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# **Rebuilding Eurozone's Ground Zero: A review of the Greek economic crisis**

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# Rebuilding Eurozone's Ground Zero: A review of the Greek economic crisis

Nikos Chrysoloras<sup>#</sup>

## ABSTRACT

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Despite widespread criticism on its performance, all indicators demonstrate that Greece has achieved impressive fiscal and structural adjustment since its de facto bankruptcy, in May 2010. However, serious implementation problems, the pace and sheer volume of the contractionary measures adopted over the last years, as well as the fact that the burden was unevenly shared, may lead to a social and political crisis, which could threaten the very survival of democracy in the country. Such catastrophe would destabilize the Balkan region and the Eurozone, while it would deal a huge blow to the European unification project. This paper examines the reasons and events that led to Greece's economic implosion, describes the current predicaments of the country, and – most importantly – explores suggestions for rebuilding the Greek economy on more solid foundations, without tearing society apart in the process.

Keywords: Grexit; MoU; Troika; Greece; Eurozone; Debt; Adjustment; Euro

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[...]

*But here's the problem, here's the rub:  
they make a tremendous fuss about everything, these Reformers.  
(What a relief it would be if they were never needed.)  
They probe everywhere, question the smallest detail,  
and right away think up radical changes that demand immediate execution.*

[...]

*Maybe the moment hasn't arrived yet. Let's not be too hasty: haste is a  
dangerous thing.  
Untimely measures bring repentance. Certainly, and unhappily, many things in  
the Colony are absurd.  
But is there anything human without some fault?  
And after all, you see, we do move forward.*

**Constantine P. Cavafy**

"In a Large Greek Colony, 200 B.C"

## 1. Introduction: Guilty as charged?

The Greek crisis is essentially a déjà vu of the subprime loans catastrophe, which hit the US in 2008, leaving the global economy into disarray. The obvious difference is that, in this case, the insolvent borrower is a state. Other than that, the similarities are striking: after a prolonged period of solid growth, which had created the illusion of irreversible stability<sup>1</sup>, "the music suddenly stopped" in October 2009, a year after the collapse of Lehman Brothers.<sup>2</sup> Before that, there were

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<sup>1</sup> Greek GDP was growing at rates well above the EU average, between 1996 and 2007. See Eurostat tables at [http://epp.eurostat.ec.europa.eu/portal/page/portal/national\\_accounts/data/main\\_tables](http://epp.eurostat.ec.europa.eu/portal/page/portal/national_accounts/data/main_tables).

<sup>2</sup> The Eurogroup meeting, which took place in Luxemburg in October 19, 2009, is widely considered as the starting point of the Greek debt crisis, as the new Greek government of PASOK officially admitted that the country's public deficit would exceed 12% that year. See Tony Barber, "Greece vows action to cut budget deficit", *Financial Times*, 20 October 2009.

scarce warnings about the quality of Greece's public accounts statistics, by Eurostat, as well as subtle concerns on its persistently high levels of debt and deficit, by the EU Commission and the OECD. However, as it was also the case with the global financial crisis, none of the national, European, or global oversight institutions had foreseen a *total implosion*, or at least they had not stated such probability in public.<sup>3</sup>

The sudden realization that the Greek debt was "toxic" initiated a crisis of trust in the financial system, due to the uncertainty over the exposure of major lending institutions to "bad bonds", and raised doubts regarding the solvency of other developed states in the Eurozone. The quality of sovereign bonds portfolios became "anyone's guess", or, to put it more precisely, anyone's speculation. The immediate effect of this crisis of trust was the rise of interest rates in interbank and sovereign loans, resulting into a liquidity shortage and a prolonged stagnation in Europe, which is predicted to last at least until 2013. Successive interventions by the ECB, as well as the set-up of gigantic stability funds (EFSF and ESM) by the Eurozone nations, failed to reassure markets.

At the same time, a small country, accounting for only 2% of EU's GDP, was elevated into a "systemic risk" for the global economy, raising fears that its probable exit from the Eurozone would "contaminate" the rest of the European periphery and could even put the future of the European unification project at stake. After two massive bailouts by its European partners and the IMF, and despite the largest sovereign debt restructuring in modern history, the "convertibility risk" has not

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<sup>3</sup> In fact, the most explicit such warning was made by former PM, Costas Semites, in a speech he gave to the Greek parliament on December 18, 2008. His comment was largely dismissed by the government. For the failure of global oversight institutions, see Papadoyannis(2012).

disappeared and the state of Greece has been described by its current PM, Antonis Samaras, as the economic equivalent of a nuclear winter.<sup>4</sup>

Greece's economic implosion has been the subject of intense debate in international media, as well as among politicians, academics, researchers, the financial institutions community, and technocrats.<sup>5</sup> And yet, much of the arguments heard, especially in the press, are filled with stereotypes, which mud the waters and constitute more of a nuisance rather than a helpful analysis of what has really happened in the country. A common narrative, for example, is that Greeks "live (d) beyond their means". However, numbers tell a different story: the truth is that Greeks as a whole, meaning the state, the people, financial institutions and private corporations, are not as indebted as the stereotype suggests. A detailed report by McKinsey showed that, in 2009, when the sovereign bonds crisis broke out, Greek total debt (public and private) stood at 230% of GDP, half of what it was in the UK (466%), and much less than it was in Germany (285%) and France (323%). Greece also fared much better than the UK, France, Belgium,

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<sup>4</sup> Comment during the press conference, following the EU Summit of October 18-19, 2012.

<sup>5</sup> The Greek crisis literature is burgeoning. See for example, Michael Mitsopoulos & Theodore Pelagidis (2012), Matthew Lynn (2010), Michael Lewis (2011), Jason Manolopoulos (2011), Vangelis Demiris (2012), Giorgos Romaios (2012), Stavros Lygeros (2011). For technical reports on the Greek crisis see indicatively, International Monetary Fund (2012), "Greece: Request for Extended Arrangement Under the Extended Fund Facility", (available online: <http://www.imf.org/external/pubs/ft/scr/2012/cr1257.pdf>); International Monetary Fund (2012), "Greece: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding", (available online: <http://www.imf.org/External/NP/LOI/2012/GRC/030912.pdf>); European Commission Task Force for Greece (2012), "Second Quarterly Report", (available online: [http://ec.europa.eu/commission\\_2010-2014/president/news/speeches-statements/pdf/qr\\_march2012\\_en.pdf](http://ec.europa.eu/commission_2010-2014/president/news/speeches-statements/pdf/qr_march2012_en.pdf)); European Commission - Directorate General Economic and Financial Affairs (2012) "The Second Economic Adjustment Programme for Greece" (available online: [http://ec.europa.eu/economy\\_finance/publications/occasional\\_paper/2012/pdf/ocp94\\_en.pdf](http://ec.europa.eu/economy_finance/publications/occasional_paper/2012/pdf/ocp94_en.pdf)).

Portugal, and Ireland, when it came to total external debt.<sup>6</sup> Greece's low total debt levels, at least at the onset of the crisis, can be explained by the fact that private and corporate debt in the country is small by Western standards. Greek banks were also careful to avoid exposure in the US, Irish and Spanish real estate bubbles, as well as the subprime loans market. However, they were heavily exposed to an equally "toxic" asset: Greek government bonds. Their readiness to keep funding state deficits with cheap credit proved to be their doom, as Greece's privately held debt restructuring, in 2012, led them to effective nationalization.

Another stereotype often depicted in the media is the eternally-sun-bathing lazy Greek. Again, reliable data show that this could not be further from the truth. According to the latest European Commission "Quarterly Review on Employment" (September 2012), "Greece and Austria recorded the highest number of hours worked by full-time employed persons in the first quarter of 2012, while Finland, Italy and Ireland recorded the lowest number".<sup>7</sup> Moreover, according to OECD data, in 2011, the average annual hours actually worked per worker in Greece, were 2,032, compared to 1,413 in Germany and 1,776 hours on average in the developed world (OECD countries).<sup>8</sup>

It therefore appears that although an ever-increasing number of columnists, populist politicians, and tabloid press journalists claim to be experts on Greece these days, very few bother to look at the actual data.

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<sup>6</sup> See McKinsey Global Institute (2012).

<sup>7</sup> See "Employment: Quarterly Review shows persistent labour market and social divergence between Member States", press release by the EU Commission, available online at [http://europa.eu/rapid/press-release\\_IP-12-1037\\_en.htm](http://europa.eu/rapid/press-release_IP-12-1037_en.htm).

<sup>8</sup> See OECD Stats Extracts, available online at <http://stats.oecd.org/Index.aspx?DatasetCode=ANHRS>.



For example, a persistent cliché is that Greece is an “empty barrel”. The Greek border, the narrative goes, is the earthly equivalent of what astronomers call “event horizon”: as soon as European taxpayers’ money gets in, it disappears into the black hole of Greek profligacy. Such caricatures cannot withstand to serious critique: between 2010 and 2012, Greek public deficit dropped from 15.6% of GDP to 6.6%, and primary deficit (excluding interest payments) from 10.5% to approximately 1.4% of GDP.<sup>9</sup> These figures are almost double than the ones achieved by Portugal, which, according to the European Commission, is considered a “well performing country under adjustment program”. Given the fact the aforementioned correction was carried out in an arduous international macroeconomic environment and under conditions of steep and persistent recession, it constitutes an unprecedented performance by international standards. The sum total of austerity measures required to achieve this adjustment exceeded 49 billion euros, or 22.6% of Greece’s GDP, in just two years.<sup>10</sup>

Progress in structural reforms has been slower, but still impressive: for example, the country earned the 1st place on responsiveness to OECD growth recommendations in the OECD *Going for Growth* report of March 2012 (Pagoulatos, 2012). Moreover, Greece improved its global ranking by a staggering 22 places, in the 2013 *Doing Business* report, published by the World Bank. In addition, “in the last 12 months Greece has been the runaway leader among Eurozone countries in terms of compliance with plans for its fiscal adjustment and in promoting reforms, according

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<sup>9</sup> See Eurostat data, available online [http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/2-23042012-AP/EN/2-23042012-AP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-23042012-AP/EN/2-23042012-AP-EN.PDF).

<sup>10</sup> Data based on Greece’s draft budget for 2013.

to the annual “Euro Plus Monitor” report for 2012 issued by the Lisbon Council think tank and Berenberg Bank” (Kathimerini, 26 November 2012).

This violent adjustment took its toll on Greek society: Unemployment has hit 25.1% in the general population, and it has exceeded 54% among the youth (ELSTAT, October 2012). Whoever loses his or her job in Greece today has virtually no prospect of finding another one in the foreseeable future, since Greece records the highest percentage of long term unemployed in the EU (EU Commission, September 2012). Six out of ten Greek companies operated on losses in 2012 (ICAP Databank). House prices have plummeted by up to 60% (*Ta Nea*, August 18, 2012) and non-performing mortgages now exceed 18% (*Dow Jones Newswires*, 14 August 2012). Accumulated GDP contraction is projected to exceed 25% between end 2008 and end 2013. Suicides have increased by 22% between 2010 and 2012.<sup>11</sup> Greek Police data show significant increase across the spectrum of violent crimes (thefts, robberies, rapes, homicides, etc.). The number of homeless people has also increased by 25% over the last two years (European Commission, March 2012).

Moreover, an ever-increasing number of insurance companies refuse to insure exports to Greece. Oil and gas suppliers require down payments in cash in order to provide fuel to Greece. Virtually all private electricity suppliers have gone bankrupt and the state electricity provider is facing

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<sup>11</sup> The correlation between the number of suicides and unemployment rates is disputed by some epidemiologists and researchers. However, there were cases in Greece, in which those who committed suicide explicitly stated in their last letters that they decided so because of the desperation caused by the crisis. Such cases received widespread coverage by the Greek media. See Economou M, Madianos M, Theleritis C, Peppou LE, Stefanis CN (2011), and Konstantinos N Fountoulakis, Ilias A Grammatikopoulos, Sotirios A Koupidis, Melina Siamouli, Pavlos N Theodorakis (2012).

an unprecedented cash crunch due to the inability of households to pay their bills. The same is true for the state owned gas supplier. Tens of thousands of apartment blocks, even in middle class neighborhoods of Athens, did not provide heating last winter, because the owners of their flats were unable to pay service charges. Hospitals lack even trivial supplies, while before the elections of June 17th, 2012, Greece was facing difficulties in importing medicines. The Greek state owes 8 billion euros to its suppliers (Kathimerini, 21 October 2012), who, in turn, are unable to pay their own bills and employees. Greek banks have suffered huge losses, due to the Greek debt restructuring, and are essentially unable to provide credit to the economy, which is verging on the brink of Depression.

In short, all these little things that place a society in the developed world – being able to find petrol for your car in the local gas station, adequate healthcare, flats with heating, the sense of reasonable security, a job – are being called into question in Greece, dissolving the myth of a “free ride” with European taxpayers’ money.

After clearing the path to approach the “Greek issue” from stereotypes and clichés, the obvious question that emerges is what caused Greece’s total implosion? Why no one, including the IMF, the European Commission and the world’s rating agencies, had foreseen it? Before examining the events, which led to the current crisis, it would be useful to provide the reader with a background on the country’s economic history. Subsequently, this paper will focus on the predicaments of the current government in Greece, and will assess the prospects of the Second Adjustment Program, in light of a rapidly deteriorating social and

political situation. Finally, we will conclude with a set of suggestions, which could increase the chances of success for the IMF/EU sponsored bailout, while alleviating its social cost.

## **2. “There and back again”: Greece’s turbulent economic history**

Greece spent most of the first 100 years after independence in various forms of conflict with its creditors. It first defaulted on its War of Independence loans before even achieving statehood. Then, in 1843 the country ceased payments to its loans officially, and it took 17 years of negotiations for capital and interest payments to resume. Following a brief spell of fiscal restraint, irredentism took its toll of Greek public finances, and Greece defaulted again in 1893 (Romaos, 2012). After a catastrophic defeat in the Greco-Turkish war of 1897, Greece was placed under “international economic surveillance” by its creditors. The harsh deflationary measures adopted led to widespread social unrest and the first massive wave of immigration to the United States. Subsequently, Greece entered four successive wars (First and Second Balkan Wars, First World War, Asia Minor Campaign) between 1912 and 1922. The initial victories doubled the country’s size and population, but the defeat by Turkey in 1922 was sealed by a massive exchange of populations between the two countries: 1,500,000 million Christian refugees had to settle and assimilate in a country with a total population of merely 5,500,000 people, which was itself deprived and ruined as a result of ten years of almost uninterrupted war.<sup>12</sup>

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<sup>12</sup> Moreover, 350,000 Muslim Greek citizens were forcefully kicked out of their homes and were sent to Anatolia (apart from the Muslims of Western Thrace). At the same time, a

When WWII broke out, Greek economy, like most developed ones, had not yet fully recovered from the Great Depression. The country had declared bankruptcy in 1932 and, also like many European states it was under authoritarian rule since 1936. Despite the clear Fascist influences of his regime, Dictator Ioannis Metaxas tried to retain the country's neutrality in the conflict. However, his efforts failed, as Italy issued an ultimatum effectively asking the voluntary surrender of the Greek army to Mussolini's forces. Following a string of stunning victories from October 1940 to April 1941, Greece finally succumbed to the Axis since, in spite of the support of British and Commonwealth Forces.

Subsequently, the country was divided into three occupation zones (Bulgarian, Italian, German), while the remnants of the Greek army escaped in North Africa and continued the fight. The results of the occupation were devastating: Almost half million Greeks lost their lives over these three and a half years, most of them of malnutrition, during the great famine of 1942. Agricultural production decreased by 70%, and the occupying forces confiscated most of the crops. Industrial production decreased by 82%, 60% of the livestock was lost, shipping fleet capacity decreased by 72%, exports were reduced to near zero levels, inflation spiked to millions-percent levels, gold stocks were completely depleted through "mandatory loans", and the population suffered brutal massacres (Psalidopoulos, 2010 and 2011).

To make things even worse, civil war broke out almost immediately after liberation, as the Communist Party, the most effective resistance movement during the occupation, attempted to seize power by force,

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much more peaceful 'voluntary' exchange of Slavic and Greek-speaking populations took place between Greece and Bulgaria. See Dimitri Pentzopoulos (2002).

counting on the support of a large part of the population. The civil war not only destroyed what was left of the Greek economy. It also buried the hopes of restoring meaningful democracy. The government forces finally won, but they outlawed the Communist Party and imposed semi-authoritarian rule. The ban effectively meant that Communists, socialists and even some social democrats were segregated from the political process. During the next decades, thousands were imprisoned for their political beliefs, while others were sent exile in deserted islands, and died there. Elections were often rigged and the king often intervened arbitrarily to weaken the power of even centrist political forces (Nikolakopoulos 1997; Rizas et al. 2009). The fear of a “leftist resurgence” meant that authoritarianism and exclusion enjoyed the support of US, within the milieu of the Cold War (Greece had become, in the meantime, a member of NATO). In 1967, after a protracted period of political upheaval, the country suffered yet one more military dictatorship, which lasted for seven years, and faced no massive resistance, until 1973.

When democracy was finally restored, in 1974, the new center-right government lifted the ban on the Communist party, the king was overthrown by a referendum and the new constitution secured all basic political and social rights. Nonetheless, the damage had already been done: since 1936, two generations of Greeks had been born and grown up in a country where state authority enjoyed little or no democratic legitimation, whatsoever. The clock of democratic development had stopped in the Interwar period.

However, despite its poor economic condition and its underdeveloped democracy, Greece became a full member of the European Communities in 1981. It was a unique event, in the sense that this was the only European enlargement so far, which included only one new member, and it was decided despite the advice of the European Commission to the contrary and despite the unanimous disapproval of the Greek opposition. It was ironic that the Socialist Party (PASOK), which opposed membership in the EEC more than anyone else, won the elections just a few months after Greece became a member. PASOK had promised a referendum on the issue, but never fulfilled its promise.

Andreas Papandreou, the charismatic leader of PASOK and a Harvard-trained former Professor of Economics at Berkeley, achieved a landslide victory in 1981, thanks to one major promise: to empower those who were excluded from Greek politics for the past decades. Although a son of a former Prime Minister (George Papandreou), he attempted to position himself outside the political mainstream, articulating a radical populist political discourse. He claimed that all of Greece's problems were caused due to the country's dependency on foreign powers, and the interventions of the US in Greek politics. In other words, with the exception of junta sympathizers and right wing extremists, Greeks were not to blame for the continuing underdevelopment of their homeland. This "soothing" narrative of victimization became and still remains hegemonic in the public discourse of the country (Lyrintzis, 1987; Diamandouros 1993).

Besides the ethno-populist rhetoric, the first-ever electoral victory of a leftist party in Modern Greek history resulted in the abolition of the last

remnants of post-war authoritarianism. WWII National Resistance fighters were given pensions, civil wedding was legalized, family law was modernized to secure gender equality, voting age was reduced to 18, dowry was abolished, a National Health Service was created, the first ever environmental protection measures in Greece were adopted, press freedom was finally realized, and education, police, and armed forces were all liberalized (Eleftherotypia, 2004).

On the other hand, Papandreou's destructive idea for enfranchising the excluded ones was to hire them in the public sector. At least 220,000 more civil servants were added to the state workforce over the next eight years (Makrydimitris, 2011). Private companies at the brink of collapse were nationalized and hundreds of new ones were created. Even if Papandreou hoped that he could this way build national champions, the result was to create national liabilities. At the same time, examinations for entry in the public service were abolished and one of the first actions of PASOK, after taking office, was to announce pay immediate raises in the public sector of up to 88% (!) and pension raises of up to 76% (Eleftherotypia, 2004).

Obviously, the only way to finance this gigantic public sector was through loans and money printing (currency devaluation). Public debt increased from 34.5% of GDP in 1981, to 69.9% in 1989. The government of New Democracy which succeeded Papandreou claimed that the true numbers were much worse and that it was forced to reveal hidden debt, amounting to several GDP percentage points. Public deficit reached double-digit numbers in 1985 (11.4%) and remained persistently high for



a whole decade, reaching a whopping 16.1% in 1990. For all these years, Greece struggled to avoid bankruptcy.

It is also worth mentioning that these expansionary policies had no effect whatsoever on growth, which remained stagnant to near zero levels throughout the 1980s. This was because no consistent efforts were made to build a solid productive base for the Greek economy, to stimulate research and innovation, to enhance competitiveness. Moreover, the Gargantuan public sector gave a whole new meaning to the concept of bureaucracy, by continuously inventing obstacles to entrepreneurship and making the life of the people who had to deal with the state miserable. Even more importantly though, this perverse enfranchisement effort did not repair the broken trust bond between the citizens and the state. Cronyism, corruption, and nepotism by the post-war authoritarians were replaced by cronyism, corruption and nepotism by PASOK supporters. The culture nurtured by Andreas Papandreou meant that the major incentive to join a big political party was the expectation for a placement in the public sector, not the willingness to participate in the political process (Makrydimitris, 2011). Finally, PASOK lost the 1990 elections, amid a climate of scandals, anemic economic growth, and social unrest.

The center-right New Democracy embarked on a project of liberal economic reforms and fiscal consolidation. However, PASOK still controlled trade and workers' unions, and led them to revolt against the new measures. Moreover, the tightening of fiscal policy had adverse effects on the already fledging economy. Hence, in 1993, PASOK re-emerged victorious after the parliamentary elections. However, times

had changed, the country was on the brink of a catastrophic economic implosion and, hence, PASOK was obliged to change its ways. During the following years, it re-established a sense of meritocracy in the public sector by re-introducing impartial exams, organized by an independent watchdog (ASEP), for those interested in working for the state. PASOK also followed a hard-currency policy, which helped bring skyrocketing inflation under control. Moreover, fiscal consolidation continued, but, at the same time, a gigantic public investments and infrastructure program, co-funded by the EU, fuelled sustainable growth. Also, the new government adopted measures to combat tax evasion, introduced significant structural reforms and reduced bureaucracy and the hiring of civil servants. Finally, after the illness and subsequent death of Andreas Papandreou and his replacement by Costas Simitis at the PM's office, the government implemented an ambitious privatizations program, thanks to which public debt did not increase, despite the money spent on public investment.

Nonetheless, two contingent developments Greece off course: the first one was the sentimentally driven decision to host the Olympic games in Athens. Obviously, the public works projects, which started in 1997, in order to prepare the Greek capital for this event, fuelled growth. But the cost was unbearable, since almost all of these sports facilities proved useless after the Games. Much needed funds were misallocated. Not only Greece is the smallest country to host Olympics in modern history, but, also, due to the security paranoia in the aftermath of the 09/11

attacks, it was forced to host the most expensive Games in history<sup>13</sup>. Even if one assumes that there were no bribes and overspending involved at all in the process, this was too much for a country striving to achieve balanced budgets.

In addition, Greece and Turkey reached at the brink of war in January 1996. The fear of an imminent attack, after the incident, led the Greek government into the adoption of the largest military buildup program in the country's modern history. This was another poor decision, since it was clearly impossible for Greece to match NATO's second largest army in spending. Still, the country spent far more than any other European nation in defense, relative to GDP.

Obviously, defense spending and the Olympic Games are not enough to account for Greece's mountain of public debt. But the result of overspending in these areas was that Greece achieved good progress, and steady growth during the 1990s, but not enough fiscal consolidation to fulfill the Maastricht criteria for the adoption of the Euro. After successive revisions to its budget figures by Eurostat, we now know with certainty that it managed to get in the Eurozone with false data. On the other hand, it is also equally true that, according to official Eurostat data, most countries in the Eurozone (including Germany and France) systematically overshoot the 3% deficit limit, set by the Maastricht Treaty, throughout the first decade of the 21st century.

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<sup>13</sup> Estimates regarding the cost of the Games vary. According to the Greek Ministry of Finance, 8,4 billion euros were spent on public works and the operating costs of the "Athens 2004" Olympic Committee (SKAI TV News, November 19, 2012).

### **3. The “Big Bang”**

The revelation, by Greek Finance Minister, George Papaconstantinou, that Greek public deficit in 2009 would exceed 12% of GDP, during a Eurogroup meeting that took place in Luxembourg, on October 19 2009, triggered a chain of events which eventually “shut off” Greece from international markets and led to the creation of unprecedented bailout mechanism by the Eurozone, the ECB and the IMF. A few weeks after Papaconstantinou’s announcement, in early December 2009, Fitch ratings agency downgraded Greece from A- to BBB+. Successive rounds of austerity measures failed to reassure markets, and by March 2010 Greece was already facing difficulties in bond auctions. On March 15 2010, Eurozone finance ministers agreed in principle on a rescue package for Greece. The commitment was confirmed as “a measure off last resort”, by EU leaders on March 25 2010. The terms of the bailout were agreed by the Eurogroup on April 11 2010 and on April 15, Greece “finally capitulated and appealed to the International Monetary Fund for help today after months of suffocating pressure from the international bond markets” (the Guardian, April 15, 2012). A few days later, Standard & Poor’s cut Greece’s credit rating to junk status and the terms of the Memorandum of Understanding between Athens and the so-called “Troika” of emergency lenders (IMF, ECB, EU) were approved by the Greek parliament.

The question of whether the government could have handled the crisis more decisively and efficiently is a contentious issue to date, in Greek public discourse. Nonetheless, the root of the Greek crisis was not false data, or Papaconstantinou’s revelations. The most pressing issue is that

Greece essentially ceased its efforts to reform after the adoption of the euro. Haunted by the stock market bubble of 1999, the scandals that followed, and exhausted by continuous clashes with trade unions, the Simitis government backed off from its flagship social security reform initiative in 2001. From that point onwards, until the outbreak of the crisis, in 2009, observers fail to pinpoint a single substantial reform in Greece. Growth continued to be strong though, since the public investment program peaked ahead of the Olympics, while the sharp reduction of interest rates on government bonds and bank loans after the adoption of the euro kept the economy afloat. The international climate was also favorable for the powerhouses of the Greek economy (tourism, shipping), and tension in Greek-Turkish relations eased. Even more importantly, continuous pay rises in both the public and the private sector boosted private consumption. Salary expenses in the Greek public sector increased by 117% between 1999 and 2009 (Makrydimitris 2011)!

For some time, it all seemed perfect. Public debt was still around 100% of GDP, but growth was strong enough to keep it under control. Greece was ranked among the 30 richest countries in the world and the 22 most developed ones, according to the UN Development Index. All measures that could combat tax evasion, corruption and bureaucracy, reduce the size and increase the efficiency of the public sector, and all structural reforms which could enhance innovation, transparency, and competitiveness were postponed for the distant future. The Karamanlis government, which succeeded Simitis in 2004, never pursued them. Why lose time in bloody skirmishes with vested interests, when everything is going too well?

It should have been obvious then, that it was all too good to be true. To paraphrase the word of the Architect in the movie “the Matrix”, it was “a triumph equaled only by its monumental failure”.

The recession of 2008-09 had adverse effects on both tourism and shipping (Greek shipping tycoons own the largest fleet in the world), while the collapse of Lehman Brothers and the subsequent tightening of money supply had catastrophic effects on an economy which rested on private consumption and public investment to grow. Immediately, Greece fell into recession. The real problem, however, was that when fiscal deficit numbers overcame GDP growth numbers, the country’s huge public debt could no longer be serviced in an environment of scarce liquidity.

The stability program agreed, in May 2010, projected the most drastic deficit reduction in modern history for any developed country, and it was certain that it would deepen recession. Despite that, 54.2% of Greeks supported the IMF/EU/ ECB intervention, according to a survey conducted a few days after it was approved in Parliament (Proto Thema, May 8, 2010). The price of the unprecedented austerity in Greece was the deepening of the recession. As a result debt/GDP ratio also increased, since GDP decreased. Public attitudes towards the EU and the IMF changed, as the rise in debt gave the impression that all those sacrifices were going to waste. A year after the signing of the Memorandum of Understanding (MoU), the majority of Greeks still supported structural reforms, but 8 out 10 were against the specific fiscal consolidation Program pursued, according to most polls (To Vima, September 2011).

The Greek government did too little too late, to reform and downsize the public sector, and, until its fall, in November 2011, had not privatized a single public company, nor did it sell, or lease a single hectare of public land. On other fronts, reforms progressed more rapidly: the “Kallikratis” program improved local and regional governance, and the “diavgeia” portal was set up, in which every public procurement, hiring and expenses disbursement in the public sector is listed and it is publicly accessible. Structural reforms in the social security, health, and pension systems were also advanced, but, according to the Troika reviews, were too timid to address the challenge of a rapidly ageing population, and vested interests were not touched. Some measures to combat tax evasion and corruption were adopted, but paled in comparison to the size of the problem. Other reforms (e.g. education) will take long before showing real results. At the same time, public sector workers and practitioners of closed and protected professions staged continuous strikes, giving the final blows to an economy and society already on their knees.

In short, during the first two years of the Adjustment Program, Greece consistently underperformed in meeting the obligations set in the MoU.

There are several reasons for this:

- The targets set by the programme were unrealistically optimistic, as all the initial projections by the troika for recession and unemployment were quite wrong.
- Greece’s public administration is weak and proved unable to coordinate such wide-ranging reforms.
- Greece’s main political parties refused to take ownership of the adjustment programme, owing to their deep-rooted connections with clientelistic networks.

- Vested interests and the trade unions staged fierce resistance to crucial labour market reforms.
- Greece lacks the production base to 'export its way out' of crisis.
- Cartels and similar structures in Greece's goods market kept inflation relatively high, raising the social cost of internal devaluation.
- Unlike Portugal, Ireland or Spain, the media and opposition parties did not support the reforms, undermining the programme's popular legitimacy.

The government of G. Papandreou eventually fell, in November 2011, after an ill-judged attempt to hold a referendum, and a 53% haircut to privately held Greek bonds, three months later, proved the least that could be done to keep the country in the Eurozone. However, this decision meant that the unthinkable was now possible: if a developed Eurozone member can get away with writing off some of its debt, why not others as well? Spreads in the periphery of the Eurozone increased, while uncertainty crippled the Greek economy.

Papandreou was succeeded by the technocratic government of former ECB vice-chairman Lucas Papademos, who guided the country through the largest sovereign debt restructuring in modern history. Following persistent requests by the opposition, Mr. Papademos mandate was limited to a few months. Snap elections were called in the Spring of 2012, which signaled the end of the two party system in Greece: "The two parties (New Democracy and PASOK) that dominated Greek political life alternating in power since 1974, fell from a total vote of 77% in 2009, to just 32% and 42% in the twin elections of 2012" (Pagoulatos 2012). In between the two elections, Greece was run by the caretaker government of Mr. Panagiotis Pikrammenos, a Supreme Court judge,



amid repeated threats by European politicians that its membership in the Eurozone was at stake. Finally, the center-right ND managed to win June's elections and form a coalition with ailing PASOK and the pro-European "Democratic Left" party. So far, Greece has changed four prime ministers and five finance ministers since the outbreak of the crisis.

#### **4. Economic misery gives rise to anti-European sentiment**

The collapse of old certainties, together prolonged recession and the absence of a clear path to recovery have caused dramatic shifts to Greek public attitudes. According to Eurobarometer surveys, trust towards the EU has fallen from 65% in 2008 (EU average 48%) to 29% in 2011 (EU average 34%). Asked in a recent Eurobarometer survey about the response of the EU to the economic crisis, in 2011, 75% of Greeks responded that it has been ineffective. That is the highest percentage of critical responses in Europe. Yet, things were not always like that. In 2007, just before the crisis, Eurobarometer showed that Greek attitudes towards the EU were overall very positive. The survey found, for example, that 70% of Greeks thought that the EU is "democratic", the third highest percentage of such response in Europe. More than any other nation, Greeks believed that one day the EU will have a directly elected president one day (71% against 51% EU average). Moreover, 75% of Greeks were responding back then that their country benefited from EU membership, and only 11% said that it was a "bad thing".

Anti-European sentiment today goes hand in hand with the rise of populism: Populist newspapers in Greece compare Chancellor Merkel

with Adolf Hitler, anti-austerity demonstrators often burn German flags in the streets, while there were a few reports of violent attacks against northern European nationals and tourists (however, such incidents are still extremely rare). At the same time, Golden Dawn [Chrisi Avgi], a once fringe neo Nazi party which was barely registering a few thousand votes in previous polls, attracted almost 7% of the vote in the last two parliamentary elections, and elected 18 MPs. Golden Dawn is not a “typical” far-right party, even by the stretched standards of European extremism. Numerous members of the party, who casually exchange Nazi salutes among them, have been arrested in the past for attacks against immigrants and leftist activists, while at least one of them served time in prison for attempted homicide. A few days before the elections of June 17, the spokesperson of the party had assaulted and harassed two fellow MPs, live on television. The growing influence of such political party in a country, which has suffered hundreds of thousands of deaths during the Nazi occupation and is proud for its resistance to fascism during the Second World War, is indicative of the desperation of the Greek society. It seems that not only German populist newspapers, like the *Bild*, have forgotten that hundreds of thousands of Greeks died from famine during the occupation by a still living generation of Germans. Many Greeks have also forgotten it.

But there is a reason for all that; the daily routine in Athens is a true nightmare: the center of the city is closed almost every day to street rallies. Massive traffic jams are making the lives of Athenians miserable. Garbage collection, public transport, and electricity supply, are disrupted by continuous public sector strikes. Ports and airports are often closed to industrial actions. Historical landmarks are vandalized by alienated

youths. The streets of downtown Athens are littered and full of homeless and beggars; neoclassical buildings have been burned down in violent riots, the center of the city is stricken by crime, illegal immigration and poverty, and its inhabitants have abandoned it. Social security nets, which were considered ineffective by European standards well before the crisis, have now been destroyed completely due to sharp spending cuts. Under such conditions, extremism finds fruitful ground to develop.

The anger and frustration in Greece against Europe is not only related to austerity. The widespread perception is that the burden of adjustment was not equally shared. Successive Greek governments failed to inflict any pain on vested interests and tax evaders. And all of these governments presented the particular “mix” of measures as EU and Troika decisions.

Second, Greeks feel betrayed because, in May 2010, when the bailout facility for Greece was being set up, they were promised by their leaders that this would be an extraordinary one-off measure, necessary to avert a catastrophic default. After three years, they were told, Greece would be able to borrow from the markets again. These promises were broken. One cannot sure why the promise that the crisis could be quickly solved was made in the first place. Was it because the Troika (ECB, EU, IMF) had not realized the depth of the problems facing Greece, the European periphery, and the continent’s banking system? Or was it because they were afraid the people would not be able to stomach the truth? What is certain is that we are now paying the price of this monumental breach of trust.

## **5. Greek and European dilemmas**

Given the aforementioned dramatic situation, Greeks were asked to make a hard choice during the two elections, which were held in May and June 2012. On the one hand, the traditional “big parties” (PASOK and ND), which nurtured clientelism, economic mismanagement, and corruption in the past, now promised even more pain in the form of austerity. On the other hand, the Coalition of the Radical Left (SYRIZA), led by the young Alexis Tsipras, promised to keep Greece in the Eurozone, while at the same time scrapping the Memorandum of Understanding with all its austerity measures, and calling a default on Greece’s debt. Similar promises were made by other populist parties, both in the far right, and the far left, including Golden Dawn, the “Independent Greeks”, and the Stalinist “KKE”. Greeks chose the hard way ahead: the parties which promised to keep Greece in the Eurozone, even if this meant implementing the MoU, got 48.2% of the vote and formed a government, while the parties which promised an austerity-free paradise got 45.82%. Even if the anti-bailout parties had done better, they would still be unable to form a government, since the aforementioned accumulated percentage comprises of votes both to the far left and the far right.

The promises made by the populists before the elections were unrealistic for two reasons. First, because before the crisis, Greece was sustaining its standards of living, not thanks to a solid production base, but thanks to public and private consumption, fuelled by cheap credit. When the collapse of Lehman Brothers put an end to cheap credit, both in the interbank and sovereign bond markets, the Greek economy

immediately fell into recession. This was at the end of 2008, long before the MoU was signed. Even if Greece had defaulted on all of its debt, cheap loans would never become easily available again. Hence, the return to the pre-crisis state of things would be impossible. Moreover, Greece's largest creditors were its own banks and pension funds, and both are still standing because of EU loans and Emergency Liquidity Assistance from the ECB. If Greece had chosen to default on its partners, then its banks would immediately collapse, thus deepening Depression. Nonetheless, hundreds of thousands of Greeks thought "To hell with it, how much worse could it be, if we return to the drachma?" and voted for parties which would risk leading Greece out of the Eurozone, even if this was not the official intention of the party.

Even today, Mr. Tsipras, the leader of SYRIZA, insists that Europe's threat to force Greece out of the Eurozone is a bluff, thus giving the impression that voting for him is a safe way to "send Europe a message". Evidence and logic both point out that he is wrong. First of all, in the period leading to June's elections as well as in the weeks that followed, the president of the European Council, Herman van Rompuy, the President of the European Commission, Jose Manuel Barroso, as well as the German Chancellor, Angela Merkel, repeated an identical statement several times: "we will stand by Greece as long as Greece stands by its commitments".<sup>14</sup> There has not been a single EU leader so far who hinted that financial support towards Greece will continue even if the country scraps the MoU. The reason for this is that EU governments

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<sup>14</sup> See for example, "Statement by President Barroso following the Informal European Council dinner, 23 May 2012", available online at [http://europa.eu/rapid/press-release\\_SPEECH-12-384\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-12-384_en.htm).

cannot politically afford to keep financing Greece, while Athens is refusing to commit to a deficit reduction and competitiveness enhancement path. Without such commitment, the period for which Greece will be in need of financial assistance will become indeterminate. Even if European governments were ready to accept this for the sake of the Eurozone's stability, they would never be able to "sell" the deal to their voters. They would, therefore, rather try to use their political capital in order to contain the impact of "Grexit", salvage the Eurozone, and avert a Global Depression.

In other words, it seems that Mr. Tsipras had underestimated the political cost of keeping the country in the Eurozone, while it fails to honor its commitments. In such case, Chancellor Merkel would not be able to explain to German voters why she is helping Greece while Greeks refuse to cut down their deficit. Even if she did not want to risk the breakdown of the Eurozone, German voters would revolt. The same is true for all AAA-rated northern European economies, especially for the Netherlands. Moreover, voters in other peripheral countries would also revolt, claiming that they should also be allowed to scrap austerity measures. In addition, both the European Commission and Berlin have built their strategy on the assumption that fiscal laxity is the reason why sovereign bond yields in the periphery are so high. They have been insisting on this assumption for three years, and "path dependency" more often than not determines political decisions. That is why in the run up to the elections, there was no diplomat, Eurocrat, or other official in Brussels who said, on or off the record, that Greece would stay in the Eurozone even if it didn't implement the MoU.

Finally, the “better safe than sorry” camp won last June’s elections and the majority of the Greek people chose to give a chance (possibly the last one) to mainstream parties. But although, following the June 17 elections, Greece’s exit from the euro-area is no longer imminent, important and potentially insurmountable challenges remain. More specifically, given the fact that implementation of the Second Adjustment Program, which was agreed between Athens and the “Troika” (IMF, ECB and EU) of emergency lenders last March, is off track, the Eurogroup decided to enforce the harshest round of austerity measures (9,2 billion euros in total for 2013) to an economy already on the brink of Depression, in exchange for its agreement to renegotiate the terms of the bailout. It remains to be seen, within the course of the following months, whether these spending cuts are politically feasible in Greece.

On the other hand, in November and December 2012, euro-area member-states agreed to renegotiate the bailout agreement, and gave Greece a two year extension to achieve its fiscal targets, while at the same time, they lowered interest rates on the bailout loans, froze interest payments from Greece to the EFSF and returned the profits from the Greek bonds portfolio of the ECB and National Central Banks. This agreement has been reached right after it was finally concluded that the new government in Greece demonstrated unequivocal commitment to meeting its obligations. Indeed, after June 2012 elections, reforms and deficit-cutting measures have finally gathered pace and, for the first time since September 2010, the Eurogroup meeting on November 20 2012 concluded that Greece fully complied with all the MoU structural and fiscal conditions.

The aforementioned agreement will reduce uncertainty and speculation over the country's future, it will lower the funds that Greece needs annually in order to service its debt, it will contribute to the overall reduction of national debt, while the "cash crunch" in Greece will ease, due to the projected smooth disbursement of bailout funds over the next months.

But the danger of political instability has not evaporated. Although in theory the coalition enjoys a comfortable parliamentary majority, the latest round of austerity measures was only approved by a razor-thin margin (November 5, 2012). Past delays in disbursing bailout funds have caused a simultaneous cash and credit crunch in the Greek economy. Moreover, uncertainty over the country's future has brought private and public investment to a virtual halt. The recession is projected to continue into 2013, for a sixth consecutive year, and the economy will have contracted by more than 25% since the crisis began. According to the Commission, unemployment will remain well above 20% in 2013-14. *No democratic society has sustained such a drastic deterioration in living conditions without major political upheaval.*

Opinion polls show that the Coalition of the Radical Left, which promises to scrap the MoU and lead the country into default, would win elections, while neo-fascist Golden Dawn is polling in third place. The government's argument that Greeks must accept austerity for fear of leaving the euro-area seems to be losing traction, especially among the long-term unemployed.

Eurozone's hope is that the disbursement of the next bailout tranches (52.4 billion euros in total) will increase its exposure to Greece to such



an extent, that investors will be convinced that the country will be kept in the single currency, no matter the cost. Reforms should gradually start bearing fruit in 2013 and the business climate may recover, liquidity may improve after the completion of the bank recapitalization, helping the Greek economy to bounce back from depression. But success is far from certain. *If recession continues, the government will eventually fall, leading to exit from the euro.*

## **6. What is to be fixed**

Before examining the options for the future, it is worth revisiting the recent events, which led to Greece's economic failure. The roots of the problem can be summarized as follows:

- **Public finance mismanagement:** Between 2001 and 2009, the EU's Task Force reports, "the structural primary balance deteriorated from a surplus of 4½ percent of GDP to a deficit of 16¼ percent of GDP. This pushed the economy well beyond its potential, leading to wage increases beyond productivity growth, and inflation consistently above the level in Greece's trading partners. Competitiveness deteriorated—the REER overvaluation reached an estimated 20–30 percent in 2009—while the current account deficit exceeded 14½ percent of GDP in 2007–08" (Task Force for Greece, 2012).
- **Low competitiveness:** Greece ranked 96th out of 142 countries in the World Economic Forum's 2012 Global Competitiveness Index, and 56th out of 59 countries in the IMD–World Competitiveness Yearbook (2011).

- **Grey economy and tax evasion:** According to OECD estimates, shadow economy accounts for around 25% of Greece's GDP, double the OECD average. Moreover, according to a recent study by Nikolaos Artavanis, Adair Morse and Margarita Tsoutsoura reached to the conclusion that undeclared incomes in Greece in 2009 were around 28 billion euros, almost 15% of GDP (Artavanis et al. 2012). The major reason cited for this phenomenon is that “the Greek tax system is particularly complex, suffers from lack of transparency, is conducive to noncompliance and—since the tax burden predominantly falls on those who cannot evade or (legally) avoid—it is also unfair” (Kotsogiannis, 2012).
- **Corruption:** According to Eurobarometer, 98% of Greeks believe that corruption is a serious issue in the country (the highest percentage in the EU). Also according to Transparency International's Corruption Perceptions Index, Greece is ranked 57 out of 163 countries, on transparency.
- **Ineffective public administration:** The OECD's report on Greek public administration states that “the systems in which the public administration is entangled generate the conditions for corruption and facilitate inappropriate individual behaviours, rent seeking and clientelism. They include weak central authority, a complex legal framework, the absence of basic data, weak audit and control mechanisms, and inadequate HR management.... There is very little co-ordination between and within ministries. The administration generally operates in silos. Fragmentation and overlaps among structures and tasks discourages co-operation.

Collective commitment to a reform agenda is absent. Ministries do not share information easily. Co-ordination where it happens is usually ad hoc, based on personal knowledge”.

- **A surrealist economic structure:** 31% of Greece’s workforce is self-employed (EU Commission, September 2012), the highest percentage in the EU. Also, 20% of Greece’s workforce works in the wider public sector (according to estimates based on the 2010 “census” of public administration) and Greek Small and Medium Enterprises (SMEs) employ on average 2.9 people (half the EU average), hence they are too small to export (data from Greek National Trade Federation). Hence, Greece has very few private companies big enough to export and the whole economy is focused on “non-tradable goods” (Ioannou, 2011). Growth was thus based on private and public consumption of goods produced abroad, and there was no incentive to increase productivity. In times of tight liquidity and in the absence of cheap credit (following the 2008 crisis), this growth model was doomed.

Of course, all these things were well known and tolerated by EU institutions well before the outbreak of the crisis, even though they were not conducive to the Maastricht Treaty’s growth and stability pact, as well as the EU’s Lisbon Agenda and the “Europe 2020” targets. Those who were entrusted with monitoring the Greek economy turned a blind eye to what was happening. Moreover, both Greek and international banks failed to sound an alarm, by raising interest rates for Greek bonds. They were instead lending Greece freely, as if everything was going well.

It is therefore fair to say that they also bear a responsibility for what happened.

In reality, Greece's relations with its partners in the Eurozone have only started deteriorating in late 2009, when the new government of Athens admitted that the country's public deficit was out of control.

## **7. The Alternatives: Keynes and drachma**

Several solutions have been suggested for the Greek predicament both in the beginning of the crisis and as a response to the current predicaments mentioned above. The most usual suggestion put forward is that Greece should abandon the Eurozone and return to the drachma. But the drachma will not solve any of the problems of the Greek economy mentioned before, namely, public finance mismanagement, over-reliance on public and private consumption, lack of medium and large export-oriented enterprises, extremely high percentage of self-employed professionals, low competitiveness, tax evasion, and weak administrative capacity. None of the structural deficiencies of the Greek economy will be fixed.

To the contrary, we should bear in mind that Greece will not devalue an existing currency, because the drachma does not exist. It will introduce a new currency, while already being in a state of default. Leaving aside the logistics of such an endeavor, printing a new currency while already bankrupt is a suicidal move, since no one will want to buy it. Unlike Argentina, Greece is not a net exporter of raw materials. Hence, it will have no means to support the new currency, which will have no exchange value. The country will be unable to pay in order to import oil,

gas, food, and medicines with drachmas. Chaos will ensue and uncertainty will spread to the rest of the Eurozone. Grexit will undoubtedly suppress global economic output.

Moreover, if Greece falls, Cyprus will, too, due to its gigantic exposure to the Greek economy, and Europe will lose two outposts in the eastern Mediterranean, which have lost none of their significance on the international power chessboard. Greece is also Europe's first barrier to the tidal waves of illegal immigration originating in Asia.

A third good reason keep Greece in the Eurozone is to prevent its Balkanisation due to extreme poverty. An exit from the Eurozone will probably lead to an exit from the EU, because the political system would collapse and even democracy will be in danger. The EU and NATO would derive no benefit from a new source of tension in the Balkans, which they have fought to stabilize in recent decades.

Furthermore, Greece's European partners should not forget that certain syndicated interests that may have succeeded in preserving their privileges and tax evasion may still be rife in Greece, but the majority of the Greek people have made huge sacrifices, in order to shoulder the harshest fiscal consolidation Program ever implemented in a developed country. A Greek exit from the Eurozone would be tantamount to betrayal of all those who have foregone so much. Besides, all opinion polls show that Greeks, despite their sacrifices, vow to remain in the Eurozone.

The other solution, which has been put forward by pundits, is the adoption of expansionary fiscal policies. It is actually an

oversimplification of Keynesian economics, since Keynes himself never advocated fiscal laxity as an ends in itself, neither argued that expansionary policies can be adopted by a country which is already bankrupt. In any case, Greece entered the crisis having already a huge deficit and debt. Expansionary policies are therefore not feasible. And finally, it seems that many analysts have missed the fact that Greece has already tried the path they propose: expansionary fiscal policies, successive competitive devaluations, and the like, during the 1980s. The result of the "miracle medicine" was average growth rate of 0.75% over the decade, average inflation at about 20%, interest rates at 33%, quadrupling of public debt and deficits of up to 16% of GDP. Besides the fact that the younger generation has to pick up the bill for what happened in the 1980s, it is also worth mentioning that during the fiscal consolidation period that followed, in the years before the introduction of the euro, Greece enjoyed healthy growth rates, twice the EU average.

## **8. Restoring the credibility of the Adjustment Program**

If Keynesian policies are unfeasible and counterproductive, a return to the drachma suicidal, but the imposition of more austerity measures is also intolerable, what can be done to heal the wounds of Greece's despair? How can we restore the bonds of trust between Greece and the EU? The first that should be said is that insults against Greece in the public discourse of German and other Northern European politicians, undermine the legitimacy of the Adjustment Program. The new government has already a herculean task ahead, and humiliation can only make things worse.

The second prerequisite to avoid catastrophe is to tell the European and Greek taxpayers the truth at last. That is, that there are no quick fixes, magic formulas or easy solutions. The Greek economy and the Greek public administration need a complete overhaul from scratch. This will take years, and sustained efforts. But the alternatives are catastrophic for both Greece and the Eurozone. All this should be made clear to the citizens.

That being said, restoring the competitiveness of the Greek economy and changing its structure is the only way for the country to survive in the absence of cheap credit. And the result of the recent elections shows that the Greek people have already realized it. But consolidation efforts should not be focused on the achievement of fiscal targets only, or the decrease of unit labor costs. On the contrary, conditionality for the disbursement of cash from the bailout mechanism should be tied to meaningful reforms that will improve the quality of life of the Greek people (e.g. reduction of bureaucracy). Besides, according to the World Economic Forum's reports, the reasons that Greece lacks in competitiveness are not so much linked to labor costs, but to macroeconomic and political uncertainty, labor market inflexibility, bureaucracy, public administration inefficiency, and taxation complexity.

The fourth prerequisite in order to avert a cataclysmic social backlash is to do more to spread the burden of adjustment in a manner that is socially just. The Troika has so far refused any responsibility for the fact its predictions regarding recession and the social impact of the measures adopted were all dead wrong. But the Troika has approved every single measure of the Greek government so far and it had the oversight for

their implementation. It is high time its executives admit that “*mea culpa*” and then try to bring the Adjustment Program on a more socially sustainable path, and pursue “growth friendly” consolidation.

Furthermore, the Troika should attempt to by-pass Greek public administration, in order to force the implementation of reforms, while new computer software and “know how” for Greece’s ministries can also be provided with minimal cost for the European taxpayer. Besides, the Greek government has already asked for such assistance in the form of an EU Task Force for Greece.

Moreover, eliminating uncertainty is the key, in order to stop Greece’s economic implosion. Although austerity measures imposed by Greece’s international lenders certainly have an adverse effect on growth, the fact that the Greek economy is in such comatose state is mainly due to the macroeconomic uncertainty and the lack of credit lines (which in turn, is also a symptom of macroeconomic uncertainty). It should have been common sense: no Greek or foreigner will invest and create jobs in an economy, which, for the best part of the last three years, remains at the brink of collapse. For as long as no convincing political guarantees are provided that the country will remain a part of the Eurozone and it will not relapse into the developing world, investors will remain wary. Besides, a successful resolution of the Greek crisis will help restore confidence on the prospects of the Eurozone, hence enhancing growth in the continent as a whole, hence helping pull the Greek economy out of the mud as well.

How can this target be achieved? The deal for an updated MoU between Greece and its lenders in December 2012 was the first important step, as



reduced costs for servicing debt will allow the Greek economy to avoid asphyxiation.

But Greece's Adjustment Program needs to be accompanied by a mini Marshall Plan. Otherwise, the violent restructuring of the Greek economy will bring the nation apart. The foundations for this Marshall Plan are already in place: Greece's performance in absorbing EU structural funds has significantly improved over the last years and it is now above EU average. Second, in accordance with the decisions of last June's EU Summit, the funds, which have been or will be used for the recapitalization of Greece's banks, should be taken off the country's books of public debt. If this happens, it will be a huge leap towards ensuring Greece's solvency and sustainability of public debt. Third, the Pact for Growth and Jobs, which was also agreed during last June's Summit, should prioritize countries under duress, like Greece. If a sizeable chunk of this package is directed towards Greece, then some of the social effects of the consolidation effort will be alleviated. Third, the swift conclusion of the ongoing negotiations for a "Eurozone budget", will help Greece fund much needed structural reforms after 2016, when the current Adjustment Program ends. Fourth, Europe's governments should realize that without investment, the Greek economy will keep contracting and the country will eventually default. Besides the consequences for the Eurozone, a Greek default will mean that taxpayers will lose their money, from the loans given so far to Greece. It is therefore crucial that Eurozone directs investment to Greece, via adequate and specific incentives to European companies. Fifth, the ongoing negotiations regarding EU's new Multiannual Financial Framework (MFF) for the 2014-2020 should take into account that no

country in Europe has been hit harder by the crisis than Greece. It would therefore be nonsensical to reduce available structural funds for this country, as it is currently planned. Should be required to give something in return: an unequivocal commitment in pursuing reform.

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