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Greeks chose poverty, let them have their way

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It is clear that citizens have no appetite for modernising society, writes Francesco Giavazzi



An anti-IMF sign outside the University of Athens

For more than five years, Greece has been Europe's biggest concern. Instead of focusing on employment, or immigration, or the challenge of Vladimir Putin's Russia, the continent's attention has been on a country that represents 1.8 per cent of the eurozone's economic output. It would be interesting to calculate how many hours Angela Merkel has dedicated to Athens in the past five years. Imagine President Barack Obama taking part in high-level talks for months on end, where little was on the agenda except the state of Tennessee. That, in effect, is what Europe's heads of government have been doing.

In these five years the world has changed. China and India are undergoing profound transformations. The jihadis of the Islamic State of Iraq and the Levant (Isis) represent a new and serious threat to the west, as does Mr Putin's revanchism. But European leaders, instead of devoting their summits to the question of how to best defend our economic and

military interests, agonise over what to do about Greece.

Five years of negotiations that have achieved virtually nothing (the few reforms that had been adopted, like a small reduction in the inflated number of public sector employees, have since been reversed by the Syriza-led coalition). It is pretty clear that the Greeks have no appetite for modernising their society. They worry too little about an economy ruined by patronage.

Europeans, too, have made mistakes. Since Athens joined the monetary union, we have lent Greece €400bn, 1.7 times the country's gross domestic product in 2013. It is time for a reality check: they will never be repaid. And it is an illusion to imagine, as the Finns sometimes do, that we could receive compensation in kind by acquiring a few Greek islands. The age when the British empire would do that is, luckily, over. Bygones are bygones. The sooner we accept this and forget those loans the better.

If the Greeks do not want to modernise, we should accept it. By a large majority, they have voted for a government that, six months after the election, remains vastly popular. Its popularity with the electorate signals a wish to remain a nation with a per-capita income half that of Ireland, less than that of Slovenia. In a few years it will be overtaken by Chile. I only hope that no one in Athens dreams that debt forgiveness and Grexit offer an alternative path to growth.

Without economic and social reforms, Greece will remain a relatively poor country. But it is not for the rest of Europe to impose reforms on Greece. It should merely make crystal clear that without serious reforms, new official loans are over. The only way for Athens to borrow will be to convince the markets that it will pay its own bills. No more EU guarantees, explicit or otherwise.

We should ask ourselves whether it is really so important to keep Greece inside the EU. (Barring a treaty change, leaving the euro entails leaving the EU.) The criterion should not be the protection of our credit: that is gone, like it or not. Nor should it be the risk that there might be a run on the euro because of contagion: thanks to the actions of the European Central Bank, monetary union today is resilient enough to withstand Grexit.

European leaders should stop treating the Greek problem as if it were merely a financial issue. It goes to the heart of European integration. That project has undoubtedly accelerated as a result of monetary union (just think of the decision to remove bank supervision from national control).

But the euro cannot be a substitute for further political integration. Indeed, without such integration, the euro cannot survive — and today, Greece stands in the way of it.

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