Sadly this

Greek deal

faces the

sorry fate of

its forebears

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After protracted negotiations,

Greece’s prime minister

announced yesterday an

agreement on a new adjustment

programme. By all indications, it is a

courageous and ambitious deal,

incorporating more painful austerity

measures, substantial official

financing, and debt relief from

private creditors. Yet the process

that has led to this juncture is

worrying. There is an uncomfortably

high chance that this agreement will

have the same fate as previous ones

– unravelling within a few months,

and for good reasons.

Greece’s seemingly endless

negotiations stem from two factors

that threaten to derail the deal long

before any of its durable benefits

materialise. First, it is never easy to

reach agreement among parties that

have very different perceptions of

both the problem and its solution.

This is especially true in Greece

where all three parties to the

negotiations (the government, official

creditors and private creditors) feel

they have already been asked to do a

lot, without seeing any actual or

potential reward for their sacrifices.

Successive Greek governments

have been forced into several rounds

of austerity measures in the past two

years. Yet still every meaningful

indicator of Greece’s economic and

financial state has worsened. This

sad reality is also relative to what

was anticipated in the recent series

of adjustment programmes.

In this period, official creditors

have poured money into the country.

In the process, eurozone politicians

have faced considerable domestic

opposition – including, of course, in

Germany. They have also risked the

integrity and credibility of the

European Central Bank and

International Monetary Fund.

Only pure genius or

enormous luck could

produce a perfectly

designed Greek

programme

done little to improve Greece’s

long-term prospects and, rather than

attracting new private financing, it

has enabled some private creditors to

redeem at maturity their investments

with no principal losses. Meanwhile,

those that still have Greek bonds

complain that every time they have

agreed to a “haircut”, starting with

21 per cent last October, other

parties have moved the goalposts.

The second factor complicating the

process is that none of the interested

parties has enough overall

responsibility for the adjustment

programme. This is likely to prove a

problem yet again. The history of

debt crises suggests that a lack of

“ownership” translates into a lack of

conviction. As a result, principals –

be they government leaders, the ECB

and IMF, or those negotiating on

behalf of private creditors – find it

difficult to sell the agreement to

constituents. No wonder agreements

have often unravelled after they

have been presented to the many

groups that have to implement them.

Weak “ownership” also undermines

the many corrections that are needed

over the course of an adjustment

programme. Only pure genius or

enormous luck could produce a

perfectly designed Greek programme.

It is almost inevitable, given the

fluidity of the situation in Greece

and the global economy, that

whatever is agreed will need

tweaking in the implementation

stage. Without conviction, these

corrections will be an opportunity to

exit an imperfect agreement rather

than to adapt and improve it.

What Greece needs, of course, is an

economic, financial and institutional

overhaul. Such a reset is not easy; it

is also risky. But until it happens,

repeated rounds of negotiations will

be the rule – as will derailed

agreements and finger-pointing.

I fear that this deal is not the end.

Within a few months, the negotiating

parties are likely to be back at the

table bickering while Greece

continues to stare into the abyss.

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