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A greek tragedy

By K Jayshankar

Like a sequel to a bad movie, there is no end to the recessionary woes of 2009. Just when we all thought that the worst was finally over, the prognosis of failure of the Greek economy has come true. The Greek economy had weathered many storms, but the troubles did not cease and finally the government has given up hope of recovery. It now looks at the IMF and its stronger European neighbors for succor.

How did all this happen? It is an interesting tale of falling victim to the siren call of blind belief in the market economy. Greece has had its long flirtation with socialism and at various times in its recent history has lurched between the socialist appeal and the move towards free market economy. The consequence has been that despite its intrinsic nature as a developed economy, it has got the worst of diseases from both sides of the political spectrum. The net outcome: financial disaster of the economy.

Many are saying that the push towards unification into the European Union has been one of the factors for this fall. Some others say that challenge of giving in to the constant pressure of keeping up with the Jones's, its more affluent European neighbors, has caused this tragedy. The truth, as always, lies in between. After becoming the tenth member of the European community, Greece did benefit and the outcome was an immediate era of sustained growth, through investments in large infrastructure. Heavily dependent on industries like tourism, shipping & other services, etc., Greece has also been guilty of heavy public spends (some may well call it profligate public expenditure) ignoring the call to be prudent with borrowed public money. With a budget deficit of 13.6% of its gross domestic product (GDP) and the forthcoming refinance of 50 billion Euros of its debt, the picture is very awkward, to put it very mildly. The issue got extenuated with low tax revenue given leakages in the fiscal system.

What made the situation worse, from Greece's perspective, is that their optimism of assistance from the European Union has been belied. All this put together is a recipe for failure when you find that as your roof catches fire your neighbors do not act promptly to help you fight it.

The current scenario is by no means cheerful: the infection is spreading, or rather the bush fire is going to spread further - Spain has already been downgraded by Standards & Poor's (S&P - the well known credit rating agency which is constantly monitoring the fiscal health caused by debt of public and private corporations) and Portugal seems to be the next to get afflicted watching all this. Germany and France are still not clear whether they should actively douse the fires or whether the volcanic ash from Iceland would offer them a legitimate excuse for their inaction! What no one wants is a domino effect cascading from the Greek episode, as the last European sovereign crisis (Iceland again was the culprit - or 'victim', take your pick!), was arrested in time.

What is even more hilarious to note is the comment of the International Monetary Fund (IMF) chief, Dominique Strauss - Kahn, who has reportedly remarked, 'Don't believe rating agencies too much'. Coming from the IMF, which has always used market parameters to proclaim on the health of economies, this is laughable in a tragic-comic way! But, he is right, of course. Yes, the true strength of a nation cannot be assessed on the basis of yard sticks which are purely of financial nature. The power of the market - though by all means substantial - is not a complete reflection of the will power and the determination of the people of any country. Consequently, it can never be the last word about any country.

However, the IMF, the World Bank & other western financial powerhouses in the past have used these - and many other purely financial parameters - to sit on judgment on developing nations, ignoring the socio-economic contexts of their predicament. Post the Second World War, when a number of new nations emerged in Africa & Asia, they had many a battle in their hands, most of them stemming from the complexities rooted in the colonial heritage that they had suddenly been saddled with. But, the Western financial institutions with their pontificating pronouncements had been liberal in their criticism of the way these new economies were coping with their multiple challenges & were quick to either offer their strong remedies or worse, became hyper-critical when their advice was ignored.

The global scenario today has changed. While the United Kingdom has an election at hand to occupy them with, the United States too has largely been watching the 'Greek ash' effects from the sidelines. It is too embroiled in its own domestic battles right now to want to worry about the state of affairs in Europe. So, besides making a few noises expressing their concern, they are not taking any substantial steps right now. Besides, there is a tension of sorts between the Chinese economic policy makers and the American decision makers. While foolish and reckless steps can never be ruled out from either side that could escalate economic tension, one continues to believe that sober and wiser counsel will prevail.

For those of us who are in India, watching others affected by economic pain gives us no pleasure. What is more ironic is that those who offered pat solutions from the market in the past, are today left wringing their hands in a state of confusion on how to close the economic imbroglio in a happy manner.

All I can say is that it would be good to have an early end to the European financial crisis, as all of us are looking forward to the end of this sequence of sad events which are chapters from a D-grade movie studio. To strike a philosophical note - of non-economic origin - 'this too shall pass'!

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