Ten Frequently Asked Questions – with nine answers…

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Whose fault is it? Are the measures sensible? What are the Eurozone leaders thinking? Are the measures announced this week going to solve the problem? Will Greece survive?

1. Whose fault is it?

The Eurozone (EZ) had weak surveillance and an architecture that could not deal with systemic asymmetries (some of which, it introduced!) and persistent non-compliance (some of which, it could have anticipated). When the Greek crisis erupted, the Eurozone was too nice (or too afraid) to apply the rules (no bailouts) and too inflexible to resolve the issue decisively and at its start. [My proposal at the time was for Germany to buy 50% of the Greek debt (only a trivial €100bn at the time), put it safely in a drawer, and then bilaterally (and quietly!) agree with Greece a series of investment deals that would help it recover its losses while helping Greece re-start its economy. Nice and tidy!] But it is Greece who borrowed, Greece who overspent, Greece who didn't manage (or try) to convince Germany, and Greece who became insolvent. **It is Greece's fault**.

2. Whose problem is it?

A 'euro-exit' for Greece will bring huge inflation, more austerity and real poverty. The modernisation project of the 1990s/2000s will be cancelled. The banking system will collapse, household savings will evaporate, and populism will re-emerge – and with this will come political instability, social conflict and more aggression with Greece's neighbours. But a Greek 'exit' will also destabilise the European banks, requiring new bailouts and reproducing the banking/liquidity crisis of 2009. The euro will depreciate significantly and bond spreads will rise for all, making the debts of other Eurozone countries unserviceable and bringing the Eurozone to the same dead-end that it is today. Perhaps for different reasons, but **it is everybody's problem**.

3. Are the measures sensible / productive?

The measures focus too strongly on fiscal consolidation, in proportions that are essentially unrealistic. Greece's deficit reduction, equivalent to 6.5 of GDP in 2011, was unprecedented; but it caused a fall in GDP of at least 5%, which practically evaporated the savings created. Conditioning the aid (for servicing the debt and for investment – i.e., *not decoupling investment aid from liquidity provision*) on structural reforms and tighter austerity has led, on the one hand, to hasty and confrontational reforms that are thus slow, partially implemented, often unfair and sometimes even ineffective; and on the other hand to fiscal measures that perpetuate the problem, as they generate more recession for every percentage point of fiscal consolidation that they achieve. **The measures are not productive**.

4. Are the Eurozone leaders stupid? What are they thinking?

EMU is an arrangement where everybody has to care about the implications of their actions to the others. Without this, there is a huge moral hazard: providing easy solutions is equivalent to providing incentives for complacency and free-riding. The Eurozone leaders need to see tangible achievements by Greece before they commit more of the nice euros they draw from their tax-payers (who occasionally also vote). They need to see some results among the many that have been promised (privatisation, consolidation of public bodies, deregulation of occupational licensing, downsizing of the public sector, absorption of early-released EU funds, and many more) but have not been implemented. **The Eurozone leaders are not stupid**.

5. Are international investors evil? Do they hate Greece?

We live in capitalism. If I had a few billion euros hanging around I would want to place it in investments that give me a high return. Helping Greece wouldn't be my first priority, especially if Greece didn't seem to be particularly passionate (or effective) in helping itself. International investors provide the money that pay the salaries, the pensions, the unemployment benefits and everything else that the Greek state cannot afford to pay. They are self-interested profit-seekers; but **they are not evil – and they care for Greece as much as they do for the next country.**

6. Is the Greek government useless? Do they care?

This is a difficult one. The government has managed to keep running the country under the most adverse of circumstances – and to keep it afloat for 20 months (and counting…) despite all the omens and all the bets pushes her to default. It achieved enormous budget savings that no other European country has ever achieved and, amidst havoc, it has managed to introduce reforms that seek (rightly, but not necessarily in the right ways) to rationalise the public sector and modernise the economy and its governance more broadly. But they have been ineffective in providing real solutions. They promised too much (€50bn worth of privatisations!?); they expended too much political capital on things that were never in the immediate priorities (university reform); they took far too much money out of the economy without securing alternative stimuli to growth; and they have been unable to target the measures where they should (reduce public consumption and tax high incomes), thus hurting indiscriminately the haves and the have-nots and alienating large segments of society. They are in many respects in the fault, but if anybody thinks they can sail this boat without taking-in water, they are dreaming. **The Greek government is not useless – and they do care**.

7. Is public opposition led by 'vested interests'?

– Kostas got a job in the Public Power Corporation right after he finished high-school, thanks to his cousin who was friends with 'the Minister'. After 20 years of service he was earning €3,000 per month and on this basis got himself a second car and a hefty mortgage and sent his two kids to university – subsidising their education as well as their 'student life'. The recent cuts lowered his income by some 30% but he is still solvent, as he also had some savings. But he sold his car and lowered his mortgage payments in order to continue financing the university education of his kids.

– Maria's cousin was not friends with 'the Minister'. So she worked as a salesperson earning €700 per month. She recently became redundant but didn't qualify for compensation or an unemployment benefit, since she was unregistered. She now works as an own-account cleaner, earning €400 per month (on a good month). Tax rises (including a solidarity levy for the unemployed) have increased the cost of her shopping basket by over 30%. To manage, she cut the volume of her shopping basket to half – her 7 year old daughter now goes to school on clothes they got from a neighbour. Oh – and she stopped paying her rent.

– Petros is a university professor who used to complement his €2,800 monthly salary (lower than Kostas') by teaching in a couple of MSc programmes, chairing a couple of Committees (his cousin was 'the Minister'), and doing some consultancy work. The recent cuts haven't affected him much and he still manages "alright". In fact, he would very much like things to remain as they are and he is concerned that introducing market-based managerial practices in the university may become a problem to his life-style. But he is progressive so he supports the university reform.

Vested interests exist; but **public opposition is neither led, nor legitimised, by vested interests**.

8. Are the measures announced this week going to solve the problem?

The measures announced this week show the deadlock that Greece is in. Resorting to raising tax revenues through utility bills is a testimony to the urgency of the situation and the ineffectiveness of the tax collection system – but also to the extent to which household budgets have been drained. The measures do not create 'new money': they just shift revenues from one category to another, as the additional property tax payments will be financed by lower consumption, leading to a decline in VAT receipts and in GDP (marginally, but still). They do not address the substantive issue, of *how to re-ignite the economy*, but they help the government live up to its commitment for a 7.6% deficit at the end of 2011 – thus, crucially, helping meet the conditions for the continuation of the financial support under the 2010 bailout. They are potentially regressive, socially insensitive, and of ambiguous economic value; but they are necessary, as they will go a long way in helping the fiscal situation. In some way, they are the only alternative – but **they will not solve the problem.**

9. Is there a way out?

The last twenty months have showed us that tax-/cuts-based fiscal consolidation alone does not work. Greece has to re-gain credibility (that is, *policy credibility*) by implementing some of the measures it has committed to, no matter how regressive or sub-optimal, and use this to secure a significant flow of foreign investments that – importantly – it will use not as a source of short-term revenue/job creation but as a means for restructuring and modernising its economy. This requires a painstaking development plan with explicit sectoral, geographical, environmental, social and demographic dimensions. It is not easy, but it is necessary. For the Eurozone at large, in the long-run fiscal stability can only come from further integration, a first step towards which is the issuing of Eurobonds. But this will take time and, for Greece, it will not address either its growth deficit or its asymmetry with the European core. What is needed now is investment, public and foreign, that can be put into good use. **There (still) is a way**.

10. Will Greece survive?

To be continued…