

opinion



Lessons of a Greek tragedy

Barry Eichengreen
Athens

A visit to Greece leaves many vivid impressions. There are, of course, the country's rich history, abundance of archeological sites, azure skies and crystalline seas. But there is also the intense pressure under which Greek society is now functioning — and the extraordinary courage with which ordinary citizens are coping with economic disaster.

Inevitably, a visit also leaves questions. In particular, what should policymakers have done differently in confronting the country's financial crisis?

The critical policy mistakes were those committed at the outset of the crisis. It was already clear in the first half of 2010, when Greece lost access to financial markets, that the public debt was unsustainable. The country's sovereign debt should have been restructured without delay.

Had Greece quickly written down its debt burden by two-thirds, it would have been able to shed its crushing debt overhang. It could have used a portion of the interest savings to recapitalize the banks. It could have cut taxes, rather than raising them. It could have jump-started investment and gotten its economy moving again, if not in a matter of months, then, with luck, in no more than a year.

In its official post-mortem on the crisis, the International Monetary Fund now agrees that debt restructuring should have been undertaken earlier. But this was not its view at the time. Under the leadership of Dominique Strauss-Kahn, the IMF was in thrall to the French and German governments, which adamantly opposed debt relief.

The European Commission, for its part, has rejected the IMF's *mea culpa*. Preoccupied by the state of the French and German banks, it continues to argue that

delaying debt restructuring was the right thing to do. It has no regrets about throwing Greece to the wolves.

Given this opposition, the Greek government would have had to move unilaterally. Hindsight suggests that the authorities should have done just that. Faced with foreign opposition, the government should have announced its decision to restructure as a *fait accompli*.

Clearly, there would have been risks. The "troika" — the IMF, the European Commission, and the European Central Bank — might have refused to provide an aid package, forcing Greece to compress imports even more sharply.

The ECB might have cut off emergency liquidity assistance, forcing the government to impose capital controls and even consider abandoning the euro.

But by acting preemptively, Greek leaders could have shaped the dialogue. They could have said to their EU colleagues: "Look, we have no choice but to restructure what is clearly an unsustainable debt. But make no mistake, our preference is to remain in the eurozone. We are committed to reforms. Given this, don't you agree that we are deserving of your support?"

Making a compelling case would have required Greece to get serious about those reforms. The government could have started by bringing together employers and unions to negotiate an equitable burden-sharing agreement, including an across-the-board reduction in wages and pensions, thereby getting a jump on internal devaluation. This could then have been complemented by a simultaneous agreement to restructure private debts. With everyone accepting sacrifices, it might have been possible to reach an accord on liberalizing closed professions and on comprehensive tax reform.

Instead of working together with its social partners, the government, heading the

troika's advice, dismantled the country's collective-bargaining system, leaving workers unrepresented. Greece thus lacked a mechanism to negotiate a social compact to cut wages, pensions and other obligations in an equitable way. With every vested interest fighting for itself, closed professions proved impossible to pry open. Doubting that there would be shared sacrifice, those same interest groups were unable to negotiate meaningful tax reform.

With the Greek government thus failing to push through structural reforms, it was unable to earn the trust of its creditors; and, skeptical that the government was committed to reform, the troika demanded a pound of flesh, in the form of front-loaded austerity, as the price of assistance. Those front-loaded tax increases and government-spending cuts plunged the economy deeper into recession, making a farce of claims that the public debt was sustainable — and forcing the inevitable debt restructuring after two more agonizing years.

Greece is now seeking to make the best of a difficult situation. It is attempting to breathe life into the campaign for structural reform. It is lobbying the troika for further debt relief. But the damage will not be easily undone. Past mistakes, committed not just by Greece, but also by its international partners, make a difficult short-term future unavoidable.

It is important that other countries draw the right lessons. If they do, Greece's brave, beleaguered citizens can at least take comfort in knowing that many people elsewhere will be spared the same unnecessary sacrifices.

Barry Eichengreen is a professor of economics and political science at the University of California, Berkeley. © 2013 Project Syndicate (www.project-syndicate.org)

A U.S. 'pivot' to Latin America is long overdue

Kevin P. Gallagher
Boston

The Obama administration and U.S. media have made much ado about the U.S. "pivot" to Asia. What has largely escaped their attention, however, is that China has been lining up economic allies in the erstwhile "backyard" of the United States.

Just as serious competition ought to awaken one's creative juices in business, it is time for the U.S. to step up a suitable economic policy for Latin America before it is too late.

The difference in approaches by the U.S. and China in Latin America were squarely brought into focus recently when U.S. Vice President Joseph Biden and Chinese President Xi Jinping made tours of Latin America.

The U.S. principal offer to its Latin American neighbors is the Trans-Pacific Partnership. The TPP offers U.S. market access to Latin American and Asian nations on the basis of a triple form of conditionality.

First, they must deregulate their financial markets; second, adopt intellectual property provisions that give preferences to U.S. firms; and third, allow private U.S. firms to directly sue governments of countries that sign up to the TPP for violating any of its conditions.

Talk about a heavily conditioned offering. So what's the Chinese approach? On his visit to the region, Xi offered more than \$5.5 billion in financing, with few conditions attached, to its newfound Latin American friends. These offers will need to be confirmed, but according to press reports the Chinese have signed deals on this trip for:

- \$3 billion in commitments to eight Caribbean countries for infrastructure and energy;
- \$1.3 billion to Costa Rica in loans and lines of credit, including a \$900 million

dollar loan from the Chinese Development Bank for upgrading a petroleum refinery and a \$400 million dollar line of credit for road infrastructure from the Chinese Ex-Im Bank; and a

- \$1 billion credit line from the China Ex-Im bank to Mexico for its state-owned oil company PEMEX.

Making available this financing comes on top of the already \$86 billion in financing provided by China to Latin American governments since 2003. Granted, that amount — large as it sounds — seems just like another number in today's world.

To put it into proper perspective, consider this: Since 2003, thus over the past decade, China's policy banks have provided more finance to Latin America than their counterparts at the World Bank, the International Development Bank and the U.S. Export-Import Bank.

If anything ought to awaken the U.S. from its past slumber and taking Latin America essentially for granted, that comparison ought to do it. Simply put, the U.S. and the array of largely Western-dominated international financial institutions have been outgunned by China's financial muscle. Welcome to the brave new world!

But it's not just a matter of sheer numbers. Unlike U.S. trade treaties or the finance from the international financial institutions largely under U.S. control, China offers up its loans come with few strings attached.

In a region that is understandably very sensitive to any notions of conditionality due to painful past experiences with the IMF and the World Bank, China makes sure that its policy is not based on conditionality.

That said, the Chinese don't lack a strong commercial focus. Often times the Chinese provide a tied offer — requiring that Chinese firms will be hired to conduct a bulk of the envisioned project work.

What is more, the U.S. offer of a Trans-

Pacific Partnership to all of the Latin American countries in the TPP process doesn't amount to much in the real world. They already have trade treaties with the U.S. that grant them access to the U.S. market.

In just a few years, China has become the number one (in the case of Brazil and Chile) or number two trading partner (for Peru and Mexico). These aren't just any countries. They are the most important economies in Latin America.

Of course, the U.S. is still the most important economic partner for the region overall. However, it cannot continue to take the region for granted.

For too long, the U.S. has relied on a rather imperial mechanism — just telling Latin America what it needs. Compare that to China's approach: It offers Latin America what it wants (in the form of financing and trade) from China.

When President Barack Obama took office, he and his team pledged to hit the reset button with the region and rethink its trade regime with Latin America. It hasn't worked out that way. Thus far, "reset" has essentially meant making the same old offer, but via new faces.

In addition, too much of the interaction with regional governments has been on such efforts as concentrating on drug interdiction purposes. Those countries rightfully don't see that as much of a growth-enhancing development approach, but rather as a foreign-based, defensive mechanism to protect the U.S. homeland.

Given all that, it is high time for the U.S. government to undertake a true rethink of its economic policy toward Latin America. Very soon, it may be too late.

Kevin P. Gallagher is a professor of international relations at Boston University. © 2013 The Globalist Research Center, Washington

G-8 commitment can benefit all nations

Paul Collier
London
THE OBSERVER

Although the Group of Eight has often been used for gestures, it affords a rare opportunity for common action by the governments of major countries. Manifestly, there have been serious deficiencies in global economic governance. By addressing them the G-8 can help not only ourselves, but the people struggling in the world's poorest countries. This has been Britain's agenda as host of this year's G-8.

At the top of the agenda has been taxation. Tax cooperation has not kept pace with the internationalization of business and the innovations of corporate lawyers and accountants. Treaties designed to avoid double taxation now deliver double non-taxation. The resulting tax avoidance reduces fiscal revenues and provides an uneven playing field for business. At a time of national austerity, it is essential for us to address this problem.

But the problem has been shared even more acutely by poor countries where there is a gulf between the capacities of companies and of tax authorities. If all the companies operating in Africa paid reasonable taxes, most countries would no longer need our aid. Closing all the

loopholes cannot be done overnight. But this G-8 aspires to deliver clear political commitment from heads of government, linked to sustained technical cooperation.

The United Kingdom is not just holding a meeting; it is launching a revolution in corporate transparency. Governments are being asked to do what it takes to achieve workable common standards.

The commodity booms ushered in a decade of discovery: Britain now has previously unknown potential for gas. But most of the new discoveries are in the poorest countries. This is a huge opportunity, but it carries commensurate risks. The history of resource extraction in poor countries is predominantly one of plunder. Resource extraction companies are not just producers; they are custodians of the natural assets that belong to citizens.

Being responsible for other people's assets, they are analogous to banks. We have learned that banks must be regulated to higher standards than ordinary companies, and the same applies to resource extraction.

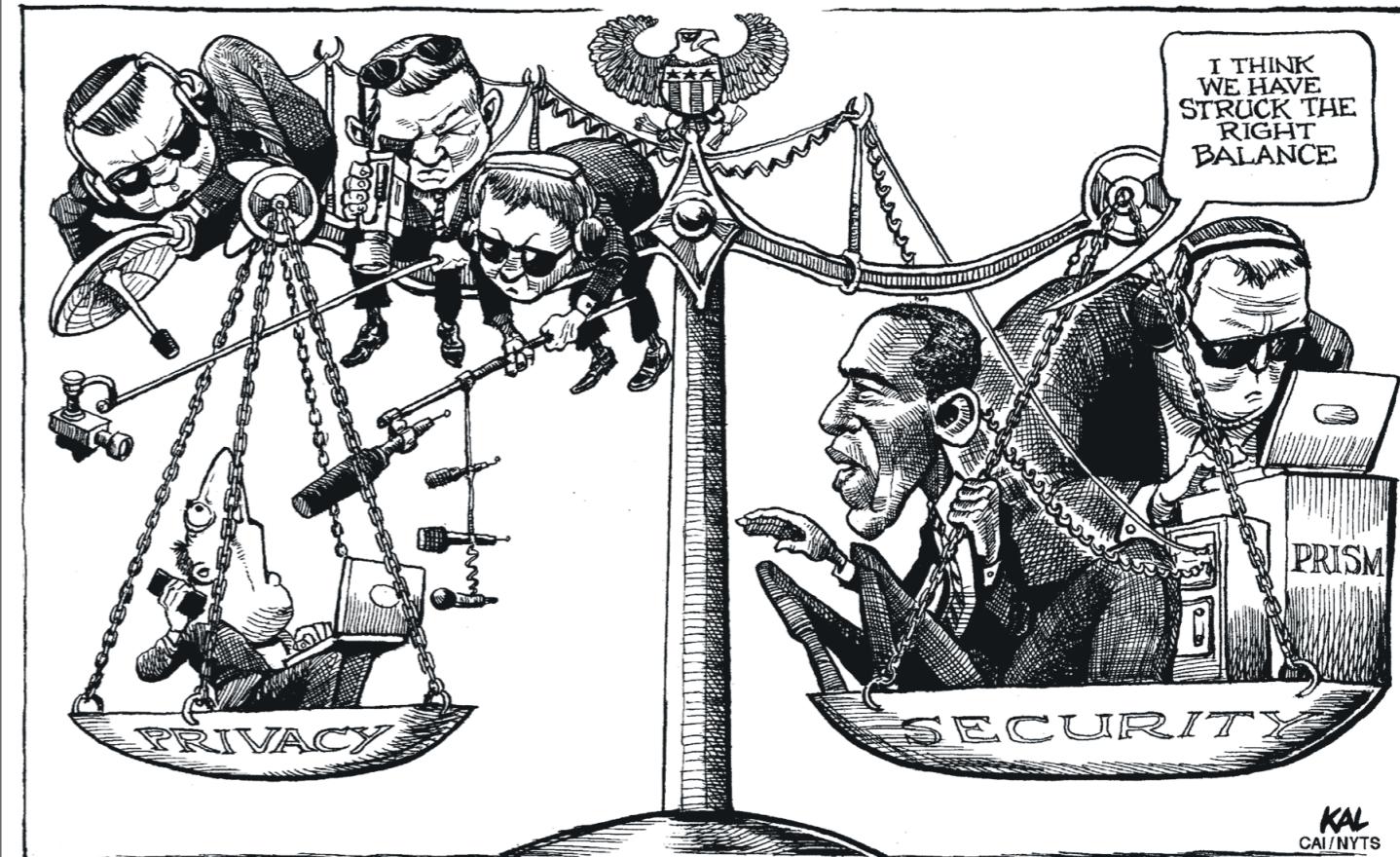
There is also scope for more transparency not just in resource extraction but across government, and not just in poor countries but in the G-8. If governments need to know more about citizens, then citizens must know more about government. Information technology is

radically lowering the cost of opening government to scrutiny. The G-8 can showcase the new opportunities and launch partnerships between rich and poor countries that put them into practice.

Trade is the archetypal process of mutual benefit. But the arteries of trade depend upon infrastructure that in poor countries is utterly inadequate. Western investors have judged it too risky. Meanwhile, China has occupied this space uncontested. Yet through more strategic cooperation between existing organizations, the G-8, the African Development Bank and the World Bank can substantially reduce the risks, enabling African infrastructure to be market-financed.

The agenda for this G-8 is not glamorous. Nor can any of these issues be fixed overnight: the intention is to launch an unstoppable process of change. But, by putting their house in order, the G-8 will make a material difference to the lives of the poor while also benefiting its own citizens.

Paul Collier is professor of economics and public policy at the Blavatnik School of Government, Oxford University. He has been advising British Prime Minister David Cameron on the G-8 agenda



Putting to rest five myths about personal privacy

Daniel J. Solove
Washington
THE WASHINGTON POST

The disclosure of two secret U.S. government surveillance programs — one involving phone records and the other personal data from Internet companies — has sparked debate about privacy and national security. Has the government gone too far? Or not far enough? How much privacy should we sacrifice for security? To discuss these issues productively, some myths must be dispelled.

1. *The collection of phone numbers and other "metadata" isn't much of a threat to privacy.*

Don't worry, argue defenders of these surveillance programs: The government is gathering innocuous data, not intimate secrets. "Nobody is listening to your telephone calls," U.S. President Barack Obama declared. Intelligence agencies are "looking at phone numbers and durations of calls; they are not looking at people's names, and they're not looking at content."

But "metadata" about phone calls can be quite revealing. Whom someone is talking to may be just as sensitive as what's being said. Calls to doctors or health care providers can suggest certain medical conditions. Calls to businesses say something about a person's interests and lifestyle. Calls to friends reveal associations, potentially pointing to someone's political, religious or philosophical beliefs.

Even when individual calls are innocuous, a detailed phone record can present a telling portrait of the person associated with a telephone number. Collect millions of those records, and there's the potential to trace the entire country's social and professional connections.

2. *Only secret surveillance can protect us.*

The administration and intelligence agencies have been quick to defend the classified status of the phone and Internet surveillance programs. "Disclosing information about the specific methods the government uses to collect communications can obviously give our enemies a 'playbook' of how to avoid detection," said Director of National Intelligence James Clapper.

National Security Agency Director Keith Alexander went further: "grave harm has already been done by opening this up." Presidents Obama and George W. Bush have both perpetuated this myth.

Of course, if the government is trying to gather data about a particular suspect, keeping the specifics of surveillance efforts

secret will decrease the likelihood of that suspect altering his or her behavior.

But secrecy at the level of an individual suspect is different from keeping the very existence of massive surveillance programs secret. The public must know about the general outlines of surveillance activities in order to evaluate whether the government is achieving the appropriate balance between privacy and security.

What kind of information is gathered? How is it used? How securely is it kept? What kind of oversight is there? Are these activities even legal? These questions can't be answered, and the government can't be held accountable, if surveillance programs are completely classified.

With the phone and Internet programs, it isn't clear that sufficient protective measures are in place. The president and security officials assure us there are, but without transparency, we can't really know.

3. *Only people with something to hide should be concerned about their privacy.*

In the wake of the leaks about government surveillance, writer and privacy supporter Daniel Sieradski started a Twitter account with the handle @nothingtohide and has been retweeting variations on this myth. A typical tweet: "I don't care if the government knows everything I do. I am fully confident that I will not be arrested."

When privacy is compromised, though, the problems can go far beyond the exposure of illegal activity or embarrassing information. It can provide the government with a tremendous amount of power over its people. It can undermine trust and chill free speech and association. It can make people vulnerable to abuse of their information and further intrusions into their lives.

Even if a person is doing nothing wrong, in a free society, that person shouldn't have to justify every action that government officials might view as suspicious. A key component of freedom is not having to worry about how to explain oneself all the time.

4. *National security requires major sacrifices in privacy.*

Obama invoked this myth this month when he said, "You can't have 100 percent security and then have 100 percent privacy and zero inconvenience."

The implication is that those upset about surveillance fail to recognize that we must trade some privacy for security. But usually it's not either-or. As Obama himself said in his 2009 inaugural address: "As for our common defense, we reject as false the

choice between our safety and our ideals."

Protecting privacy doesn't need to mean scuttling a security measure. Most people concerned about the privacy implications of government surveillance aren't arguing for no surveillance and absolute privacy. They'd be fine giving up some privacy as long as appropriate controls, limitations, oversight and accountability mechanisms were in place.

This sentiment was evident in the public outcry over the Transportation Security Administration's use of full-body X-ray scanners that displayed what looked like nude images of airline passengers. No one wanted to end airport security checks. They wanted checks that were less intrusive. Congress required the TSA to use less-intrusive software, and the agency ended up switching to different machines.

5. *Americans aren't especially bothered by government intrusions into their privacy.*

"The public is just fine with government snooping in the name of counterterrorism," read one Washington Post headline this past week. Indeed, a Post and Pew Research Center poll found that a majority of Americans prioritized the investigation of possible terrorist threats over the protection of personal privacy and considered it "acceptable" for the NSA to use secret court orders to access phone records to investigate terrorism.

Yet the same poll showed that the public was more closely divided on whether "the U.S. government should be able to monitor everyone's email and other online activities if officials say this might prevent future terrorist attacks." And a Gallup poll found that only 37 percent of Americans approved of the NSA obtaining phone records and Internet communications as part of efforts to investigate terrorism, while 53 percent disapproved.

I would expect polls to show even more support for privacy if it weren't falsely pitted — in public debates and in poll questions themselves — against stopping terrorist attacks. We don't have to choose between preserving privacy and preventing terrorism. We do have to decide how much oversight and accountability there should be when the government conducts surveillance of its citizens.

Daniel J. Solove is a law professor at George Washington University, the founder of the privacy and data-security training company TeachPrivacy and the author of "Nothing to Hide."