

Postcard **Greece: Cease and desist**

- *It is time to cut Greece and its demoralised people some slack*

Caveat emptor

I begin this postcard with a health warning. I am not a dispassionate observer of Greece. My wife's family is Greek, and I have been visiting the country regularly since 1975. Greece and its people mean a lot to me, and its current predicament cuts deep.

Greece's crisis was unnecessary

Economic and financial crises have frequently intervened – over thousands of years – to deliver setbacks to Greek civilisation. And relative to some of the more violent and traumatic episodes in antiquity, the events of recent years are perhaps of relatively minor consequence. Yet we should not make light of them. Modern economic management, political governance, and social welfare must perforce be held to a higher standard than those of the distant past: and what is so galling is that Greece's latest economic catastrophe, unlike many before it, was avoidable.

Lies, damned lies, and statistics

Bad habits provoked a remorseless response

The brazen manipulation of national statistics, near-ubiquitous 'clientelism', and reckless mismanagement of the public finances in the run-up to the crisis of the past eight years were all no doubt inexcusable. So was the way that certain perks and benefits were viewed by a majority as an inalienable right. But the unyielding policy of austerity imposed on the economy and its population since is, I would venture, equally, if not more, unjustified.

There has been more than a tinge of the gratuitous about the straightjacket of policy. It has been economically and politically illiterate, and, moreover, it has simply not worked. There is no meaningful evidence of cyclical recovery, and the unemployment rate remains not far short of a quarter of the workforce.¹ In short, this is a country with an economy that is acutely depressed, and a people who are browbeaten, humiliated, and divided.

I would go further. Greece is at least at some risk of becoming a failed state – and a failed state at the increasingly critical eastern edge of EU and NATO influence. In the event of a global downturn, or another major international shock, I would fear the consequences. It is time for a new, more sympathetic, strategy.

I spent much of a week in Athens and its environs, practicing what former Bank of England MPC member David Blanchflower once described as the 'economics of walking about' – in short, keeping my eyes open, and listening and talking to people.² No doubt, anecdote can be dangerous and misleading, encouraging unduly narrow and unscientific conclusions. But with the perspective of 30-odd years as a professional macroeconomist, it can also tell you a good deal that any number of published surveys, reports, and official statistics cannot. In particular, it can provide insights into a national psyche.

Necropolis

A once proud capital is in a state of precipitous decline ...

Athens today is a shadow of its former self. It is down at heel and grubby. Even the central bank and other public buildings look shabby. There are more graffiti than traffic markings. The roads and pavements are pot-holed and crumbling. Street-lighting is intermittent at best, even on main thoroughfares. Rotting, foetid, garbage is piled on every street corner. About one-in-four shops or offices in the centre of the city are shuttered, although many appear to be occupied by squatters. Discount stores predominate. There are beggars and panhandlers on every corner, and they seem either to be disturbingly young or painfully old. Living on the street is now commonplace. Drug deals are conducted in the open, as well-heeled tourists amble by.

Outside the city, it was as if every other factory or industrial facility had closed. The shops, where they were still open, were sparsely populated. Groups of old men congregated in cafes for hours around a single coffee or glass of mineral water. Even some of the country's remarkable archaeological ruins were off-limits because of a lack of cash to maintain them.

... but the sense of doom and despair is ubiquitous ...

Talking to the locals, whose language skills, political awareness, and general education often put we Brits to shame, there was an overwhelming sense of despair. The young saw little or no future at home, and wanted desperately to leave. The old hanker after lost certainties, not least where their pensions are concerned, and saw little alternative to hunkering down and 'make do and mend'. Faith in Alexis Tsipras's left-wing government, and in political class as a whole, was shot.

Brussels, Germany, and the IMF were the butt of almost universal vitriol. The European ideal was either vilified or ridiculed, yet most feared the even greater uncertainties of any future outside the euro. The concern was that, were Greece cut adrift from the rest of Europe, its situation would become even more desperate.

Finally, despite often using public transport and staying in budget accommodation, I still found the country surprisingly expensive. This may in part reflect the new eye-watering 24% VAT rate, or the post-Brexit referendum fall in the sterling value of my income. Equally, however, I have rarely had such a strong sense of a country in such desperate need of a large currency devaluation.

**... as unrelenting
austerity bites**

All this is what happens when an economy contracts by around a quarter in short order. This is what happens when an advanced economy is subject to the most draconian tightening of fiscal policy on record – equivalent to some 17½ percentage points of potential GDP since 2009.³ This is what happens when an economy is saddled with a chronically over-valued real exchange rate, and its domestic markets lack the flexibility to adjust. This is what happens when narrow, externally imposed, issues of financial accountancy are allowed to over-ride macroeconomic common-sense and, indeed, common humanity.

Enough already ...

**Greece desperately
needs a new deal**

So: enough. It is time to move on. No one, not even the vast majority of Greeks themselves, would suggest that Greece be granted a 'free lunch'. There would have to be quid pro quos. But the requirement is for a new approach. The international community, and in particular the rest of Europe, if it has any humanity, must come together further to restructure Greece's still onerous debt, utilise an environment of historically low long-term interest rates to help it rebuild and modernise its crumbling infrastructure and over-stretched public services, and cut businesses and consumers some much-needed slack. A more flexible and sympathetic attitude to fiscal management would surely also encourage a greater willingness to embrace much needed structural reform. At the very least, it can hardly have a worse record in this regard than the recent programme of unbridled austerity.

The birthplace of modern culture, society, and democracy deserves a better deal. But more to the point, if it does not get one, the risk is that we all pay the price. Political extremists and Europe's enemies, whether in the Middle East or elsewhere, are the only beneficiaries of the awful trials and tribulations of the status quo.

¹ Real GDP expanded 0.3% q-o-q in Q2 2016, but contracted 0.4% in y-o-y terms. Unemployment in May was 23.5%.

² Blanchflower. D., *'Recent developments in the UK economy: the economics of walking about'*. Bank of England 30 May 2007. <http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2007/speech310.pdf>

³ IMF Fiscal Monitor April 2016. Table A3. Advanced economies: general government cyclically-adjusted balance, 2007-21.

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