Greece and Europe: Economic and Ethical Issues

(transcript)

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1. The journalist James Angelos, formerly with The Wall Street Journal, has written a book called "The Full Catastrophe." In it he recounts travels in Greece, including to the island of Zakynthos where a prefect and an ophthalmologist sold blindness benefits to hundreds of residents which where not blind, and to a town in Thrace where the mayor was murdered by two town treasurers, who remained on the local payroll—at half pay—for months after they were convicted. There are many such stories and they are, of course, generally true.

2. But that Greece is a badly-run country, with inefficiency, corruption, tax evasion and oligarchs complete, is not exactly news. This is a country that has been in default on sovereign debt for roughly half its independent existence, since the 1830s. It has never had a powerful industry, a modern civil service, efficient tax administration or a strong welfare state. And it has had far more than its share of war, civil war, occupation, dictatorship and betrayal.

3. Further, Greece entered the Eurozone under false premises, having disguised its fiscal position, and then took advantage of converging interest rates and of investors who were reaching for yield, in order to fund a wave of military purchases, infrastructure investments, the Olympic Games and to conceal ongoing deficits in health care and other services. Unquestionably many of these loans involved major kickbacks.

   In short, it is a history of mismanagement and corruption underpinning a massive public debt and setting the stage for a financial crisis.

4. Equally, the government that took office on January 26 was in point of fact unprepared either to govern or to negotiate effectively with its European partners. There was at first, at the ministerial level, next to no staff. Foreign volunteers including myself typed up documents in backrooms, both in Athens and Brussels. One exceptional tireless academic set the policy and—at first—directed the negotiations. Over time, divisions emerged within the Greek government, which where not effectively concealed. International media relations were not a success. The government was honest, but of course at the lower levels of administration things changed little, at least at first.

5. That is roughly as bleak a portrait as I can sketch. The question now is: what significance does it have? Does it justify treating the Greek government as a dependency and the Greek people as wastrels and deadbeats? Does it establish Greek exceptionalism in Europe and vindicate European economic policy in Greece?

6. Let us consider the other side of the story.

   ! Greece was not alone even in the irresponsibility affecting Greece. The European leadership knew the books were cooked. Goldman-Sachs, a company not unknown to European financial governance, helped to cook them. Kickbacks were no doubt taken, but also paid. According to an article by Tariq Ali in the *London Review of Books*, the largest evader in Greece is a German construction company, Hochtief, which runs the Athens airport.
   ! Greece was not alone among mismanaged European countries. Ireland had an uncontrolled commercial real estate boom. In Spain it was residential housing. In Portugal, the initial problem, on entry to the Euro, was an overvalued escudo. In Italy—let us count the ways.
   ! The fundamental European imbalance, which produces debt in the crisis countries, stems from Germany—a combination of industrial excellence and wage austerity that produces large surpluses, which must be recycled somehow.

! The deep flaw in European architecture is the failure of an effective fiscal transfer system, which forces the flow of funds to run through the channel of private and public debt.

! The architecture of neoliberal global finance permitted thes criminogenic policies of deregulation, de-supervision and decriminalization of financial fraud in the United States to be vectored to Europe through mortgage-backed securities, precipitating a general flight to quality and to liquidity in world capital markets, and so destroying the creditworthiness of the weaker sovereigns.

7. And then there was the specific reaction of the creditors when the crisis broke in 2010. We begin with Jean-Claude Trichet, who bought Greek bonds at a discount through the Securities Markets Program, and then insisted they be serviced at full value. We can proceed to Dominique Strauss-Kahn, who brought the IMF into the program in part to ingratiate himself with French bankers and so to advance his personal presidential aspirations.

8. Meanwhile the governments of Europe, led by Germany and France, transferred Greek debt from their bankers to their taxpayers. And not to excuse the US government, which urged the bailout in order to minimize derivative exposure of US banks.

9. And finally there were the economists, who designed a "reform" program for Greece and promised that it would produce a 5% drop in output, followed by full recovery in two years.

10. Claims of virtue, honesty and competence therefore ring hollow all around. But I will credit the Greek people with having had the courage and common sense to throw their lot behind a progressive, pro-European, untested and therefore uncorrupted political force last January—a political force that had articulated a coherent alternative for Europe and for Greece.

11. The European elements were embedded in the Modest Proposal, with four elements:
    - Debt restructuring via the European Central Bank, done in such a way that the rich countries would not have their credit impaired by mingling obligations with the poorer ones.
    - Case by case bank resolution, so as to break the toxic link between European governments and their national bankers.
    - An investment program under the leadership of the European Investment Bank and the European Investment Fund, placing technical and administrative capacity where it can be handled.
    - A solidarity program of social insurance, beginning with nutrition assistance directly to some of the most vulnerable households, administered at the European level and independent of national governments.

All of this was designed and proposed to be within existing charters and treaties. None would be allowed onto the European agenda. Instead, the new Greek government faced tight repayment deadlines and could seek, at best, to try to renegotiate terms of the existing bailout.

12. It sought to do so in four areas, mainly:
    - A more reasonable overall fiscal stance—measured by the primary surplus—that might plausibly be achieved, rather than a fantasy target that would lead only to repetitive failure.
    - Protection of very low-end pensioners, especially those receiving in the range of €350 per month, far below the poverty level in Greece, from further deep cuts.
    - Labor rights consonant with the standards of the International Labor Organization, and
    - Management of privatizations so as not to run them on a fire sale basis.

No one, so far as I'm aware, ever disputed the economic good sense behind these proposals. Behind them, of course, in the longer run lay the question of the debt. But apart from bills due immediately to the IMF and ECB this was not the most urgent question, since Greece had a substantial grace period on most of its debt, until 2022.

13. The creditors' reaction in four months of negotiation unfolded on three levels.
    - At the institutional level, the representatives of the ECB, IMF and European Commission gave no ground. It appears they had no authority to do so; their mandate was to review the existing program and report upward.
    - At the level of finance ministers—the Eurogroup – local political considerations dominated. Spain, Portugal, Ireland feared encouraging Podemos, the Bloc Izquierda, and Sinn Fein. Finland and the Baltics, passionate advocates of austerity, could not concede to Greece what they would not allow at home. France and Italy were more sympathetic, but would not risk political capital for Greece.

And Germany's policy was set by Wolfgang Schäuble, based on his vision for Europe and his domestic political considerations. None of this had anything to do with conditions in Greece.

- At the political level, Prime Minister Tsipras appealed to Chancellor Merkel directly, and also indirectly through the US, which made some gestures on behalf of the Greeks. These ultimately came to nothing.
- Meanwhile the ECB destabilized the Greek banks, while the Greek state drained its reserves in order to meet its debts, and made halting preparations for a showdown it never felt it could manage.
- The end of the drama came, as all know with the referendum and capitulation in July, 2015.

14. Greece today is under a regime of liquidation and dispossession, imposed in colonial fashion on the local administration from the outside. Resistance is, of course, growing. I expect it will continue to grow over time.
15. The judgments I would leave you with are the following:
    - It is unproductive to base economic policy decisions on judgments of moral worth.

! It is dysfunctional for economic strategies to be governed by considerations of institutional power or the politics of countries not directly affected.

! A union of countries where there is no room for policy to change in response to elections cannot be considered democratic.

! What is needed is, of course, is a democratic revolution in European politics and policy, and an intellectual revolution in economic thought, not only in Europe but also in America and elsewhere.