Greek and German Pensions

In Greece workers can retire after 30 years and collect 80% of their annual income. In Germany it takes 40 years and workers get 70% of their income.

A concise **comparison of Greek and German pensions** heard on [Marketplace]() this afternoon (July 7):

No wonder the German public is, um, peeved.

The Best Take on Greece

(click for larger image)

[This is the best take on Greece that I have seen. Warning: NSFW (language).]()

Quoting the **last few paragraphs,**

> ***Europe's creditors are behaving exactly as one might naively predict private creditors would behave, seeking to get as***

much blood from the stone as quickly as possible, indifferent to the cost in longer-term growth. And that, in fact, is a puzzle! Greece's creditors are not nervous lenders panicked over their own financial situation, but public sector institutions representing primarily governments that are in no financial distress at all. They really shouldn't be behaving like this.

I think the explanation is quite simple, though. Having recast a crisis caused by a combustible mix of regulatory failure and elite venality into a morality play about profligate Greeks who must be punished, Eurocrats are now engaged in what might be described as "loan-shark theater". They are putting on a show for the electorates they inflamed in order to preserve their own prestige. The show must go on.

Throughout the crisis, European elites have faced a simple choice: Acknowledge and explain to electorates their own mistakes, which do not line up along national borders of virtue and vice, or revert to a much older playbook and manufacture scapegoats.

Such tiny, tiny people.

Thanks to Guillermo (@groditi) for pointing to this article. You may agree or disagree, but there's a lot of truth here.

Trackback

Advent of the Southern Euro

Drachma and Euro

[Update 2 June 30, 2015, 1:35 pm with comment and image via Neil Wilson (@neilwilson).]

[Updated June 30, 2015 1:20 pm left-coast time GMT -8 with two new comments from joao.]

In his near-future novel *Supersad True Love Story* (Random House, 2011) **Gary Shteyngart introduced the idea of a "northern euro" and a "southern euro."** Mr. Shteyngart has been correct on so many issues that he may need to update his resumé, changing his job description from "writer" to "futurist."

Today saw another potential step in this progression. **There is speculation that Greece will leave the euro zone but still use the euro as currency.**

What Is Money?

Money is anything that is widely accepted in exchange for goods and services in ordinary commercial transactions.

It's important to have a **good, working definition of "money."** One of my graduate fields was in monetary theory and I've taught money and banking many times. Here's the definition I use →

For Greece, the relevant part of the definition is "widely

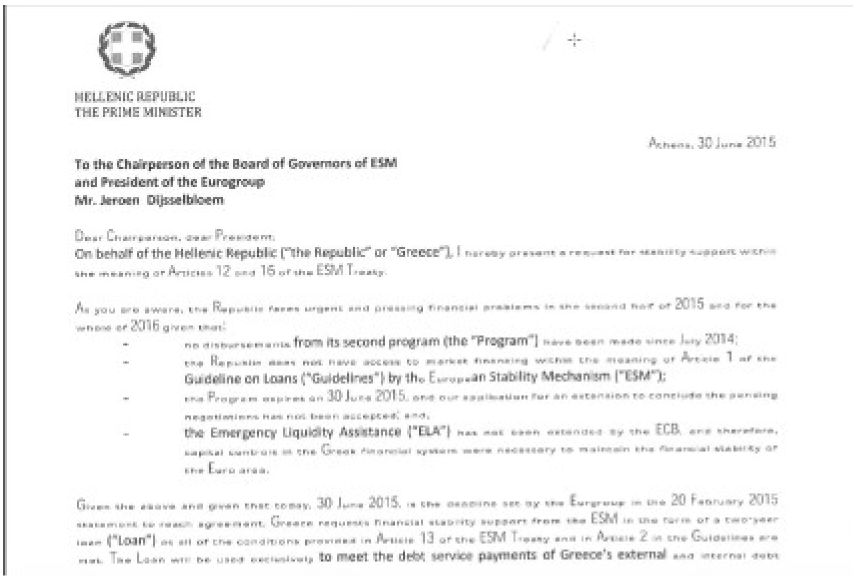
accepted." A Greek euro is not money outside Greece. That means t**he Greek euro is, *de facto*, a separate currency. Greece might as well just go back to the drachma. (Indeed, Twitter user joao called the currency the "euro-drachma.")**

Is Greece Blackmailing the ECB?

Via Neil Wilson on Twitter:

> *Some sort of font failure makes the Greece debt restructuring request [look like a ransom note](#)*

Indeed:


HELLENIC REPUBLIC
THE PRIME MINISTER

Athens, 30 June 2015

To the Chairperson of the Board of Governors of ESM
and President of the Eurogroup
Mr. Jeroen Dijsselbloem

Dear Chairperson, dear President,
On behalf of the Hellenic Republic ("the Republic" or "Greece"), I hereby present a request for stability support within the meaning of Articles 12 and 16 of the ESM Treaty.

As you are aware, the Republic faces urgent and pressing financial problems in the second half of 2015 and for the whole of 2016 given that:

- no disbursements from its second program (the "Program") have been made since July 2014;
- the Republic does not have access to market financing within the meaning of Article 1 of the Guideline on Loans ("Guidelines") by the European Stability Mechanism ("ESM");
- the Program expires on 30 June 2015, and our application for an extension to conclude the pending negotiations has not been accepted; and,
- the Emergency Liquidity Assistance ("ELA") has not been extended by the ECB, and therefore, capital controls in the Greek financial system were necessary to maintain the financial stability of the Euro area.

Given the above and given that today, 30 June 2015, is the deadline set by the Eurogroup in the 20 February 2015 statement to reach agreement, Greece requests financial stability support from the ESM in the form of a two-year loan ("Loan") as all of the conditions provided in Article 13 of the ESM Treaty and in Article 2 in the Guidelines are met. The Loan will be used exclusively to meet the debt service payments of Greece's external and internal debt

(click image for larger version)

How Will the Euro-Drachma Be Implemented?

To understand this you need to **understand how interbank settlements work in the eurozone.** Let's start with **the definition of "interbank settlements." Let's say you want to buy something at a store that banks with Wells Fargo.[1] You bank with Citibank. You use your debit card to buy something in the store. The interbank settlement system is the mechanism that moves funds from your Citibank account to the store's**

Wells Fargo account. In the U.S., most large banks are members of the Federal Reserve system which handles interbank settlements. In the eurozone, it's the European Central Bank. Here's the description from the ECB website:

> ***TARGET2 is the real-time gross settlement** (RTGS) system owned and operated by the Eurosystem. TARGET stands for Trans-European Automated Real-time Gross settlement Express Transfer system.*

The speculation about creation of a euro-drachma began with this tweet from Megan McArdle (@asymmetricinfo):[2]

> ***I don't think ECB will force Greece out of euro; I think it will have to devalue if it wants to reopen its banks ever.***

Which, of course, led me to ask how Greece could devalue the euro vis-à-vis the euro. An answer was supplied by joao (@mar67760521):[3]

> ***Yes, TARGET2 shutdown by the ECB will mean Greece has €-dramchas type of currency, not yet though***

> *Yes, TARGET2 shutdown by the ECB will mean Greece has €-dramchas type of currency, not yet though*

> ***No, Greece will still use the € but can't get the money out of Greece. TARGET2 gets shutdown.***

So, effectively, Greece will have its own euro. (Interestingly, the ECB did much the same thing with Cyprus a few years ago.)

Joao was kind enough to supply some additional input (and a valuable web link). I have concatenated tweets per the "+" sign in the originals.

> ***ECB has put a cap on TARGET2, as of this moment, it is in***

> ***effect because Bank of Greece choose too obey ECB. [There is nothing that says BoG]() has to obey the ECB and if the ECB decides to shutsdown TARGET2 for good, [it will mean that BoG]() is now independent. It can still print €'s without ECB consent.***

So there you have it. The decision rests with Greece. I doubt very strongly that the Greek central bank will actually print euros. But, from a purely academic viewpoint, it would make for an, um, interesting situation.

For an interesting and mildly entertaining analysis, see [Greece and the Art of Liquidity]().

Will This Work?

No.

The ECB Weighs In

Les Echos interviewed Benoît Cœuré, Member of the Executive Board of the ECB. The interview was [published on the ECB website on June 29]().

> ***Interview with Les Echo***
>
> ***Interview with Benoît Cœuré, Member of the Executive Board of the ECB, conducted by Nicolas Barré, Catherine Chatignoux, Jean-Philippe Lacour, Etienne Lefebvre, Guillaume Maujean, Dominique Seux and François Vidal, Les Echos, on 29 June 2015.***
>
> ***Is Greece's exit from the euro area now the most probable hypothesis?***
>
> *Greece exiting the euro area, which used to be theoretical, can unfortunately no longer be ruled out. It's the result of the Greek government choosing to end discussions with its creditors and resorting to a referendum, causing the*

Eurogroup not to prolong the second adjustment programme.

The ECB, like the other European authorities, wishes Greece to stay in the euro area. That's the substance of the proposal made last week by the Commission, the IMF and the ECB in the form of a programme of reforms and a financing offer that is much more favourable than anything proposed in the past. Europe has never abandoned Greece.

In what way were these proposals more favourable?

They gave Greece the time and the freedom to reform its economy, for example its labour market, while envisaging a demanding budgetary path, but taking account of the deteriorating economic climate. The primary surplus requested was reduced to 1% of GDP in 2015, compared with 3% previously. We were also proposing larger cuts in military spending to create room for manœuvre elsewhere.

So does the responsibility for breaking off talks lie entirely with Greece?

The decision to interrupt discussions was taken by the Greek authorities. That also surprised us, for we were coming to the end of some quite focused and fruitful exchanges.

Conclusion

At this point, I am mystified as to why the Greeks want to stay in the eurozone. Now that they've been locked out of the interbank settlement system, there's very little advantage to be gained from continuing on that path. Bring back the drachma!

[1] Banks named are for example purposes only. This does not imply any endorsement.

[2] In all tweets I have removed the Twitter handles of those mentioned in the message. If you're curious you can follow the

links to see the original tweet.

[3] joao is probably located in Brazil. Roughly translated "joao" is "John." Search for "Joao de Deos"

Greeks Have Discovered That Incentives Matter

Athens smog from wood fires

Apparently the Greeks have discovered that incentives matter. From today's "All Things Considered" on NPR:

"Another new consequence of Greece's economic crisis is that the skies of Athens and other cities are filled with smoke due to the increase in the use of wood burning stoves. The cost of heating oil has gone up 40 percent — a tax increase imposed by the troika. The Greek Environment ministry has issued a warning that the increase in pollutants in the air is posing public health risk.”

Economic principles in action here:

1. Taxing an activity or product means less will be used.
2. Buyers will respond to a tax by looking for substitutes.
3. General equilibrium effects can be important.
4. Demand curves slope downward.

That’s the end of this week’s lesson.

It’s Greek to Me

It’s Greek to me. The Greek prime minister is on Twitter. I follow him. Usually his tweets are in Greek followed a few minutes later by the English translation. Saturday, there were 13 consecutive tweets in Greek, no translation. Suspicious.

Greek PM: 13 and Counting

The last 13 tweets by Greece’s pm have been exclusively in Greek. Normally he follows a Greek tweet with an English translation. Not now. What’s he trying to hide? I can read a little Greek, but this calls for crowdsourcing.