

After months of wrangling, the showdown between Greece and its European creditors has come down to a standoff over pensions and taxes. Greece is refusing to acquiesce to demands by its creditors that it cut payments to the elderly and raise the value-added tax on their medicine and electricity.

Europe's demands – ostensibly aimed at ensuring that Greece can service its foreign debt – are petulant, naive, and fundamentally self-destructive. In rejecting them, the Greeks are not playing games; they are trying to stay alive.

Whatever one might say about Greece's past economic policies, its uncompetitive economy, its decision to join the eurozone, or the errors that European banks made when they provided its government with excessive credit, the country's economic plight is stark. Unemployment stands at 25%. Youth unemployment is at 50%.

Greece's GDP, moreover, has shrunk by 25% since the start of the crisis in 2009. Its government is insolvent. Many of its citizens are hungry.

Conditions in Greece today are reminiscent of those in Germany in 1933. Of course, the European Union need not fear the rise of a Greek Hitler, not only because it could easily crush such a regime, but also – and more important – because Greece's democracy has proved impressively mature throughout the crisis. But there is something that the EU should fear: destitution within its borders and the pernicious consequences for the continent's politics and society.

Unfortunately, the continent remains split along tribal lines. Germans, Finns, Slovaks, and Dutch – among others – have no time for the suffering of Greeks. Their political leaders tend to their own, not to Europe in any true sense. Relief for Greece is an especially fraught issue in countries where far-right parties are on the rise or center-right governments face popular left-wing opposition.

To be sure, European politicians are not blind to what is happening in Greece. Nor have they been completely passive. At the beginning of the crisis, Greece's European creditors eschewed debt relief and charged punitive interest rates on bailout funds. But, as Greeks' suffering intensified, policymakers pressed private-sector banks and other bondholders to write off most of their claims. At each stage of the crisis, they have done only what they believed their national politics would bear – no more.

In particular, Europe's politicians are balking at steps that would implicate taxpayers directly. The Greek government has asked Europe to swap existing debts with new debts to lock in low interest rates and long maturities. It has also requested that interest payments be linked to economic growth. (It has notably not asked for cuts in the face value of its debt).

But debt relief of this sort vis-à-vis European governments or the European Central Bank has been kept off the table. Such measures would likely require parliamentary votes in

countries across the eurozone, where many governments would face intense public opposition – no matter how obvious the need.

Rather than confront the political obstacles, Europe's leaders are hiding behind a mountain of pious, nonsensical rhetoric. Some insist that Greece finish its payment program, regardless of the humanitarian and economic consequences – not to mention the failure of all previous Greek governments to meet its terms. Others pretend to worry about the moral-hazard implications of debt relief, despite the fact that the country's private-sector debt has already been written off at EU insistence, and that there are dozens, if not hundreds, of precedents for restructuring the debts of insolvent sovereigns.

Almost a century ago, at World War I's end, John Maynard Keynes offered a warning that holds great relevance today. Then, as now, creditor countries (mainly the US) were demanding that deeply indebted countries make good on their debts. Keynes knew that a tragedy was in the making.

“Will the discontented peoples of Europe be willing for a generation to come so to order their lives that an appreciable part of their daily produce may be available to meet a foreign payment?” he asked in *The Economic Consequences of the Peace*. “In short, I do not believe that any of these tributes will continue to be paid, at the best, for more than a few years.”

Several European countries now seem content to force Greece into an outright default and provoke its exit from the euro. They believe that the fallout can be contained without panic or contagion. That is typical wishful thinking among politicians. Indeed, it is the type of heedlessness that led US Treasury Secretary Hank Paulson to let Lehman Brothers fail in September 2008, ostensibly to teach the market a “lesson.” Some lesson; we are still digging out from Paulson's monumental mistake.

Similarly, Keynes watched in horror as economic policymakers blundered repeatedly in the years following WWI, through the upheavals of the 1920s, and into the Great Depression of the 1930s. In 1925, Keynes criticized the insouciance of those “who sit in the top tier of the machine.” He argued “that they are immensely rash in their regardlessness, in their vague optimism and comfortable belief that nothing really serious ever happens. Nine times out of ten, nothing really serious does happen – merely a little distress to individuals or to groups. But we run a risk of the tenth time...”

Today, Greece's European creditors seem ready to abandon their solemn pledges on the irrevocability of the euro in order to insist on collecting some crumbs from the country's pensioners. Should they press their demands, forcing Greece to exit, the world will never again trust the euro's longevity. At a minimum, the eurozone's weaker members will undergo increased market pressures. In the worst case, they will be hit by a new vicious circle of panic and bank runs, also derailing the incipient European recovery. With Russia testing Europe's resolve to the east, the timing of Europe's gamble could not be worse.

The Greek government is right to have drawn the line. It has a responsibility to its citizens. The real choice, after all, lies not with Greece, but with Europe.