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Understanding the Future of the Eurozone and of Greece's *Possible* Exit

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Commenting on the speech made by the German Chancellor, Angela Merkel, in the World Economic Forum Annual Meeting in Davos, in January 2012, Timothy Garton Ash succinctly framed the current European crisis in all its dimensions. As he concludes "Angela Merkel came to Davos (...) and (...) once again assured the world's business leaders that the euro would be saved. (...) That immediately raises two further questions: even if the eurozone is saved, where is the strategy for growth? And where would this saving the euro leave the larger politics of Europe".[1] The crisis of the European Union (EU) can therefore be analyzed along two very different dimensions: one is intrinsically economic and deals with the future of the euro; the other is a broad political crisis that is emerging from this economic crisis. In the words of Charles Kupchan "[a]t stake is the survival not just of the euro, but the EU itself".[2] This article will address the economic dimensions of the crisis and leave the political dimensions to a later stage.[3]

It will focus on a particular dimension of the crisis: the transformations in the economic policy framework of the European Union in response to the present possibility of Greece leaving the euro. It will try to make sense of this debate in three steps: first it will locate the present debate in the literature. It may be our final attempt before some serious convulsions take central stage but, we are not discussing 'Grexit' yet (nor the end of the eurozone). The two other parts will therefore unpack this set of arguments in two stages: first raising a number of scenarios at the European level of what can be a response to the Greek problem. There seem to be two models in discussion at the moment that can provide solutions to this crisis – a rebranded Monetarian approach and a Keynesian

1 Timothy Garton Ash, "Fear may well save the euro: Now for the politics of hope" (*The Guardian*, 25 January 2012).

2 Charles Kupchan, "Centrifugal Europe" (*Survival*, Vol. 54, No. 1, 2012), pp. 111-118.

3 See Miguel Poiares Maduro, "The Euro's Crisis of Democracy" (*Project Syndicate*, 4 August 2011); and Mark Leonard, "Four Scenarios for the Reinvention of Europe" (*European Council on Foreign Relations*, March 2012), and the subsequent discussion on this issue.

one. This is actually the way economic analysts should frame this crisis – and not the conventional austerity versus growth distinction that became popular. Second, an analysis of the interplay between these two scenarios and their implementation in Greece will be conducted. By understanding both the European scenarios that could emerge from this crisis and possible responses by Greek party politics, we can try to forecast what could happen to Greece in the eurozone. In order to assess the unfolding of this narrative, emphasis will be placed on the political and social forces at play and how they can institutionalize policies. This could be done, philosophically, in a number of ways.[4] But a loose theoretical argument will be developed here. In the end, and faced with a situation where voters have to decide whether to stay in the euro or not, Greece's permanence in the eurozone is also highly dependent on a move towards more pro-Keynesian reforms implemented at the European level and very unlikely if the present approach continues to be used. Only if new political – and social – forces emerge that could promote a more pro-Keynesian outcome to these discussions would Greece be *possibly* saved. It is up for countries like Portugal to have internal discussions on whether they should align with the recently elected French President and on his views of the future of the eurozone. If Europe wants to move beyond a shaky and uncertain future, founded on a shaky rebranding of Monetarism, a new coalition is needed that could adopt a more Keynesian approach to this crisis. This will be the main argument presented here. For those who do not want to follow all the steps, the conclusion will summarize the key arguments advanced.

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4 See for overview John Hall, "Ideas and the Social Sciences", *in* Judith Goldstein and Robert Keohane (eds.), *Ideas and Foreign Policy: Beliefs, Institutions and Political Change* (Cornell University Press, 1993).

Yes, Greece still trades in Euros... and the Eurozone is Still Alive

For any reasonable commentator who speaks about this crisis there needs to be an understanding of the different layers of discussion at play. Avoiding broad theoretical disputes, this debate has mainly three layers of controversies: how to understand the origins of the crisis? How did this international crisis hit Europe and what solutions have been found to solve it (what model to pursue)? How are these solutions being implemented in particular countries affected by the crisis (is the model pursued successful)?[5] Of crucial importance here is the second layer of discussion: to discuss possible transformations of the European model found to solve the European financial and economic crisis.

As one can see each one of these stages has different dimensions of problems that need to be analyzed and assessed. For example, discussing the origins of this crisis would lead one to try to have an approach to what goes on in the world economy, how did the world economy emerged and through what circles of boom and bust did it went through; what causes the periods of boom and what caused the periods of bust; how can we understand the present crisis essentially as a phenomenon of bust. All these problems raise in themselves a lot of other discussions and, of course, academics and scholars of different theoretical orientations disagree on how to analyze them.

Second, looking at Europe two fundamental debates are important to understand and in the interplay of them solutions can be found to the crisis.[6] The first major debate

5 Amartya Sen, "Capitalism Beyond the Crisis" (*New York Review of Books*, 26 March 2009); Emiliano Brancaccio and Giuseppe Fontana, *The Global Economic Crisis: New Perspectives on the Critique of Economic Theory and Policy* (Routledge, 2011); Paul Krugman, *The Return of Depression Economics and the Crisis of 2008* (W.W. Norton & Company, 2009); George Soros, *Financial Turmoil in Europe and the United States: Essays* (PublicAffairs, 2012).

6 Eckland Hein, Achim Truger and Till Treeck, "The European Financial and Economic Crisis: Alternative Solutions from a (Post-)Keynesian Perspective" (*Hans Bockler Stiftung*, Working Paper, 11 July 2011).

is the one that is developing between opposing views on what caused the European crisis. Differences in this dimension of the debate can lead to different approaches on the second part of the debate: what kind of remedy can be found to solve this crisis. Another important issue to discuss is how to institutionalize these solutions and implement them in an effective way (through what institutions and means). What is important to understand is that the interaction of these issues is not a stagnant process. It is not as if the European level of the discussion got one solution and sticks with it always. Solutions can change: most fundamentally perceptions of the link between what caused the crisis and solutions to it can change. It is precisely this issue that is of concern here. Finally, it needs to be argued, furthermore, that the institutional mechanisms at the eurozone level are working not according to a rationale that tries to understand 'how to deal with Greek default' but rather 'what to do with the bailout plan agreed with Greece'. It is not the main concern of the European institutions at the moment to discuss Greek's default. Yes, Greece still trades in euros... and the eurozone is still here.

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The third stage of argument would look in detail into national politics and how the model suggested is being applied. For example an analysis of how Portugal has been implementing, in this case, the bailout programme could be advanced.[7] This will lead to a completely different path however. The main goal here is to focus on the European level of the discussion, and more particularly on the evolving model that has been promoted until now to solve the crisis in the eurozone and how it can change. Only by understanding the politics of this model can one answer the question: is Greece going to stay in the eurozone?

Moving beyond 'Austerity versus Growth'

It will also be argued that at this level, debates should not be read along the confrontation between austerity versus growth. These two positions do not define the terms of the debate in a consistent manner. What is at stake, rather, are two theoretical approaches to the way the economy should work. In other words, discussions that oppose austerity versus growth should be changed to discussions that oppose Monetarism and Keynesianism.[8] What could be argued is that Monetarism is clearly the main device guiding economic intellectual wisdom since the late 1970s.[9] Keynesianism will therefore be seen here as the alternative to this hegemonic intellectual role-played by Monetarism. This article will analyze why and under what conditions membership of Greece in the eurozone can actually come to an end. Moving beyond the adoption of 'ideal-type' approaches, it will focus on the political (and social) forces at play and the processes of institutionalization.[10]

Monetarism in Europe: The Economic Policy Framework of the European Union

The economic policy framework in the EU can succinctly be described as emphasizing three key elements: full transfer of competence to the Community level for mon-

7 Álvaro Santos Pereira, *Portugal na Hora da Verdade: Como Vencer a Crise Nacional* (Lisboa: Gradiva, 2011). For a recent overview of the policies being adopted see Vítor Gaspar, "Portugal's Response to the Euro Area Crisis: Fiscal Consolidation and Structural Reform" (*Chatham House*, 7 December 2011); Carlos Moedas, "Portugal Is Beating the Headwinds" (*The Wall Street Journal*, 26 January 2012).

8 See Tim Congdon, *Keynes, the Keynesians and Monetarism* (Edward Elgar, 2007). On the dispute between what is conventional called New Consensus Macroeconomic (reinvigoration of Monetarism) and (neo-)Keynesian approaches see Philip Arestis and Malcom Sawyer, *Re-examining Monetary and Fiscal Policy for the 21st Century* (Edward Elgar, 2004).

9 See Brancaccio and Fontana, *op. cit.*, Part I.

10 None of the books referred above in note 5 seem to include a part on "politics of the economic crisis". The Euro crisis is generating problems for *national* democracies themselves. Economists, by focusing on 'ideal-types' seem to 'push' these debates to political scientists and this can be problematic. See Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crisis* (Cornell University Press, 1987) for an overview of the issues involved in the politics of economic crisis.

etary policy; rules-based coordination for fiscal policy; coordination for other economic policies.[11]

Individual European nations have completely lost their currency sovereignty in favor of an independent central bank that focuses primarily on an average inflation target for the euro area as a whole, no federal sovereign institution has been created that coordinates the remaining fields of economic policy. Monetary policy follows an interest rate rule, whereby the policy rate is changed in response to deviations of (expected) inflation from target and of (expected) output from its supply-determined potential. The sole objective of the European Central Bank (ECB) is to maintain inflation at the target of below, but close to 2%. It is argued that this is the best contribution that monetary policy can make to economic growth at the euro area level.

> The economic policy framework in the EU can succinctly be described as emphasizing three key elements: full transfer of competence to the Community level for monetary policy; rules-based coordination for fiscal policy; coordination for other economic policies. Individual European nations have completely lost their currency sovereignty in favor of an independent central bank that focuses primarily on an average inflation target for the euro area as a whole, no federal sovereign institution has been created that coordinates the remaining fields of economic policy.

National fiscal policies are subject to one-size fits all quantitative criteria for public deficits and debt [the Stability and Growth Pact (SGP)]. The role of fiscal policy is to 'balance the budget' over the medium term and to never run excessive deficits, i.e. above 3% of GDP. Moreover, the government debt-to-GDP ratio must not exceed 60%. Hence, while there is some room for maneuver for automatic stabilizers and discretionary fiscal policy to react to country-specific shocks, fiscal policy nevertheless is confined to playing a rather passive role, with an emphasis on 'solid' public finances.

The 'soft' coordination of other economic policies refers primarily to structural policies aiming at highly flexible and competitive markets. Such policies include four key priorities namely, "getting people into work, increasing competition, unlocking business potential and supporting an innovative environment".[12]

These sets of Monetarian policy strategies have guided Europe since the creation of the euro. Since its beginning there were arguments against this Monetarist approach that stressed how monetary union would not be enough: lack of labor mobility and lack of fiscal integration endangered the process once a crisis hit. But they were not taken into consideration. What is at stake at the moment is nothing less than the transformation of an approach that has been guiding European economic integration for more than ten years and, what could possibly be even more significant, a conventional economic wisdom – Monetarism – that has dominated economic theory for more than thirty years.[13] The present crisis – and new solutions to it – also needs to be understood in these terms.

Reforming the Prevailing Model? Understanding the Forces at Play

Two possible outcomes seem possible for the future: a soft reconfiguration of the current Monetarist approach or a deeper transformation of this model. This part of the argument will focus on this dispute. It will stress that in order to understand the new outcome one needs to look at: the models in dispute, the intergovernmental and institutional forces at play that support these model, and processes of institutionaliza-

11 European Central Bank, *Monthly Bulletin: 10th Anniversary of the ECB*, Special Edition, May 2008.

12 Jean-Claude Trichet, "Structural reforms in Europe" (OECD *Observer*).

13 See Johan van Overtveldt, *The End of the Euro: The Uneasy Future of the European Union* (Agate, 2011).

tion of these debates. This part will look at debate at the European level; the next one at the Greek level.

Scenario One: Rebranding Monetarism

The first kind of scenario is one that departs from a simple model: it reads the origins of the crisis as one essentially of extensive public deficits and lack of competitiveness. In order for this to be solved there can only be one solution: restrain public debt, proceed with policies of fiscal consolidation, promote structural adjustments in the economy – and, if there is still room for it, develop growth policies. This view of solutions to the crisis resembles what was implemented by eurozone members to other countries that wanted to join such as Estonia, Lithuania and Latvia. These countries were willing to endure very harsh fiscal austerity measures while wages gradually come down in the hope of restoring competitiveness – a process that is known by 'internal devaluation'. This is precisely the solution being applied to solve this crisis by the conventional Monetarian wisdom.

But Greece (and Portugal and Ireland) are not Estonia, Lithuania or Latvia after all – essentially because of the consequences that they can bring to others. At the European level, a European Financial Stability Facility was created to try to soften the crisis. But this mechanism has no fiscal authority: it is purely a fund-raising mechanism. This renders it useless in responding to the crisis.

A second step taken at the European level is a revision of the terms of the bailout programme by extending its timetable and *possibly* creating some softer conditions on the terms of the bailout itself. This would require, at the Greek national level, the capacity of Greece to keep its trajectory of fiscal consolidation and structural reforms.

A third step, which is new, would include what the European Commission has been calling 'project bonds'. These are bonds for growth for concrete projects. From what is emerging from the discussions, they involve a move towards private finance and the creation of capacities that would have to exist to mobilize public-private entrepreneurship in the name of growth. As was made clear by the President of the European Commission José Manuel Durão Barroso on the day that Greece was not able to find a stable government: "[T]he Commission will push for progress on the proposals that have already been put forward and were highlighted in our Europe Day message (…). These include our project bonds proposal and our call to increase the capital of the European Investment Bank – and thus the lending capacity of European Investment Bank – as well as a further optimization of the use of Structural Funds".[14]

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In scenario one Monetarism is essentially rebranded. The solution to the 'sovereign debt problem' needs to be found *mainly* at the national level and not at the European level therefore. Countries in trouble need to go through a period of harsh economic and financial restructuring. They need to readjust their internal economic politics to the demands of the broad European project. This is why this is seen by many as an endless and enduring crisis. It needs to be so.

It seems clear that forces supporting this approach still have an important place in contemporary discussions. Wolfgang Schäuble, Germany's Finance Minister, warned that Greece would have to stick to its hard-line austerity programme in order to continue to receive the bailout cash needed to pay government salaries and support troubled banks. This seems to be Angela Merkel's underlying message when she concludes that "of course Greece can make it". The prevailing wisdom in European institutions has been precisely along this line as well. As Jean-Claude Juncker, the chair of the meetings of eurozone finance ministers concluded "[he] would be open to debating eas-

14 José Manuel Durão Barroso, *Statement by Durão Barroso on the economy and on Greece, Brussels*, 16 May 2012.

ing terms of the €174 billion bailout, including extending dates to meet fiscal and economic reform by one year". The European Commission, on the other hand, has been calling vigorously for project bonds. Rebranded Monetarism seems therefore prominent still in Germany and in the approach being adopted by European institutions – both at the ECB and European Commission. Other countries such as The Netherlands and Belgium also seem to support this approach.

Scenario Two:
From Monetarism
to Keynesianism?

Moving beyond Monetarism – or its rebranding – can be an option as well. The Keynesian model differs from the Monetarist one. For Keynesians the origins of the crisis run deeper. This is not 'a sovereign debt problem', a problem of fiscal incompetence of the past. Keynesians point mainly to Spain to justify this. For this approach, this crisis is in essence a 'balance of payments' story. Whereas in the past, countries such as Portugal or Greece had large interest rate differentials when compared to Germany, with the creation of a common currency all countries were able to borrow money at the same rate. The underlying idea of investors was that it was a common currency so they presumed that if something would go wrong, policies would be created to solve the problem (as when any other currency was created in the past, monetary and fiscal policies go together). A sharp fall in interest rates allowed unprecedented borrowing in the South and allowed for exports to increase immensely in other countries. A huge European trade surplus of countries in Europe such as Germany, The Netherlands, Austria or Belgium *vis-à-vis* other European countries – in particular, *vis-à-vis* the nations now in crisis – which were booming, and experiencing above-normal inflation, thanks to low interest rates, created an imbalance inside the eurozone that led to the crisis. The ratio between import and exports benefiting the North; inflation and deficits of 'balance of payments' in the South justifies this crisis. The lack of proper fiscal authority when the euro project was designed is dragging Europe to an endless dead end therefore.[15]

One solution provided by Keynesians is to push for fiscal union. We need to compensate troubled economies from the foreign capital that was sustaining them for some time. What is needed is some expansionary switching to compensate for the expansionary reduction. Two arguments emerge likely to produce this. First, nationally, however, Keynesians stress the important fact that states which have huge public deficits still need to constrain these deficits and still have to promote structural reforms to make their economies competitive. In other words, states nationally can't do much if their debt is too high: they still have to go through a process of 'internal devaluation'. Wages need to go down in troubled societies therefore. But the Keynesian model adds forms of European governance not yet present that have the potential to solve this crisis. In other words, internal reforms are inevitable, but something else is needed.

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15 Hein, Truger and Treeck, *op. cit.*, pp. 3-17; Paul Krugman, *End this Recession Now* (W.W. Norton & Company, 2012), Chap. 10.

This would require countries that have had balance of payments surplus and benefited from the conditions allowed by the creation of the euro to raise wages in order to correct imbalances in other countries. Raising wages in these countries would allow inflation to grow.

A more integrated fiscal economic polity could – and should – have a reinforced monetary capacity as well. Deepening monetary union is therefore also recommended. Keynesians propose that the European Central Bank should start being a lender of last resort (and Europe should start having a common deposit insurance scheme in case of a country's default). The first – which is the main concern here – requires that the European Central Bank should act like a proper central bank. The ECB needs to step in and buy government bonds of countries in problem. This was the step already taken last year when Italian and Spanish bonds were raising leading to the possibility that these countries could also be dragged into having to require international support.

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If these are the typical Keynesian approaches, other policies have also been proposed that would require great fiscal integration. *Eurobonds* is one example.[16] According to the plan, hugely indebted countries and less indebted countries would make a common loan to allow for troubled societies to be able to promote 'growth'. This would generate a 'mutualization of debt': countries with good run economies and with safer guarantees to borrow money at a low interest rate would ally with other countries in need of repair so that they would have the capacity to refinance their economies (having access to capital at a lower interest rate).

Let us look at the political and social forces that could promote change. The new French President, François Hollande, turned up in Berlin to meet the German Chancellor emphasizing the need for the adoption of different measures at the European level. Spanish and Italian Prime Ministers are stressing exactly the same: we respect our national responsibilities to implement the European plan – promoting financial stability and structural reforms – *but*, at the European level, a new emphasis should be placed on 'growth'. The European Commission also seems favorable of moving beyond Monetarism. Outside the eurozone, the United Kingdom and the United States have been also emphasizing the need for Keynesian measures. Social forces all over Europe, on the other hand, are stressing a need for change. And it is not just demonstrations in troubled societies. In Germany, Angela Merkel has just suffered what she described as a "bitter and painful defeat" in an election in Germany's most populous "Land" (Federal State). After backing the German government with its European agenda over the last years, her Social Democratic opponent is starting to argue that 'absolute austerity' is wrong. In The Netherlands, traditionally a defender of financial rectitude, the tide is turning. Dutch voters, shortly to go to the polls, are becoming disenchanted with 'austerity'. All this political (and social) forces seem to want something different. Emphasis has been placed on some ideas emphasized by Keynesians. *Eurobonds* seem therefore to be emerging as a possible alternative to just the rebranding of Monetarism that would probably take place.

Institutionalizing the Process

Whether these alternatives are going to be consolidated only time can tell. The interplay between the political and social forces will emerge in the forthcoming weeks. By looking at internal developments of national policies and statements by the European institutions, an understanding of what the path that has been taken can be assessed. The meetings between the French-German axis are cru-

16 See Sylvester C. W. Eijffinger, "Eurobonds – Concepts and Implications" (European Parliament's Committee on Economic and Monetary Affairs, March 2011).

cial in this sense to understand the likely outcome of this debates. Meetings at the European Union level are also important to analyze. François Hollande would win his struggle for pro-Keynesian measures if he moves beyond the Franco-German axis. In order to see a fundamental shift towards Keynesianism two other important aspects need to happen in this process: first, 'less powerful' political forces need to emerge and have a stronger voice than they had until now and align themselves with Hollande. Social forces can also play a key role in this process. Misinformed by a media which tends to privilege sensationalism to properly presenting the terms of the debate, however, social forces seem so far to be 'requesting growth' but not necessarily a Keynesian type of 'growth'. For pro-Keynesian views to emerge, these social forces need to be made aware of what is at stake – and opt for Keynesianism.

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To Euro or not to Euro: Will Greece Exit the Eurozone?

Faced with these two scenarios, Greece will have a role to play in the future of its place in the eurozone – and on the future of the European Union itself. It's a secondary role but a crucial one. Again, the strategy is to look at the interaction between the implementation of models being proposed, party politics and social forces at play, and understand when this processes can be institutionalized.

Implementing Scenario One

A rebranded Monetarism is more likely to be accepted by a coalition of 'pro-austerity' parties. But it has to include 'pro-growth' reforms. In other words, the European Commission proposal of project bonds needs to be endorsed. Discussions of how to promote growth, at the European level, have not been on the agenda until now. So far, it is assumed that it is supposed to be promoted internally and not be provided by a broader European strategy. The agreement between Greece and members of the 'troika' describes growth strategies. But in a stagnant economy this just can't be delivered. Even though the European Union and the Greek state established a kind of bargain with this 'internal growth' argument, this time it would not be likely for these parties to accept this. Government bonds are therefore needed. What is also needed is a new timetable and the softening of the conditions of the 'bailout programme'.

It is a matter of politics to understand whether a rebranded Monetarist approach would satisfy the more radical parties in Greek politics however. It is likely that it won't. And the discussion at this stage will be kept at the European level of reforms. Parties like Syriza defend – at the European level – pro-Keynesian views. They do not support – as a matter of principle – the current policies being followed by the ECB and the European Commission and the whole way the euro project has been organized. As a matter of principle – at the European level – these parties will have huge problems in accepting the terms of a rebranded Monetarist programme. This is not least because of the 'credibility advantage' that Syriza has in comparison to the traditional parties that used to form the Greek government in recent decades, as the platform is seen by Greek voters as actually the only political force not delegitimized by the crisis. Giving up on this, accepting a Monetarist agenda forced on Greece, would be certain political suicide – not taking into consideration the firm belief of the platform's members in a radically different architecture for the EU for the future.

Implementing Scenario Two

The 'pro-European' coalition would certainly accept the terms of a more Keynesian approach to the adjustment process. By reading the speeches or statements of George Papandreou, Lucas Papademos and more recently by both Antonis Samaras (New Democracy) and Evangelos Venizelos (PASOK);[17] it becomes clear that for a long time Greece has been discussing the need for pro-Keynesian reforms at the European level. Furthermore, they accept the principles of a free-market economy and wish to implement both fiscal consolidation strategies and the structural reforms plans signed in their 'bailout programme'. If any of 'pro-European' parties wins the June elections then Greece, and the European Union, would have a revitalized breathing space.

Repeatedly, the platform affirms European values and the European project. But, on the other hand, Syriza's leaders made it clear that they will not accept any further measures of readjustment or "fiscal consolidation". To the contrary, the unifying position explicitly demands the cancellation of pending bailout measures and further cuts to private sector wages and pensions, additionally to the cancellation of laws abolishing collective labor agreements. A position which is deeply at odds with every serious attempt to tackle the crisis via structural reforms.[18] The problem with the future of Greece in the euro is therefore not just whether Greece wants to keep the euro or not, it is also what kind of national economic policy Greece wants for itself. Does it want a market-based economy or to move to an economy with a bigger share of collective or state-ownership. The multiplicity of voices and political positions within the platform make it very hard to identify a coherent position on this issue. The announcement of Panayiotis Lafazanis to implement a project of nationalization of strategic companies, like energy and telecoms, is surely shared by the majority within the platform. Syriza sees the need of a major overhaul of the troubled public sector in Greece. But again, the underlying agenda here is one of a qualitatively different, transparently and democratically run public sector, and not the agenda of radical shrinking.[19] Syriza seems to have gained political power by stressing the European dimension of the problem, quite often in a rationale explicitly following traditional post-World War II social democratic positions, that fit rather well with a full embrace of Keynesian macroeconomic policies.[20] However, it has not discussed the nature of its view of the way the national economy is supposed to work yet, although the party is currently working on an outline of economic policies to support their position in next month's election. In principle, a campaign saying that Greece should 'renegotiate' the terms of the agreement is in itself a statement. It means that Syriza does not accept a market-based economy and wants Greece to move towards a state-owned kind of national economy. If this is so, the future of Greece in the eurozone is not likely, even if Syriza would not be forced into a coalition with the communist party, which explicitly wants to leave the EU altogether. If, however, Syriza accepts the 'financial consolidation' and 'structural reforms' part of the deal, then Greece and the eurozone would have some space to breath.

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Institutionalizing the Process

Assessments of meetings between the different political parties and their European counterparts are useful

17 See "Greece in Crisis" (*The Guardian*).

18 See the interview with Syriza MP Nadia Valvani, George Gilson, "The grassroots behind Syriza success" (*Athens News*, 24 May 2012).

19 See the statements by Panayiotis Lafazanis, another of Syriza's leading MPs, George Gilson, "Panayiotis Lafazanis: Farewell to the memorandum" (*Athens News*, 17 May 2012).

20 That is the historically informed position of another MP from Syriza, the economist Euclid Tsakalotos. See Emma Alberici, "Greece 'can do better' than German deal" (*Australian Broadcasting Corporation*, 15 May 2012).

to understand the unfolding of the process. But there are two key moments to understand the institutionalization of these processes. The first is the elections that will be held in Greece in June 2012. As things currently stand, New Democracy seems to be recovering from some of the first projections that gave Syriza the overall lead. The second key moment is represented by the meetings that will take place between Greece and elements of the troika.

What is at stake, at the moment, is not just transforming a policy therefore, it is a change of an approach that has guided the policies of the eurozone since it was created – and that has dominated economic theory for the past thirty years. This rebranded Monetarism is not solving the economic problem of the European Union however.

Conclusion:
Summing Up the Argument

This article aimed to rationalize the present fear over the future of the eurozone by locating this fear within the literature that tries to understand the economic dimension of the European crisis. In doing so it stressed that we are not debating 'Greece's default' not even 'eurozone's meltdown'. We are still in a stage where we are discussing 'solutions to the Greek bailout programme'.

A number of scenarios were raised that are likely to happen at the European level. It becomes clear that if things keep as they have been until now a rebranding of Monetarism is the likely outcome. German and European institutions – especially the ECB – are promoting this approach. It has, it should be also said, characterized the economic policy framework of the EU since its beginning. The eurozone was created with no central fiscal authority – nor a flexible labor market. These problems were highlighted and are also contributing to its decline. If some of the troubled countries did not have the euro they would be better off at the moment. What is at stake, at the moment, is not just transforming a policy therefore, it is a change of an approach that has guided the policies of the eurozone since it was created – and that has dominated economic theory for the past thirty years. This rebranded Monetarism is not solving the economic problem of the European Union however. Ideally members of the eurozone should make the historical transition – already initiated with the European Financial Stability Facility – and move to an enhancement of at least more fiscal authority at the European level. A deal with Greece would include a renegotiation of the timeline and the terms of the agreement and it would add some elements of growth stimulus at the European level (project bonds). It should also include at least increased demand in Germany and other balance of payment surplus countries as well. On the other side of the story (national front) the essential pressure for fiscal discipline and structural reform should continue however. Troubled European societies have no other solution, nationally, than to keep pursuing these policies. This should also be highlighted. But something else – at the European level – is needed.

The future of Greece in the eurozone is being played out at the moment. Rebranded Monetarism is most likely to be accepted by 'pro-austerity' parties. These parties want to keep the country in the eurozone. Furthermore, they would welcome – and have been arguing since the beginning – a pro-Keynesian model to be implemented at the European level. A more problematic outcome would result if Syriza gets elected. This party seems to be both against the present Monetarist approach – it certainly wants a move towards Keynesianism at the European level; but what is discussible is whether it would be happy with implementing the European pact of fiscal consolidation and structural reforms on the national front. This is not likely. If Syriza gets elected it would require both a change at the European level and a change at the European approach to the national level. Concessions by the European Union to its 'internal programme of adjustment' are not likely. Increasingly, it is becoming clear that this election in Greece is one between those that want Greece to continue in the euro and those that don't. With their – almost obsessive – focus on the European level solutions to the problem (and on the problems of 'greedy capitalism'), on the one hand, and on blaming their national political parties for the crisis; the Greeks have not been discussing what is also essential to discuss: the politics of economic crisis that led to the emergence of extremism and whether they want a free-market based economy or a collectivist one. The latter discussions seem to be emerging more recently as the scenario of Syriza gaining political power seems increasingly certain.

According to the argument presented here, at the European level, at least a 'soft' Keynesian approach is needed to solve this crisis. But from the political and social forces that seem to be emerging this desired outcome is highly unlikely. The rebranding of Monetarism is the most likely scenario. This can give Greece some time – more likely if 'pro-bailout programme' parties are elected – but, in the long-run, it will lead to Greece having to leave the eurozone. It is highly unlikely that some kind of restructuring of the debt or project bonds will save Greece. For this scenario to change there needs to be a profound change in the equilibrium of political forces that are now emerging. We need to move beyond the Franco-German axis (+ECB support/subordination). François Hollande should be the first to understand this. He should move away from Germany and give Germany a sign of willingness that he is listening to other parts of the argument. Countries like Portugal, Spain, Italy, Ireland and all those that feel that these policies have not been working should also move beyond the Franco-German approach that has dominated institutionally the way solutions have been found to the economic dimensions of the European crisis. They could align these efforts to the explicit statements pro-Keynesian reform already affirmed by both the United Kingdom and the United States. These countries should join France in a European initiative to create a pro-Keynesian approach to this crisis. What is also clear is that it is on this political front that changes can take place. Social forces at the moment do not seem to be aware of what is at stake. They want 'growth'. They do not want 'austerity'. But by 'growth' they can understand a rebranded Monetarist approach. It is not clear that they understand the Keynesian proposals. A political front of pro-Keynesian reforms is therefore needed: Portugal could consolidate the efforts of this front. Shaky solutions promoted by rebranded Monetarism leave Portugal with shaky (European) foundations for the full implementation of his part of the deal. It is in its self-interest to move towards pro-Keynesian reforms at the European level. One should not be scared of the 'reactions of the markets': Portugal's major 'marketing strategy' should be the results that need to be achieved at home and showed abroad.

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