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Out of Africa:

Perspectives on the European Debt Crisis

By Daniel R Wessels

Dear Father,

Greetings from London, where everyone is talking about "cuts". Just like those times when you battled with the International Monetary Fund and the World Bank. Remember that day when two young men came to your office? It was their first visit to Africa. They were clever. One worked for the bank, the other the fund. You were permanent secretary in education. They wanted to talk about cuts: in the civil service, in health, in education, in state-owned corporations, everywhere, cuts. You came back to our house that night very angry.

"These clever boys with their structural adjustment programmes, they will make life very hard, they will destroy a generation," you told Mother at dinner.

Here in England, there is the same talk, same words, same ideas.

"And perhaps same results," said cousin Didymus. Our English friend Anthony, who wants to go to university, did not laugh. "Not funny," he said.

Thank goodness, the IMF and the bank don't bother us in Africa as much as they used to. Instead they now watch Ireland.

Who, by the way, is on the African Union delegation that will advise the Irish on "stakeholder ownership and grassroots participation and thorough consultation"? I hear they will meet Bono, who will lead supermodels, popstars and BBC newsreaders in an appeal to "Drop Ireland's Debt".

Anthony tells me there will be an airlift to Dublin of aid experts, development consultants and cross-cutting specialists, even. He says he might join them, and do a year off pre-university in Ireland.

In their last letter to me, my sister and brother asked me to explain these cuts in England. I will try. Some things I know they will not believe, but they are true. Other things are very difficult to explain, and I myself am still learning. When I asked my lecturer in sociology to explain things, he said "poverty is relative". This means . . . well, I am not sure.

But first, much has happened since I left home and came to study here. It is costing more than we thought. But I am lucky. Very lucky. I have work at McDonald's. They pay me the minimum wage, £6 an hour. Some of my English friends call this a "rubbish" rate. I think this is why very few English students are working at McDonald's.

I tell them that in a single weekend, working overtime, I earn what my youngest brother is paid as a security guard, for one year.

Now let me answer about the "cuts". People are very afraid of the cuts, especially "savage cuts", that will come soon. Every day they are crying. I have listened carefully.

These are some of the things I have learnt. This part of the letter, my family, you may not believe. But I promise you, it is true.

First, in this country the government pays people to have children. One thousand pounds! Yes, I know - that is the average income of our people!

One thousand! For every child. Every year. Until they are 18.

Didymus says you are not to tell Uncle Tangwenya. Already he is father to seven. If he were promised money for making his children, he would come to London and no woman would be safe, says Didymus.

My sister Patience asked me if it was true that children in England did not have to walk to school. This is correct. If a child lives more than three miles from school, the council must provide transport. By taxi, even! Yes, that is the law.

But there is great fear that the cuts could end this. Other things may be cut. The children of my neighbour are very lazy, and are still sleeping when they should be at school. Yes! Sleeping! Even though they have a proper college with books and teachers, and classrooms with windows, with glass in them.

But if they arrive each day on time, they get paid! Yes! Twenty pounds a week. Just for getting to their college on time. They call it the "education maintenance allowance".

At home, when you are sacked, you can starve. In this country, never. Never! There are "redundancy payments" and "unemployment benefits" and training schemes.

Didymus told me to ask my sociology teacher: "Is hunger relative, just like you say poverty is relative?"

Didymus said I must write what Kenneth Kaunda said after years of cuts in Zambia: "The medicine was so strong it killed the patient."

Anthony was very interested. "Are the people in Zambia still hurting?" he asked.

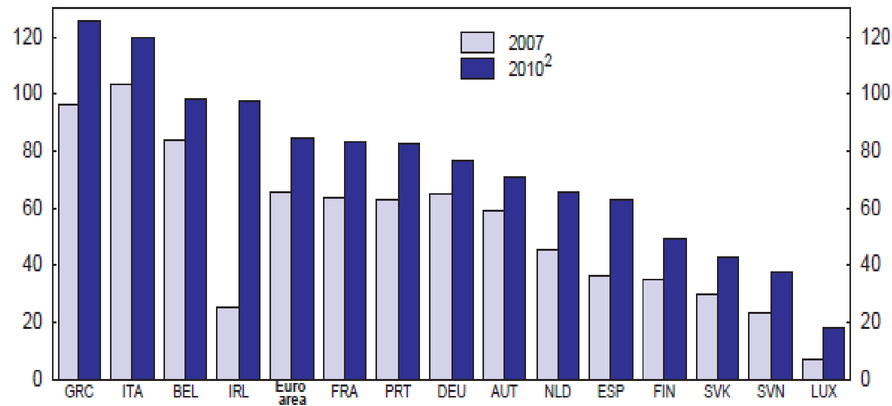
"Yes", I said. He looked more cheerful: "Sounds a good place for my gap year. If I don't go to Ireland."

Your loving son. [1]

"Afrika is nie vir sissies nie" – Life in Africa is not for the faint-hearted or people not dedicated to nurture and put their talents to work. We, as Africans, know that a decent and a respectable livelihood depend on our own efforts (obviously one could also pursue the benefits of cronyism, which undoubtedly pays off very well in especially less open and democratic societies, but I assume my audience are people of noble character!). Basically, unlike rich Western European countries, we cannot rely on government welfare and support programmes to sustain a reasonable standard of living. We, as Africans, (should) understand we have to earn our keep, "someone else" is not going to pay the bill, that "someone else" is me and only me!

Should we, as Africans, thus envy our rich European counterparts? Maybe I did in the past, but events over the past couple of years changed my perceptions. Maybe, just maybe, some European countries and their politicians have been living in a fool's paradise after all and now the chickens have come home to roost.

What is happening today in Europe in the aftermath of the financial crisis with mounting sovereign debt spreading across the region casts not only doubt over the viability of their socioeconomic model, but also about the Euro area as an economic union in its current format. Perhaps some countries, like Greece and Ireland, have already past the point of no return, while others like Portugal are teetering on the brink of similar fate.

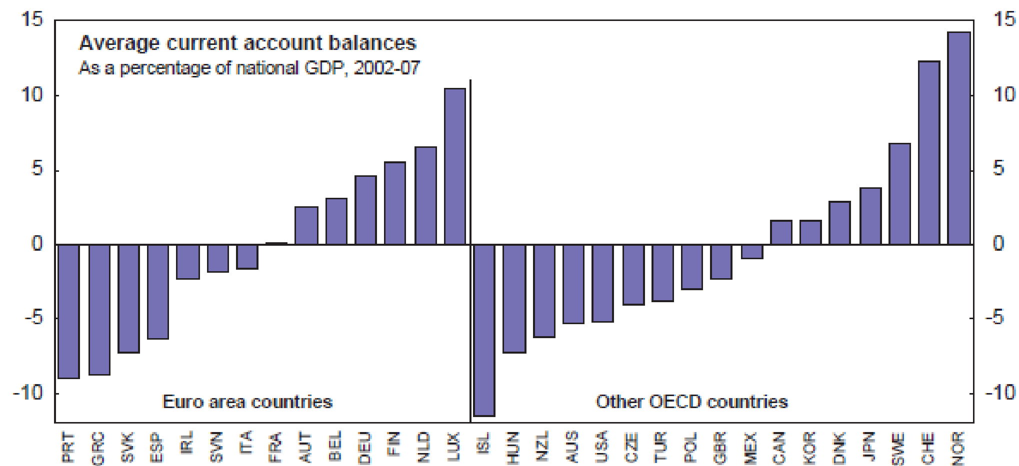


1. Maastricht definition.
2. OECD estimates.

Source: OECD, *OECD Economic Outlook 88 Database.*

Government debt-to-GDP ratio

Source: OECD Economic Surveys: Euro Area, December 2010.



Source: IMF, International Financial Statistics and OECD, OECD Economic Outlook 88 Database.

Current account balances in OECD countries

Source: OECD Economic Surveys: Euro Area, December 2010.

Carmen Reinhart, a prolific economic researcher and historian has over the past years made insightful studies of the similarities of financial crises all over the world. [2] She and Vincent Reinhart wrote an article published in *The Washington Post* whereby they debunked five myths about the current European debt crisis: [3]

1. This is a new type of crisis

While most people would think this is a modern day crisis brought about by sophisticated financial products and an interconnected global economy, it is not true. For centuries governments have borrowed to live beyond their means and have had problems repaying the debt. For example, monarchies from the 14th through the 19th century resorted frequently to debasing their currencies, expropriating private property and defaulting on their debts. This all meant that citizens of such monarchies experienced severe economic hardship.

In more recent times countries have often defaulted on their debt or been forced to restructure their payments. Some countries have been defaulting multiple times, for example, over the past 180 years Greece has been in default about half the time! In 2001 the government of Argentina, after fiscal austerity triggered widespread riots, defaulted on $130bn of debt obligations despite IMF assistance. Thereafter, funding from international investors dried up and Argentina's economy was send into freefall (contracted by 15%).

2. Small economies such as Greece can't launch a major financial turmoil

Thailand with a smaller GDP than Greece caused mayhem in the East Asian region towards the latter part of the 1990s. Currencies and stock markets crashed and a major economy in the region, South Korea only avoided default by dramatically reducing government spending and hiking taxes. By the end of the crisis Asian economies contracted by 13%, much more than initially anticipated by experts and officials!

Moreover, it is important to remember that financial crisis tend to be highly contagious because countries have often the same institutional lenders. Thus, if these institutions suffer losses in one market, it is more than likely they will pull out of other markets deemed to be of similar risk. Then also, it is more than likely that these institutions will take a very critical view of credit ratings and perceived risks.

3. Fiscal austerity will solve Europe's debt difficulties

The need for some European countries to cut government spending is not only a requirement set by the IMF and the European Union, but the logical conclusion once investors decided that a country is living beyond its means.

However, fiscal austerity is not a quick fix and may in fact causes severe economic hardship in the short run. For example, a large contraction in government spending will adversely affect economic growth. Tax collections will fall while unemployment and welfare benefits will rise and thus undermining efforts to curb fiscal deficits and government debt. The net result is that it may take a long time before debt will be under control again while investors will become increasingly impatient.

4. The euro is to blame for Greece's financial woes

When Greece adopted the euro in 2001 outsiders believed that the country's dubious fiscal discipline and track record would be brought under control, but what it really meant was that Greece was able to borrow money at lower rates than before. And they did and then some!

Before it joined the Eurozone, Greece's household debt was only 6% of GDP. By 2009, it was nearly 50% of GDP while government debt reached 115% of GDP. In that sense the adoption of the euro did cause the debt crisis.

But then again, at the same time "masters of the universe" like the United Kingdom and United States went on a spending frenzy and dramatically increased their domestic and international borrowing. The real question is not why politicians were willing to spend and allowing their taxes to become insufficient, rather why lenders allowed such overborrowing? As always, good times bred complacency among investors, who projected the future based on recent past performances.

5. It can't happen here

Financial crises erupt without warning in places least expected – but in hindsight it would seem obvious to happen – and often in the midst of utmost confidence that nothing is wrong, especially if you are listening to officials!

During the mid-1990s fast-growing East Asian countries explained that their economic success was due to "Asian values", yet the crisis of 1997-1998 changed that perception forever. U.S. officials boasted as late as in 2006 about the health of their financial institutions and robustness of financial markets. And, of

course, that housing prices would never decline on a nationwide basis. Likewise, in 2008 very few people would have taken notice of concerns that any E.U. member would be facing financial difficulties and hardship in the not-too-distant future!

The bottom line is bad things can happen everywhere; no country is immune to such crises, especially if such a country has been financially reckless in preceding years. Also, if it did not happen in the past, it is not to say it cannot happen somewhere in the future.

Finally, I conclude my African perspective on the European debt crisis with an insightful article [4] written by fellow South African, Johan Adler, who is a notable authority, researcher and scholar of Greek history. Today he is a regular columnist and political commentator for Cypriot newspapers. While living in Cyprus and from time to time in Greece, he has gained not only first-hand knowledge of Greece's growing debt problems, but fresh perspectives why this country is in such financial disarray. Certainly, some valuable lessons that especially political leaders must learn:

"*When the Russian writer Alexander Herzen observed that the death of a social order leaves behind it not an heir, but a pregnant widow, what he had in mind was ostensibly the long night of chaos between the death of one era and the birth of another. In Greece it becomes clearer by the day that this may be the tragic fate awaiting the country where tragedy was born.*

Sophocles' and Euripides' ancient tragedies usually dealt with kings and nobles who after performing glorious deeds fell into the trap of hubris (the sort of pride that led them to believe they were the equal of the gods).This would then lead to a humiliating, crushing fall. But not even these supreme artists could have written a plot as complex and on as grand a scale as the great Greek tragedy we are witnessing today.

The rise of Greek wealth and its concomitant consumerism has been astounding since the country's entry into the EU. Even during the early 1980's it was still a relatively poor country, bound by age-old traditions and customs which endeared it to travellers. The idyll was often spoilt by real poverty, particularly in the rural areas. Then staggering change took place.

From the beginning of the new millennium, one had the feeling that you had entered Western Europe when arriving in Greece. Greeks had become affluent, conspicuous in their consumption. With the change, new evils crept into Greek society and old ones became exaggerated. In the larger cities, garbage collection constantly lagged behind the Greek propensity to litter and waste. The traditional

Greek hospitality gave way to xenophobia and the young generation became obese, civil servants rich and arrogant. The country accepted the millions of European euros coming its way, without changing habits from the past, like long siestas and short working days for government employees. Its trade unions fought for and won workers' 'rights' that were unsustainable, unaffordable and unheard of in any European country, with the possible exception of Cyprus.

Corruption and nepotism, always a problem in Greece, became the norm and swelled the number of government employees to nearly one in eight of the total population. Tax evasion became pervasive, and borrowing the preferred way of financing a high personal living standard as well as government expenditure.

The result of 35 years' shenanigans was inevitable. The new socialist (PASOK) government last year begged its EU partners to come to the rescue. This resulted in the EU/IMF rescue package which made it possible for Greece to temporarily survive as a nation, as well as part of the EU and the Eurozone.

But the price is high. These powerful creditors insist that Greece bring its expenditure under control and in particular cull the numbers and expenditure of the civil service.

Although painful, one would have expected that the Greeks would accept these measures. And so do most Greeks. A poll conducted recently surprisingly shows that more Greeks still support PASOK, the party that is inflicting the painful measures, than those who support the opposition. But enter the hubris of the pampered and favoured, and the plot thickens.

As usual, the civil service trade unions ascribe the disaster that struck the Greek population to every possible external factor but never to their own doing. The great big external enemy is now the very institutions that saved Greece from bankruptcy, the so-called Troika consisting of the EU, the European Central Bank and the International Monetary Fund. Not willing to give up any of their so-called 'workers' rights' which include not only a thirteenth but also a fourteenth cheque, the shortest working hours in Europe, a generous pension and insurance scheme to which members make no contribution (while private sector employees do) and many other 'rights' such as excessive salaries, the civil servants have embarked on a series of strikes that may fatally cripple the already sick Greek economy.

During the three weeks before Christmas, there were four days of strike action. On two Wednesdays the civil servants striked but apart from rowdy and disruptive marches through the centre of the major cities,

their action (or inaction) was hardly noticed, except for its effect on the hard-pressed Greek commercial sector. Businesses traditionally earn up to 25% of their annual profit in the Christmas period – assuredly not this year.

On two Tuesdays during this same period, an even more destructive strike occurred when some state-owned public corporations, notably transport services and other public utilities, came to a complete standstill.

Public enterprises are established in most countries to streamline service delivery through expert management and private sector staff practises. The theory is that by freeing these utilities from the strictures of the civil service, they will be able to provide better service at better prices and hopefully bring profits into state coffers. Not so in Greece. Most of the public utilities such as those that provide electricity, water and rubbish removal, simply increase their prices to make their books balance rather than cut costs. Others, such as the public transport companies, consistently succeeded in making huge losses that often ran into billions of euros. Nevertheless, their officials were paid even bigger wages and bonuses than the already overpaid civil servants. (In Greece, a bus driver earns at least a thousand euros more per month than a senior professor at the university.)

Government plans to cut these back to more realistic levels involve a 40% cut in salaries compared to the 20% cutback already in force in the civil service. The trade unions are adamant that they will not cooperate with their government in trying to save Greece from bankruptcy.

Like in all ancient Greek tragedies, one can sense the approaching disaster. To the outside observer it seems that there is no chance of avoiding the catastrophe. According to a survey of more than 2000 hedge funds, money managers and securities traders conducted by Barclays Capital on December 19, one in three institutional investors is expecting at least one Eurozone country to default on, or restructure its debt, in 2011.

It seems obvious who they had in mind as the most likely candidate. Despite repeated assurances from Finance Minister, George Papaconstantinou, it seems clear that the die is cast: Greece will default on its debts and be bankrupted, perhaps even this year. The country may be forced to revert back to the denomination with the longest life span in the world, the drachma. But it would come at a cost: whereas one paid 3,5 drachmas for one euro in 2002, it could now cost anything, even as much as 30 or 40 drachma, to buy a euro.

If this should happen, Greece will overnight become a poor country again. It will not be able to afford any imported products such as cars, computers and the other electronic goods to which Greeks have become used in their days of plenty.

Like the heroes of the ancient Greek tragedies, the government service and public enterprise trade unions seem to be struck with blindness, leading their members – and the whole society – to the brink of the precipice beyond which lies 'the long night of chaos'. The world watches with bated breath to see when this latest, and greatest, of Greek tragedies will reach its climax and terrible conclusion."

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[1] Excerpts from an article written by Michael Holman, former Financial Times Africa editor, titled: "Austerity, Bono and a culture of cuts", Financial Times, December 22, 2010. Link: http://www.ft.com/cms/s/0/f0bd65dc-0e06-11e0-86e9-00144feabdc0.html#ixzz1BykAmWY7

[2] Carmen Reinhart is the co-author with Kenneth Rogoff of the highly-acclaimed book, titled: *This Time is Different: Eight Centuries of Financial Folly*.

[3] "5 Myths about the European debt crisis", The Washington Post, May 9, 2010.

[4] "The Greek Tragedy" by Johan Adler. January 2011.