A German lesson for Greece

When Germany was forced to cut social spending in the 1990s, it was led by a Social Democrat—as is Greece today

KLAUS F ZIMMERMANN

GREECE'S economy will remain on the ropes for some time to come, despite the serious reform measures recently launched. All along, there has been a lot of discussion worldwide about whether European governments, particularly Germany's, should have been more forthcoming in offering a bailout to Greece.

Whatever the ultimate outcome is on the European level of the plans to support Greece, one thing is certainly clear—Greece is going to have to administer itself some bitter medicine in the form of economic austerity measures. Fortunately for Greece, this medicine may go down a bit easier than it might have just a few years ago.

To see why, just imagine the fierceness of the demonstrations in Athens if these austerity measures had been launched by a conservative government, such as the one led by Kostas Karamanlis from 2004 until the fall of 2009.

Faced with a conservative prime minister, Greek unions could reasonably be expected to have gone truly apoplectic—if for no other reason than pure political logic. Representing opposing ends of the political spectrum, the unions would have had to fight the conservative government tooth and nail, simply because the eternal game of jockeying for domestic political advantage would have demanded no less.

It is, therefore, fortuitous that the person responsible for administering Greece's fiscal medicine is Andreas Papandreou, the man who succeeded Mr Karamanlis as Greek prime minister last October. As a leader of PASOK, the Greek socialist party, Mr Papandreou at first seems an unlikely candidate to clean up the country's finances and structural rigidities—and to position his country on the right track for the long term. And yet, that is precisely the course he has embarked upon.

Faced with a prime minister who is considered part of their own political camp being the one forced to administer the painful medicine, Greek unions, in all likelihood, are presented with a different choice. While they need to go through the rites of protesting, they ultimately realise that, with Papandreou in office, they cannot portray this as a battle according to the preferred good boy/bad boy script—in other words, as a case of the upper class (or business elite) unilaterally showering pain on the working class.

It is precisely at this very junction where the path of Germany's and Greece's recent economic and political histories are so closely linked.

Like Greece today, Germany back in the late 1990s faced a big challenge to address the high levels of social spending. The country's growth prospects seemed to darken. What was called for under the circumstances was a reduction in the levels of social benefits.

For an internationally successful economy and a society that thought it had earned these benefit levels as a reflection of past success, making such an adjustment was— and, to this day, is—excruciatingly painful.

As coincidence would have it, just as is the case with Greece today, Germany was then led by a Social Democrat. Gerhard Schröder served as Germany's chancellor from 1998 until 2005. And it was he who launched a comprehensive package of reforms, dubbed 'Agenda 2010', involving far-reaching labour market reforms, including reductions in unemployment, pension and health insurance benefit levels.

That package of measures represented a significant departure from past bipartisan practices and came as quite a surprise to many, especially considering that chancellor Schröder until then had been viewed by many rather as a happy-go-lucky politician unconcerned about confronting potentially troubling economic realities in earnest.

Once he let the proverbial cat of tough adjustment measures out of the bag, though, the political die was cast. His own Social Democrats, as well as the country's powerful unions—after some hesitation and protests (including the founding of a Leftist splinter party)—ultimately came around to supporting this agenda.

They felt that, in light of changing global economic realities, this tightening of the belt was clearly undesirable, but just as unavoidable. And they were prepared to pay the ultimate price, understanding very well that initiating this transformation programme might mean that the government would not get re-elected (which, in the end, was indeed the case).

ROHNIT PHORE

Admittedly, the odds in Greece's case are much longer, as Greece's austerity measures need to go much further than Germany's. But we should at least take note of the key political operating principle uniting Greece and Germany.

Many political observers believe that the passage of Germany's reform package rested on the fact that a left-of-centre government launched the reform package—just as is the case in Greece today.

Even conservative politicians in Germany have acknowledged that it was a fortuitous turn of events that a Social Democrat was in office to launch those significant structural reforms. That coincidence took out the real political sting, one that a conservative government would have had a much harder time to overcome.

The world over, left-of-centre governments are traditionally viewed as being the ones to look after the interests of the working class. Of course, that factor by itself is no guarantee that the reforms will succeed. But it does provide a true sense of empowerment, in the sense that—in the German experience of the late 1990s and the Greek case in 2010—it is 'the people' (or at least the political party viewed as being most closely associated with representing them) who are acting to secure their own political, economic and financial viability for the long term.

The author is director of the Institute for the Study of Labor (IZA) in Bonn and the president of DIW Berlin, Germany