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Calcutta Notebook

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THE GOVERNMENT OF THE state functions as the Board of Directors. "Exports pay for imports" is the fundamental rule. If a country imports more than it exports, it incurs a debt to the outside world. Since the outside world has supplied the country with goods and services, the receiver country must clear the debt within a reasonable time by exporting some other goods and services which other countries need and which the debtor-country has the efficiency to produce with comparative advantage in terms of supply of raw materials, expertise etc. If the country perennially imports more than it exports, its debt to the outer world mounts to a staggering height, and in course of time the country is declared bankrupt. Greece faces this situation currently.

Had there been no European Union of which Greece is a member, the country would have been declared bankrupt quite a long ago. But there is the European Union, kind of United States of Europe, having a European Parliament and a European Central Bank. But neither the European Union nor its Central Bank has matured to either a Sovereign entity in the former case or to a unified federal reserve system in the latter. Each country in the European Union holds Sovereignty and each country has its own Central Bank. Just because the geographical area of the whole of European Union is a single Economic Zone and also because there is no restriction, all kinds of bank deposits moved freely from areas having less efficient banking system to more efficient areas over the period of European Union. Countries clubbed together as PIGS, that is, Portugal, Ireland, Greece and Spain, are the four countries from where bank deposits fled away largely to Germany. France also benefited but not to the extent of Germany. Deposits in German banks at the expense of PIGS countries steadily rose between 2002 and 2009. Between 2009 and 2011, bank deposits in PIGS countries fell considerably and almost the whole fund fled to Germany.

Lately Italy joined the PIGS club, but for a different reason. Italy's banking system cannot be called inefficient. Yet faulty economic policies pursued by the country's political leaders led to more borrowing of funds than it could employ efficiently plus corruption in high places over a long period, i.e. since before the birth of EU, has landed it to a staggering sovereign debt burden of more than 2 trillion Euros. Currently, Italy is reeling under its huge pressure.
And finally Italy's Prime Minister Silvio Berlusconi had to quit.

Out of the four PIGS countries, Portugal, Ireland and Spain are considered frugal in that these countries could over time manage their economies, especially their terms of trade with the outside world excellently and efficiently. That is to say, these countries maintained their standards of living as well as their levels of employment in spite of drainage of bank deposits to other areas of the Euro-zone. These countries have shown to the outside world that even if there is a flight of bank deposits, it is possible to survive if fleeing takes place through official channel.

This is in sharp contrast to the Indian scenario from where the same flight of funds took place in the form of Black Money, that is, tax evaded money. The solitary important point in this case is that whereas the Governments and Central Banks of the PIGS countries took note of and recorded in Books of Account the flight of funds from their respective countries, neither the Government of India nor the Reserve Bank of India did the same for decades since August 15,1947. If and when funds are allowed to flee from one country to another, the phenomenon is considered as exports *invisible*. It is possible to reap benefits of trade out of such export of invisible items and this phenomenon is quite common in International Trade. In practice the Government of India and Reserve Bank of India colluded with the criminal offenders and enemies of the people of India for more than 64 years, because they did nothing to stem the rot even after years of protest on this issue.

The people of Greece are angry. Already several thousand activists affiliated to the Greek communists converged in front of the finance ministry waving banners saying, "WE WON'T PAY". The tax payers of Germany, Netherland and Finland on the other hand warn their respective Governments saying that people's money gathered through tax cannot be given so cheaply to bail out Greece which never repays debt. Incidentally, this is the second bail out case for Greece. If the Greek Government does not comply with the recommendations and defaults, then Greece is threatened with the gloomy prospect of being out of the European Union. The Governments of the creditor countries within the EU, especially the Governments of Germany and France do not want that to happen.

The turmoil in the EU banking-system is bound to have ripple effect throughout the world, faced as it is now with recession. If anything the Greek Debt Crisis is not confined to Greece alone. It has far reaching global ramifications. Time is running out. No one is safe and insulated in this globalised economic world. Those who are holding responsible posts and can foresee the danger looming large over the horizon are running from pillar to post to avert the ensuing crisis. The IMF Managing Director Madam Christine Lagarde's visit to Beijing to persuade the Chinese leaders to play a useful role in the IMF's rescue package for China's own benefit is a relevant case at this point. China's Central Bank holds a huge basket of Euros and European securities as foreign exchange reserve, which will simply melt away in case the Greek economy collapses and with it the EU's monetary system takes a severe jolt. All that people see today only the tip of the iceberg. The fall may be steeper and deeper. Then latest information revealed that the economies of Spain, Portugal and Ireland are crumbling under pressure of the European crisis and can really collapse any day. □□□