The Microanatomy of the Greek Crisis and Some Wider Implications

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The Greek Debt Crisis

Background

- 15 years (1994-2008) of superior economic performance vis-à-vis an already growing Europe.

– European growth facilitated by unprecedented wealth creation in Asia and ‘financial innovations’ in Europe and the US.

– Greek growth predicated on an interaction between Euro entry, liberalisation of banking, well performing tourism, shipping, construction (in a growing global economy), first phase of immigration from Eastern Europe and CIS…

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The 2009 Perfect Storm

- Early resilience (2008 still a growth year), eventual perfect storm from crisis-ridden trading partners and breakdown of precarious ‘business-competitiveness model’.

– ‘Competitiveness strategy’ over-reliant on traditional comparative advantages, a ‘positioning strategy’ based on ‘middle-level relative quality of products and services/middle-level overall cost structure (supported by 700 Euro generation), as well as “cheap” borrowing afforded through entry into the EMU.

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Ignoring the Signs

- ‘Dutch Disease’ – complacent attitude towards lingering threats from negative records, such as big and mostly inefficient public sector, the biggest shadow economy in the OECD, one of the lowest spending on education and R&D, highest gross pension replacement rates, lowest efficiency in VAT collection, highest youth unemployment, declining structural competitiveness (IMD, WEF), and ‘Doing Business’ (World Bank) (109 from 183 in 2009).

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Macroeconomic Imbalances

- In 2009 second (to Italy) highest government debt in Europe.
  – But still relatively low private debt (only 12th in Europe in terms of public plus private debt (at 204.6% of GDP), with Luxembourg at 568%(!), the UK at around 350%, and Germany just below Greece at 202%!
- Fiscal de-railing in 2008 and 2009 that led to explosive deficits, estimated (after numerous revisions) to be in excess of 15% (3% the threshold of entry into the EMU).
- Lopsided GDP structure (90% of GDP is consumption, 20% to exports – highest and lowest respectively in the Eurozone).

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Social Structure

- Highest share in EU of self-employed with often very wealthy professionals declaring below tax threshold incomes (‘a poor country with rich people’).
- An almost paradoxical dominance of the state and the two main political parties over the private sector and civil society-business often highly dependent on state funds.
- Powerful public sector unions with protected jobs, often strong links to political parties, ‘negotiated behaviours’, and widespread corruption, little reluctance to leverage dubious tactics in order to put pressure against planned reforms (and reformers).

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Public Sector and SOEs

- Public sector employment (higher paid and better protected than private sector), a means to electoral success.

– Across the spectrum, but dramatic increase (by 100,000 in 2004-2009 period), partly in reaction to the party in question having been out of government for a long time.

- In many SOEs a widely reported ‘party’ over the past few years, benefiting players across the political spectrum, through *sui generis* negotiated outcomes, favouring organised (versus non-organised) small groups and taking the form of additional incomes, often well in excess of salaries (as well as, in some cases, further incomes, under the table).

– While Greece cannot boast corrupt leading companies (unlike some other countries), it can be credited with having invented the ‘democratization of corruption’ between those in positions of some power (but not the people at large).

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Socio-Economic Implications

- The immunity of the wealthy from paying taxes, and the often meteoric and stratospheric enrichment of some policy makers and SOE employees, alongside the perception that the debt crisis is the result of corruption and the pursuit of self-enrichment by the few, has rendered the avoidance of paying additional taxes, an act of defiance, revolt, resistance, and even bravery and heroism.

– The resulting resentment undermines the ethical foundations of a society that was proud in the past of being honorable, trustworthy and hospitable.

– The undermining of the social fabric and the underutilization and debasement of the (often very educated with private funds) youth, are two of the major long-term threats of modern Greece.

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The Debt Crisis and the Rescue Packages

- The debt crisis of Greece exposed the limitations of the EU – the adoption of common monetary policy without a common fiscal policy and deeper political union.

– European countries were soon to find out that Greek export deficits were fuelling German export surpluses, and the now worthless Greek government bonds were held mainly by French and German banks.

– The subsequent rescue of Greece (with an unprecedented €110bn and a further €110bn becoming available in return for the adoption of a reform and restructuring programme detailed in Memoranda, signed between Greece, the IMF, the EC, and the ECB), is now widely regarded by commentators to have been as much a rescue of the European banking system, as of Greece (perhaps less so for Greece, giving her lingering economic woes).

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The Memoranda

- The Memoranda represent a reformed, more enlightened, version of earlier IMF-Washington Consensus-type packages.

– very detailed on fiscal discipline, reforms of the tax and social security systems, and other structural reforms, like the opening-up of “closed shops”. However, it is almost silent on more directly developmental policies, (save for short references to attracting FDI, strengthening innovation policies, and developing regional industrial clusters). The level of detail on how to achieve these falls well short of the respective one for fiscal, tax and social security policies.

The Greek Crisis and the Shifting Global Landscape

- Weakening of the ‘Triad’ – ‘global governance’ implications:
  - Possible ‘bandwagon’ to other weak links of Europe (Portugal, Ireland, Italy, Spain)
  - Assertiveness of BRICs (Brazil, Russia, India, China)
  - Rise of CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey and South Africa)
- Greek crisis serving as a business opportunity/ “springboard” (according to Greek PM) for Chinese investments in Europe and Africa.
- ‘Battle’ of developmental models (‘Washington’ versus ‘Beijing’ Consensus).

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The Rise of BRICs: Some Speculations

- Current Chinese FDI (at 6% of global) still a far cry from 50% at US peak in 1967 and British in 1914.
  - Despite differences (such as ownership structures, political consideration, etc.), implications for global governance of rise of BRICs, especially China, still unclear (even to the Chinese), and partly dependent on Western response.
  - In the long-run, it is arguable that differences in developmental models can play a major role in the emerging global governance structure, through ‘ideology’.

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Risk and Security Implications from the Greek Crisis

- Greece is disproportionally important in the above context because
  - The lopsided focus of the current rescue plan on macroeconomic austerity accentuates the recession, makes debt repayments harder, and may increase the chances for a debt restructuring, having first inflicted unprecedented damage to those worse off.
  - The focus of the 'Beijing Consensus' on innovation and experimentation, sustainability and self-determination/geopolitics, may appear closer to the developmental needs of developing countries and countries in trouble (such as Greece), than the focus of 'Washington Consensus' on economic liberalisation and conditionality. The economic success of China that adopted such a developmental policy strategy can add credence to the Chinese approach.

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Some Implications for Governance

- Greece must get its act together, not least by implementing many of the long overdue reforms agreed with its lenders.
- Europe must decide on its integration and geo-political model and role.
- Europe and the US need to improve their policy capabilities by drawing on their own historical experiences and the developmental strategies of Japan, the Tigers and China, and leverage these to strengthen weaker Western economies.
- China should consider conditionality, based on human rights, so as not to help precipitate a ‘race to the bottom’.
- Subject to minimizing frictions through appropriate policies, the rise of BRICs, CIVETS et al. is good for all. The unnecessary weakening, however, negative de-industrialisation and ‘relative decline’ of the West, (partly as a result of misguided economic policy), can be a threat to pluralism, diversity, and global governance for economic sustainability.

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