The benign somersault

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In the few days since the formation of the new government in Greece, a lot of water has flown under the political bridge of the Greek-Eurozone relations. Much has happened, however, also in relation to the policy announcements coming out from the Greek government. As the policies are being specified more clearly, they also seem to be changing – and a few 'policy shifts' emerge. A few examples:

In the few days since the formation of the new government in Greece, a lot of water has flown under the political bridge of the Greek-Eurozone relations. From the "hostile" statements of European officials and the eventful meeting of the new Finance Minister, Prof. Varoufakis, with the president of the Eurogroup, Mr. Dijsselbloem; to the more positive climate in Paris and Rome and the much warmer meeting between the Greek Prime Minister and Jean-Claude Juncker in Brussels. Much has happened, however, also in relation to the policy announcements coming out from the Greek government in the last few days. As the policies are being specified more clearly, they also seem to be changing – and a few 'policy shifts' emerge. A few examples:

- Not a "debt write-off", as was adamantly pledged prior to the election, not a haircut, but effectively a restructuring with a "growth clause" and "perpetual bonds" (i.e., reduction of the servicing cost of the debt without a cut in its nominal value).
- Not a "cancellation of the privatisation programme", no re-nationalisation, but a revisiting of the process and extent, for those privatisations that have not been implemented yet.
- Not an "immediate restoration of the basic salary", but a gradual increase subject to an assessment of the economic effects of such increases.
- Not the "end of austerity" (which would actually mean running budget deficits for as long as the decline in nominal GDP continues), not even a balanced budget, but a revised target for smaller primary surpluses (at around 1-1.5%.)
- Not an "immediate reinstatement" of all public sector employees made redundant by the previous government, but initially reinstatement only for those whose dismissals were deemed unconstitutional by the Constitutional Court – and without a net increase in the number of new recruits.

None of this is necessarily bad. All these policy shifts are in the direction of policy-rationalisation (in relation to the pre-election pledges) but consistent with the central pledge of addressing the issue of fiscal adjustment differently and with attention to lowering its social costs. These shifts, however, also vindicate those who before the elections kept noting that the election promises of SYRIZA were not realistic, they were populist/irresponsible and, even, non-implementable. There is much to be debated, I am sure, about whether these shifts constitute a U-turn – a **somersault** as it is termed in Greece – or simply a refinement of policy priorities and proposals and a marginal-only **tactical repositioning** of the government's policy stance. In a way, it matters very little which of the two it is: very interestingly, almost counter-intuitively, it seems that the hardship-stricken Greek public is rather content with – and very forgiving of – the emerging disparity between pre-election pledges and post-election policy proposals; perhaps even welcoming it as a shift to pragmatism. It is of course unclear how this shift will be received internally in SYRIZA (already some first reactions are emerging), but my sense is that, also internally, there is little appetite for a deep confrontation – at least at present.

'All well that ends well' then? Not quite. There is still much that needs to change and much to be done. Policy positions in many areas have to be defined, refined and clarified – as well as costed and budgeted for. Appropriate and very delicate maneuvers have to be made on the fiscal front in order to halt the derailment of government revenues instigated by the instability of the election campaign and to ensure the solvency of the Greek state in the immediate-run. And, above all, a new agreement has to be reached between the new government and Greece's creditors, concerning not only the terms of loan repayment and the future fiscal targets but also the policy agenda of the new government (including structural reforms) and its financing. Beyond this, but very crucially, the new government has to find the resolve and soberness (and the way) to implement the policies it commits to, effectively and prudently.

So, as the dust from the election panic settles down, what we are left with is not a (hoped for or feared) "total reversal", some sort of universal rupture, but a big challenge – and a big question mark – for **good governance**, for the effective implementation of policies and the successful handling of the immediate financing issues and of the crisis more generally. Despite the ideological chasm that separates the present Greek government from previous ones, it is at the end of the day – especially in times of crisis – **the quality of government**, more than the direction of policy per se, that distinguishes success from failure and has the power to make possible what until yesterday seemed impossible. I have made this argument elsewhere (Cyprus Economic Policy Review Vol.8 No.1) in relation to the effectiveness of austerity; but I think it applies equally and symmetrically, if not even more so, to the case of anti-austerity.

The first steps of the new government, despite some overweening tones and some moments of dissonance, are as a matter of fact rather positive; and reasonably reassuring for those who feared an "accidental catastrophe" (Grexit) with a SYRIZA government. There are many outstanding issues, and many things waiting to be clarified and done. But for now, after the government's emerging policy shift (whether a partial retraction or a fully-blown U-turn), to paraphrase SYRIZA's own election campaign message, "hope is (still forth)coming".

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