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HELLENIC STUDIES

LA CRISE GRECQUE
THE GREEK CRISIS

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Reinventing Greece: from Crisis to Opportunity

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RÉSUMÉ

La crise grecque, qui a débuté en 2008 a des causes profondes à la fois internes et externes. Les causes externes semblent être prédominantes tandis que les facteurs internes ont agi en tant que mécanismes aggravants. À bien des égards la Grèce peut être considérée comme un patient d'une épidémie de l'économie mondiale qui a été déclenchée par le capitalisme financier mondial non réglementé. Si ce diagnostic est valide les solutions à la crise grecque doivent impliquer à la fois des initiatives européennes et celles purement grecques. L'auteur propose la «réinvention» d'un ordre du jour multifacettes pour transformer la crise en opportunité qui pourrait être valable à la la Grèce et d'autres pays qui souffrent de problèmes similaires.

ABSTRACT

The Greek Crisis which started in 2008 has deep internal and external causes. The external causes seem to be predominant while the internal factors have acted as aggravating mechanisms. In many senses Greece can be considered Patient One in a world economic epidemic which has been triggered by unregulated global financial capitalism. If this diagnosis is valid the solutions to the Greek Crisis must involve both European and purely Greek initiatives. The author proposes a multi-point 'reinvention' agenda to transform the crisis into opportunity which could be valid both for Greece and for other countries suffering from the same problems.

Greece has been in the news for the better part of three years now and has been the butt of strong criticism and even some cruel ridicule. A great deal of attention has been paid to accusations of massive tax evasion by Greeks, government corruption, alleged laziness, excessive statism and a top heavy bureaucracy.

For the first couple of years, it has been, overall, a public relations nightmare for Greeks and philhellenes. Among the popular jokes: On Saturday Night

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Live, the half Greek hostess Tina Fey claimed she asked her grandmother how to say taxes in Greek only to get answer 'the word does not exist in the Greek language.' In another skit, someone complained that the lazy contemporary Greeks want to forever live off the royalty "just for having invented civilization." Greek statistics have been decried as the epitome of falsehood and a Greek minister once said that the Greek public transportation system was so inefficient that it would be cheaper for the state to sell all trains and transport individuals by taxis!

Gradually, in 2011 and 2012, the suffering of the Greek people, who have been subjected to the most severe austerity measures ever experienced by a modern country in peace time, was brought to the attention of the world public. The derision and accusation turned, in some circles to sympathy and commiseration. Even at the level of sophisticated economic analysis Greece has been described by some, like economics Nobel prize winners, Paul Krugman and Joseph Stiglitz as a 'victim' rather than a 'culprit'. This alternative perception has been strengthened by the growing realization that what happened to Greece is also happening in other European countries. Spain, Italy, Ireland and even France have exhibited symptoms of the alleged 'Greek Disease" which could not be attributed to the various media indictment of Greece proper, mentioned above.

Today, there are, in effect three schools of thought regarding the nature of the Greek Crisis.

- *The first focuses on internal* causes and attributes all the blame to Greek misgovernance. At the limit are the self-flagellators, some of which see structural flaws in the Greek character going all the way back to Ancient Times.
- *The second concentrates on external* causes arguing that the design flaws of the euro zone, are the real culprits of the Greek Crisis and that therefore the solution to Greece's problem must be European. At the extreme, some analysts point to serious problems with the global financial system, beyond Europe and the euro-zone as the root causes of the crisis.
- *The third school of thought will argue the middle position with nuances.* One variant is to claim that the root causes are primarily internal and just aggravated by an unfavorable global economic business cycle. The other variant is to claim the opposite namely that the root causes are external and that the internal flaws are merely aggravating conditions.

In the face of this confusion as to Hype vs Facts, we have three objectives in this paper:

1. Try and indeed pinpoint the *root causes* of the Greek predicament in a consolidated diagnosis, by balancing internal and external variables
2. Determine whether present strategies are working
3. Outline a path to 'reinvention' which is both desirable and feasible.

I. Consolidated Diagnosis: Balancing the Internal and External Factors

The Internal Causes

The advocates of a purely internal explanation of what is happening in Greece, usually focus on the top five flaws in the Greek governance model:

Laziness

Greeks have been accused of being lazy and that they prefer to sit at the kafeneio all day, drinking coffee and playing tavli rather than working hard like the Germans do. How true is this stereotype?

In 2009, when the Greek Crisis broke out, here are the OECD Statistics on the average number of work-hours per year per employed person in the OECD member states. (OECD YEARBOOK 2011)

- Korea: 2232 (the hardest working country of them all).
- Greece 2219 (the second hardest working country).
- The US came down at 1788, the UK at 1643, France at 1554 and... Surprise, surprise, Industrious Germany at 1398!!

Can these numbers justify the accusation of laziness?

Greece's output per head is however not high. This is not because of laziness but because of the absence of capital equipment which reduces productivity per person and supports a plea for 'working smarter' rather than working longer... and inefficiently. The French, by the way, who have an even higher demand for leisure than Greeks still maintain, one of the highest productivity per hour scores in the entire world. They work less but they indeed, work smarter. Greeks work more but with weak results.

Beyond Greece proper, the average Greek emigrant in the rest of the world is known to be hard working, whether in the restaurant business or in other fields and the so called 'laziness' completely absent. The Greek Diaspora, by and large performs much higher than its numbers would suggest and the average Greek emigrant abroad is usually quite successful, economically speaking.

Tax Evasion

Tax evasion is the most obvious fault and indeed it is rampant. But what seems to be particular to Greece is not the extent of tax evasion, but the fact that it is done so openly and without any subtlety at all. In fact some Greek doctors have been found actually bragging about how they have managed to elude taxes for many years.

In other countries tax evasion is much more covert. It may take the form of creative accounting, moving profits offshore and declaring deficits at home or the use of tax havens. Within the OECD World there are at least two well known tax havens, Luxembourg and Switzerland and attempts at dealing with unfair tax competition have not fully succeeded. I remember that, in my time as Canada's ambassador to the OECD, (1995-1999) these attempts did not succeed. Tax havens are an integral part of the world economy and are used by the fabled global '1%' to reduce or entirely eliminate their taxes.

Besides the flight of capital to tax havens, the taxation codes in most Western countries create so many loopholes that, with a good fiscal lawyer and a creative accountant, the members of the top 1% can get away with paying very little tax. In fact Mitt Romney, candidate to the US Presidency at time of writing, has managed to pay a much lower tax rate, over the years, than the US middle class. Warren Buffett, the third wealthiest man of Earth has remarked that he pays less tax than his secretary and has openly declared that he would be pleased to pay much more.

In Western Europe, tax avoidance (by legal means) and tax evasion (by illegal means) is seen as a sort of a sport: if you can get away with it, so much the better. If, on the other hand, you get caught you pay the penalties. Besides, in the ultra conservative credo, *not* paying taxes is seen as a worthy political goal. The U.S Tea Party is the most obvious example of this philosophy, inspired by the original Boston Tea Party, protesting British taxation in the 18th century and one of the key forces behind the American Revolution.

In Greece tax evasion seems to be motivated by lack of trust in government and also by the importance of the Informal Economy which may account to, up to a quarter of Greek GDP. The Informal Economy is very present in many countries and may be as much as 40% of the GDP in countries like Russia. Consisting of barter exchanges and non monetized transactions, it is not as such always illegal, but it invariably will reduce tax revenue. When a Greek housewife pays an Albanian cleaning lady, under the table, it is a form of tax evasion but of different scale than the tax avoidance of a billionaire stashing away his profits in a tax haven. The same is true of the small restaurant owner who tries to reduce his visible revenue by not issuing receipts. This behavior is reprehensible but not to the point of being a decisive explanation of The Greek Crisis. Large scale tax evasion by the billionaires is indeed costly but the 'informal economy practices' of the ordinary citizens has a smaller impact.

All told, we can offer two conclusions:

1) Tax avoidance and tax evasion are not Greek inventions. They exist almost everywhere.

2) The tax avoidance/evasion by members of the top income bracket does hurt the Greek Economy as it hurts other economies too. But to believe that a crackdown on informal economic exchanges between ordinary people is the fundamental cause of the present Greek debacle does not seem to be supported by the facts.

Incompetent and / or Corrupt Politicians

One of the reasons why Greeks are reluctant to pay taxes is because they perceive their politicians as either incompetent or corrupt, or both. But here, more or less the same analysis can be made about corruption i.e. the bribing of government officials in order to get advantages or special benefits.

This is a worldwide disease. The term 'bakshish' is an Arabic word, not a Greek word and the practice of 'bakshish' is prevalent throughout the Middle East and Asia and parts of Latin America. In many of these countries, corruption is so prevalent that it has become a *modus operandi*, a way of doing business.

What is interesting to note is that although corruption is obviously morally reprehensible, it is not *per se* a cause for economic slowdown or stagnation. Quite on the contrary. Two of the most successful economies in the world today, China and India are considered among the most corrupt. This corruption has not however reduced their growth rates.

This is not to say, that we should defend corruption in any way or other, but it does mean that because (a) it is, like tax evasion, a worldwide phenomenon and (b) it does, in itself reduce economic growth, it cannot, be held as a key factor in explaining the Greek Crisis, even though it may well be an *aggravating* circumstance.

Bureaucracy

The Greek Bureaucracy is indeed bloated and particularly inefficient. It competes with the worst bureaucracies in the Developing World and is an obvious blot of Greece's image. Red tape is multiplied in order to create gridlock which can then be eliminated with an appropriate 'bakchish'. In this instance the accused stands convicted with no extenuating circumstances. However here again, bureaucracies all over the world tend to be inefficient and yet growth rates in all these countries with such inefficient bureaucracies still vary widely.

Statism

Statism has often been invoked as a cause of Greek economic failures on the grounds that the Market always performs more efficiently than the State. While it is true that Statism has stifled growth in Greece, through the combined effect of bloated bureaucracies, over-regulation and completely misguided policies, the general statement that 'privatization is the answer' is not necessarily any more convincing. There are two reasons for that.

First State-directed economic development pioneered as far back as the 17th century by Jean Baptiste Colbert in Louis XVIth reign and generically known as Colbertisme, has been successful in many countries. The use of PPPs (Private Public Partnerships in infrastructure construction in France has been very profitable. In addition during the fifties and sixties French indicative planning has led that country to very high economic growth rates. More recently, two of the most dynamic of the 'BR ICS' countries, China and Brazil use special forms of state directed enterprise to achieve spectacular results. One must therefore conclude that although Greek Statism has been an obvious failure, the 'Statist' strategy when intelligently applied can in some cases lead to very high growth rates. For those who doubt this proposition should just compare the presently anemic growth in the free market US economy with the extremely high economic expansion in state directed China.

Second, privatization alone could lead *not* to more market competition and therefore better resource allocation but instead to *uncontrolled private oligopolies*. This is what happened when Russia moved from Capitalism to Communism. State enterprises were privatized which made their former managers instant billionaires who could then use their oligopoly power to increase prices and profits to the detriment of the consumer - with even more opportunities for graft, corruption and exploitation.

Privatization of state enterprises that are losing money is a good idea but those which could be making money, under better management should not necessarily be sold but rather restructured.

The External Causes

If the causes of the so-called Greek Disease were entirely internal, they would be of very little interest to the rest of the world. Greece would be declared a basket case and just be expelled from Europe, not legally, because no expulsion mechanism exists either in the Euro Zone or the European Union itself, but by political pressure. Greece, with only 3% of the Euro Zone GDP and less than 2% of the EU GDP is frankly too small to bother anyone. A Greek default would be of little consequence, unless, as is the case, there would be a clear danger of contagion. Such danger is indeed present which clearly means that other countries share the same vulnerabilities as Greece.

In Europe, Spain, Portugal, Italy, Ireland and even France and Britain have variants of the Greek Disease. In fact, if we travel across the Atlantic we will discover that the State of California has a debt predicament which is technically worse that Greece's. California has a $1.9 trillion dollar GDP (in 2011) which is about six times the size of Greece's. Yet the projected California state deficit is actually larger as a ratio to its GDP than Greece's. Yet no one talks about the California Disease and there are no plans to expel that state, which would be the seventh largest economy in the world, from the dollar zone or from the United States.

Broadly speaking almost all Western countries and sub-national governments have variants of the Greek Crisis, i.e. high indebtedness, high unemployment, low growth and a stagnant economy. This invites an investigation as to what are the common denominators and whether the Greek Crisis in spite of the internal causes, mentioned above, is really such a special case.

The consolidated diagnosis which we make, based on the facts could then be stated as follows:

- *Greece is Patient One of a global economic disease which reached epidemic proportions after the 2008 financial crisis.* There have been first patients in most global epidemics like AIDS, Bird Flu etc. As Patient One, it received experimental treatments which, as we will argue in the next section are failing miserably.
- *The internal causes, identified above are aggravating circumstances* but are not causal for two reasons. (a) Other much better managed countries have fallen prey to the same disease (b) The misgovernance identified in the five

internal flaws examined above, is not new and have been part of the Greek way of doing things, probably since 1821 and the war of independence from Turkey and certainly, since the Second World War. Yet in spite of that Greece has managed high growth rates before the Crisis and even praise for the IMF.

As an aside it may well surprise the reader to discover that Greek growth rates were highest during the 1950s, often exceeding 10%, close to those of a modern "tiger economy". Industrial production also grew annually by 10% for several years, mostly in the 1960s. Growth initially widened the economic gap between rich and poor, intensifying political divisions. The term "miracle" is actually little used in Greece.

The rapid recovery of the Greek economy from 1949 was facilitated by a number of measures, including (in addition to the stimulation, as in other European countries, connected with the Marshall Plan) a drastic devaluation of the drachma, attraction of foreign investments, significant development of the chemical industry, development of tourism and the services sector in general and, last but not least, massive construction activity connected with huge infrastructure projects and rebuilding in the Greek cities.

In total, the Greek GDP grew for 54 of the 60 years following WWII and the Greek civil war. From 1950 until the 2008 economic crisis, with the exception of the relative economic stagnation of the 1980s, Greece consistently outperformed most European nations in terms of annual economic growth.

What is the Nature of the Global Economic Disease?

What then is the nature of this so-called Global Economic Epidemic? Its manifestations center around three '*symptoms*': (a) a dangerous inequality in income distribution (1% vs. 99% etc.), (b) a sizeable public sector indebtedness, and (c) long-term unemployment which is not resolved by economic recovery. The last symptom will not be extensively discussed in this essay, but is fully covered in Book One of my Corfu Trilogy, a forthcoming book.

Public Sector indebtedness affects most of the Euro-Atlantic Region and parts of Latin America, Asia and Africa. As for the revolt against inequality, there are no less than 80 countries in the world today with variants of a protest movement against the '1%'. In some countries, they are inspired by the Indignation Movement which started in Spain in the Spring of 2011, and in others with the Occupy XXX trend which started as an anti-Wall Street protest and spread to other targets.

If these are the symptoms, what then are the *causes*? My contention is that the principal cause of the first two symptoms, dangerous inequality in income distribution and public sector indebtedness is a *mutation of traditional capitalism* from entrepreneurial *win-win* to parasitic win-lose.

The classical capitalism, as envisioned and lauded by Adam Smith was supposed to be win-win and symbiotic. Let's call this version S-Capitalism for symbiosis.

The newer version is decidedly *win-lose* and parasitic. Let's call it P-Capitalism. Essentially it is a winner-takes-all game where a minority wins big and everybody else loses.

One variant of the new parasitism goes under the name of 'vulture capitalism.' With the growth of financial derivatives and credit default swaps, there is considerably more money to be made from *predatory* loans than from building value added through entrepreneurship. For instance, financial derivatives allow for quick effortless money, since all that is involved is a few computer transactions and nothing more. There is no production, no inventory, no payment to workers, no marketing.

As an example, a hedge fund manager recently made 5 billion dollars in one year, without producing anything in particular. In contrast, a hard working middle manager earning $100,000 a year, a good salary to be sure, would have to work fifty thousand years to match the earnings of the hedge fund manager. If he starts in 2012 he will reach his goal in the Year 52,012!

Under these conditions, why would anyone bother with traditional business, production schedules, personnel administration etc. Or, for that matter, in this age of very low interest rates, why would a rational amoral speculator waste his time with the piddling returns of bonds and normal shares when a killing can be made by the default of the borrower and the takeover of his assets. Such default can either be hoped for or, in some cases, actually engineered.

This is the very nature of a *predatory* loan. All that it requires is three elements: (1) A lender willing to lend in full expectation of a probable default by the borrower (2). A willing borrower (either too naive to realize what is going on, or corrupt, as in the case of public borrowing where the minister in charge in the receiving country, gets his cut and (3) Lax regulation or, even its complete absence, at the global level, allowing for all sorts of excesses.

At the private level, predatory loans were at the heart of the subprime mortgage crisis which provoked the 2008 Financial Crash. At the public level, many believe that, in the case of Greece, the complicity of Goldman Sachs and others in promoting and hiding Greek indebtedness was the root cause of the current Greek debacle.

But whatever the cause of this global epidemic, P-Capitalism and predatory lending, has now led to *massive toxic indebtedness,* where the borrowers can no longer repay the loans.

In the case of Greece, the blame game can be left to later. But, in my own view, without exonerating or excusing the serious lapses in Greek internal governance, I would tend to lay the blame more on the external causes. The internal mistakes, as important as they were and still are, should be seen as *aggravating factors*, increasing the vulnerability of the country, and not as *causa*l.

II. Are Current Strategies Working?

In March 2012, the second Greek bailout was concluded and the private bond holders agreed to a restructuring of the Greek Debt. This was considered a good outcome. However, the bailout came with a heavy string attached: more painful austerity - not for the next six weeks or the next six months, but for the next eight years until 2020. For the hapless Greeks there was no light at the end of the tunnel, but, yet another and even darker tunnel following the first one. Greek politicians were telling their constituents, *don't complain about present austerity measures now. Wait until later this year for the real ones*.

In such circumstances who's to say that the Greek voters will not reject these measures in the next general election, in the next year or two as the full impact of this punishing medicine is felt?

Is Greece an isolated case? If so, the damage could be easily contained and Greece could just be asked to leave the Euro Zone, even though no legal expulsion mechanism currently exists. But, let us note that Spain, Italy, Portugal, the UK and France are all adopting versions of this austerity approach and, depending on the results of its elections in November, the US could as well. Even if Obama wins (and he has proved himself quite a Keynesian in favor of stimulus packages rather than austerity), a hostile or dysfunctional Congress, dominated by the conservative Republicans would also impose austerity.

A chorus of politicians of many stripes has been singing the praise of austerity from the same song book. The popular verses:

- Fiscal consolidation is a priority

- We must rein in profligate governments
- We have been living above our means and this has to stop
- No pain, no gain

In contrast, two Nobel Economics Laureates, Paul Krugman and Joseph Stiglitz, have taken strong positions against austerity, arguing that it is the wrong strategy applied at the wrong time. Stiglitz even went so far as to suggest that the austerity strategy was a sort of suicide pact between governments.

Which is it then? Is Austerity a bold and necessary strategy or a huge blunder, a prelude to 'Apocalypse' if not now, then quite soon?

To analyze this issue we adopt the Socratic Approach: take nothing for granted and challenge all assertions. Above all, we must begin by asking the right questions. In our view there are three fundamental questions to be posed.

1) **Is Austerity fair?** Are the perpetrators who have created the indebtedness being punished, or is the burden unfairly borne by people who have not really benefited from the loans?

2) **Is it working?** Whether fair or unfair, is it working? If we take the cynical point of view that Life is unfair anyway and some people have to be sacrificed, are the sacrifices worthwhile or are they – like the Mayan executions of virgins at Chichen Itsa, (supposedly to bring rain) – both cruel and useless?

3) **Is it Needed?** Are there less painful, more palatable, and perhaps more effective alternatives to get rid of Public Debt?

1. Is Austerity Fair?

The criterion of fairness in this case should be simple: *those who have been profligate should pay the bill, in proportion to their profligacy.*

Let us apply this criterion to Greece.

A first component of the Greek Public Debt Problem is to identify *who benefited* from the borrowing. The answer seems clear: a relatively small circle of wealthy entrepreneurs took the lion's share of the booty, including illegal kickbacks and outright corruption. Much less was obtained by the population at large, which did however benefit to some extent, from increased economic activity up to and around the 2004 Olympics.

True, Greece has a sort of a welfare state, distributing some income to everyone through government programs. But the welfare programs were never outrageous. The celebrated '14 months salary' for 12 months work, often used to malign Greek workers, only meant that the annual salary was divided by 14 payments rather than 12. It could have been divided by 52 or 365 without changing the total value of the remuneration. As far as the latter is concerned, Greek salaries have been much lower than other European wages even though prices in Greece have risen to Western European levels following the introduction of the euro.

So the Greek standard of living has remained quite low and the dual society of very wealthy millionaires and lower-class poor is now very much part of the Greek socio-economic landscape.

A second component of the Greek Public Debt has been tax evasion. The major culprits were the elite, living at luxurious and protecting their income through either false reporting or placing their assets in tax havens outside Greece.

The general public also evaded taxes, but to a much smaller degree, through informal transactions, barter deals, not declaring payments to Albanian cleaning ladies, under-reporting receipts by taverna owners, etc. These amounts were not of a nature to make or break the system. The Informal Economy, self employment and family ties have always been major features of Greek society and were never a major problem, at least never big enough to provoke the collapse of the economy.

If the Austerity strategy had been applied to everyone in proportion to their profligacy, there would be a degree of fairness. Instead, the most vulnerable have been targeted through:

1) reduction of the minimum wage by 22%

2) reduction of pensions, already quite low by European standards

3) important increases in value added and consumption taxes

4) laying off of thousands of civil servants

5) reduction of general benefits, etc.

The result of all this pain has been an extreme case of **demoralization** for the entire population, an important increase in emigration (reminiscent of the Irish emigration after the famine), high suicide rates, despair among the young and the drying up of both national and international investment.

There is a feeling that the population at large has been abandoned by the ruling class and that the European Union has indeed treated Greece as a defeated enemy.

In summary: a lot of pain for the middle and even more for the lower classes (with the reduction in minimum wage), a complete loss of national *élan vital* on a scale not seen even during the German Occupation in the Second World War and, above all, nothing to look forward to - other than more pain.

2. Is Austerity Working?

What has all this pain brought? An improvement in public finances? Expected 'gain' after the 'pain'? Better global competiveness?

Unfortunately, none of the above. Here are the results.

Very Poor Economic Performance

Greece's fourth consecutive year in recession ended with a GDP decline of 7.5 percent in its last quarter. Total consumer spending fell 7.9 percent in the October-December period compared with the same quarter in 2010, while gross capital investment dropped by 22.2 percent. Even exports posted a 6.1 percent decline year-on-year.

With unemployment at 21 percent in December, the industrial output index fell by 11.3 percent in the same month from December 2010. The retail turnover index shrank 10.2 percent in 2011 from the year before, the wholesale trade turnover dropped in the last quarter of 2011 by 20.3 percent from the same quarter in 2010, and the volume of construction activity declined in November by 26.6 percent from November 2010. (figures from *Kathimerini,* Greek daily, March 2012).

A Worsening of the Debt to GDP Ratio

The principal metric chosen by the Troika to measure the seriousness of the public debt is the Debt-to-GDP ratio. Government debt is the numerator and the gross domestic product the denominator. Note that only public debt is measured. Private debt which is much lower in Greece than the OECD average is ignored. Individual Greeks are savers, unlike their US and Canadian counterparts. The public debt is the problem in Greece - not the private debt.

Did this indicator improve after the imposition of Austerity? No, it went the other way. In 2009 the Debt/GDP ratio was *109%*. After the application of the harsh austerity measures and the demoralization of the population, where did it stand at the end of 2011: At *160%*. In other words it worsened considerably.

What now is the best case scenario envisioned by the Troika's econometricians for 2020 after eight more years of sweat, toil and penury? - a Debt-to-GDP ratio of *120%* or, in other words, a less favorable number than before austerity was introduced.

Why has Austerity not Reduced the Debt-to-GDP ratio?

The failure of austerity to reduce public sector indebtedness may surprise the casual observer. After all, if you cut expenses and raise revenue you should reduce debt and deficits. Unfortunately it does not work that way in public finance for two reasons.

First, government spending appears twice in the ratio. It is the main part of the numerator but it is also a significant part of the denominator, the GDP. The GDP is nothing more that the sum of C+I+G where C is private consumption expenditures, I is investment by private sector firms,and G is government spending. To complete the equation we could add X – M, where X stands for exports and M for imports. So the full GNP (Gross National Product) is C+I+G+X-M.

If G is reduced and C+I does not take over the slack, then the denominator will fall even more than the numerator and the dreaded ratio will increase. Since public sector expenditures account for between 20 and 40% of the GDP in most countries, a drastic reduction of these expenditures needs to be compensated by a higher increase in private consumption and investment.

Otherwise the net effect is counterproductive and will lead to a worsening of the ratio. An expansion of exports and a reduction of imports could also increase GDP but that assumes an international competiveness which Greece does not have now. The overvalued euro handicaps its main export, tourism, in comparison with its non-euro zone rivals, Turkey, Croatia etc.

Second, governments are not like private corporations and attempts at confusing the two are counterproductive. If a private sector corporation wants to balance its books, in addition to expenditure reduction, it can try and increase its revenue by selling more. Governments cannot do that, because they *are not supposed to sell anything*. State corporations are the exception, but they are not part of the core function of government. Besides, in the Greek case, most state corporations are operating at a loss and are a further drain on the public purse.

Increasing revenue can only be achieved through taxes. Here there are two obstacles. First if economic activity goes down, taxes go down. You cannot get blood out of a stone. Second, if the tax payer no longer trusts the government, as is presently the case in Greece, tax avoidance, tax evasion and general civil disobedience become the rule. The movement '*then plirono*' ('*I will not pay*') is gaining momentum and apparently, in one case, even tax collectors have gone on strike! The Public is withdrawing its consent to be governed,

When governments reduce their spending and the economy is depressed the total GDP has to go down not up.

It follows from the above, that when the population is demoralized, and increasingly penniless, to try and promote growth through austerity is an impossible proposition.

Could we be moving to the celebrated situation: *Gentlemen, the operation was a brilliant success.. but unfortunately the patient died…*?

3. Is Austerity needed?

Challenging a Basic Premise of Conventional Wisdom

That we are living through a period of serious economic crisis, worldwide is undeniable. It is indeed 'The Economy Stupid' that is the main issue, at least in the West.

But what most people fail to understand is that there are two very different types of economic crises. (1) A true *Scarcity* Crisis and a (2) *Mismanaged Abundance* Crisis.

In the first instance, there is penury, poverty, not enough to go around, as in the case of a famine or a natural disaster which has destroyed factories, infrastructure, etc., or after a war. Scarcity has been the plight of Humanity for most of history, and economics itself is nothing more than the science of the management of scarcity.

But is this what we are facing today, or are we challenged by an opposite situation of abundance, which is very badly managed? Is there really not enough to go around? The historical evidence is as follows:

There is huge misery in the world today but it is essentially due to a *distribution* problem not a production problem. There is more than enough to go around, but because of certain factors this affluence is very badly distributed.

The three fundamental questions of economics are usually formulated as follows:

1) *What* to produce, (shoes, ships, sealing wax, etc. - the pure production problem)

2) *How* to produce (the technology problem)

3) F*or Whom* to produce (the distribution problem).

The production problem (i.e. sufficient output for all), has been gradually resolved since the Industrial Revolution. The World Economy's capacity to produce in 2012 is unparalleled and absolutely huge. *We are talking about a $75 trillion GWP (Gross World Product)- the highest ever in all of History.* Even divided by 7 billion human beings, the per capita output is still unequaled in any previous historical period.

The $75 trillion world economy, of which close to half is produced in the Euro-Atlantic Zone, the geographical area supposed to adopt austerity holus bolus, is itself a fraction of the real total output. The GWP is underestimated in three ways.

First, it does not take into account the Informal Sector, which is not mediated by market mechanisms and which includes people producing for themselves (the producer-consumer or 'prosumer' as Alvin Toffler once called her), barter trades, invisible transactions, etc. In the case of Greece, Italy and Russia, the Informal Economy may account from between a quarter and a third of the GDP equivalent.

Second, the computation of GWP is done via exchange rates of different currencies, not purchasing power parity, which would tend to underestimate the economic production of low-wage areas.

Third, and perhaps most telling, is the fact that neither the national GDP nor, *a fortiori*, the GWP, adequately measures improvements in the quality of products. The common denominator is the *dollar* value of what is produced. If we produce a computer in 1980 which is valued at $5000 while the 2012 equivalent is valued at $1000, the GDP appears to fall. In actual fact the 2012 computer is many thousands of times more powerful than its ancestor, but since the common denominator of all products is money, we have the illusion of decline.

Bringing these three factors together means that the real world production is even considerably higher than the $75 trillion.

What is also interesting to note is that these $75 trillion are produced with a *fraction* of the world labor force since around 30% of the workers of the world are either unemployed or underemployed. With full employment, the production possibility curve for the world would be greatly increased.

Above and beyond economic statistics, the anecdotal evidence points to a huge *abundance* of goods and services, not scarcity. The dollar stores are bursting at the seams with inexpensive products. The traditional department stores are also full of inventory, more expensive than that in the dollar store but still very affordable.

In the service industry there are offers of services galore and Apple Corporation and its developers are offering an 'app' for almost everything. There have been $70 billion worth of apps downloaded, and more cell phones produced than there are people in this world.

In the financial world there is also immense liquidity. Apple Corporation sits on a cash reserve of $100 billion and growing. The Asian sovereign funds hold huge liquidity and, if needed, the central banks of the world can create all the money needed to match the economy of abundance which characterizes the world today.

Where then is the Scarcity? There is of course ecological scarcity and a limit to our consumption of non-renewable energy and resources. A reduced consumption of these non-renewable resources and the climate change that this consumption engenders is obviously a good idea.

But, we should note that 80% of what we consume today is composed of non-material goods (services, entertainment, information goods, etc.). These non-material goods have a low impact on the environment and can be expanded almost with impunity without incurring ecological risk.

The threat of ecological scarcity is real, but is definitely not the reason why Austerity is imposed in Greece and soon elsewhere. It is imposed on the mistaken assumption that there is not enough to go around when, in fact, there is more than enough, a plethora, a smorgasbord an all-you-can-eat buffet of economic goods and services.

What we really have is a global economy separated by a social fracture. On the one hand we have the Buffet Economy, all-you-can-eat, enjoyed by a global elite. Sitting in apposition is a Soup Kitchen Economy characterized by deprivation, poverty and want. During the Great Depression, the starving unemployed were lining up to receive free soup in community soup kitchens, which had become the symbol of poverty. This image is again reality in many countries today.

What Paul Krugman calls *Depression Economics* is actually the mismanagement of abundance. Unemployment is one symptom of this mismanaged abundance where consumers have no purchasing power to buy the goods that are being produced and offered to them. This is quite different from scarcity or famine situations where there is really not enough to go around.

Confusing the two is like confusing obesity with anemia. To reduce the eating habits of an obese person makes sense. To starve an anemic patient does not.

Returning to the question "Is Austerity Needed?" the answer must be that it is not, unless the abundance that we have been describing is totally illusory.

Is the No Gain without Pain mantra valid?

This oft-used homily has been invoked to justify wage cuts and other deprivations imposed upon the lower and middle classes. Is it credible?

First, although there may indeed be some circumstances where short term pain is necessary to obtain longer term gain, the statement has no universal validity. It belongs to what I would be tempted to call the *masochistic school of success*: the more you suffer the more you will succeed. Its corollary is that the less you suffer the less you will succeed. If you enjoy your work, you will be doomed to fail.

This may be the philosophy of Opus Dei monks who supposedly self-flagellate daily for purification purposes, but it is not a good indicator of critical success factors in either economics or life in general.

The men and women who have improved the lot of mankind, artists, philosophers, innovators, entrepreneurs ... have all loved what they were doing with a passion. It is difficult to imagine, Michel Angelo, Mozart, or even Steve Jobs, experiencing pain to produce the immense value added they have given society.

In addition, suffering is by no means a guarantee of success as you can envision situations where pain is followed by more pain with no gain whatsoever, which many feel is where Greece is headed.

Second, we have to ask 'whose gain and whose pain'. In many cases under the catch word 'restructuring', the lower classes are impoverished so that corporations can post more profits. Why would a worker vote for such a system? Everything is confused when one says '*the austerity worked because the country is exporting more*'.

Who benefits from these exports? If it's the shareholders of the exporting corporations at the expense of the workers within them, is that not just a Pyrrhic victory? Slave economies produced low cost goods which could be exported. They were 'competitive'. Is this what we are looking forward to, quasi-slaves at subsistence levels to raise the profits of exporting corporations, who could, by the way, still shield their gains in tax havens?

Applied to public debt reduction, 'no pain no gain', is contradicted by historical evidence.

The time-tested debt *killers* have been economic growth (usually good for everyone if well distributed) and/or rising prices.

The time-tested debt *exacerbators* have been depression and deflation (falling prices).

These were indeed the lessons, from the Great Depression of the 1930's where the austerity measures caused it to worsen and placed the Western economies in a death spiral, which led to the rise of Hitler and ultimately World War II.

III. Reinventing Greece

A Seven Point Agenda

As a conclusion to this paper we can outline the main items of a reinvention agenda in point form, with the understanding that such a reinvention strategy could be developed and refined at a later date.

Our starting point, based on the diagnosis above is that the solution to the Greek problem should be partially Greek and partially European. A Greek solution alone would be insufficient because of the proposition which we have made to the effect that Greece's problem is part of a global disease and not an isolated case.

Let us start with the European level agenda.

1. An Intelligent Development Strategy for Europe

The entire Euro-Atlantic Region including both the European Union and the United States is suffering from a lingering depression. Growth rates are weak or negative, unemployment is high and there is a prevailing general pessimism. What is needed is not just a stimulus package, where money is just made available to banks at low rates, but extensive infrastructure and other growth-promoting activities. Some have even called for a Europe-wide Marshall Plan similar to the original one, which was major factor in rebuilding the continent after World War II. Whether it is a full Marshall Plan or a more modest equivalent, an overall strategic plan is needed for successful European growth and development.

2. Allow the Euro to fall back to par with the US dollar

The Euro is way above its purchasing power parity. If it were to fall to the level of the US dollar, the Euro Zone nations would receive a major boost. Their exports would become more competitive and there would be a decrease in imports from non-euro zone areas. There is no reason in the world to try and hold the Euro at 1.20 to 1.50 US cents as it has been in the last few years.

Those who fear a more affordable euro, should be reminded of 2002 and the introduction of the common currency. After starting out at par with the US dollar it went down to 83 US cents. The sky did not fall, the European economy continued to thrive and people had jobs. At today's inflated exchange rates, the entire zone places itself at a huge competitive disadvantage and follows the opposite of the Chinese strategy which was and is to bank on a cheap Yuan.

A cheaper euro would also be to the advantage of Germany and its exports to the rest of the world beyond the euro zone.

3. A European Central Bank with New Powers and Responsibilities

The European Central Bank has a very limited mandate defined by treaty: just control inflation.

A normal central bank such as the Federal Reserve in the US, the Bank of England or the Bank of Canada, has a much larger mandate. This may include, growth promotion, job creation, lender of last resort, etc.

Because of the limitations of the Treaty creating it and because of the exaggerated fears of inflation by the Germans who have the greatest say in its policies, the ECB cannot do much more than what it is doing.

With an expanded mandate it could, instead, help monetize the European economy, put purchasing power in the hands of consumers (instead of just banks as it is now) and alleviate the debt burden by buying up toxic public debt.

It could replace the current high interest bonds by low interest long term bonds. Britain, for instance, is experimenting with a 100- year bond. At one point, some countries had 100-year mortgages with only interest to be paid annually. Long term bonds at low interest tend to be absorbed by economic growth and have proved to be win-win for all.

This kind of monetary trigger would almost surely lead to major European growth while being a very palatable and painless alternative to the present austerity programs.

4. An Intelligent Development Strategy for Greece

Greece is a country much better endowed with resources than is generally believed. Although it does not possess large natural resources it possesses location advantages at the confluence of Europe and Asia which are considerable. Its pleasant climate and welcoming geography should have been a magnet for footloose high technology companies. Silicon Valley in California, Sophia Antipolis in the South of France have succeeded in attracting advanced technological firms with major positive impacts. In addition, solar and wind power should be harnessed to much better use.

Instead of basing a development strategy just on tourism and real estate, much more innovative approaches could be imagined.

5. Proactive Stance as Opposed to Last Minute

One of the structural weaknesses of the Greek 'DNA' so to speak, has been an obsession with the present rather than thinking proactively about the future. In fact, as one observer has pointed out, the word 'proactive' is difficult to translate in Greek.

Long term thinking which, is at the center of Chinese and Japanese cultures seems to be relatively absent in the Greek culture. The obsession with televtaia stigmi (last minute) has led to unfortunate missed opportunities. A much longer time frame is indeed needed.

6. Promoting Teamwork vs Excessive Individualism

Another cultural trait of Greek Civilization, dating all the way back to ancient times is the focus on individualism, hero worship and the relative absence of teamwork. From the Trojan War to modern times, the propensity of Greek entrepreneurs, innovators, soldiers and political leaders has been to act singly or in very small groups.

The large community based initiatives and collective action which belong to the Northern European ethos (Germany, Scandinavia etc.) and the Asian cultures (China and Japan) are largely absent in Greece. Only when the country is faced with a major external threat (a foreign invasion etc.) does it really come together. In normal times, excessive individualism prevails which turns out to be a major brake for sustained development. It is to be hoped that the gravity of the present crisis will promote much greater teamwork and the end of political bickering.

7. Better Use of the Greek Diaspora

A number of countries have extensive migrant populations abroad known as diasporas or omogeneia in the Greek case. These diasporas also include Armenians, Lebanese, Chinese, Jewish populations living abroad, who end up helping the mother country's development. The most successful of these diasporas is the Jewish one which functions as a permanent support for Israel both economically and politically.

Israel, with a natural endowment similar to that of Greece, and perhaps even less generous, has managed to hoist itself in the circle of highly developed nations at the vanguard in many technological fields, vital to development. This has been done, in part, with the full cooperation of the Jewish Diaspora abroad.

The Greek Diaspora has not been as well harnessed for various reasons. The emigrant transfers to Greece have mainly gone to tourism, real estate and to fund some foundations. Industrial development has not been very extensive. The Omogeneia should be used more extensively and proactively. It could become a major contributor to Greek economic development.

General Conclusion

Let us briefly review the main conclusions of this paper

At the diagnostic level we have offered the opinion that the present Greek socio-economic crisis is a particular instance of a global disease marked by unregulated finance, predatory lending and a very unequal distribution of income, worldwide and in Europe. The internal factors of bad governance, tax evasions, corruption and heavy bureaucracies have been aggravating not causal factors. The proof of this proposition is that (1) Greece's weak internal governance has existed for many years before the present crisis and has not, per se impeded Greek economic growth and (2) that other countries whith much better internal governance systems (Spain, Italy, Ireland) have still fallen sick, so to speake with the Greek Disease and its variants.

The remedies then must take into account the interplay of external and internal forces. The above seven points, in a reinvention agenda are avenues to explore for the sustained renewal of Greece. A reset mechanism is needed and a proactive strategic plan is needed.

The present crisis is indeed severe but Greece has successfully dealt with other crises in her past even more threatening than this one. We are confident that, if there is a will, the current travails can be dealt with and the country can return to prosperity and growth.

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