



## Is the Greek Bailout Doomed to Fail?

*John Williamson says the only way for Greece to avoid leaving the euro area is to reduce prices and incomes by perhaps 40 percent across the board.*

*Transcript of interview recorded February 16, 2012. © Peterson Institute for International Economics.*

Steve Weisman: Although there are signs of stability in the European financial crisis, Greece remains a sticking point with accusations rising and new doubts about whether it can make it. This is Steve Weisman with John Williamson at the Peterson Institute for International Economics. John, you've studied financial crisis over the years. Can Greece make it? What does it have to do to avoid a disorderly default or any kind of default?

John Williamson: I'm afraid I'm one of those who are pessimistic about Greece. It seems to me that the attempt to get by without a major reduction in costs in a country that -- all the evidence suggests -- is much more highly valued than it should be, is not going to work. Pursuing austerity is only half the problem. It's not just a question of reducing the budget deficit, but also it's a problem of getting growth growing again which I don't think you could do as part of the euro [area] without a major reduction in costs as part of the process.

Steve Weisman: You've referred to Greece's need to have an incomes policy to get its costs down. What would that look like?

John Williamson: What I'm thinking of an incomes policy—in Europe at any rate, we made major effort in this direction in the 1970s and it wasn't terribly successful.

Steve Weisman: Again, sorry to interrupt, when you say “we,” you mean Britain?

John Williamson: I mean, Britain in particular, but European countries in general. I think there was a widespread desire to have a policy for manipulating incomes alongside a fiscal monetary policy as one could use the tool of macro-economic policy. It wasn't very successful in the 1970s because the aim of the process was always to chip away a little bit at reducing everybody's wages and it's perfectly true that if you reduce everybody's wages the same amount, there would be no net loss of income and the country as a whole would gain. But that wasn't as evident as it now appears to be in Greece. Clearly, Greece needs to have a major effort at reducing its prices. If one just does this through austerity, it's going to be a really painful process and take a very long time and to do it by having a controlled change in all incomes, simultaneously, by the same amount, so that everybody in Greece would accept something like 40 percent reduction, would be a much less painful way of doing it, in my view.

Steve Weisman: How would it happen, though? You mean that they would enact a law just declaring that everybody is going to be making 40 percent less than what they make and then hope that the costs of their necessities will be reduced proportionately?

John Williamson: No, one would make the costs of domestically-produced things fall by 40 percent at the same time and those of imported goods wouldn't. It would be just like a devaluation. It

would have an effect in terms of squeezing real income, so no question about it. That's the object of the exercise. But it would do it without requiring these continual sacrifices which come about disproportionately, [with] a particular people who [are] singled out as the object of being squeezed by the government and the austerity plans.

Steve Weisman: Besides the nibbling at this in the 1970s in Europe as you just mentioned, is there any precedent for such a sweeping set of income policies being adopted by a country? Usually countries have the option to devalue, so there can't be too many precedents.

John Williamson: No, I don't think there's no precedent, but there's precedent either for the Plano Real [Real Plan] which overcame inflation in Brazil [in the 1990s]. At times, one has to [act] when one is confronted by historically unique circumstances which require historically unique solutions. Somebody has to pioneer. I think that Greece, if it's going to remain a part of the euro area, has to do something similar. I don't think that continually trying to go the route of internal devaluation by piling austerity on austerity is going to work in the long run.

Steve Weisman: And you think this could happen without causing an uprising that would be even more fierce than what we've seen in the last week?

John Williamson: I think there would be a chance for explaining to the people that they're going to have to take a sacrifice in some form or other and it's much better that it be a joint sacrifice of everybody who sells in the domestic market, including their labor in the domestic market, than [being] a sacrifice concentrated on particular people, where it really does make life impossible for other people.

Steve Weisman: What happens if Greece doesn't do this or can't avoid a "hard default"?

John Williamson: My sense is that even abolishing all debt service would not be enough to get Greece going again as long as its costs remain overvalued and hence, the attempt to get out of it purely by austerity is doomed to failure.

Steve Weisman: A sobering view, but thank you, John.

John Williamson: Thank you.

