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The World's Top 'Financial Firefighter' on How to Douse the Greek Debt Crisis

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BY ROB GARVER,
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As Greece teeters on the brink of fiscal disaster, and European Finance Ministers trade barbs through the media, Bill Rhodes looks on, knowing it didn't have to be this way.

Rhodes, formally William R. Rhodes, is a former Citigroup senior vice chairman, and he may have negotiated the successful end of more sovereign debt crises than anybody on the planet.
Described as "the world's pre-eminent financial firefighter," Rhodes looks at the slow motion disaster unfolding in Europe, with Greek Prime Minister Alexis Tsipras publicly criticizing German Finance Minister Wolfgang Schaeuble and Schaeuble sniping at Greek Finance Minister Yanis Varoufakis, and seems almost mystified at the course it's taken. In the latest twist, Germany on Thursday rejected Greece's request for a six-month extension to its current bailout loan package.

"Rather than the continuous claims and counter-claims, they've got to sit around a table and work this out," Rhodes said in an interview Wednesday, stressing repeatedly the need to metaphorically "close the door" on the talks. "The longer you put it off, you start getting these statements from both sides that alienate each other."

That's not to say the two sides need to pull punches, he adds. "There's got to be some realism put on the table here,

but I think that Schaeuble making his comments and Tsipras making his comments back and forth does not help the process."

For the negotiators in Brussels, his words ought to carry some weight. In a decades-long career at Citi, Rhodes was the point man — not just for the bank, but often by proxy for the U.S. government — in negotiating the end of the continent-wide Latin American debt crisis of the 1980s and the near-default of South Korea during the Asian crisis of the late 1990s.

Former Federal Reserve Board Chair Paul Volcker recalled that as country after country began to melt down during the Latin American debt crisis, Rhodes was the man who regulators and politicians turned to repeatedly to bring the agreements home.

"What sticks in my mind to this day are the relatively ineffective efforts by other bankers who were called upon from time to time to lead the financing effort for particular countries," Volcker wrote in the foreword to Rhodes' 2011 book, "Banker to the World." "It was not that they lacked financial expertise. What was absent was an instinctive understanding of the varied interests at stake, the ability to marshal a consensus, and, when needed, the will to exert authority. Those were qualities Bill Rhodes brought to the table, and on more than one occasion I felt the need to implore…Citibank's chairman, to send Bill back into the fray."

Rhodes has long been dubious about the effort to rescue Greece from its fiscal problems. In an interview in 2011, he was asked about the ongoing bailout efforts and was, even then, pessimistic.

"People have to see that the sacrifices they are making are leading somewhere," he said at the time, stressing the importance of a bailout that allowed the Greek economy to grow. He questioned whether Greek and European leaders recognized the potential problems that lay ahead if the right balance wasn't struck.

Nearly four years later, he sees the entire process as one that was deeply flawed, beginning in 2009 when a new Greek government, headed by Prime Minister George Papandreou, came in to office to find the country in far worse financial condition than his predecessors had been willing to admit. The Papandreou government's negotiations with European officials were rocky from the start, and Rhodes says that flawed forecasts from The "Troika" — the trio of lenders made up of the European Central Bank, the International Monetary Fund, and the European Commission — didn't help.

"All of the estimates made by the Troika were off," he said. "The assumptions were wrong. The actions taken were wrong. And they contributed to the fall of the Papandreou government, and the subsequent governments."

Among other things, he said, the original plans to bail Greece out assumed that the country's leaky tax system, which loses huge amounts of revenue to non-compliance, would be fixed quickly. Five years later, very little has changed.
One of the biggest problems, he said, was the failure to prioritize immediate and sustainable economic growth as part of the 2010 talks.

"There wasn't a sufficient plan for growth that was realistic, and they took way too long to do debt restructuring," he said. "That should have started almost immediately."

Instead, the government and its creditors did little to show the Greek people that there was some sort of positive outcome possible at the end of a long and painful road. "All these mistakes piled up, and the Greek public got fed up," Rhodes said.

That leaves Tsipras in a hugely difficult position. "Now, with this bad track record that we have since late 2009 and 2010, I think you have a lot of skepticism and cynicism among the Greek public, so I think Tsipras has a difficult job to try and convince the Greek people to embark on anything that doesn't live up to what he campaigned on."

Buy-in from the Greek public, he said, is essential. "A problem of the previous Greek governments, starting with Papandreou, is they didn't take account of the need to really sell the package to the public."

That's the task facing Tspiras and Varoufakis, he said.

“When you go through such a horrendous economic downturn like they have, this has the makings of revolution, both politically and economically. I think the key thing is that Tsipras and Varoufakis have to come up with a plan that they feel they can sell to their constituents that’s viable, and that the Europeans can accept.”

And, he added, Greece’s European creditors need to be practical about what they can expect — insisting on adherence to a specific pre-existing deal can’t be prioritized over a practical solution.
“We should really have substance here more than form – if the Europeans insist too much on form and not on substance, it’s a mistake,” he said. “They’ve got to be realistic.”

In the end, he said, “It doesn’t suit the creditors not to have Greece growing because then they’re not going to get their money back, or any part if it for that matter.”

Above all, Rhodes said, what the negotiators need to do “is sit down at a table and work things out rather than exchanging insults.”

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