



Obama and Greece: Thinking Outside the Basket Case

Nicolas Véron takes stock of prospects for Greek economic reform after Prime Minister Antonis Samaras's visit to the White House.

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Steve Weisman: Is there anything the United States can do to help Greece in its moment of need? Nicolas Véron, visiting fellow at the Peterson Institute, is here with me, Steve Weisman, to talk on August 8 about the discussions that President Obama had at the White House today with Prime Minister Antonis Samaras of Greece where they discussed this very subject, what the US can do to help.

Nicolas, what do we know about anything concrete that came out of the discussions?

Nicolas Véron: I don't think the discussion is mostly about concrete things because the US is not going to do a Marshall Plan for Greece. The US is indirectly involved in the Greece story through the IMF [International Monetary Fund] in which the US is an important if not dominant stakeholder. And of course, the US is in very frequent contact with all the European capitals including Berlin, at least in terms of the management of the European crisis, which has been identified already a long time ago as one of the principal risks on the US economy. And even though the market conditions have improved in the past 12 months, I think it remains very high on the list, maybe on top of the list, of the downside risk that might affect the fledgling US recovery.

So in this context, I think this is obviously primarily a symbolic action. It doesn't have the same force of symbolism as the visit of [German Chancellor] Angela Merkel to Athens in October last year, which was a very important watershed, I think, for Greece even though the short-term news coverage was about demonstrators and Molotov cocktails. Actually, it was really an important milestone in terms of anchoring the perceptions that Greece would not be allowed to exit the euro zone no matter what. So here we don't have the same symbolic force, but I think it's important also in terms of US politics for the Greek American community to see this show of support and solidarity.

Steve Weisman: Does the US have a view about whether Greece has done enough to resolve its own problems and what remains to be done?

Nicolas Véron: I think the US has an interest in emphasizing the Greek efforts in terms of structural reform, in terms of state reform.

Steve Weisman: Efforts that have been carried out or that remain to be carried out?

Nicolas Véron: A lot remains to be done. But I think as a spin I see coming from this occasion is to emphasize the fact that Greece is depicted as a basket case. But they have made—and I think that's a fair point—very serious efforts of reform, because Greece had been used in the US in the past two to three years as a political football in terms of the US fiscal debate domestically. And they had been used that way on the right and on the left. On the left, it has been, "Austerity is killing the Greeks its horrible, so let's not have austerity in the US." On the right, it has been, "Look at what happens when there is no fiscal discipline."

So it seems to me that one of the motivations for this show of symbolism might be the willingness to say, "Look, here is the real Greece and the real Greece is doing serious reform. And there is this guy, Antonis Samaras, who is a serious political leader and let's not just talk caricatures about it."

Steve Weisman: And he has even recently gotten the Parliament to accept another round of public sector cuts. What is the status of that?

Nicolas Véron: The status obviously is mixed. Greece has been making progress towards surplus, if you don't count the payment of interest cost. Primary surplus is within reach in Greece so that's an improvement. But much of this is through increases in taxes and cutting essential public services. If you look at the reform of the Greek state—eliminating unnecessary state employee positions and privatization—not enough has been done. There have been some tentative steps. There is much more to show now than a year ago. But it remains very early stages compared to what many people would consider necessary. I think there is this contrast.

Now, in terms of economic results, the situation in Greece is dire. There is high unemployment, rising unemployment still, a very bad economic situation, a dramatic decrease of GDP if you compare it with three or four years ago, so nothing to be particularly proud of. I think an optimist might say that now as Greece is nearing primary surplus, having much improved its capital account, the conditions for a dynamic recovery are much more than what was the case 12 months ago. But I would say it remains to be seen whether this will materialize or not and obviously it depends on a lot of factors—European political factors, global growth environment—that are completely out of Greek policymakers' reach.

Steve Weisman: How does it depend on European political factors? Hasn't Europe made political decisions that it already needed to make?

Nicolas Véron: There's a lot of that overhang. And frankly, the Greek public sector that is still considered unsustainably high by most reasonable observers, I think. I mean you can paint a case where Greece would reimburse all of its debt on the current terms. But I think it's fairly unlikely that this will be what actually happens. So like many others, I expect further debt relief to be granted to Greece. And I think it's actually desirable given the reforms that are happening in that country. Obviously, it's not going to happen before the German election on September 22, but many of us still have the hope that it will happen afterwards.

Steve Weisman: And debt relief would come at a cost in the sense that Greece would be asked to do what -- more structural reform?

Nicolas Véron: Well, there is this. There is also the difficult question of whether there would be further hair cutting of the remaining private sector creditors. And this remains an open question. On the one hand, it's politically difficult for the leaders of Germany and Netherlands and other creditor countries to tell their publics that we're relieving the Greeks of their financial burden without seeing the private sector creditors suffer. On the other hand, Greece absolutely needs to regain access to markets, and making the private creditors suffer further after their intense suffering last year would not be helpful in this respect.

Steve Weisman: And again, does the US have a view of this?

Nicolas Véron: I think the US is all in favor of official debt relief. With the private sector participation, I suspect there are different views inside the US government and it hasn't been brought to the US directly. I would only say that most of the current Greek debt is now in official hands. So the treatment of the private sector creditors is more a matter of symbolism and anchoring expectations than it is a matter of actually resolving the financial equation. Even though there remains some debt in the private sector's hands, it has been much reduced by the evolution of the last 18 months.

Steve Weisman: Thank you very much, Nicolas.

Nicolas Véron: Thank you, Steve.

