INVESTING

Wolfgang Schäuble, The Trust Troll

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Paul Krugman invented the term "confidence fairy" to characterize the belief that all that was needed for growth to resume after the Global Financial Crisis was to restore "confidence". Impose austerity and the economy will not shrink, but will instead grow immediately, because of the boost to confidence:

> don't worry: spending cuts may hurt, but the confidence fairy will take away the pain. "The idea that austerity measures could trigger stagnation is incorrect," declared Jean-Claude Trichet, the president of the European Central Bank, in a recent interview. Why? Because "confidence-inspiring policies will foster and not hamper economic recovery." ("Myths of Austerity", July 1 2010)

To the Confidence Fairy we can now add the "Trust Troll": appease the Trust Troll, and all your macroeconomic ills will magically vanish.

The identity of the Confidence Fairy was never revealed, but the identity of the Trust Troll is obvious. It's German Finance Minister Wolfgang Schäuble.

Schäuble was clearly the primary architect of the Troika's dictat for Greece. One only has to compare its language to that used by Schäuble in his OpEd in the New York Times three months ago ("Wolfgang Schäuble on German Priorities and Eurozone Myths", April 15 2015). There he stated that "My diagnosis of the crisis in Europe is that it was first and foremost a crisis of confidence, rooted in structural shortcomings", and that the essential factor in ending the crisis was the restoration of trust:

> The cure is targeted reforms to rebuild trust — in member states' finances, in their economies and in the architecture of the European Union. Simply spending more public money would not have done the trick — nor can it now.

Compare this to the first line of the communique:

> The Eurogroup stresses the crucial need to rebuild trust with the Greek authorities as a pre-requisite for a possible future agreement on a new ESM programme.

The policies in the document match those in Schäuble's OpEd as well. Schäuble called for:

> more flexible labor markets; lowering barriers to competition in services; more robust tax collection; and similar measures.

The Troika's document forces these measures upon Greece. These include "the broadening of the tax base to increase revenue", "rigorous reviews of collective bargaining, industrial action and collective dismissals" and "ambitious product market reforms". At the same time, Greece is required to aim to achieve a government surplus equivalent to 3.5% of GDP—the opposite of "spending more public money" which Schäuble rejected in his OpEd. Rather than debt reduction and rescheduling as even the IMF now calls for, "The Euro Summit acknowledges the importance of ensuring that the Greek sovereign can clear its arrears to the IMF and to the Bank of Greece and honour its debt obligations".

This cannot in any sense be seen as an economic document, since an economic document would have to assess the feasibility of its proposals. Instead it simply states Schäuble's ideology: regardless of your economic circumstances, simply implement these (so-called) market-oriented reforms, restore trust, and your economy will grow.

With the government debt that Greece currently labours under, this is a fantasy (Yanis Varoufakis's annotated version of the document is well worth reading on this issue). Even if Greece were to pay a mere 3% on its debt, interest payments alone would absorb over 5% of GDP. To do that, and run a primary surplus of 3.5% of GDP in an economy where 25% of the population is unemployed is simply impossible.

Figure 1: This Miguel Guerra cartoon aptly summarizes why Greece can't be "like

Germany"

Figure 2:Slovak Finance Minister tweets the reason for the harshness of the Troika program after Greece's referendum

Clearly the Trust Troll is a far uglier and meaner creature than the Confidence Fairy. The Confidence Fairy promised to reward you with economic growth if you imposed

austerity. The Trust Troll punishes you with more austerity if the original dose of austerity fails to cause growth.

The Trust Troll is also capricious. The Confidence Fairy of course failed to appear, but still promises the same thing: economic growth in return for austerity. But the Trust Troll is now suggesting a second way of appeasing it: by Greece "temporarily" leaving the Eurozone. This bizarre twist to Schäuble's behaviour shows that attempting to interpret his behaviour from a purely economic point of view is futile. He is instead appealing to his political constituency in Germany, which clearly believes that driving Greece out of the Euro would be punishment for its bad behaviour.

There is no doubt that leaving the Euro would be traumatic for Greece—at least in the absence of a parallel currency that could enable day-to-day transactions to take place. But escaping from the grip of the Trust Troll may be better for Greece's long term health than staying within its grasp.

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