Europe agrees a "shock and awe" bail-out for Greece

IT is a cherished Brussels maxim that the European Union takes its greatest leaps forwards in a crisis—and then only after several false starts. Thus for Euro-optimists, the fact that it has taken EU leaders nearly three months to deliver a promised rescue package for Greece is less important than the fact that on May 2nd the block finally leapt, setting in motion the biggest sovereign bail out plan in EU history.

Meeting in Brussels, finance ministers from the 16 countries that use the single currency accepted the need to stump up more than €110 billion ($146 billion) over the next three years. In effect, the rescue funds (€80 billion from the eurozone buttressed by €30 billion from the International Monetary Fund) will replace commercial borrowing from the financial markets between now and 2012. The hope is that will buy Greece time to bring its deficit under control through savage cuts in public spending: Greece has agreed to austerity measures worth 13% of national income over the next four years.

So is this a big leap forward: the start of an economic union willing to transfer vast sums from rich regions to ropier members of the club, in the interests of all? For the moment, scepticism is in order.

The pattern of the past three months has been a series of gambles by EU leaders. Their bet, each time, has been that a fierce enough political declaration will intimidate markets into backing away from a weak member of the club. This latest announcement looks different but it is not: it is just the biggest and fiercest declaration yet that markets should leave the eurozone alone. The idea is to shock and awe markets with a big number, so that Greece and its toxic public finances are ringfenced behind a wall of European political will. But this, too is a gamble. If markets lose confidence in other members of the club, such as Portugal, the whole scramble for solidarity will begin again.

Both Greece and Portugal are rather small, moreover. If the markets find good reasons to doubt the long-term sustainability of a much bigger economy, Spain, the cumulative bailout bill for other EU governments quickly reaches a very big number indeed (in Brussels, figures of a trillion euros or more are talked of in queasy tones). In the words of one Brussels official tonight: “the EU can’t afford Spain.”

There is more political will to defend the eurozone than there was three months ago. But there is not a trillion euros worth of political will out there. That is mostly because this is such a dynamic crisis: EU political will to act has deepened and strengthened over the past three months, and continues to do so. But the strengthening of EU political will has not kept pace with the worsening of the crisis.

All that means this does not (yet) look like a great leap forwards. Those who think that Europe simply must address the founding defect of the euro now and move towards a European economic government must deal with these two awkward facts. One, all the signs are that EU leaders lack the will for such a fiscal union (ie, the kind of union that sees rich states in America send money to places like Louisiana) [corrected in response to comment below]. Two, if contagion spreads too far in the eurozone, EU governments do not have enough money to replace financial markets for years on end.

True, for the first time the EU is making a declaration that is likely to be backed by actual money heading south in the near future. True, the biggest holdout, Germany, is going to ask its parliament to approve billions of euros of aid for Greece as soon as next Friday (when eurozone heads of state and government will also meet in Brussels for an emergency summit to check the progress of the bailout).

True, too, that the German chancellor, Angela Merkel, for the first time threw her full weight behind the rescue plan, despite opposition from members of her centre-right coalition and much anger from voters a few days ahead of a crucial election. Significantly, Mrs Merkel made the case for a rescue in the Sunday edition of Bild, the tabloid that has led noisy opposition to any transfers to Athens, railing about “our money” going to fund “luxury pensions” for spendthrift Greeks.

Noting that Greece is going to have to make deep and painful cuts to public sector pay and benefits while raising taxes sharply, Mrs Merkel said those harsh terms would deter other eurozone countries from getting into similar pickles. Other heavily indebted governments would "see that Greece's path, with the IMF's strict terms, is not easy, so they will do everything to avoid that for themselves," Mrs Merkel said.

But Mrs Merkel is also still pretending that this bailout may not cost German taxpayers in the long run. Apeing promises from finance ministers in places like France and Belgium, she told Bild that if the IMF-led austerity program for Greece succeeds, the package of rescue loans will make a profit for German taxpayers (because Germany can borrow money cheaply, and will lend it to Greece at rates of around 5%).

In private, though, EU officials admit that is a big “if”: the IMF-led austerity plan may not work. George Papaconstantinou, the Greek finance minister, said in Athens on May 2nd that his country faced a choice between a “difficult” path to “salvation” (measures will include a rise in value-added tax to 23% from 21% percent, a 10% rise in fuel, alcohol and tobacco taxes and further reductions in public sector salaries and pensions) and “the country reaching an absolute dead-end."

Yet salvation will be hard to reach, especially before a three year holiday from market forces ends. Boosters say that Greece only has to become a little more like a normal country to become a lot better off (ie, it would gain hugely from just collecting taxes like a normal country, and issuing economic statistics that the markets trust). But that is a hard task. With a nasty recession looming (Greece says its economy will shrink 4% this year and 2.6% before returning to growth in 2012), and painful cuts on the way, Greek citizens already feel they are being made to pay for the sins of the country’s ruling elite. A default, meaning at least the restructuring of Greek loans, still looks horribly likely.

At which point, EU political leaders will find themselves explaining to voters not just why they had to bail out Greece, but why that money may never be repaid in full, or even at all. That would take them into a whole new category of political pain. Forget talk of great leaps forward for the moment. Just keeping the euro on the rails over the next few months and years is going to be a terrifying task.

Fonte: The Economist, May 2nd 2010. Disponível em: <www.economist.com>. Acesso em: 4 maio 2010.