attention given to the debt issue in the current global debate at best obscures that question.

Before the elections, Syriza itself claimed that the Samaras government had undertaken only a half-hearted reform effort. However, since being elected, Syriza has peddled back on many of the few tangible structural reform efforts that the previous government did undertake.

Past experience matters

It is important in this context to recall the late 1990s debate about Greece joining the Eurozone. Membership brought Greece the (temporary) benefit of vastly
Takeaways

On Greece, one must distinguish between what the Germans say and what their actual long-term strategy is.

There are striking similarities between Syriza and the German government when it comes to structural reforms.

Can Greece’s Syriza survive as a party at war with itself?

Have prudent negotiating tactics on the part of the German government prevented premature concessions for Greece?

Greece’s leaders always “book” the benefits they obtained from others, but then shy away from promised reforms.

Pretending that all ills go back to German roots means that Greece is not serious about reforming itself.

reduced interest rates. These lower expenses on public bonds were supposed to be used smartly for strategic investments in Greece’s economy.

While the first part of that equation materialized, the second half did not. The Greek inclination to lay the blame for that on Germany’s position on the debt issue begs disbelief.

In real life, the Germans and many other partners in the Eurozone are quite prepared to reduce Greece’s primary surplus requirement – if the Greek government focuses on economic reforms at home.

The American critics of the German position on Greece also like to refer to the Germans performing a “morality play” – in the sense of teaching the Greeks not to run up large debts (which they supposedly must now pay for, at least “morally,” since it’s hard to believe they will actually do so).

Well, if there is a morality play being performed by the Germans, it isn’t about the vicissitudes of accumulating debt. Germans realize that issuing loans to Greece in the 2000s was a financially stupid decision on the part of their banks – a mistake for which the German taxpayer will end up paying the price.

Morality of another kind

The real morality play is about encouraging the radical Greek government to have the courage of its own convictions. The German finance minister, a conservative politician, and other leaders of his CDU party are cheering on the Greek government to execute the reforms it promised.

As the Germans see it, this means going up against Greece’s own freeloading oligarchs as well as other measures to strengthen Greece’s self-financing capacities (including collecting the VAT, 60% of which currently goes uncollected).

That is pretty much the only way in which Greece, with no path to financial markets, can make meaningful progress at the present juncture.

What this shows is that Greece’s Syriza government and the German one are actually quite close when it comes to the deep structural reforms that, according to Syriza’s own pronouncements, are required in the Greek economy.

The struggle within Syriza

The problem is that Syriza has two camps, which are at odds with each other. One is focused on modernizing the Greek economy. That is something which the Germans, with their long-time penchant for focusing on solid macroeconomic framework, would wholeheartedly subscribe to.

Syriza’s other camp, though, is completely at odds with that policy. It is keen on essentially keeping things the way they are, mainly a heavy reliance on creating jobs in the public sector, which simply is not a sensible economic policy. That camp is deemed to be the far stronger camp.

It is only prudent negotiating tactics on the part of the German government not to come up with premature concessions, while that battle is being fought out in Athens (within Syriza).

From the German perspective, the existence of the vast Greek debt at this stage has one primary purpose – to be used as a tool to help the reformers in Greece
reform their country.

After all, the clear pattern of the past, including after Greece's joining the Eurozone in 2001, is that the country's leaders always "book" the benefits they obtained from others, but then shy away from actually doing the promised reforms.

Undertaking the reforms is first and foremost in Greece's own interest. Blaming the Germans may be politically expedient to deflect some pain associated with needed reforms. But pretending that all ills go back to German roots means that Greece is not serious about reforming itself.

More on this topic

- Greece: Exiting the Euro Or Not?
- The Wisdom of Schäuble: There Is No Way Greece Can Fully Pay Back Its Debt
- The German Factor in Greece's Crisis (Part II)

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