

Negotiated restructuring for the Greek crisis

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The European Central Bank, the European Community and the IMF decided to kick the can down the road instead of solving the problem.

The European Union is a wonderful and successful work of political engineering, but this judgment does not apply to the creation of the Euro, let alone to the way Europe is behaving when the Greek insolvency led it to its first major crisis. Instead of deciding to solve the problem, it is trying to postpone it and, as a result, the problem worsens day by day. The Greek crisis had four causes: the former Greek government, that was unable to manage its accounts; Germany, that increased productivity without increasing wages and thus unbalanced the economies of the weaker countries, which became indebted; the banks, that happily lent money to Greece and other countries; and the orthodox economic theory, that advocates growth with “foreign savings”, that is, to try to grow at the expense of current account deficits, forgetting that they are usually associated with public deficits.

The crisis appeared a year ago, and soon it became clear that this was an insolvency crisis of the Greek State. In those situations, the solution is to “restructure” the debt, that is, the country engages to pay only a portion of it. The alternative of additional loans combined with austerity measures which cause recession and reduce wages is ineffective, because the debt is too huge to be paid. And, in the Greek case, it is even more inadequate, because the country cannot combine austerity with the devaluation of its currency, which would lead to a decrease in wages without much pain and would restore the balance of foreign accounts.

Instead of understanding Greece's real interests and starting to discuss with the other European countries how to achieve a negotiated restructuring, Prime Minister George Papandreou opted for the easier path of subordinating to the international bureaucracies involved: the European Central Bank, the European Community and the IMF. These always conservative bureaucracies have decided to kick the can down the road instead of solving the problem. Only Germany acted consistently: it proposed a negotiated

restructuring, which would force the creditors to assume part of the losses. But two weeks ago president Nicolas Sarkozy persuaded Prime Minister Angela Merkel to continue to postpone the problem's solution. Initially, a year ago, this was a reasonable policy, because the creditor banks needed time to protect themselves from the inevitable loss. But to repeat it now is simply to worsen the problem.

The two arguments usually advanced against restructuring are that it will force Greece to leave the Euro and that it will have a domino effect on the other fragile European countries. The first consequence is definitely not true. As for the second one, we must consider that the situation of the other countries is substantially better. On the other hand, it is not by postponing the solution to a problem that we will avoid its deterioration and the risk to the others. Now is the time to solve the crisis – and this is not being done, to the detriment of Greece and the whole Europe.