Comparative Public Finance and Systemic Risk in South Africa: Lessons from the Greek Financial Crisis

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Abstract Currently, South Africa and Greece rank amongst the five most painful economies in which to live and work. Recession-battered Greece is a country that almost defines economic mismanagement. The prevailing Greek financial collapse accords a mirror to the world when prudent management of a financial system is abandoned. The challenge is that no one is well versed to manage things when the process breaks down. The Greek government had exacerbated the economic decline and pushed the country to the brink of national bankruptcy, bordering on a humanitarian crisis. Experts contemplate whether South Africa is on the same Grecian path towards economic collapse or has it *already* reached the proverbial tipping-point? This meta-analysis reinterprets evaluations through a new lens. *Reflective analysis* offers parallels of a pre-Greece financial collapse and the challenges currently facing South Africa's economy-disturbing low points, fast increasing debt burden and negative growth plans indicative of an economic implosion.The fiscal iceberg, national power crisis, shortage of coal for power generation, water shortages, collapse of basic services, food (in)security, corruption, political stability and public sector reform are just some of many that could sink South Africa's economy. This paper evaluates the sustainability of the Grecian/South African economic linkages and determinants utilising *simultaneous equations*, *proposed structural reforms* and its *proclivity* to navigate a politico-economic trajectory. *Insights have been drawn* from the literature on the Greek financial crises, to offer an *analytical treatment* of the Grecian *risk contagion for emerging economies* such as South Africa.

Key words Debt-burden, Financial, Bail-out, Economic implosion, Simultaneous equations

Systemic Risk in South Africa: Lessons to be learnt from The Greek financial crisis

"I don't make jokes. I just watch the Government and report the facts."

—Will Rogers

1 Introduction

Policy-makers are operating in a rapidly changing world with systemic trends reshaping 21st century governments. In addition, with finances tight, growth stalling and unemployment high, the legacy of the financial crisis continues to play out across borders (Ernst & Young , 2015). Greece is providing a shocking mirror into financial collapse. It gives the rest of the world an opportunity to see just how badly things can go wrong when prudent management of a financial system is abandoned (Theobald, 2015) and simultaneously provides an opportunity to analyze how institutions and economic outcomes change over time as the world globalizes.

Burkhead (1951, p.205) and Persson, et al. (2000) aver that the level and composition of government spending displays enormous variation, both over time and across countries. The study of public finance in a number of countries may or may not reveal a set of common experiences or "principles." The structures of fiscal administration are the products of specialized institutional development and it is risky to generalize from a limited range of observation. The study of comparative public finance nevertheless, can be a useful undertaking, hoping that the discovery will throw light on problems and solutions in one's own country, particularly if it is possible to ascertain not only those things are done differently, but also why they are done differently.

Economists (Joseph Stiglitz, Jeffrey Sachs, Mike Schüssler, George Magnus, Richard Downing, Elizabeth Sidiropoulos, Caroline Belrose, Henk Langenhoven), politicians (Maimane and Alberts) and academics (Eswar Prasad, Jannie Rossouw) agree that by reflecting on how the Greek crisis came about, offers valuable lessons for South Africa's economy. This meta-analysis reinterprets evaluations

through a new lens. There are parallels between the situation in Greece before its collapse and the challenges facing South Africa (Maimane, 2015). Alberts (2015) posits that South Africa's economy is experiencing new and worrying low points with a fast increasing debt burden and therefore South Africa should with great earnestness take note of what has happened to the Greek economy as its own debt burden and anti-growth plans are sending the country to an economic implosion.

Prof. Jannie Rossouw, former Deputy Chief Governor of the South African Reserve Bank concurs with (Alberts, 2015) and pronounce that if the current situation continues, South Africa will only have enough money in 2026 for public salaries and welfare.The fiscal iceberg is however just one of many that could sink South Africa's economy. Others could speed it up and the largest of it all is the national and regional power crisis which is already impacting the country negatively. There are already water shortages which will soon have a larger impact than that of the power shortages, the collapse of services, food shortages for various reasons, corruption and various other smaller ones, such as shortage of coal for power generation. Whilst not expressing the same economic pessimism, Mike Schüssler, chief economist at Economists dotcoza believes that the South African economy is actually not going anywhere regarding real growth - "no one is really getting richer or poorer".

In direct contrast, the 2015 Bloomberg Business Survey Data ranks South Africa and Greecetogether with Venezuela, Argentina and Ukraine as the five most painful economies in which to live and work(Jamrisko, et al., 2015). The 2015 Misery Index is made up using the simple equation:

Unemployment rate + change in the consumer price index = misery

These countries have the "saddest projected rankings" in the Misery Index for 2015 as depicted in Figure 1.

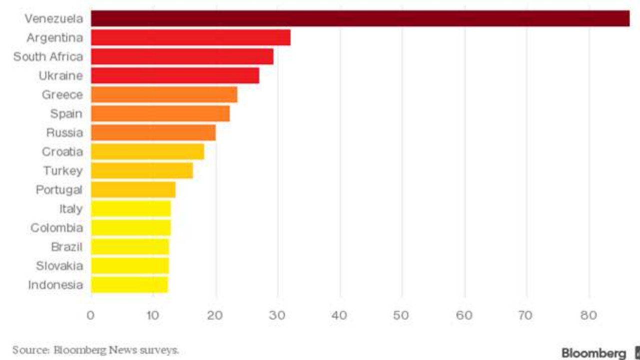

Figure 1 2015 Misery Index indicating countries to live in

2 Background

Throughout history, looking forward to the future is an inherently risky business. It is far better to predict the past, yet past results do not ensure future returns (Spector, 2015c).

Greek Financial Crisis

Recession-battered Greece is a country that almost defines economic mismanagement (Hartocollis, 2015). Georgakellos & Mylonas (2015) both argue that Greek political developments may seem paradoxical or even completely irrational as Greece is headed for snap elections in September 2015, less than eight months since its last parliamentary elections. For the past five years, Greece's internal political competition has centred around its financial crisis.

Batzoglou & Höges (2009) believe that the Greek government has pushed the country to the brink of national bankruptcy. In July 2015, Greece defaulted on a $1.8bn repayment to the International Monetary Fund (IMF), and on 28 July 2015 it faces a huge payment of $3.8bn to Europe Union institutions (Al Jazeera News, 2015). The two bail-out programmes crafted by the International Monetary Fund (IMF), the European Commission and European Central Bank (ECB) came with tough reforms and austerity policies that forced the government to slash spending. The IMF is anxious to craft a compromise, but also under pressure to recover the billions it has lent to the country. One

unpredicted result is that, despite all the bail-out funding, the Greek economy has contracted by 25% over five years (BD Live, 2015). The ratings agency Standard and Poor's said Greece's economy, which has already shrunk 25% since 2009, would contract by another 20% within four years if it made a distressed exit from the euro (REUTERS, 2015b).

South Africa's Business Confidence

Elizabeth Sidiropoulos, the chief executive of South African Institute of International Affairs (SAIIA) avers that five years of austerity measures (2009-2014) have exacerbated the economic decline of Greece, bordering it on a humanitarian crisis and a solution needs to be found. With Greece's economy under pressure, many sceptic are wondering if South Africa is on the same path towards economic collapse.

While South Africa's business confidence reached a 16-year low in June 2014, the South African Chamber of Commerce & Industry's (SACCI) chief economist Richard Downing, believes that it has not reached the Grecian tipping-point just yet (van Wyngaardt, 2015).

Against the six-year International Monetary Fund (IMF) economic projection for South Africa, this paper seeks to evaluate the sustainability of the South African economy against multifarious linkages and determinants in the context of the Grecian system and Theory of Simultaneous Equations (Imbs, 2004). It further considers South Africa's proposed structural reforms (if any) and its proclivity to navigate the politico-economic trajectory in a direction dissimilar to that of Greece.

Insights have been drawn from the literature on the Greek financial crises, to offer an analytical treatment of the Grecian risk contagion for emerging economies such as South Africa. Despite the unprecedented external monitoring and policing of the Greek economy by the "troika", the sensitive issue of governability and the uncertain prospects for avoiding further crises have come into sharp focus. The "troika" refers to the EU, ECB, and IMF, the trinity of institutions responsible for monitoring Greece's austerity measures.

3 Theoretical framework

Systemic Risk

Systemic Risk may be defined as the propensity of a financial institution to be undercapitalized when the financial system as a whole is undercapitalized. This paper applies this *Systemic Risk Methodology* to South Africa and the cost for the taxpayer to rescue the country if a similar faith awaits South Africans to that of Greece where the cost is so high that it be considered too big to be saved.

Simultaneous Equations

Marschak & Andrews (1944, p.143) posited that "to describe and measure causation, the economist cannot perform experiments. He has to take the values of all variables as they come, produced by a mechanism outside his control. This method is expressed by a system of *Simultaneous Equations*, as many of them as there are variables". *Simultaneous Equations* (or *System of Equations)*, is a finite set of equations for which common solutions are sought. It is further defined as a set of two or more equations, each containing two or more variables whose values can simultaneously satisfy both or all the equations in the set, the number of variables being equal to or less than the number of equations in the set.

4 Greece

Greece is tied to a currency of a much larger market and economy (Spector, 2015b). The challenge is that no one is well versed to manage things when the process breaks down.

In 2009, the erstwhile Greek Prime Minister Georgios Papandreou campaigned on the slogan that *"We Must Change-Or We Will Go Under."* When Greece entered the euro in 2001, Greece had a relatively small amount of consumer borrowing. Its banks had extended €24 billion in loans to domestic households at the end of that year. By the end of 2009, just before the debt crisis exploded, the figure had quadrupled to €99 billion (Forelle, et al., 2015).

Nortje (2015) one has to look at the Greek crisis from all sides before passing judgment. Greek debt stands at about €323bn (R4.4-trillion) - more than 175% of the country's gross domestic product (GDP). Most of this debt is owed in one way or another to other eurozone countries. The bulk (€142bn)

came from the eurozone's bail-out fund, while another €53bn was loaned to Greece through bilateral agreements.

As indicated, Batzoglou & Höges (2009) believe that the Greek government had pushed the country to the brink of national bankruptcy. Spector (2015b) contends that too many people have been easily portraying the current crisis as one of rapacious financial institutions seeking additional pounds of flesh from the poor Greek populace, all in order to set an example for other possible debt malingerers; *but without recognising the complicity of the Greek government over the years in taking all that easy money without worrying too much about the future.* This the Greek government seems to have done without doing the necessary sums, carrying out real reforms and cracking down on tax evasion, or even recognising what it is going to take to pay it all back someday. The problem of governments raising sufficient funds to cover current and future costs, or even when they decide to borrow judiciously to expand infrastructure at competitive rates, is becoming an increasingly disruptive feature of public life.

In July 2015, Greece defaulted on a $1.8bn repayment to the International Monetary Fund (IMF), and on 28 July 2015 it faces a huge payment of $3.8bn to Europe Union institutions (Al Jazeera News, 2015).

Thomas Jefferson (1816), once remarked that *"I believe that banking institutions are more dangerous to our liberties than standing armies... The issuing power should be taken from the banks and restored to the people, to whom it properly belongs."* This quotation is often cited as being in an 1802 letter to Secretary of the Treasury Albert Gallatin, and/or "later published in The Debate Over the Recharter of the Bank Bill (1809)."

Banking establishments are more dangerous than standing armies". Balzli (2010) impudently declares that *Goldman Sachs* helped the Greek government to mask the true extent of its deficit with the help of a derivatives deal that legally circumvented the European Union (EU) Maastricht deficit rules. Goldman Sachs secretly arranged additional credit of up to $1 billion for the Greeks. This credit disguised as a swap didn't show up in the Greek debt statistics. In previous years, *Italy* used a similar trick to mask its true debt with the help of a different US bank. Creative accounting took priority when it came to totting up government debt. Since 1999, the Maastricht rules threaten to slap hefty fines on euro member countries that exceed the budget deficit limit of three percent of gross domestic product. Total government debt mustn't exceed 60 percent. The Greeks have never managed to stick to the 60 percent debt limit, and only adhered to the three percent deficit ceiling with the help of blatant balance sheet cosmetics - gigantic military expenditures and billions in hospital debt were left out. The deficit each year has been far greater than the three percent limit. In 2009, it exploded to over 12 percent.

The leading creditors who own Greece's debt are reflected in ***Figure 2*** with Germany (€ 68.2bn) and France (€43.8bn) contributed towards both EU bailout loans and their respective domestic bank loans.

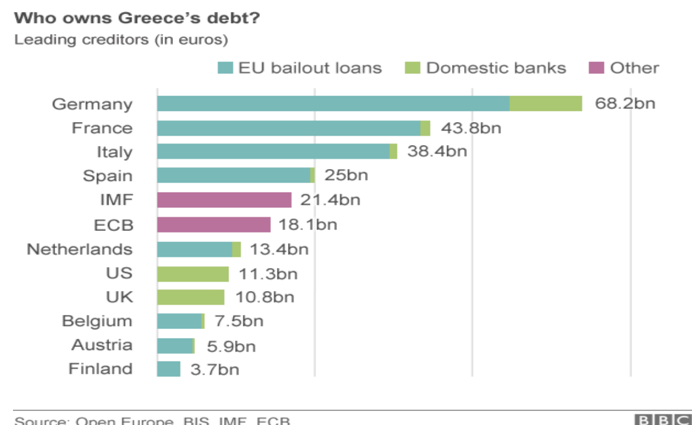

Figure 2 Who owns greece's debt?

Forelle, Fotiadis, & Dendrinou (2015) observed that in 2014 Greece looked as if it were on the

way up, Featherstone (2011) identified an errant paradox was evident in the denial of agency and resources that might limit the obligation of states to rescue a peer. The economy was growing - at one point, faster than Germany's. International investors jostled to buy the government's bonds. Banks were rebuilding. Politicians talked about a "clean exit" from Greece's years long bailout: no more loans, no more money, and no more humiliating reviews by bureaucrats from Brussels (European Union). However, in 2015 for many in Greece, any economic improvement of the past year has been a mirage, even before the financial chaos of recent weeks. Debt burdens have become harder to bear. Wages have tumbled, pushed down by policies intended to make Greek workers more competitive internationally. Social services have been cut to help close the budget gap. As a result, Greek households have cut their own spending, and they have fallen behind on their debts.

Greek Referendum

Greece had been locked in negotiations with its creditors for months when the Greek government unexpectedly called a referendum on the terms it was being offered (BBC News, 2015). The Greek population has spoken and decided overwhelmingly to support its prime minister in rejecting the bailout plan already withdrawn from the European financial troika. This was against accepting the terms offered by the European Union, the European Central Bank, and the European Commission to tighten the austerity screws even more to keep the international financial institution money tap open for the Greeks (Spector, 2015b). Greek voters have decisively rejected the terms of an international bailout. Greece's historic referendum has registered a final result in the referendum, published by the interior ministry, was 61.3% "No", against 38.7% who voted "Yes" (**Figure 3**) .

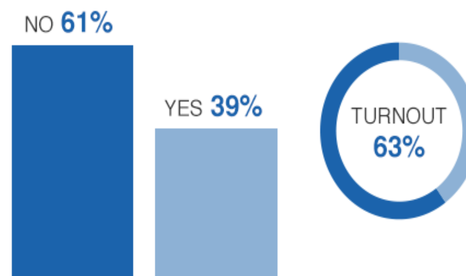

Figure 3 Greek referendum result

Greek Economy that did not perform

Featherstone, (2011) exposes the Greek sovereign debt crisis of 2010 through the weaknesses of governance of both the "euro area" and of Greece. Downing in van Wyngaardt (2015) argues that while a lot of the blame for Greece's financial crisis was passed onto other European countries, it was the Greek government that borrowed from other markets and it was the Greek economy that did not perform, as it should. It was not necessarily the last government that caused all these problems; it was a process that came over the years, where politicians, perhaps in the past, promised anything to people; public servants were employed all over the place, bonuses [were paid out] three times a year, pensions were misused.

As economist and author George Magnus so succinctly put it in a blog post, *"Greece's economic plight is 'Noddynomics', not economics"* (Nortje, 2015).

There have been costly institutional and policy indecisions. One of the biggest disappointments by far has been the inability of politicians to avoid the temptation to play to their galleries, and to delve back into their past. Mills and Davis (2015) argue that politicians see different events in entirely different ways. In an environment where a culture of victimhood prevails; where political loyalty is defined by background and political behaviour is immature and determined by short-term expediency; instead of focusing on getting deals done, and growing the economy to make accommodation easier,

there is a constant reaching back into history.

Grexit Scenario

The euro zone's most powerful leaders (Germany and France) said Athens must move quickly if it wants to secure a cash-for-reform deal with creditors and avoid crashing out of the single currency. Germany, the eurozone country to which Greece owes the most money, remained resistant. Despite Germany's tough stance, other European leaders seemed eager to avoid the specter of a Greek exit from the euro (Alderman, et al., 2015). Greece must accept deep reforms if it wants to remain in the euro (REUTERS, 2015a). European Commission President Jean-Claude Juncker warned "we have a Grexit scenario prepared in detail" (**Figure 4**) if Greece failed to reach a deal, although he insisted he wanted Athens to stay in the euro club (Al Jazeera News, 2015).

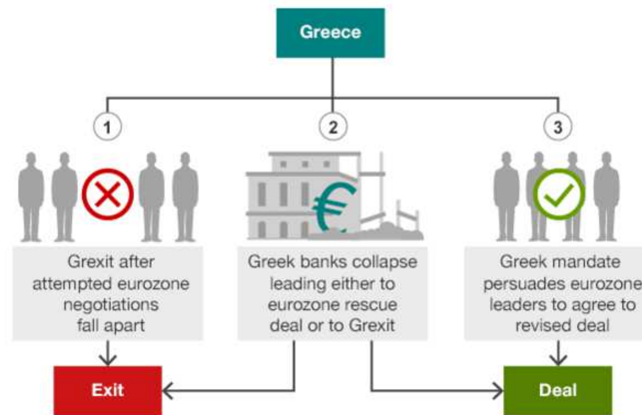

Figure 4 Grexit options/scenario

Source: BBC (2015)

In the first step of its renewed bid for funding, Greece's government must submit detailed reform plans. Instead of a Greek exit, Greece's creditors will now finally have to talk about restructuring the country's massive 240 billion euro ($267bn) debt to them.

A Greek exit would change the nature of a 15-year-old currency union intended to be unbreakable. There are only two options. The Bank of Greece could make unsecured loans to Greek banks without the ECB's permission - which would provoke a furious reaction from Eurozone leaders and would be seen by most of them as tantamount to leaving the euro. Or it can explicitly create a new currency, a new drachma, which it could then use to provide vital finance to Greek banks and the Greek economy (BBC News, 2015).

In light of the recent debt crisis surrounding Greece, several countries have considered extending significant aid packages (Dieckmann & Plank, 2012, p. 934). Some European institutions are already drawing up plans for humanitarian assistance packages for a post-Grexit Greece (Spector, 2015b).

Moreover, Batzoglou & Höges (2009) argue that a bailout of the Greek government could trigger a domino effect, with other shaky economies like Italy, Spain and Portugal opting for a "soft landing."

Geopolitical Concerns

Geopolitical concerns loom large, too. For months some Europeans have feared that a Syriza-led government might seek to strengthen Greece's long-standing ties with Russia. So far those fears have proved unfounded. However, a Grexit will produce a cascade reaction spinning out from one country's collapsing financial system on to other at-risk southern European economies like Portugal, Spain or even Italy (Spector, 2015b).

Residential Home-Ownership

(Forelle, et al., 2015) Greece has high rates of homeownership, which Greek banks have financed with mortgages. Those are now in trouble. The crumbling economy has pushed many in the middle class to the lower middle class and many in the working class into poverty. Delinquencies on loans have soared. The four big Greek banks reported in the first quarter that between 32% and 39% of their

Greek loans were nonperforming. National Bank of Greece, the country's largest lender, reported that €154 million in Greek mortgages became overdue, by 90 days or more, in the fourth quarter of last year. For the first quarter of this year, the figure jumped to more than €280 million. "Because of all the measures the government chose to take, there is no money," Under a 2010 law that introduced a sort of personal bankruptcy process, judges can suspend or reduce debt payments and ultimately restructure most debt. But the courts are so clogged with such cases that many won't be heard for years. One of her clients, who is paying that sum, has a court date in 2024.There is also a moratorium on foreclosures of most primary residences, though some residences and small business premises aren't covered. And banks voluntarily modify many loans—reducing payments but tacking accrued interest on to the end.

Decline in Living Standards

Five years into the debt crisis, Greece has suffered a loss of 25% of its GDP and a debilitating rise in immiseration and the unemployment rate - with unemployment over 25%, and youth unemployment over 50%, the plight of pensioners, who may be providing the only source of income for families, is acutely sensitive (REUTERS, 2015b). Its soup kitchens are open but its banks are closed; the country is close to collapse (Spector, 2015b). There is still a sizeable chunk of the Greek nation deeply unhappy with what has happened and the government will have to unite a divided country (BBC News, 2015).

Nortje (2015) offers that something overlooked is that the cost of servicing Greece's debt has been coming down over the past 20 years. In 1994 interest payments on Greek debt were a staggering 12.6% of GDP. By 2011 this had fallen to 7.3%, and to 3.9% last year. The result is that despite the lack of meaningful economic reforms, Greece's economy was slowly beginning to grow again. Not much, but enough for its government to be in a much stronger bargaining position for long-term debt relief

Spector (2015b) projects that the Greek population is going to go through a very rough wringer as their financial system and the economy generally runs into all this uncertainty. Tourism, a mainstay of the country's economy, will be hammered as visitors fear the lack of ability to know how to pay their bills or whether the country will be in an uproar when they visit. Imports of necessary products, like medical supplies, foodstuffs and oil and gas will become increasingly difficult to do, as importers will find it harder and harder to secure the hard currency means to pay for them.

The consequence is a country broken both socially and economically. Thirty percent of people are lost. A heavy and disproportionate burden in the crisis has been borne by Greek women. They have to combine work and family duties in an exhausting rigmarole. The cuts to public sector have hit women particularly hard (Pettifer, 2015). They can't feed their children. They can't go to the doctor. There is no social structure right now. Greeks believe that it was a choice between paying the loans and being able to feed themselves and their children - they chose the second option (Forelle, et al., 2015).Figure 5 indicates the number of people who have fallen into arrears with their utility payments.

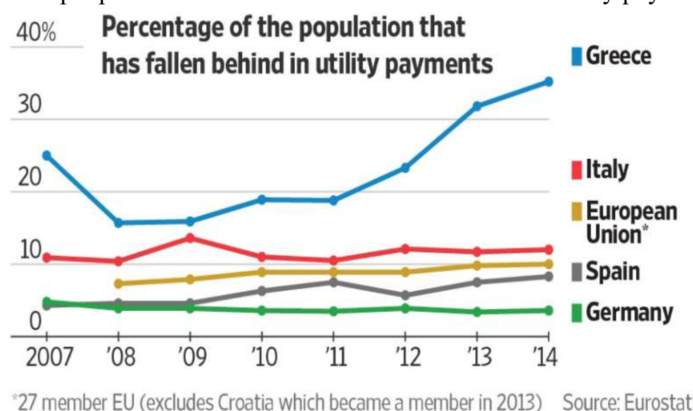

Figure 5 Population falling behind in Utility Payments

People can continue to use debit and credit cards and make electronic transfers within Greece, but without a banking system serving as a conduit for euros and a platform for transactions, Greece might

have little choice but to begin printing its own currency (Alderman, et al. 2015).

Greek Church

The Economist (2015) editorial introduced a unique angle to the financial crisis – that of the role of the church. The Greek Church predates the Greek state by many centuries, and such is its concern with the original events of sacred history that it can seem magnificently, almost provocatively, detached from the ebb and flow of everyday events. But how can the church (about whose role, usefulness and moral worth Greeks furiously disagree) ever play the role of reconciler and wound-healer? Greece has changed a lot in the 21st century: a large minority of its resident population has no cultural connection with the Orthodox church, either because their family roots are in China, Pakistan or Africa, or because (like Alexis Tsipras, the prime minister) they have formally declared themselves to be atheists who no longer look to the church for the rites which mark out their lives. That new situation presents the church with a dilemma. It can either play the card of Greek-Orthodox nativism and xenophobia which blends easily with ultra-rightist politics. Or it can use its influence to combat chauvinism and convince Greeks that however terrible their own travails, the migrants living in their midst are also worthy of respect and compassion. Signs of both tendencies exist.

Greek bail-out

Rachman's (2015) foreboding of Karl Marx's proclamation that *"History repeats itself, first as tragedy, second as farce"*is synonymous with the German government's agreement in principle, to another multibillion-euro bail-out of Greece - the third so far. In return, this latest iteration of the Greek crisis, has received promises of economic reform from a Greek government that makes it clear that it profoundly disagrees with everything it has just agreed to and on conditions determined in Athens.

The euro zone nations have now reached agreement how to keep Greece in the euro zone and begin the business of sorting out that nation's messy finances. Eswar Prasad, professor of trade policy at Cornell University in (Spector, 2015) posits that this agreement pulls Greece back from the brink of economic chaos but remains far from ensuring its long-term economic viability within the Eurozone.

Karagiannopoulos (2015) reports that Greece will face many challenges in delivering on the package of reforms it has promised. Protesters marched against austerity as civil servants, who fear for their jobs, savings and future, walked off their jobs in protest against a new bail-out deal that saved Athens from bankruptcy but will impose more reforms on a country already deep in crisis.

5 South Africa

South Africa's peaceful and stable transition to democracy, universally recognised as one of the major achievements of the 20th Century, is not a coincidence or a mere short-term success: the realities in South Africa, which made this miraculous transition possible, are still in place and guarantee future stability (Jacobs, 1998). Political stability is the key to investor confidence, especially in today's world. It is, therefore, essential to take a closer look at those factors, external and internal, which are guaranteeing continued political stability in South Africa. The political stability in South Africa reflects positively on the inherent strength and soundness of it's our economic and fiscal policies which underpinned even an assault on its currency.

Suttner (2015) reprises that democracy does not imply that representative democracy - having the right to vote periodically-is of no value. Some writers regard the words "representative democracy" as a contradiction in terms. The concept of democracy in itself, in its original meaning, refers to the people ruling, not others representing them in order to rule. Relationship of representation, accountability is central and they also link it to parliament itself being representative of the various components of the population. Accountability is "the other side" of representation: one without the other descends into either impracticality or elitism.

Although Jacobs (1998) argues for political stability, South Africa has however not remained completely unaffected by the turmoil in other emerging economies world-wide, especially in Greece, which has negatively affected investor confidence in these countries. Nobel Prize-winning economist, Joseph Stiglitz's searing criticism of a global financial system is what he views as inherently biased against the world's least developed countries. He argues that *"if they're not going to give money, let's not undermine the ability of the developing and emerging markets to collect money that is rightly*

theirs…If you're not going to help, don't do harm. European leaders and the West in general are criticising Greece for their failure to collect taxes. One of the points of our commission is that the West has created a framework for global tax avoidance (Allison, 2015)*."*

Mills and Herbst (2015a) have identified the shortage of jobs (unemployment) creating as creating a new apartheid. A core group within the government has difficulty in accepting the profit motive of business, yet prefers to lay the blame for the failure of transformation at the door of business and its "investment strike". This constituency has managed to block reforms that might incentivise employers to hire more workers.

Systematic Legislated Exclusion

There is much to celebrate from the past 21 years in South Africa. Mills and Davis's (2015) observe that it is easy to overlook that people in South Africa, are much better off today than they were in the 1970s, 1980s and 1990s "by any stretch of the imagination". There have been notable improvements in access to education, public health clinics, electricity and clean, piped water. The foundations of these improvements are shaky. Yet, for all of that progress, things have not gone as well as they might have. Mills and Herbst (2015a) mitigate that the systematic, legislated exclusion of most South Africans from sharing the country's wealth resulted in one of the most unequal societies in the world, in which race largely determined life chances.

If reforms are not made, many of these progressive measures will remain unrealised, leading to a more cynical and potentially unstable country.

Gross Domestic Product (GDP

South Africa's economy was bigger than Greece's. According to Richard Downing "Our gross domestic product (GDP) is about $340-million, while Greece, which is an advanced economy, [has a GDP of] only about $160-million. However, the per capita income for Greece is $14 616 a year, while South Africa's is about $5 925 a year (van Wyngaardt, 2015)."

Investor Confidence

Downing in van Wyngaardt (2015) believes that the South African local economy was facing a downward slope in growth performance, which did not bode well. In terms of fixed investments we can see in the public and private sectors that public sector real gross fixed investment are a little bit positive, with about 3% to 4% year-on-year change; however, investor confidence is not doing very well. "You can see that private sector real gross fixed investment is actually declining; not by much, but still lower than a year ago. This is a worrying factor; it is perhaps more worrying than business confidence as such".

Power Crisis

The stable supply of electricity to industries is as crucial as its costs. According to Acting Eskom CEO Brian Molefe, South Africa's outlook for industry is set to get worse (Allix, 2015). Henk Langenhoven, chief economist at the Steel and Engineering Industries Federation of Southern Africa (Seifsa) professional assessment of the situation is that South Africa's electricity crisis has come about because the country *"did not invest enough in expanding its power generation capacity, and recklessly neglected maintenance".* The instability of electricity provision is a serious constraint on the country's metals and engineering sector which has been struggling for more than five years, owing to fierce import competition from Asian economies, industrial action, increasing production costs and power outages, among other factors.

In South Africa (Mills & Herbst, 2015a), the government's instinct has been increasingly to regulate business. Yet, to compete in the international economy and increase employment, South Africa's labour market will have to become more flexible, not more regulated. The employers we spoke to on farms, mines and factory floors said that they would bring in more machines if they could not adapt their labour forces to changing market conditions.

Labour Volatility

The failure of SA's education system has meant it does not produce the skills at the right price to compete in the global marketplace. This is compounded by labour volatility. Despite the tripartite alliance, South Africa now loses more days to strikes than during the era of anti-government "rolling mass action" in the early 1990s. Improving prospects in manufacturing and other labour-intensive

sectors will be difficult amid such industrial unrest. Therefore it is in the interest of government and the ruling party to turn this situation around, failing which, its electoral prospects will be challenged if it cannot deliver jobs (Mills & Herbst, 2015a). This will require that government and the unions will have to extend this beyond just a few Broad Based Black Economic Empowerment (BBBEE) companies/sectors and accept some “home truths” about growth and employment, and to substitute an environment of confrontation with business with an agenda for competitiveness.

Public Construction Investment

There was a glimmer of hope in public construction investment, which rose about 15% year-on-year with “a lot of infrastructure spending going on”; however, equipment and transport investment was waning into negative territory, with an almost 4% year-on-year change. (van Wyngaardt, 2015).

Residential Building

Residential building was also lower, declining by about 6% year-on-year (van Wyngaardt, 2015).

Foreign Direct Investment

Most of the foreign direct investment in South Africa came from the UK, which contributed 40%, while the US was responsible for 26%, China only added 2%, and the rest of the continent added 3%. “It is very important to [know] who our investment partners [are] and who our friends [are] in terms of investment ... because you can see what happened to the Greeks when they started negotiating and they couldn't service their debt properly, or could not even pay.” (van Wyngaardt, 2015)

South Africans Savings - Single Bound Currency

Meanwhile, he said that South Africans’ savings did not meet the levels needed to finance government’s debt. “This gap should be filled by the foreign investor, through fixed investments and not just through the market in terms of portfolio investments and such. That’s why confidence levels are so important,” he highlighted. He noted that with regards to the inflow of capital, which was about 2.2% of GDP, there was a shortage building up, with a deficit of about 5% in the first quarter of this year, adding, “This is a worrying factor. This is a reflection of how other countries view the country or how they view the future of the country and this is something that needs to be addressed. “Of course, luckily, we differ from Greece in the fact that we have a currency that will shock the system into the right direction. In Greece, they didn’t have that luxury as they are bound to the euro,” Downing said.

Public Sector Reform

Because of its affiliation to the Eurozone and the benefits of borrowing money at very low interest rates, it was able to borrow “tranches” of funds from the Europe Central Bank. These funds, handed over through a memorandum in the past five years, were on condition that Greece embarks on a reform of the public sector but particularly on the Greek economy. “There has been a series of policies which have seen pensions cut, that have seen taxes grow and being imposed on things that people previously didn’t have to pay taxes for, which has led to a situation where the economy has contracted by 25 percent,” said Sidiropoulos.

Unemployment

This has resulted in an unemployment rate comparable to South Africa’s and the closing down of about 300 000 businesses. The consequence has been a Greek public sector that really has been decimated (Manala, 2015).

Mills and Herbst (2015a) identify the key problem to a potential unstable country/economy is high unemployment, which threatens to be the new apartheid, in which life chances are determined by access to jobs. Between 1994 and last year, the number of employed almost doubled to 15.1-million. Yet the number of unemployed (as defined broadly) increased even faster, from 3.7-million to 8.3-million. As a result, unemployment, using the expanded definition, has risen from 31.5% in 1994 to almost 36% 20 years later, and to nearly 70% among South Africans younger than 35 years.

Lessons that South Africa needs to learn fast

To understand why a yes vote would have been the lesser of the two evils for the Greeks, (Georg, et al., 2015) believe it is worth outlining three points that hold valuable lessons for South Africa:

a. Excessive debt for private and government consumption is a bad idea

The introduction of the euro led to a convergence of sovereign bond spreads and made it much cheaper for countries with a budget deficit to refinance themselves. In 2009, Greece had the highest

budget deficit and the highest ratio of debt to gross domestic product of all Eurozone countries. This deficit was not caused by large social programmes but rather by the Greek inability to collect taxes. Hence, there was an implicit transfer of wealth from future generations (who will have to repay the debt with their taxes) to current generations, and particularly to the wealthy end of the income distribution. The Greek economy boomed between 2000 and 2009, but this did not lead to productive investments in infrastructure and education. It just increased consumption.

There are similarities to South Africa now.

South Africans according to Nortje (2015) have a curious relationship with conspicuous consumption. In the same way comfortably middle-class South Africans become outraged over the spending habits of those who are richer than they are, a wave of schadenfreude has swept over those who see the Greek “no” vote as a triumph for democracy and a slap in the face for evil, neoliberal institutions such as the International Monetary Fund (IMF).

The Financial Times Stock Exchange (FTSE) and the JSE Limited (previously the JSE Securities Exchange and the Johannesburg Stock Exchange) all share index increased by more than 150% between 2009 and today. Due to increased government spending (public sector wages), South Africa will accumulate substantially more debt over the coming years. *This is worrying because this debt is not put into productive investments, but into consumption - just like Greece.*

b. Don’t neglect your youth

The other striking similarity between Greece and South Africa is the rise of populist parties on the left, fuelled by the anger of unemployed and disillusioned youth. Unemployment in Greece has reached South African proportions and, even worse, youth unemployment in both countries has surpassed 50%. One of every two young people who will have to repay the debt taken on by previous generations does not have a livelihood. It is hard to overemphasise how devastating this gargantuan unemployment rate is for an entire generation of young Greeks and young South Africans. Disillusioned by the “old” parties, they fall for the siren songs on the populist left, which promise an end to hardship.

In South Africa, the *Economic Freedom Fighters (EFF)* promises all sorts of social niceties by doubling the government budget without scaring away international investors. Neither promise can be kept.

c. Break the sovereign-bank nexus

One of the major problems of the Greek crisis is that the solvency of the Greek banking system and the solvency of the Greek state are so tightly linked. If Greece fails, huge losses will accumulate at Greek banks, which continue to buy Greek bonds only because they can still use them as collateral to obtain liquidity from the *European Central Bank* (ECB). Over the past five years, a silent bank run in Greece led to an outflow of more than €90bn in deposits — the same amount Greek banks obtain through the emergency liquidity assistance from the ECB. If Greece defaults, not even the most benevolent doves at the ECB will be able to accept Greek bonds as collateral. As a consequence, Greek banks will be unable to cover the liquidity shortfall. This would trigger a fire sale, leaving the banks insolvent.

The inability to save the Greek banks will increase the pressure on the Greek government to leave the euro. The newly independent Bank of Greece would then provide emergency liquidity assistance and at least save the Greek economy from being reduced to a barter economy.

South Africa’s banking system, by contrast, is robust and well capitalised. South African banks are not as heavily loaded with sovereign debt, so the sovereign-bank link is not as strong. This is not to say that there are no risks: the large and sustained current account deficit leaves the South African banking system highly dependent on volatile international capital flows.

(Georg, et al., 2015) The most important lesson South Africa can learn from the Greek tragedy is to close its budget deficit while there is still time. This would involve tough decisions about which social welfare programmes South Africa can afford and which it cannot. It would mean hardship and suffering.

Greece’s banking system is significantly funded from elsewhere (Theobald, 2015). The tragedy will be watched closely by regulators, including South Africa. South Africa’s banking system is far more resilient. It has strict controls over currency mismatches, so can’t end up in the mess that Iceland got into. South Africa’s banks’ solvency risks are mostly the risk of borrowers defaulting on loans.

That has been the trigger for both of our recent banking collapses, *African Bank* and, a decade ago, *Saambou*, which although painful were tightly controlled to prevent a wider banking system problem.

6 Conclusions

Children are the future. What kind of Greece will they grow up into, in perhaps twenty or thirty years' time? To whom will South Africa be reaching out to rescue it? Dealing with the issues and adjusting the narratives will take time, perhaps generations.

The real problems coming from all this is that no one really knows what comes next. Defaults on government debt are a messy business and there are few rules on how they are conducted, *only historic precedents.* It is important that we see them as warning signs and take action to prevent a similar disaster.It is not too late to place South Africa on an upward growth trajectory - but decisive action must be taken sooner rather than later to arrest the downward slide. Unlike the European Union's Eurozone, can the current ruling party rely on the African Union out of this calculation?

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