

"Greek Mess, Euromess, Western Nations Mess, World Mess?"

Everyone is discussing what *Fortune* magazine is calling the "Greek maelstrom" and everyone is pointing the finger at someone else. Whose fault is it? The Greek government is accused of cheating and allowing Greeks to live beyond their means. The European Union is accused of having created an impossible structure for the euro.

Or is the fault with Goldman Sachs? It is accused of having enabled the Greek government to falsify its accounts when it sought to join the euro monetary system. It is accused today of engaging in "credit-default swaps" that make the situation of the Greek government even more vulnerable, but to the bank's profits. The head of credit strategy at UniCredit in Munich says this is like "buying insurance on your neighbor's house - you create an incentive to burn down the house." Chancellor Angela Merkel of Germany calls Goldman Sachs' actions in 2002 "scandalous" and Christian Lagarde, France's Finance Minister, calls now for greater regulation of credit-default swaps.

Niall Ferguson says that "A Greek crisis is coming to America." He calls this "a fiscal crisis of the Western world." Ferguson is preaching the evils of public debt and of the concept of a "Keynesian free lunch," which in the end is a "drag on growth." Paul Krugman says it's a "Euromess" because Europe should not have adopted a single currency before it was ready to have political union. But now the euro can't be allowed to break up since it would trigger a worldwide financial collapse.

Meanwhile, it seems everyone is pressuring the Greek government to reduce its public debt as a percentage of GNP from over 12% to say 4% in say four years. Can it do this? Should it do this? The Greek government says it will do something. This "something" has been enough to bring about massive strikes of farmers, hospital workers, air traffic controllers, customs officials, and all those who are being asked to reduce their income in the middle of an economic crisis and increased unemployment.

Should Germany do something? The Germans don't want to for two principal reasons. The first is the prospective demand of other states in economic difficulty (Spain, Italy, Portugal, Ireland) for the same thing. The second is the internal pressures of their citizens who see any help to Greece as money that is being taken away from them, when they too are feeling an economic squeeze.

On the other hand, if Greece (and other countries) squeeze their citizens to pay down the debt, it means reduced purchasing power for imports - first of all, from Germany. And this means in turn a downturn for the German economy. Josef Joffe, the editor of Germany's *Die Zeit*, groans: "Europe has become a huge welfare state for everybody, for states as well as individuals."

Meanwhile, the euro is slumping and the dollar is once again, for a moment, a "safe haven." Ferguson warns us that "US government debt is a safe haven the way Pearl Harbor was a safe haven in 1941."

When an analyst in the *Financial Times* suggested that Germany was going after all to bail out Greece, a German reader commented: "So what you're saying is give them your money to spend in your shop." But isn't that just what the Chinese do when they buy U.S. Treasury bonds?

What these multiple cross-cutting analyses of short-term blame and short-term gain miss is that the problem is worldwide and structural. Banks exist to make money. The games Goldman Sachs has been playing (and other banks as well) has not only been with Greece, but with many, many countries - even with Germany, France, and the United Kingdom, even with the United States.

This is because governments wish to survive. To do this, they need to spend enough money to prevent a "maelstrom" and civil uprising. And if they don't take in enough taxes to do this (both because they don't want to raise taxes further and because a weaker economy means less overall tax income), they must "massage" their accounts

by borrowing. And covert borrowing (from banks, for example) is better than overt borrowing, since it enables governments to avoid criticism, until the day when the secret gets revealed, and there's a "run on the bank."

Greece's problems are indeed Germany's problems. Germany's problems are indeed the United States' problems. And the United States' problems are indeed the world's problems. Analyzing who did what in the last ten years is far less useful than discussing what, if anything, can be done in the next ten years. What is going on is a world-wide game of chicken. Everyone seems to be waiting for who will flinch first. Someone is going to make a mistake. And then we'll have what Barry Eichengreen has called "the mother of all financial crises." Even China will be affected by that one.

by Immanuel Wallerstein