# Five minutes with Barry Eichengreen: “We are a matter of weeks away from a Greek default unless a deal can be reached”

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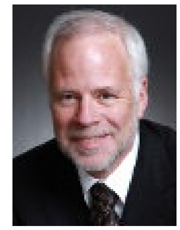

*With no agreement yet reached between Greece and its creditors, there are doubts over whether the country will be able to make a scheduled debt repayment to the International Monetary Fund in early June. In an interview with EUROPP's editor Stuart Brown,* **Barry Eichengreen** *discusses whether a compromise is still possible, what a default would mean for the country, and how well Europe is prepared for a potential Greek exit from the euro.*

**Several Greek politicians have warned that the country may be unable to make its next debt repayment to the International Monetary Fund unless a deal is reached with its creditors to release further financial assistance. Are we now a matter of weeks away from a Greek default?**

We are a matter of weeks away from a Greek default unless a deal can be reached between “the institutions” and the Greek government. In principle there is still scope for a deal between the country and its creditors. The issues are actually straightforward. The institutions need to concede to Greece's request for a smaller primary budget surplus (1.5 per cent of GDP rather than 4.5 per cent), so that the country can engage in at least some spending on critical social services and avoid a further unnecessary contraction of demand, and so that the Greek government can show its public that it has accomplished something. The institutions need to agree that privatisation, pension reform and product market reform can be phased in over time, rather than imagining that they can be implemented overnight.

The Greek government for its part needs to signal that it is seriously committed to privatisation, pension reform and product market reform. Mrs. Merkel needs to bang some heads together so that other European governments show some flexibility. Syriza needs to show that it is a competent, serious governing party. Alexis Tsipras needs to push the resulting package through the Greek parliament over the opposition of his hardliners and, failing that, go above the heads of the parliament by holding a referendum. So agreement could still happen, averting a default. Which is different from saying that it will necessarily happen.

**Some commentators have suggested that the Syriza-led government is being made an example of to prevent the growth of far-left parties elsewhere in Europe, such as Podemos in Spain. Do Greece's creditors need to moderate their demands?**

Compromise is still possible, but compromise at this point will require leadership, so that negotiators rise above the destructive rhetoric with which they're surrounded. There needs to be leadership from both Athens and Berlin. But there also needs to be more effective leadership by the president of the European Commission.

Mr. Juncker needs to press the members of the Eurogroup to compromise and not just pressure the Greek government. In addition, there needs to be leadership from the International Monetary Fund: Christine Lagarde needs to weigh in publicly on the importance of the Eurogroup moderating its demands and not just watch her staff lay down conditionality for Greece. Why haven't we heard their voices?

**If Greece did default and leave the Eurozone, how severe would the fallout be on the country in the short-term?**

It would be a disaster for Greece. Greek GDP has already fallen by 25 per cent since the start of the crisis, but there's no reason it couldn't fall by another 25 per cent. But I would emphasise that a default and a euro exit are different things. It's possible to default and stay in the euro, albeit with capital controls and restrictions on withdrawals from bank accounts in the short run, as occurred in Cyprus during its financial crisis in 2013. Cyprus experienced significant dislocations, but not a Great Depression-style disaster.

**There is a general perception that other EU countries are now far better prepared for a Greek exit from the Eurozone than they were when the crisis first struck. Is this optimism misplaced?**

Being better prepared is not the same as being well prepared. The worries are, to use the words of former US Secretary of Defense Donald Rumsfeld, the 'unknown unknowns'. U.S. officials thought they were well prepared for the bankruptcy of Lehman Brothers in 2008; they were unaware of the potential impact on AIG. We've seen big moves in the prices of German bunds in response to small shocks to expectations in recent weeks, reminding us that financial markets are less liquid today than once upon a time. How the market would react to a Greek exit is an unknown unknown.

And Europe is still entirely unprepared for the inevitable question of: if Greece can exit, who's next?

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*Note: This article gives the views of the interviewee, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics. Featured image credit: kokotron bcm (CC-BY-SA-3.0)*

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**About the interviewee**

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