

“Financial Times”, 22 Feb 2012

(<http://www.ft.com/cms/s/86d3d470-5bb8-11e1-a447-00144feabdc0.html>)

“ECB must rescue Greece – or pay more later”

By Grzegorz Kolodko

How much is enough, or not enough? The Greek drama is looking like a slow motion train crash. On the one hand, there are the irrational expectations of foreigners – be they eurozone finance ministers or the International Monetary Fund, the private banks or certain commentators, who would like austerity to go even further. On the other hand, there is a brave new government of Greece, which seems to be pushing its society to the limits. How far can one go?

I am afraid there is no more room to cut public spending: the government is already cutting the branch it is sitting on. Five years of recession have eroded the tax base so far that revenues will shrink further, even after the increase in tax rates. Austerity is recessionary, as even the IMF now acknowledges.

In three years of austerity Greece’s debt has risen from 113 per cent of gross domestic product to 163 per cent. Homelessness has jumped by 25 per cent. Unemployment has risen to 21 per cent, among the highest in the industrialised world, with 48 per cent of young people out of work. It is naïve to think they will watch TV, not demonstrate or fight in the streets. This policy is senseless.

Expecting the Greeks to tighten their belts again is unrealistic. One should not push people beyond the limit of their endurance. Such pressure is stupidity, not policy. The people of a great nation will not starve to pay an exorbitant debt to foreign creditors forever. Indeed, much of this debt results not from the fact that Greeks were living beyond their means, but from the speculatively high interest rates imposed on refinancing credits. So the plan to reduce Greek debt from its current 160 per cent of GDP to 120 per cent by 2020 is yet another fiction. Even if it did happen (and it won’t), such a financial burden would remain unmanageable.

It is true that Greek macroeconomic policy prior to the crisis was unaccountable – and that the Greek people must pay for it dearly. They already are. But is also true that foreign bankers did not show much intelligence and responsibility when they were lending to Greece. They too must pay for it dearly. So far they are not. It is also true that western leaders – especially Angela Merkel and Nicolas Sarkozy – have made a series of mistakes by postponing the decision to write down non-performing Greek debt and by trying to protect the interests of private investors. As for the debt reduction, it has been too little, too late. So some politicians and policymakers must also pay for their mistakes, and the forthcoming elections in France and Germany may prove to be a good occasion.

We now stand at a crossroads. I think it is time to face the truth. If there is still a chance to avoid the train crash, it is not by ignoring reality and believing that the Greeks will fast as much as it takes to pay the mounting debt, at interest rates that would make any rich man poor. Nor is it by lying and sweeping part of the challenge under the carpet, as eurozone finance ministers and certain European Union leaders are tempted to do again and again.

The only chance for a working solution is a comprehensive, rapidly executed (in weeks, not months) – plan to cut Greece’s external debt by 80 per cent and advance it a significant loan, provided by the EU, at zero interest rate. The easiest solution would be for the European Central Bank to buy new issues of Greek government bonds, but its hyper-liberal statutes and German ethos will not allow it to do so. The ECB has off-balance sheet resources of €3.3tn, equivalent to the current value of its seigniorage. If it is only used properly, the issue of eurozone sovereign debt can be resolved.

Otherwise a misguided policy will result in increasing a debt that is already unsustainable. It will lead to default and chaotic bankruptcy, and will be followed by serious – and unpredictable – consequences, not just for Greece, but for the eurozone and other partners from the EU and elsewhere, in south-east Europe, Turkey and beyond. My point is clear: let us help Greece and ourselves now, at a lower price, or it will cost us much more a little bit later.

After the latest meeting of eurozone finance ministers, resulting in the decision to grant Greece a second €130bn bail-out, one might keep saying that things are on the right track. But they are not. They are heading for a catastrophe that is already unfolding, albeit in slow motion. Cheating the public and miscalculating and misleading the market is neither a strategy, nor a policy. It is sheer stupidity.

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