

Greece and the 'cold logic' of markets

An expert on Greek public policy and institutions, London School of Economic's Kevin Featherstone says that international markets are looking to George Papandreou to take firm action

By George Gilson

GREECE will avoid the bankruptcy its critics are predicting but it must take extremely painful additional measures this year and beyond, London School of Economics professor Kevin Featherstone told the *Athens News*.

An expert on Greek public policy and institutions, Featherstone (*photo*) stressed that the markets are, for better or worse, the most important judge of the Papandreou government's success in handling the crisis.



"There is a referendum on the Greek economy," Featherstone said. "It's called the international financial markets. They vote every day - and at the moment they are not satisfied."

Core issue

While accepting Prime Minister George Papandreou's assertion that many attacks against Greece actually aim to devalue the euro, he argued that Greece's weakness remains the core issue.

"The problems of Greece do not stem from the evil intent of foreign financial markets, but rather from domestic structural problems accumulated over many years," Featherstone said. "Markets behave with a cold logic of seeking and protecting profit. If they recognise a weak link, as Greece is now, they attack it. Greece should not comfort itself by saying, 'It's simply the evil foreign investors.'

"Greece cannot ignore the constraints of the financial markets, as it needs to borrow such huge amounts," he added. "The financial markets make judgements about the likelihood of Greece being able to put its house in order."

Featherstone insisted that Papandreou must prove his measures are adequate to deal with the crisis, as international audiences have heard the same talk from previous governments. He said that after a slow start that included "confusing action" such as reversals on specific tax measures, the Greek government has shown it understands the problem and is taking "some very good action".

But as Featherstone put it, "this is only the second round in a continuing contest."

'A good start'

The government, he added, "has made a good start in educating the Greek public about the severity of the crisis and [Finance Minister Yiorgos] Papakonstantinou's actions so far are a good start in tackling the crisis."

Featherstone views the government's strategy of trying to build alliances with other eurozone countries as sensible, but notes the tough groundwork must be done at home first.

"If a government is too weak to face the power of the international financial market, you circle the wagons and try to

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get partners to defend your position. But they too will want to see that Greece is taking sufficient action itself."

In the peculiar dialogue between the government and markets, measures showing that fiscal balance is being effectively pursued are paramount.

Among the painful actions that must be taken this year is pension reform, "an issue left over from the past that cannot be put off".

As for the mix of taxes and budget cuts, Featherstone noted that successive governments have found it politically easier to tax than cut the budget by implementing unpopular measures such as reducing the size of the civil service or curbing pension rights and privileges.

"Ultimately, Greece cannot simply carry on increasing taxes because you have problems of international competitiveness."