IMF Staff Report Blames EU for Mishandling Greek Crisis

The report from the International Monetary Fund is remarkable in its candor: Efforts to bail out Greece were fumbled as the IMF, the European Commission, and the European Central Bank all tried to promote their own agendas with little regard for the lowly Greek citizen. Happily the disclaimer appeared on the front page: “The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of Greece or the Executive Board of the IMF.”

That said, the staff noted that the purpose of the Greek bailouts in 2010 and 2011 was to “restore market confidence and lay the foundations for sound medium-term growth through strong and sustained fiscal consolidation and deep structural reforms, while safeguarding financial sector stability and reducing the risk of international systemic spillovers.” In that single sentence, the staff exposed the various agendas and conflicting purposes and goals, making their accomplishment virtually impossible. It was like trying to drive a bus to opposite parts of a city, simultaneously, by a committee. It failed miserably, and the real lesson to be learned was never even mentioned: Let the owner of the bus drive it.

Let’s parse those objectives: First, “restore market confidence.” The only way that can happen is if the market is left to its own devices, letting individuals make their own personal decisions about how best to direct their own lives, with a minimum of government interference. That would never be allowed to happen in Greece.

Next, “Lay the foundations for sound medium-term growth through strong and sustained fiscal consolidation and deep structural reforms.” This is IMF-speak for temporarily slightly lower government spending and increased compliance with Greece’s perverse income-tax laws. However, income-tax evasion in Greece is widely accepted as a national pastime. As a percentage of the total economy, the underground economy in Greece is more than three times larger than in the United States and it takes four times as much government effort to collect taxes from those above ground as it does in the United States. It’s part of the culture of corruption in Greece.

Next, “Safeguarding financial sector stability.” This means saving the banks from the consequences of lending to a deadbeat country by forcing taxpayers to ante up by bailing them out.

Next, “Reducing the risk of international systemic spillovers.” Contain the Greek meltdown and keep it from infecting other deadbeat countries such as Spain and Italy.

The IMF failed on most accounts, according to its staff’s report:

> There were notable failures. Market confidence was not restored, the banking system lost 30 percent of its deposits, and the economy encountered a much-deeper-than-expected recession with exceptionally high unemployment.
>
> Public debt remained too high and eventually had to be restructured….

> Competitiveness improved somewhat on the back of falling wages, but structural reforms stalled and productivity gains proved elusive.

The initial bailout in 2010 was granted even though the IMF knew that it couldn't trust the Greek government's numbers. Those numbers were fraudulent from the beginning of its entry into the eurozone, and they remained fraudulent until the time of the crisis. Those numbers, however, allowed banks to lend and governments to borrow as though they were real. The fabric of lies and deceit began unraveling in December 2009 when the credit rating agency Fitch cut Greece's long-term debt, and it's been all downhill ever since.

The lesson learned, according to the IMF staff, is that nothing was learned. The first bailout was insufficient and required austerity measures, an increase in taxes, and the sell-off of some government property in order to make the numbers work. The IMF knew, even then, that the numbers wouldn't work, so it fudged its own numbers by softening its own requirements, called "exceptional access," in order to fund Greece's runaway debt. When the austerity program began to be implemented, employment dropped along with gross domestic product. Said the IMF staff:

> Greece has been able to remain in the euro, but the recession has been deep with exceptionally high unemployment. The [bailout] did not restore growth [or] regain … access [to the international bond market] as it had set out to do.

After 50 pages, the conclusion from the staff at the IMF is clear if not stated: Three people driving a bus to conflicting locations, simultaneously, can't work.

At present the European Union seems oblivious to the obvious and continues to make fantastic predictions that the crisis in Greece is over. As noted by the Levy Institute in its interim report, "Current Prospects for the Greek Economy,"

> According to the EC [European Commission], the recovery [in Greece] should come from a strong increase in [private] investment … as well as exports … while imports would remain stable…. Government expenditures are expected to keep falling….
>
> These numbers are, of course, wishful thinking.

There simply is no solution, according to the institute. Given the enormous debt that is nearly twice the country's economic output and the risk premiums demanded by potential buyers of additional Greek government debt, the institute concludes:

> No solution is feasible if the cost of borrowing, for both the private and the public sector, remains above the growth rate in income, which is now negative.
>
> Moreover, since Greece's net debt is now entirely a credit held by foreigners, servicing the debt implies a net transfer of a large share of income out of the country, with obvious consequences for aggregate demand.

There is one lesson to be gleaned from the IMF staff's report: When it comes to joining the eurozone, or not, *it's easier to stay out than to get out.*

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