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Sex, Strauss-Kahn and a Greek Collapse

By The Moscow Times

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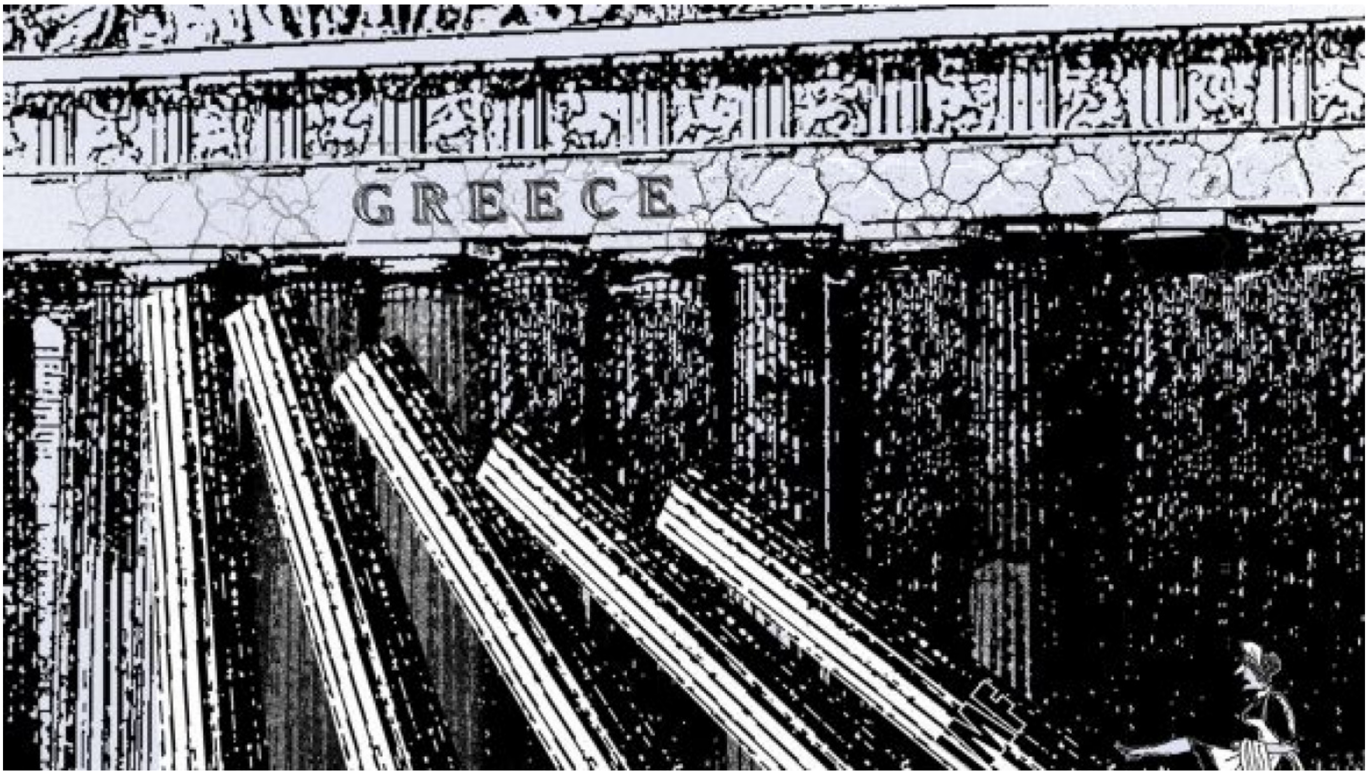

As Sigmund Freud once claimed, everything is driven by sex. If the allegations against International Monetary Fund managing director Dominique Strauss-Kahn are true, he would certainly prove Freud correct — so much so that Strauss-Kahn may put at risk not only his career, but the world economy and Greece in particular.

Lawyers for Strauss-Kahn contend that their client's behavior was not consistent with that of a person who committed a sex crime.

Whatever the outcome of this case, he is unlikely to become the next French president. The 62-year-old politician and economist has a long history of dubious incidents connected with women. When he was first appointed to his IMF post in 2007, Liberation newspaper wrote: "The only problem with Strauss-Kahn is his attitude toward women. He is too aggressive with them."

This weakness proved to be his undoing and, like Murphy's law, the incident came at the worst possible moment — in the middle of a severe European debt crisis that required the direct participation of the IMF.

Strauss-Kahn was supposed to have flown to Berlin for a meeting with German Chancellor Angela Merkel on Sunday and then to Brussels on Monday for a meeting with European Union finance ministers to discuss the future of Greece. The country is closer than ever to bankruptcy, despite being part of the euro zone. The IMF and the EU are trying to avert a meltdown, but the odds are stacked against them. Investors and economists put the probability of bankruptcy at about 85 percent.

Although the authorities do not admit it officially, it has become clear to everyone that the IMF and the EU made a mistake in giving the unprecedented amount of 110 billion euros ($15.7 billion) in financial assistance to Greece a year ago.

The plan was for Greece to make the funds available through an issue of EU- and IMF-backed government bonds. But the securities found few takers. The yield on 10-year Greek bonds reached 14.9 percent by the end of April. Even at the height of the debt panic in May 2010, the yield only rose to 11.2 percent. Financing for the country has collapsed. As a result, the Greek budget came up 60 billion euros ($85.6 billion) short of its 2012-13 budget.

European officials say the IMF will not allocate money to Greece this year unless it can come up with a clear, convincing plan for eliminating its deficit. But even if such a plan is developed, it probably won't be implemented. The program calling for strict budgetary cuts in return for credit hit a brick wall almost immediately.

There is little political willpower to implement severe cost-cutting measures, and revenue has not increased. Greek business owners have preferred to close up shop, scorning government appeals to keep their doors open and continue paying taxes. Their main concern is to send whatever personal savings they have out of the country as quickly as possible.

Meanwhile, Greece's national debt has grown to more than 140 percent of gross domestic product. And whatever officials might say, no amount of IMF lending will convince investors that Greece can service — much less reduce — a debt that has swelled to dangerous, default-prone levels. If that debt is not extended or written off, the entire Greek economy will be focused for years on paying off its current obligations.

Russia was able to repay a comparable debt that had accumulated by late 1998, but this occurred only eight years later and only thanks to high world oil prices. Greece has all the same crisis elements in place — except for oil revenues to bail the country out. What's more, Greeks are adamantly opposed to enduring any hardships because of their leaders' negligence. Most agree with the slogan of the Greek Communists: "We will not pay for their crisis!"

European officials anticipated that in Brussels Strauss-Kahn would have convinced EU governments to allocate another loan that would keep Greece afloat for 2012-13. For all of his weaknesses, Strauss-Kahn had a great deal of influence and frequently arbitrated thorny disagreements between European leaders. But the incident in the New York hotel has killed hopes of that happening now.

But maybe it will be for the better. With Strauss-Kahn out of the picture, Greece might go through its inevitable bankruptcy and its debt will hopefully be restructured. This would clearly be a bitter pill to swallow. But a bitter pill that offers at least some medical treatment is better than no pill at all.

This comment appeared as an editorial in Vedomosti.

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