



## ECONOMIC VIEWPOINT

Notes by Danny Leipziger, Professor of International Business

### A Greek Economic Drama Without Heroes

So much has been said about the Greek economic disaster that our circuits may be overloaded. What hasn't been said openly is that the draconian program that is being forced on Greece has a very slim chance of success. Some, like Professor Barry Eichengreen, have been more blunt, and the IMF has finally mustered the courage to note that without debt relief there is no chance of success. Where one begins is with a definition of success. In my book, it means economic growth that starts to reverse the six-year decline in GDP that has shrunk the Greek economy by more than 25 percent. Is the currently envisioned program able to achieve this? The answer is unfortunately a resounding no.

It has been clear from the start that without an independent monetary or exchange policy, and with tight fiscal constraints imposed by creditors via the troika (i.e., the ECB, the IMF, and the EU), the only way to promote growth would theoretically be through improved efficiency. Without new investment and with a deteriorating economy, however, no such efficiency gains are possible. The reforms demanded by the European Union, led by Germany, could possibly be helpful if the economy had some forward momentum; however, it has no such dynamism. Hence the supposed reforms in labor and product markets will not achieve much.

Tax collection can certainly be improved, but raising the VAT on tourism, the last vestige of comparative advantage that Greece enjoys, will be counter-productive. Trying to sell state assets, not a bad idea in principle, in a depressed market will bring little and will not solve the

enormous debt burden that overhangs the country. The German-led program is therefore more intended to punish than to actually work, an irony not lost on those who studied the reparations saga in post-WW I Germany. And yet, the succession of inept Greek governments has to shoulder a large part of the blame as well. An inefficient and bloated public sector, ludicrous tax collections, and privileges for many are all legacies of failed public policy.

Those left to suffer are the Greek people. True, some benefited from the excesses of the past, but many more are suffering now from the depression that has gripped the country. EU member states spending billions on foreign aid may ask why not provide food aid to Greece. Those institutions like the EIB investing billions in upgrading already solid European infrastructure should be obliged to invest in Greece. Of course, no one wants to be alone in the challenge of re-starting economic growth in Greece. So how would all parties know that their efforts might lead to a solution? Only if the IMF plays its proper role instead of kowtowing to European leaders will a viable economic plan for Greece emerge. Leaving the Euro is certainly an option, as the German finance minister has said, but the decision should not be based on coercion or false referenda, but rather on a clear-headed assessment of what might actually work for the Greek people. So far, this has not happened.

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