How Europe’s Band-Aid Ensures Greece’s Bondage

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ATHENS – Greece’s never-ending public-debt saga has come to signify the European Union’s inept handling of its inevitable eurozone crisis. Eight years after its bankruptcy, the Greek state’s persistent insolvency remains an embarrassment for Europe’s officialdom. That seems to be why, after having declared the euro crisis over in the rest of Europe, the authorities seem determined to declare final victory on the Greek front, too.

The big moment, it is said, will come in August, when Greece will be pronounced a "normal" European country again. Recently, in preparation for the government's return to the money markets – from which it has been effectively excluded since 2010 – Greece's public-debt authority has been testing the waters with a long-term bond issue.

Unfortunately, all the happy talk about impending "debt relief" and a "clean exit" from Greece's third "bailout" obscures an uglier truth: the country's debt bondage is being extended to 2060. And, by ossifying Greece's insolvency, while pretending to have overcome it, Europe's establishment is demonstrating its dogged refusal to address the eurozone's underlying fault lines. This augurs ill for *all* Europeans.

For an EU country to be considered "normal," it should be subject to the scrutiny facing countries that were never bailed out. That means the standard twice-yearly checks of compliance with the EU's Stability and Growth Pact, as performed by the European Commission under the so-called European Semester procedure. Nevertheless, for countries like Ireland or Portugal, a tougher "post-program surveillance" procedure was designed following their bailouts: quarterly checks conducted not only by the European Commission but also by the European Central Bank.

It is plain to see why Greece's road will be much bumpier than Ireland's or Portugal's. The ECB had already begun purchasing Irish and Portuguese debt in the secondary markets well before these countries' bailout exit, as part of its "quantitative easing" program. This enabled the Irish and Portuguese governments to issue large quantities of new debt at low interest rates.

Greece was never included the ECB's quantitative easing program, for two reasons: its debt burden was too large to service in the long term, even with the help of ECB-sponsored low interest rates, and the ECB was under pressure, mainly from Germany, to wind down the program. Moreover, the post-program surveillance procedure does not give the "troika" of official creditors – the European Commission, the ECB, and the International Monetary Fund – the leverage over Greece that they desire.

In celebrating Greece's "clean exit," while retaining its iron grip on the Greek government and withholding debt restructuring, Europe's establishment is once again displaying its skill at inventing neologisms. Until 75% of Greece's public debt is repaid – in 2060, at the earliest – the country, we are told, will be subject to "enhanced surveillance" (a term with unfortunate echoes of "enhanced interrogation").

In practice, this means 42 years of quarterly reviews, during which the European Commission and the ECB "in collaboration with the IMF" may impose new "measures" on Greece (such as austerity, fire sales of public property, and restrictions on organized labor). In short, the next two generations of Greeks will grow up with the troika and its "process" (perhaps under a different name) as a permanent fixture of life.

The celebration of Greece's return to normality began a few weeks ago with the government's oversubscribed €3 billion ($3.7 billion) issue of its first seven-year bond in years. What the revelers failed to note, however, was that, to borrow that €3 billion on behalf of its creditors, the Greek state added €816 million in interest payments to its debt repayments for 2025. Germany's cost for rolling over the same sum, on the same day, was

a mere €63 million. Will Greece's income rise by a similar amount between now and 2025 to make this sustainable?

The official answer is that debt relief will come soon, paving the way for Greece's smooth return to the money markets. But European officials have ruled out restructuring debt that cannot be repaid. What debt relief really means is that repayment will be shifted from 2022-2035 to 2035-2060, with interest added. In other words, Greece will gain easier medium-term repayments in exchange of 40 years of debt serfdom.

Back in 2015, I was pushing for substantive debt restructuring by means of linking the volume of debt and the rate of repayment to the size of Greece's nominal GDP and its rate of growth, respectively. Now, it seems that the idea of nominal GDP-indexing will be revived, but only to determine the extent to which medium-term repayment is pushed into the future. Moreover, the easier medium-term payments will be made contingent not only on growth, but also on new "conditionalities" (read: austerity measures) imposed by the (renamed) troika.

According to the authorities' propaganda, Greece's creditors are linking debt repayments to growth. In reality, the prospect of recovery will be dealt another blow, because long-term investors will be deterred by the combination of prolonged insolvency and protracted austerity.

What accounts for this implacable determination to leave the Greek wound festering under a flimsily applied Band-Aid? The answer lies in France and Germany, where, a decade after the 2008 financial crash exposed the eurozone's design flaws, there is still no consensus about how to manage the large-scale insolvencies that are inevitable in a currency union lacking any mechanism to temper financial flows and trade imbalances.

Greece remains the litmus test of the European establishment's capacity to rationalize the eurozone, and its people have been sacrificed on the altar of an impasse whose repercussions have long since spilled over to the fragmenting political scenery of Central Europe.

Something has to give. Will it be the establishment's determination to stick to business as usual? Or will it be Europe's integrity?