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1-1-2012

Introduction

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Recommended Citation

Hatalis, Miltiadis, "Introduction" (2012). *Greece: the epic battle for economic recovery.* Paper 1.
http://preserve.lehigh.edu/perspectives-v30/1

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INTRODUCTION

Greece, the birthplace of democracy, philosophy, drama, and the Olympic Games, is currently in the midst of its own tragedy. The prosperity and financial growth Greece enjoyed as the tenth member of the European Union in 1981, and which accelerated when it joined the Euro zone in 2001, came to a sudden halt in 2010 with its inability to finance an enormous and escalating national debt.

A financial default by Greece would have been an unprecedented event for a member of both the European Union and the Euro zone. Such an event would have had unpredictable and perhaps dire consequences not only for Europe but for the entire world economy as well. Though Greece is a small country of about 11 million citizens accounting for less than 3 percent of the total Euro zone economy, a default might have caused a domino effect involving other financially weak Euro zone countries such as Portugal, Spain, Ireland and Italy. The future of the European Union and of the euro would have been questioned if Greece had exited the Euro zone as a result of a default. This event would have been considered a precedent for other countries. Bank runs, not only in Greece but also in other financially troubled European countries, would have strained the banking system and undermined the entire European Union economy just as the world economy was in the midst of its own fragile recovery from the 2007 global banking crisis.

In order to avoid a financial default by Greece, three entities, known collectively as the "*Troika*" (the European Union, the European Central Bank and the International Monetary Fund), formulated a financial rescue package in 2010. Interest rates on Greek bonds had become unsustainably high in early 2010, and without this aid a default by Greece was inevitable. This package, in the form of €110 billion as loan guarantees, was offered along with a "memorandum" requiring a series of mandatory measures Greece had to implement and maintain to reform its economy. Initially, a three-year period was established as the time frame for Greece to implement necessary reforms without the need of issuing bonds to finance its debt obligations externally.

However, the Troika has not yet become the "*Deus ex Machina*" or "God from the machine" of classical Greek tragedy, whereby "God" unexpectedly intervenes to quickly solve seemingly unsolvable problems and thus bring a happy ending to a tale. To the contrary, dour financial and social consequences touched the life of every Greek citizen as implementation of the measures stipulated by the memorandum led to deepening recession, higher unemployment, and continuing economic decline.

Economists, historians, and political scientists may well study for a long time the pre- and post-memorandum conditions in order to identify the root causes of Greece's sovereign debt problem and assess the Troika's memorandum, and the Greek government's implementation of the measures it prescribed, as a solution to the country's debt crisis. There is no doubt that Greece's entry in the Euro zone resulted in complacency. The availability of capital at low interest rates contributed to the ballooning of both the national and the average consumer debts, which gave rise to a false prosperity based on borrowing. By 2009, the echo of the successful 2004 Athens Olympic Games and the knowledge that Greek banks had no exposure to the U.S. housing bubble provided a false sense of financial prosperity and security, despite the many chronic problems of Greece's economy such as tax evasion, a large public sector, and the aforementioned dependency on external borrowing. Thus Greece was ill prepared to face the shortage of capital that resulted from the 2007 global financial banking crisis.

Lehigh's Martindale Center for the Study of Private Enterprise recognized the magnitude of this escalating crisis and thus chose Greece for the Martindale Undergraduate Fellows annual research trip. The eleven student articles in this volume are the result of material students gathered during their trip to Greece in May 2011 and also from months of subsequent research and analysis. Two of the articles examine Greece's debt crisis and the efforts of the

International Monetary Fund, the European Commission, and the European Central Bank to contain and solve this crisis. Several articles explore costly inefficiencies in the judicial, healthcare, education, and pension systems and assess reform measures that have been implemented to improve them. A new property tax and the privatization of state-owned assets as sources of increasing revenue are analyzed in two other articles. Another reviews Greece's relationship with Israel, Cyprus, and Turkey in light of recent developments in the energy field. Finally, two articles look at the tourism and shipping industries, the pillars of Greece's economy, along with the challenges they face and the opportunities at hand. It has to be recognized that all eleven articles have been written not by scholars and experts but by undergraduate students who nevertheless provide a critical insight into many of Greece's economic, political, and social issues.

Though many of Greece's chronic ills (tax evasion, wasteful healthcare, large public sector, etc.) were well known prior to the crisis, the political system did not have the will to address and solve them in a sustainable way. The current situation presents an historic opportunity to cure these ills and establish the foundation for a competitive and fair economy. However, even if this effort is successful, it will be at the expense of significant suffering of the Greek people. So far, Greeks have demonstrated uncharacteristic tolerance and patience, despite the significant deterioration of income, high unemployment, and a general decline in social services as a result of the government's fiscal austerity measures. Known for their passion and pride, the people of Greece have demonstrated their dismay through their votes only; in the June 2012 general election the two main parties (PASOK and New Democracy), which have alternated in governing the country since 1974, experienced significant erosion in their representation in the Hellenic Parliament.

At the time of this writing, the coalition government of the New Democracy, PASOK, and Democratic Left that resulted from the elections of June 2012 is negotiating a new €11.5 billion austerity package with the Troika. Proclaimed as the last austerity package, this action is under way because it has become clear that previous measures will not have Greece on a sustainable path by 2013. A new "memorandum" and additional loan guarantees were negotiated in early 2012, and the timeline for recovery was pushed to 2015. However, time is running out. Greece's gross domestic product has fallen below €200 billion, shrinking by more than a third since 2009. Despite a voluntary haircut by creditors of 50 percent of their Greek debt holdings, Greece's debt-to-GDP ratio may still be at a non-sustainable level. Disagreements between the IMF and European Union on the Greek crisis are emerging. Discontent is also becoming evident among certain European countries over the possibility of a third round of financial intervention. Finally, the Greek people may decide to reject austerity in favor of alternate routes if they see that all their suffering has been in vain.

Greece has persevered for thousands of years. Periods of growth and prosperity have been followed by war or economic and social decline. The European Union was conceived as a way to end war among its nations and unite all Europeans in prosperity. Greece's crisis has been a prelude to Europe's sovereign debt crisis, which by now has engulfed several of its states. It remains to be seen whether this crisis is another form of "war" in which financially strong countries impose their will on the weak, with the ensuing social and economic decline becoming the contemporary "war ruins," or if this crisis will be the catalyst of a stronger and more prosperous European Union. Either way, Greece will survive this epic battle and move into the future on the foundation of its heritage and the strength, will, and tenacity of its great people.

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