Break away from Groundhog Day

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In the contemporary saga of the Greek/Eurozone (=Eurozone) crisis, there are basically four sorts of policy propositions. There are the ones that say that Greece is helpless, that the Eurozone is a poor design and, thus, that Greece should default and the Eurozone should dissolve. There are those that say that Greece is at a deadlock and thus it should indeed default – but inside the Eurozone, which should improve its governance and complete its integration (towards fiscal union). Then, there are those that say that Greece is a sinner in an otherwise catholic Eurozone and should thus suffer (aka undergo an internal devaluation of as much as it takes) until it redeems itself (i.e., until it becomes competitive – whatever that means outside the virtual reality of economics textbooks). And then there are those discredited ones that say that Greece has been in the wrong end of things and it needs to be supported within a programme of socio-institutional modernisation, capital deepening, economic restructuring and technological upgrading in order to increase its productivity in line with the (imaginary) "Eurozone average".

And then there is reality. A reality that involves politics (with their moral hazards, their veto points, their ideational rigidities, their micro-electoral considerations and all that), a reality that involves institutions (with their path-dependencies, their reform resistances, their capture, their pathologies and everything else), a reality that involves markets (with the quasi-educated credit risk analysts, the hawkish floor operators, the societally-detached hedge-funds, the CDSs, the LTROs, the NPVs, the SPVs, the SMPs, the WTFs and whatever else is there to be summarised in the finite – 17,576 in all – universe of three-letter acronyms), a reality that involves power relations (with their informational asymmetries, their unequal access, their epistemically-legitimised ideology, and so on and so forth).

Putting all these into a single equation (excuse my analogy, but I wish the markets to understand what I am talking about), translates simply and plainly to one single proposition: the impossibility of a viable and socially desirable solution to the Greek drama. No matter how passionate one is about a resolution of the crisis and no matter how one approaches the issue, the bottom line is that anything that lets Greece off the hook, given the bets in the market, will be unacceptable for the institutional architects of the Eurozone who want to institutionalise fiscal discipline and avoid writing a cheque that will see them lose office; anything that meets the concerns of these architects, given Greece's dead-ends, will fail to satisfy the markets in their pursuit of reduced risks with sustained rates of profit; and anything that will satisfy (more precisely, appease) the markets, given the architects' concerns, will simply be impossible for Greece to implement (let alone swallow).

A PSI that will see the official sector also participating (and thus the ECB agreeing to take losses on its Greek bond holdings) could potentially calm the markets but it would make reforms in Greece even less probable than they are today. Protecting the ECB and the EFSF from possible losses while keeping Greece afloat would transfer impossible losses to the private sector not only today but also for the years to come (because it would mean more restructurings in the future, in Greece and elsewhere).While a PSI that would protect the Eurozone taxpayers and their banks and produce not-too-severe losses to the private creditors would leave Greece in a state of permanent recession, for a period which is beyond the political macro-cycle and the tolerance thresholds of society.

Now, if you read the textbooks in a dark room, sticking with your economics without due respect for the context, then you may well conclude that there is only one solution: internal devaluation. Greece has to reform (institutionally), restructure (economically), suffer (socially) – depending on which God you believe in – until its fiscal unsustainability gets undone. But if you switch on the lights, then you will see – no doubt about it – that a strategy of internal devaluation in a context of heightened risk and in a country of a notoriously small export base does not raise competitiveness, does not induce investment (and demand), does not facilitate restructuring (except for backward adjustments of the type seen with the removal of colonial control in Africa), and does not stabilise the economy. You will see that “what is to be done” (as one man once said) involves economic engineering of the largest scale, backed up by tonnes of political will. It is that thing that people have in the back of their minds when they talk about the absence of inspired (and inspiring) leaders in the Eurozone today, when they talk about a ‘new Marshall Plan’, when they talk about the marginalisation of the 1% and its modus operandi.

I have no doubt that the PSI will go forward and so will the second loan agreement for Greece (that said, I have been proven wrong in the past). But I am equally, if not more, convinced that this will not solve anything: that the next episode in this crisis will not take long to turn up, be it in May, in July or in September. For as long as we seek solutions in temporary arrangements that address the symptom and simply wish away the disease, the symptoms will keep on reappearing – sometimes unchanged, sometimes mutated. But they will reappear. If we aim to lower labour costs to address a problem of competitiveness, if we try to reform the wrong-doers by penalising everybody indiscriminately, if we seek to overhaul an imbalance between the market and the state by maintaining the status quo defining markets and states, we will keep and keep on re-living our Groundhog Day, standing surprised each single morning in front of our inability to move our lives forward.

This saga has been going on for too long. Keeping on arguing about who is (mostly) at fault, who is to blame, has long now lost its analytical relevance. It has become a fruitless – and dangerous – pursuit of an elusively accurate description. And, exciting as descriptions and finger-pointing may be, there is a point – perhaps in the near future, perhaps later on, perhaps even yesterday – where the realisation will kick-in that what is needed is a structural break of policy, beyond parametric fixes. As it is always the case, what this structural break will entail exactly (if it will be an inglorious Greek exit from the Eurozone, a re-invention of the ‘European project’, a new form of benevolent colonialism – as with the proposal to install an EU budget Commissioner for Greece – or anything else), will ultimately depend on the power-play across states and between states and markets. In some abstract way, what the final outcome will be does not matter – because we will never know the counter-factual. But what matters is to get going, to leave behind us the re-living of the unfulfilling Groundhog Day that is the Greek/Eurozone crisis and to take the step ahead that will break with ‘normality’ and with ‘business as usual’ and will instead propose (and impose) its new ethics – whether we like them or not. An ethics of redistributive solidarity and risk-sharing among socially-minded welfare states, an ethics of strict incentives and punishments for market-loving regulatory states, an ethics of whatever. It is time we took the next step. Anything but that, will simply keep on destabilising the markets, impoverishing the Greeks and discrediting the Eurozone.