Europe's Greek Tragedy

By Luc de Keyser, for [Stratfor]
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The eurozone is unraveling. Each swing of the pendulum between financial infusions and economic strafing for Greece further weakens the unity of the bloc. Some, including Ian Morris, take heart in the belief that the crisis, though painful, is just one of the many obstacles on a path that generally points toward success for the European experiment. Others point to Europe's economic woes as a proof of concept that merely affirms the Continent's need for even greater integration.

As a clinician, I see things differently. There are times when those in my field have to make the tough call and conclude that the case of our patient – the object of diagnostic study here being the European economy – is simply without hope. It's a painful diagnosis, and one that a doctor is often hesitant to share with his or her patient. But at some point, the patient must be told.

The following is a physician's honest, if difficult, diagnosis of the Greek tragedy unfolding in Europe and of the Continent's hopeless attempts to keep itself from falling apart.

Prologue

A little more than a month ago, the presidents of the five EU institutions published a roadmap for strengthening the Economic and Monetary Union. At the same time, European Central Bank chief Mario Draghi called for a quantum leap in European integration efforts to safeguard the union's irreversible nature. But these leaders' proposals came too little, too late; the mechanisms they have suggested should have been in place from the outset. Attempts to cobble them together by 2017, as the first phase of the roadmap suggests, simply show Europe's desperation to hold itself together.

The troubles afflicting the eurozone are just a few of many complex societal issues that decision-makers must wade through on a daily basis. For such problems, there are no simple solutions. There aren't even complicated solutions. There are only best-guess measures with no guarantees of success. The currency union's underlying flaws, like so many other modern problems, are far too intricate and perplexing for our minds and institutions to cope with. Failing to admit to our own overconfidence in dealing with the bloc's problems will only perpetuate the crisis playing out across Europe.

Parode

The Greek crisis has left few, if any, winners. Within the broad and varied chorus of commentators, there are many different chants about what happened in the lead-up to the crisis and what should happen next. Overall, though, most seem to agree that the financial tragedy could have been prevented. Why, then, wasn't it?

It is said that in ancient Greek tragedies, fate determines the inescapable outcome of the play's plot. But in English, the word "fate" only encompasses a small subset of the meanings of the corresponding Greek terms. With many other, similar gaps between the English and ancient Greek languages, translators trying to express the subtle richness of ancient Greek mores have their work cut out for them. So, too, we face an uphill battle trying to keep the lessons of Greece's financial woes from being lost in translation for future leaders. But this time, it's a different language we must translate: economics.

Today's economists are locked in a scrimmage between half a dozen schools of thought that advocate measures across a spectrum ranging from tightly disciplined austerity to balanced interventions. Meanwhile, politicians ride the moody whims of their constituents, and the media selectively report on the clashes between hard-liners and moderates, pessimists and optimists, increasingly steering the opinions of their readers. Within this quagmire, who could blame Europe's decision-makers for failing to craft solutions more durable than the last-minute compromises they inevitably settle on? After all, as even former European Council President Herman Van Rompuy admits, decisions are only made when "they feel their backs are against the wall, the abyss is looming in front of them, and a knife is on their throat." Surely there is a better way to make decisions on important affairs of state.

Despite the flurry of discussions about facts and figures, theory and practice, policy and politics, opinion leaders are essentially divided into two camps: those who believe in the measures forced by an economic majority, and those who do not. The degree of polarity between the two positions, taken up by the Continent's best and brightest to whom governance has been entrusted, sets no one at ease.

But we should not be surprised by the lack of agreement on the roots of the crisis or the failure to craft a coherent vision of the path toward a Greek recovery. The processes of the human mind were perfected and finely tuned for a different world, full of different problems of a different level of complexity. The eurozone crisis, by comparison, is so astoundingly complicated that it confounds even the most learned economists and politicians. Perhaps accepting this reality, then, is the first step toward escaping our fate of repeating history all over again.

Episode 1: Confirmation Bias

The human brain has evolved to search for or to interpret information in a way that confirms its preconceived notions. In prehistoric times, this confirmation bias kept man out of harm's way by encouraging preferences for things known to be safe.

Today, it is wreaking havoc in Europe. It is one thing to observe the obstinacy of those supporting opposing economic theories; it is another to accept accusations that adherence to other schools of thought will ruin the livelihoods of millions of people. As the debate between proponents of different theories and solutions rages on, advocates on all sides of the argument tend to become more entrenched in their positions, selectively holding up various facts and figures to support their ideas. Though there has been little research into ways of avoiding the adverse effects of confirmation bias, the advice of Philip E. Tetlock seems to be a good place to start: "[gather] evidence from a variety of sources, [think] probabilistically, [work] in teams, [keep] score, and [be] willing to admit error and change course." In doing so, European policymakers (much like geopolitical analysts) may become more honest with themselves and, consequently, more accurate in their predictions of the bloc's future.

Episode 2: Behavioral Macroeconomics

The mechanisms of behavioral macroeconomics are yet another of the many factors to blame for Greece's crisis. Behavioral macroeconomics, which enriches the principles of economics with theories of psychology, studies the drivers of consumer behavior, among other things. It describes our use of rules of thumb as shortcuts for making decisions in complex situations and the role of mental metaphors in understanding and responding to those situations. These natural human behaviors explain some of the bafflingly irrational phenomena, such as bubbles and crashes, that occur in markets. Upon analyzing the eurozone crisis, it would be hard to argue that these mechanisms aren't at work. For example, believers in austerity often put forth versions of the tale of the ant and the grasshopper to defend the idea of attaching severe requirements to aid: The grasshopper (Greece) spent its summer playing the violin instead of harvesting food, as the ant (Germany) wisely did, and it would be unwise to lend the grasshopper food during the winter without his promise to mend his ways when summer returns. In a similar fashion, the non-believers offer up their own metaphor: The impatient couple (the creditors) will get no returns in the future if they kill the goose that lays the golden eggs (Greece).

Unfortunately, the field of behavioral macroeconomics is relatively new, and as such, it is not yet widely understood. The chances are very slim that those with an awareness of behavioral macroeconomics mechanisms will reach a critical mass at any level of governance or that they will have the necessary energy and focus available to incorporate the principles into their daily decision-making processes.

Episode 3: Dunning-Kruger Effect

The final and most impactful cognitive deficit underpinning the crisis is the Dunning-Kruger effect, or the inability of people incapable of understanding the situation at hand to recognize their own incompetence. I do not mean to say that Europe's best and brightest are stupid; quite the opposite in fact. But their skills – and the skills of any human brain, however intelligent – are far outmatched by the complexity of Europe's contemporary problems, so much so that they cannot recognize their own limitations in forming a solution and consequently cannot counter the negative impact their unwarranted overconfidence has on European policy.

Exode

To shake the effects of our various built-in biases, we must first accept that it is our fate to be overwhelmed by the problems of modern-day society. This conscious act of humility is the necessary precondition for the painstaking process of exploring, through trial and error, a world of problems that we have not evolved to solve. It is a process that cannot be rushed; when time runs out and emergency measures are called for, most of the power of rational thought is already lost. Likewise, the debate over whether, in hindsight, politicians avoided a deeper depression or added to the damage with their specific policy decisions is moot. Instead, all we can do is watch and wait, hoping that somewhere in the pantheon of politicians, one will be brave enough to admit that he is not competent enough to solve the problem at hand.