A George Magnus

Or 'A-Greek-ment', to use European Council President Donald Tusk's witticism after the all-nighter they pulled prior to agreeing the template… To summarise, Greece has had to climb down on almost every issue, including the demand for debt relief, where the agreement says only that upon the first review of the new loan deal, longer grace periods and maturities may be granted. Greece has agreed to implement changes to its tax and pension systems, which have been the subject of discussion for months. It has also acknowledged that it has to pass reform legislation spanning public administration, product market and labour market liberalisation, and the opening up of closed professions, and to reverse 'end-of-austerity' policy changes introduced earlier in violation of the previous loan programme.

"That plan also included a 'dynamite' option ... that if Greece were unwilling or unable to agree to a deal, it should be offered a five year 'time-out'..."

Perhaps most sensitive of all, Greece has to accept the return of Troika monitoring staff to Athens (probably not the most desirable job in the world right now), the involvement of the IMF in the new programme, and the establishment of a €50 billion fund of assets. Once privatised, a major portion of these assets are earmarked to pay for the urgent recapitalisation of Greek banks, another portion to repay debt, and yet another portion to finance investment. In the original German Finance Ministry proposal, the fund was to be set up in Luxembourg, but this has now changed. That plan also included a 'dynamite' option, now dropped (from the agreement at least) that if Greece were unwilling or unable to agree to a deal, it should be offered a five year 'time-out' from the Eurozone, during which time its debt might be restructured. In other words, a temporary exit.

To me, the logic behind this proposition is still not clear. If Greece were successful outside the euro, with a mega-devaluation and its debt 'zeroed', it wouldn't need to re-enter. On the other hand, if it were not successful, it wouldn't be re-admitted. Either way, the single currency would have been buried and become a fixed but breakable currency arrangement. If the idea was to have a Plan B, it was sufficiently ham-fisted to transform the Greek crisis into a full-on existential euro crisis. It effectively split the 19 countries of the Eurozone into three groups: Germany, the Netherlands, and Eastern European countries which took the hard line; France, Italy and Cyprus which wanted no part of it; and the rest somewhere in between.

A Michael Petley

If I may, I would just like to emphasise George's point: I think the significance of what transpired recently in the Eurozone has less to do with Greece and more with the whole notion of 'solidarity' amongst the EMU members. A major pendulum swing has finally swept across the Eurozone. Half of the nations, suffering extensively from 'Greece fatigue', had clearly become ambivalent to a potential 'Grexit'. Another third wanted Greece to stay in, but only in strict adherence to the rules. In the end, as George said, there were just France, Italy and Cyprus seeking to cut the Greeks some slack.

My overall impression is that it is a major 'win' for Germany, at least 'for now'. And, despite it being purely delusional in terms of its chances of success, the latest agreement will be proclaimed as being good for the integrity of the Eurozone's financial system going forward. This is a belated attempt to instil some badly needed fiscal discipline into the Eurozone project, and it will send a strong signal to France that they too can expect no sympathy and zero tolerance on any lack of reforms.

However, there is a dangerous crack opening up here between France and Germany. As I have stated on many occasions, the point at which the French and the Germans fall out with one another, the euro project as we know it will be over. Ultimately, I expect the Eurozone to fail in its current form, most likely with Germany leading a like-minded group into a new, fiscally tight monetary union, leaving a more southerly group led by France.

A Kit Juckes

"I'm not entirely sure how much of a real German 'win' this actually is… In fact, I cannot help thinking that this is a Pyrrhic victory for Greece's creditors."

Well, I'm not entirely sure how much of a real German 'win' this actually is… In fact, I cannot help thinking that this is a Pyrrhic victory for Greece's creditors. As the world now prepares to witness the Sisyphean challenge of implementing even more austerity in the context of a deeply depressed Greek economy, the renewed debate about debt restructuring will effectively guarantee continued uncertainty. Now that the Greek parliament has passed legislation to approve the bailout package (and notwithstanding likely painful passage in some of the creditor country legislatures), the focus moves on to what happens next.

On a practical level, the ECB will have to maintain full support for Greek banks in the form of ELA funding. Longer term, I would offer two takeaways. Firstly, with the debate about debt restructuring well and truly opened, with the Greek government in chaos, and with actual implementation of the bailout terms far harder than simply agreeing to them in parliament, the uncertainty which can weaken the euro won't go away any time soon. Secondly, all of this uncertainty will require the ECB to maintain super-easy policies for even longer than has been the case already.

What have we learned? Mostly, that once trust is lost, it is not easily regained. We have also confirmed, as discussed by George and Mickey just now, that not all Eurozone member states want Greece to remain in the club. The Eurogroup summit has delivered a compromise message to Greece, asking for further commitments in return for funding, but also offering the potential 'carrot' of a temporary exit from the Eurozone in return for a discussion of debt relief. Believe it or not, instead of kicking the proverbial Greek debt 'can' down the road, the discussion on whether or not to kick the can was itself kicked down the road for 72 hours instead! Of course, the sad thing about all this is that the absurdity of the situation cannot hide the awful economic reality which is being imposed on the Greek economy, which just keeps going backwards every day this goes on.

A Neil MacKinnon

I couldn't agree more. The Greek crisis remains unresolved, and although the Greek parliament ended up approving the proposals agreed between Greek Prime Minister Alexis Tsipras and the official creditors, the political and economic ramifications remain immense. There is something fundamentally not right with an agreement that all sides profoundly dislike. Think about it. The German Finance Minister still believes a temporary exit for Greece from the monetary union is a better option. The Greek Prime Minister thinks "it is a difficult and bad agreement." And the IMF openly admits that the current 'bailout' will force the Greek government's debt-to-GDP ratio up from the current 180% to 200% in a few years. Mark my words: this will all end in tears! In particular, watch out for Greek depositors to be 'bailed in' as part of the bank restructuring process. They did it in Cyprus, and from an economic point of view, the result was unambiguous: a monetary implosion and a collapse in GDP. The Greek population will soon realise that their best course of action is to exit the monetary union, as being inside it is wrecking their economy and their banking system.

By the way, the fact that 90% of Greek government debt is now held by the EU, ECB and IMF is not, as some commentators claim, a positive factor. If anything, the likelihood of a third Greek bailout of up to €90 billion adds to the potential liabilities for EU taxpayers, especially German taxpayers. This might turn out to be politically toxic for Angela Merkel, should German voters protest against 'bailing out' Greece again. Against this backdrop, I can totally understand why it was extremely difficult for Germany to concede better terms to Greece during the negotiations. But even so, it is hard not to agree with some commentators that, in its handling of the Greek crisis, the German government played such hardball that it effectively widened the gap between 'north' and 'south'. Some commentators have also called Germany a 'calamitous hegemon', with the perception, rightly or wrongly, that the Germans have abused their position as the leading creditor and surplus economy, pushing the bulk of economic adjustment to the deficit and debtor countries.

"... the Germans have abused their position as the leading creditor and surplus economy, pushing the bulk of economic adjustment to the deficit and debtor countries."

A Stephen Jen

Well, I take a very different view of this. At the Eurogroup meeting prior to the final agreement, the Greek proposal met a wall of resistance from the Northern European creditors, including Germany and Finland, whose positions were particularly harsh but, in my view, totally understandable and ultimately justifiable. Germany proposed that Greece be pushed out of the EMU for at least five years, while Finland outright refused to participate in any further funding of Greece.

Look, here is how I see it. Europe needs to change. I'm very encouraged by this latest twist of events, as it showed that Eurozone may, for once, do something sensible: no longer will the political objective of the unconditional and uncontrolled expansion of the Economic and Monetary Union dominate over economic considerations. My view has always been that this political objective has made the EMU brittle, and each step to 'paper over' past mistakes has made the European project more fragile. We have the situation in Greece today because of a series of bad decisions in the past. I am puzzled why nobody is demanding more accountability from the very policymakers in Europe who have made these bad decisions in the past – and the latest bill to pay for their mistakes has just increased to €86 billion! I would not at all be surprised if this bill, within the next 12 months, rises to €100 billion or even higher. This figure will continue to climb in the years ahead, if nobody objects to this insanity.

2 Clash of the Titans

Q Andrew Rozanov

Well, Stephen, I must say that amongst the barrage of recent media commentary which tends to be highly critical of Germany and somewhat sympathetic to Greece, your take on the situation is certainly different and refreshingly clear-cut. Let me ask you, if I may, to expand a bit on how you see the dynamics within the EMU in the context of the 'clash' between German and Greek perspectives, and how things might play out going forward?

A Stephen Jen

I think Germany is increasingly likely to leave the EMU. To me, what is clear now is that Germany is increasingly angry with the way things are done in Europe. The biggest creditor in Europe is unhappy. If France and others, with the help of the US, indeed pressured Germany to concede, they may have succeeded this time, but it would increase the probability of Germany leaving the EMU one day. Incidentally, this is not too dissimilar to how the UK has been angered by the EU over the years, for being repeatedly over-ruled over issues perceived important to the UK.

"With respect to Greece, let me be very blunt: it is not to be trusted."

With respect to Greece, let me be very blunt: it is not to be trusted. Just think about it: a referendum has just rendered an overwhelming 'no' to a package that is similar to the one proposed by Tsipras anyway! Against this background, creditors in Europe would be foolish to think that any promise Athens makes would be honoured. People lie for different reasons. In this case, lying turned out to be worth €86 billion or even more. Tsipras managed, through a referendum, to agree to do the same things, but in exchange for a package worth 10 times more. He must have been very pleased with his tactics!

I believe Greece needs to stand on its own. There are so many countries in the world that have their own currencies. The argument that Greece would struggle to cope with the drachma and therefore would be better off staying in the EMU is precisely the reason they should be kicked out of the EMU to stop dragging it down. This issue regarding Greece is very much about Europe's future, but in precisely the opposite way from what many European politicians are arguing. Allowing Greece to stay in would be detrimental to Europe's future, in my opinion. Using a recent example from the corporate world, if Europe were Microsoft – a company known for its lack of competitiveness and over-reliance on its monopolistic position – then Greece is Nokia, and should be 'written off'. Europe's focus should be on the alimony payments Greece may need now – and these should be grants, not loans!

3 Where next for Greece?

Q Andrew Rozanov

OK, before we move on to consider the implications of recent developments for the broader European Union, let me ask George and Mickey about what we can expect in Greece going forward. Are you as pessimistic as most (non-German) economists, in that – on the current EMU policy trajectory – there is simply no hope for Greece? That the Greek population is facing years, if not decades, of economic misery and suffering?

A Michael Petley

Well, I must admit I am quite pessimistic. Will the agreement actually work? I think not. I truly believe that the hole is just too big, and that Greece as it currently stands is wholly incompatible, upon multiple grounds, with all that is required of it to be in an enduring monetary union with the likes of Germany. I expect that the Greek economy will be hollowed out, many Greeks who can find opportunities elsewhere will have no choice but to leave the country, and that, ultimately, Greece will end up exiting the euro anyway. On the current trajectory, it will never attain sufficient economic growth and 'escape velocity' to pay off its debts and to pull itself out of this mess. The only real difference between Greece exiting later rather than now is the cost – to the people of Greece, to the rest of the Eurozone when Greece properly defaults on its debts and officially exits, and to the political authority of those governing the EMU project.

"The social and economic misery that will follow ... runs the risk of backfiring massively, not merely in Greece but across the Eurozone."

This 'breakthrough' deal, assuming it is actually implemented, will not work (at least not for Greece) without significant debt write-downs, which Germany, I believe, will continue to oppose. The social and economic misery that will follow in Greece, however 'morally' justified from the creditors' perspective, runs the risk of backfiring massively, not merely in Greece but across the Eurozone. It will simply serve to empower the anti-austerity movements in countries like France, Italy and Spain. Politicians would do well to remember that, in a democracy, they are only in power for as long as the people tolerate them and the consequences of their policies. Mind you, the Greek people must be wondering today quite where their 'democracy' has gone! Whatever the economic realities and the arguments, it is not every day that an elected government wins a referendum resoundingly, only to then do a 180-degree turn and capitulate a week later.

So to answer your question with brutal honesty: I put zero probability on the Greek economy surviving this medicine. It is drowning, and has just been thrown a life jacket made of lead. Whilst some may say, "if at first you don't succeed, try, try again", some things are simply not meant to be. In this instance, as someone famously said: "The definition of insanity is doing the same thing over and over again and expecting different results". Joining the euro was Greece's biggest mistake, in my view. Not leaving it when it had the chance in 2011 was its second biggest mistake. Not leaving now will prove to be its third. And on a broader note, I just cannot believe how Europe's leaders can spend all this time and all these resources on such a small part of the Eurozone's economy, which surely would have been much better spent to complete the Single Market and agree free trade deals with the largest and most dynamic economies in other parts of the world!

A Stephen Jen

I agree with Mickey on this last point. As I said, I believe the best solution would be for Greece to stand on its own, outside the EMU. It will be best for Greece, but also best for the Eurozone. Every action has reactions, and every policy has side effects. To me, the issue of Greece goes far beyond whether Greece 'will be saved.' It is about the popular opinion in countries like Germany and Finland about the needed next steps in the EMU: fiscal and political union. The more the Germans are forced to make compromises, the less likely that the critical steps to make the EMU more resilient will be taken. Specifically, while the IMF's position is correct and justified, it will put a great deal of pressure on Berlin. If Berlin backs down this time, and agrees to a debt write-down for a country like Greece, I believe there will be lasting and severe implications for the public opinions in Germany and Finland about the fiscal union.

"What would ultimately be much more consequential is whether Germany remains part of the EMU five years from now, not whether Greece is in or out in the next five months…"

All along, the worry in Germany has been not to have a 'transfer union'. If German taxpayers will be held responsible for the incompetence of the Greek government in implementing the agreed reforms, and for generations of irresponsible spending, my guess is that popular opinion in Germany toward a fiscal union will sour significantly and quickly. And without Germany, there will be no fiscal union. The French view that an ever bigger EMU and EU would be 'good for Europe' is controversial, and not one I believe to be correct. There has been too much micro analysis of the public sentiment in Greece, and not nearly enough about the damage that has been done to the German view toward Europe. What would ultimately be much more consequential is whether Germany remains part of the EMU five years from now, not whether Greece is in or out in the next five months…

4 Where next for Europe?

Q Andrew Rozanov

What about the implications for the broader European Union? For example, have recent developments in Greece increased the probability of the UK referendum resulting in a 'Brexit'?

A Neil MacKinnon

Well, the immediate impact on the UK has been the proposed use of the European Financial Stabilisation Mechanism (EFSM) to provide bridging loans to help Greece pay its way through July and August. This has already led to protests from non-euro countries, including the UK, which previously believed, on the basis of a political pledge from the EU, that their taxpayers would be shielded from Eurozone bailout costs. That pledge has not proved durable, and will only provide encouragement to anti-euro sentiment in the UK ahead of a likely EU referendum next year.

There has been another interesting twist. Political commentators suggest that the recent treatment of Greece by the creditors has dented the image of the European Union in the eyes of the Political Left – both in the UK and in other European countries. Previously, many on the Left in European politics supported the EU on the basis that it was some sort of progressive movement of integration, solidarity, world peace and free love. Also, since the days of Margaret Thatcher, many on the Left saw applying pressure through Brussels as the only viable way of implementing a 'progressive' agenda in the UK. This starry-eyed view failed to understand the real agenda of the EU political elite in suppressing national sovereignty and the formation of a super-state that lacked democratic legitimacy.

From an economic point of view, monetary union has been a 'half-baked' construct that has produced deflationary and depression-inducing economic outcomes. A 'one-size-fits-all' monetary policy clearly does not fit all. The absence of a national exchange rate adjustment mechanism is replaced by an 'internal devaluation', which is economic jargon for radical cuts in real wages and the standard of living. The imposition of pro-cyclical fiscal cuts is a recipe for a perma-depression. This is hardly the workers' paradise that the political Left holds dear. Rather, the Left has found itself in the unlikely role of the enforcer of 'reactionary' corporatist policies that have depressed domestic demand, pushed the unemployment rate to double-digit levels, and actually shrunk the nominal size of many European economies.

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