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COMMENT

Beyond Greek Tragedy

BRAZIL, RUSSIA, INDIA AND CHINA are commonly referred to as BRIC nations. Their clout in the world economy is growing. Their Finance Ministers have said that they are willing to provide assistance to Greece and Europe to overcome the present economic crisis. Economies of Greece, Ireland, Italy, Portugal and Spain are in various stages of crisis. Greece leads to pack. Income of the Government is less and expenditures are more. Greece is meeting the deficit by continually borrowing more money. European countries led by Germany and the International Monetary Fund (IMF) have provided loan of about 110 billion dollars in the last year but deficit of the Greek Government does not show any signs of receding. Now the developed countries are seeking assistance from BRIC nations as their own ability to bail out Greece is coming under stress.

The European Union had imposed condition that the Greek Government will impose new taxes, cut the number of government employees and reduce the salaries of the remaining to reduce its budget deficit. However, the people of Greece have balked. Strikes by government employees as well as private groups like taxi drivers have made it impossible for the Government to meet its commitments of deficit reduction.

Roots of the problem lie in the very structure of the European Union. Member countries of the Union have accepted a common currency. This means that individual countries have lost their ability to print notes, which is known as monetary policy. Member countries are in only control of their tax and expenditure policies, known as fiscal policy. But it is difficult to impose new taxes and cut expenditures hence the Greek Government is helpless. The solution lies in breaking up the European Monetary Union and the common currency euro.

But Germany being the most gainer in euro currency system is deadly against any change in European Union policy orientation. Only the other day German Chancellor Angela Merkel went on record in support of euro while talking on Greece bail out at a press conference : 'the euro is part of Germany's economic success. A Europe without the euro is unimaginable, and it is worth effort.'

The impact of fiscal measures is direct and harsh. Surprisingly enough, the Chinese too are echoing IMF prescription to tide over the present financial crisis in Greece. Chinese ambassador to Greece Luo Lin quan, in an interview with Xinhua News Agency in Athens, on July 24, said : 'The debt crisis has exposed the structural problems in the Greek ecomony. It is therefore a must for the country to carry out structural reform and push forward the privatization process'. In other words it means more austerity measuers and hardships for ordinary wage earners.

Finance Minister Pranab Mukherjee and Finance Ministers of other BRIC countries must reconsider their offer to help Greece and other European countries in this backdrop. The developed countries are saying that the BRIC nations must bail out Europe so that their conventional markets remain intact, their exports are not affected and their economies continue to grow. This is like the King telling the poor villagers to help out the Zamindar so that the latter continues to buy the milk and vegetables produced by them. The King forgets to tell the villagers that they will be ever mired in poverty in this process.

Many diseases cannot be treated by administering medicines. Surgery is required at times. So is the situation of the world economy today. A surgery is required to shift the global purchasing power from the developed to developing countries so that there is balance in global consumption. Presently, 25 percent of people living in the developed countries are consuming 75 percent of the world resources. The need is not to maintain this ugly imbalance in consumption but to allow the economies of the developed countries to collapse. The bush growing under a big tree will be protected from the harsh sun and storm but will ever remain a bush. The only way it will grow is to cut the tree and bear the harsh sun. Similarly, the BRIC countries must bear the problems arising out of the collapse of Europe. Then only they will grow in stature in tune with their real role in the world economy.

Finance Minister Mukherjee has expressed dissatisfaction with the slow pace of reform of the global financial institutions like the IMF and the slow pace of fund flows to the developing countries. Mukherjee must understand that reform of the IMF, World Bank and the United Nations Security Council will not happen by sweet talk. Only weakening of the economic clout of the developed countries will force them to cede place to the developing countries and lay foundations of a new world economic order that is just and equitous. □