The Greek Debt Crisis: a Sisyphean Tragedy

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Greece is considered the birthplace of Western civilization. The introduction of the world's first democratic society in Athens under Cleisthenes in 508 BC coincided with the rise of Classical Greece that produced major human advancements in the areas of art, architecture, literature, science and medicine, mathematics, politics, philosophy, and of course, theatre — all of which have had a lasting and incomparable influence on the West. It was therefore natural that during the Cold War, when Western Europe came together to form what eventually became the European Union (EU), there was little doubt Greece would be considered an early entrant.

Modern Greece, however, has had a mixed history — one that has seen the country experience several periods of extreme privation in between brief periods of political stability and economic growth. Today, Greece once more stands at the edge of an economic precipice, with its available cash reserves at a very low level and tied up in the repayment of its public sector debt. Its citizens have already suffered under severe austerity for the past five years — a Sisyphean tragedy that has seen Greece trapped in a vicious cycle of taking on more and more debt in exchange for further bailout funds with no end in sight. Some experts following this issue are not asking if, but when, Greece will default on the debt held by its European partners, which in turn could not only mean the end of Greece's participation in the euro zone, but also the entire concept of a single European currency. Tragically, Greek suffering may have only delayed the inevitable.

Greece's "Economic Miracle"

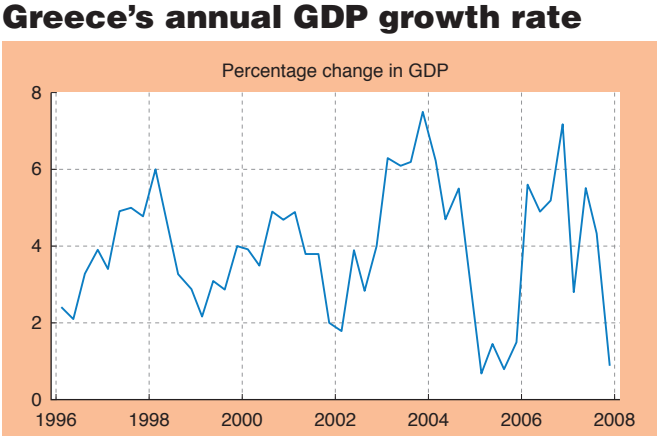
Since 2009, Greece has been contending with a prolonged financial crisis, the depths of which have not been seen since Greece's darkest days during World War II and the subsequent Civil War when its economy was completely wrecked by the effects of war, occupation, and internal political strife. With strong support by the United States under the Marshall Plan, the development of a relatively stable and democratically elected government in Athens, Greek membership of anchoring Western institutions such as the North Atlantic Treaty Organization (NATO), and relatively friendly (if sometimes tense) relations with most of its neighbors, Greece experienced an extended period of political and economic stability that came to be known as the "Greek economic miracle".

This period was marked by strong and sustained foreign investment, significant reconstruction of Greek cities and towns, major building projects which led to the improvement of Greece's infrastructure, and the development of major industrial sectors, such as chemicals, shipping, and of course, tourism. From 1950 until 1973, the Greek economy grew at an average annual rate of 7%, a growth rate that was only exceeded over the same period of time by Japan.

Throughout the Cold War, and until 2008, Greece's economy grew, often in spite of significant changes to the domestic political landscape or frequent confrontations with its much larger neighbor to the east, Turkey. The period of the Greek dictatorship under "The Colonels" from 1967 until 1974, the confrontation with Turkey over its invasion of the independent Greek-speaking island of Cyprus, and the stubbornly independent foreign policy followed by Prime Minister Andreas Papandreou, from 1981 until 1989 and again from 1991 until 1993, did not immediately diminish the economic gains Greece had previously made. As *Chart 1* shows, the period from 1996 to 2008 saw Greece's annual growth rate average approximately 4% per year.

CHART 1

Greece's annual GDP growth rate



Source: www.tradingeconomics.com; National Statistical Service of Greece

"Good Life, Poor Wills"

The Greek proverb *Καλή ζωή, κακή διαθήκη* literally means "good life, poor wills". Past generations of Greeks have certainly led "the good life" for several decades following the "economic miracle". However, Greece's economic growth was unable to keep up with the prolific social welfare programs of successive Greek governments, and its public debt steadily grew.

Greece formally joined the EU on Jan. 1, 1981, and joined the euro zone exactly 20 years later, on Jan. 1, 2001. The overwhelming belief in Greece was that the more firmly tied the country was to Europe, the more Greece would receive EU subsidies for its farmers, foreign products would be made available at reduced prices, additional foreign investment in infrastructure through the funding of EU projects would be forthcoming, additional tourism would be spurred from fellow European countries, and Greek companies would experience lower costs of doing business in other parts of Europe. From the EU perspective, Greece was the first stage in the southern expansion of the then burgeoning European Common Market that would eventually also include Spain and Portugal joining the EU in 1986.

At the same time, the share of Greece's gross national product that was going to fund the massive expansion of social welfare programs was increasing. Successive Greek governments beginning with Andreas Papandreou and the center-left Panhellenic Socialist Movement (PASOK), the political party which he founded and led, redistributed the country's wealth by increasing significantly the availability of entitlement programs to Greece's unemployed and low wage earners. Moreover, average wages, including the minimum wage, as well as pensions, were increased in real terms and made more generous, for example by reducing the retirement age for many public sector workers to almost absurdly low levels. Papandreou's generous welfare state also included substantial changes to Greek labor laws strongly favoring government workers, a significant expansion of healthcare coverage through the establishment of a National Health System, and even the institution of government-subsidized tourism for low-income families.

In terms of revenue, the Greek government's ability to collect taxes was often a futile endeavor due to a complicated, loophole-filled tax code. Tax evasion, corruption, and a lack of transparency have been longstanding aspects of Greek life, with some estimates placing the Greek "black market" at nearly a quarter of GDP, also contributing to chronic budget deficits and the growth of public sector debt.

It should be noted that prior to joining the euro zone, multiple currency devaluations of the Greek drachma helped the Greek government cope with some of the effects of excessive government borrowing. It was a different story, however, after Greece joined the single European currency.

"We Ate It Up Together"

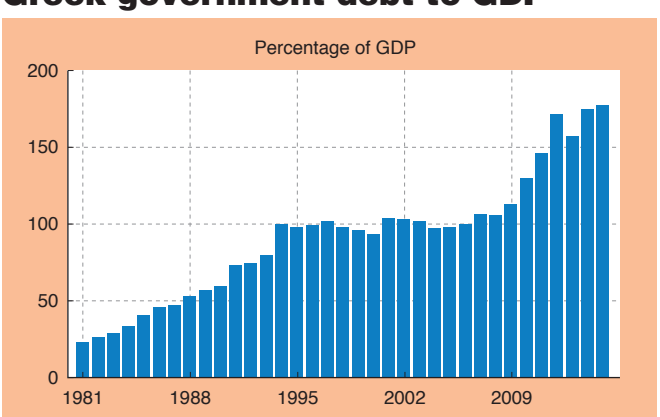
While the generous welfare state provided PASOK with a fairly strong political mandate during its tenure in office, the center-right New Democracy party under Kostas Karamanlis that came to power in 2004 did little to scale back what previous Greek governments had already started. In fact, New Democracy continued prolific government spending while the Greek economy enjoyed a period of sustained, if uneven, growth *(Chart 1)*. Unemployment in Greece hovered at around 11%, while the Karamanlis government focused on the implementation of government deregulation, investment incentives to generate business, and tax cuts, all of which, again, added to the growing mountain of debt.

Perhaps the greatest show of excessive government spending came in 2004 when Greece hosted the highly successful, yet tremendously expensive, Olympic Games — estimated to have cost the government between 7 and 8.5 billion euros. For a country of approximately 10.8 million people that had already been saddled with high debt and chronic budget deficits, Greece could ill-afford such an extravagance in government spending. As former Greek Deputy Prime Minister Theodoros Pangalos later reflected, candidly referring to Greece's out-of-control spending by both center-right and center-left governments that benefited almost every level of Greek society, *Μαζί τα φάγαμε*, or "We ate it up together."

The results of more than 30 years of government economic profligacy stand in fairly stark contrast to the previous Greek "economic miracle". *Chart 2* demonstrates the several decades' long growth of Greek debt, expressed relative to Greece's GDP, which both PASOK and New Democracy had a firm hand in creating.

CHART 2

Greek government debt to GDP

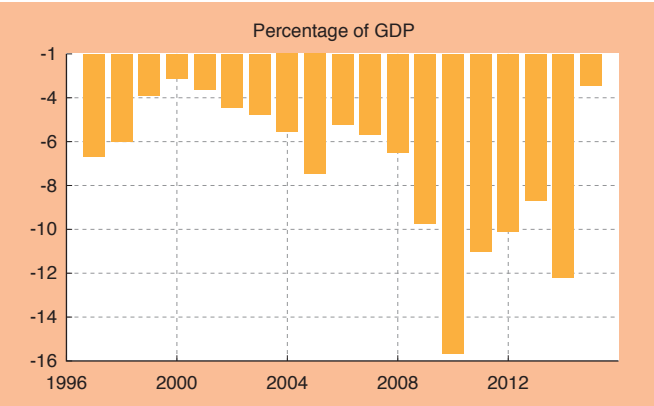


Source: www.tradingeconomics.com; EUROSTAT

Moreover, successive Greek governments continued to run budget deficits, reflected as a percentage of GDP, for the entire period from 1996 through 2014, which averaged over -7.4%, reaching a high of only -3.2% in 1999 (just prior to Greece's joining of the euro zone) and recording a low of -15.70% in 2009.

Both Greece's growing public sector debt and its ongoing budget deficits were unsustainable. As the Greek government was forced to continue borrowing to keep up with government payments to government workers and benefits to Greek citizens, and to service its

CHART 3
Greek government budgets

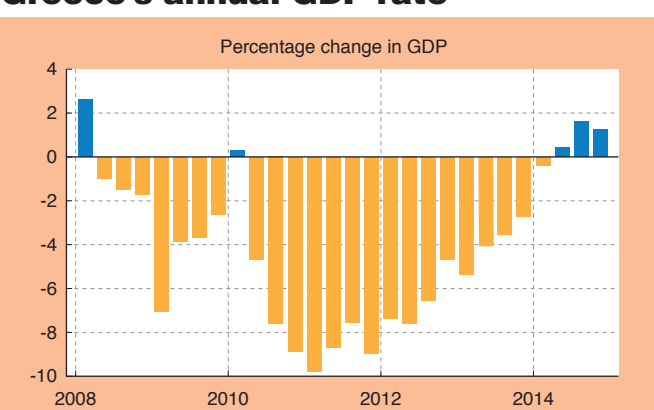


Source: www.tradingeconomics.com; National Statistical Service of Greece

existing debt, it only became a matter of time before Greece's proverbial chickens came home to roost.

With the global economic slowdown that began in 2008, and more or less since that time, Greece has been particularly hard hit with the twin decline of both shipping and tourism — two major drivers of its economy. Greece's growth rate quickly evaporated with a record low of -9.90% in the first quarter of 2011. As *Chart 4* shows, it has since remained mostly negative, with a return to slight positive growth at the end of 2014.

CHART 4
Greece's annual GDP rate



Source: www.tradingeconomics.com; National Statistical Service of Greece

Meanwhile, Greece's public debt has ballooned in absolute terms even more, from 265 billion euros in 2008 to 323 billion euros as of May 2015, while its debt to GDP ratio skyrocketed from 105.4% to 177.1% from 2008 to 2014 *(Chart 2)* and budget deficits ran even higher *(Chart 3)* over the same period of time. Since the second quarter of 2010, Greece has been in the throes of a terrible depression and impending economic collapse — the likes of which have not been seen since the dark days of the Greek Civil War some 60 years earlier.

Greece's Drama

As the Greek economy continued to falter and amidst growing political uncertainty due to widespread public sector strikes and mass protests following the passage of a controversial pension reform bill, Karamanlis called a snap election in October 2009. The widespread political discontent with New Democracy resulted in the election of PASOK back into power and headed by George Papandreou, Andreas' son.

Over the next two years, Prime Minister Papandreou tried, though ultimately failed, to bring both political and economic stability back to Greece. Every time the Greek government tried to implement spending cuts and austerity measures, it was confronted with mass protests and crippling strikes by Greek workers. In turn, fears of a possible default on Greece's debts, which were then mostly held by private French and German banks, prompted the so-called "Troika" of euro zone countries, the European Central Bank (ECB), and the International Monetary Fund (IMF) to approve a 110 billion euro rescue package on May 2, 2010 on the condition that the Greek government implement additional widespread austerity measures.

Predictably, the new austerity measures were not well received by the Greek public, leading again to social unrest throughout Greece. One of the largest protests against the reduction of Greek government spending occurred in the spring of 2011 when over 100,000 Greeks took to the streets of Athens and protested in front of the Greek parliament. Despite cuts in government spending and an increase in taxes, Greece's economy did not improve as quickly as was hoped. Indeed, economic indicators released in May 2011 signaled a recession deeper than forecast while tax revenues were lower than expected, making it even harder for the Greek government to meet its fiscal goals.

Continued pressure from international lenders forced Greece to impose even more austerity measures and to make structural changes to the Greek social welfare system in exchange for further loans to meet its debt obligations. Overall, the Greek government since 2010 has implemented policies to reduce public sector employee wages, raise the minimum retirement age for collecting a government pension, and scale back government benefits. It has also raised overall corporate, personal, and sales tax rates. Despite these and other measures, Greece's international lenders continued to press for still more stringent and, by some accounts, impossible to meet austerity measures.

By the autumn of 2011, the Greek drama was brought to a head. The vicious cycle of government-imposed austerity and ongoing public unrest, combined with further loan requests and debt restructuring schemes to make ends meet, as well as calls for additional austerity by Greece's international lenders, had worn thin. George Papandreou called for a referendum on Greece's euro zone membership. The move sent a chill through the euro zone, where fear of a Greek default loomed heavily after so much money had already been invested in propping up the Greek economy and where, until that time, a Greek departure from the euro zone or the EU was

Source: AFP/JIJI

A Greek protester making a rude gesture toward the Greek parliament building

Source: AFP/JIJI

Anti-austerity protesters clash with police blocking their way towards the venue of an EU meeting of ministers for economic and financial affairs in Athens on April 1, 2014.

considered unthinkable, with unknown — and possibly disastrous — consequences for the rest of Europe and the then fragile global economy.

Faced with strong criticism over his referendum plan, Papandreou resigned, eventually making way for Lucas Papademos, the Greek technocrat and former head of the Bank of Greece, to take over and shepherd Greece through further rounds of bailout negotiations and further austerity measures until Greek elections could be held in the spring of 2012. Significantly, in March 2012, the Greek government reached a "debt swap" deal with its private sector lenders in exchange for a reduction of its debt and further bailout money. Greece's public sector debt was transferred from private French and German banks to the euro zone through the European Financial Stability Fund, which is backed by the (primarily German) taxpayers of the euro zone.

Greek parliamentary elections held in May 2012, which saw the rise of far-right and far-left anti-austerity parties, failed to produce a workable coalition government. Subsequent elections held on June 17, 2012, however, brought New Democracy under Andonis Samaras into power in a coalition, ironically, with third-place finisher PASOK along with other smaller parties intent on continuing austerity in order to continue to receive further rounds of bailout funds from the Troika of international creditors. The radical left, anti-austerity party Syriza, under Alexis Tsipras, became the main opposition party in the Greek parliament.

Against a backdrop of constant public discontent and widespread protest that has been at times violent, the Greek government nevertheless continued to pass further austerity measures and other laws to reduce overall public expenditure. In the spring of 2013, 15,000 civil service jobs were cut, removing what had previously been a constitutionally guaranteed job for life, followed by the closure of ERT, the Greek state public broadcaster, creating a political crisis that eroded the New Democracy coalition's parliamentary majority. With the unemployment rate reaching a record high of 28%, and youth unemployment reaching just over 60%, with the expected attendant rise in homelessness, crime, cuts in healthcare and education, a major shake-up in the political system that had dominated post-dictatorship Greece was already in the making.

A Turning Point in the Crisis?

In December 2014, the Greek parliament failed to reach a consensus on the election of a new president, forcing the government to call new elections, which were held on Jan. 25, 2015. Historically, the post of Greek president is filled by a major political personality who is respected by both the party in government and the leading opposition party, and who is usually able to rise above party politics for this largely ceremonial role. But for Greece, these were not usual times. Although the country finally recorded a relatively small 1.7% growth of GDP for the first time in five years at the end of 2014, with Prime Minister Samaras even going so far as to declare "Greece is back", the Greek electorate took its frustrations over economic mismanagement out on both New Democracy and PASOK at the ballot box.

In a solidly anti-establishment vote, Syriza, also known as the Coalition of the Radical Left, scored a major victory in winning 149 out of a total of 300 seats, just two seats shy of an overall majority. Syriza under Tsipras formed a coalition with the other major anti-austerity party, the Independent Greeks (ANEL), a conservative, right-wing party which garnered 13 seats. New Democracy, meanwhile, won only 76 seats, suffering one of the worst election results in its history, while PASOK was reduced to just 13 seats and became one of the smallest parties to have representation in parliament.

After assuming power, Prime Minister Tsipras, along with his primary negotiator, Finance Minister Yanis Varoufakis, went on a tour of Western capitals to shore up continued lending to Greece, but also to do so *without* the austerity preconditions that have come with previous bailout funds. Varoufakis was a strong critic of the 2010 bailout, observing that the strict austerity measures forced upon Greece caused its citizens a loss of "one-quarter of their incomes, making it impossible to repay private or public debts. The ensuing —

Source: REUTERS/AFLO

Yanis Varoufakis, the controversial and outspoken former finance minister, resigned on July 6, 2015 in the aftermath of the Greek referendum in order for Greece to resume negotiations with its euro zone creditors. He has been replaced by the more soft spoken anti-austerity economist Euclid Tsakalotos.

and ongoing — humanitarian crisis has been tragic." Importantly, Varoufakis negotiated with the euro zone countries an agreement on Feb. 20, 2015 for a four-month extension of loan repayments conditional upon the new Greek government dropping key anti-austerity measures.

While many saw this as a minor victory for Greece, Syriza's lack of experience was also on full display. Varoufakis in particular came under strong criticism not only for his blunt comments and informal style of dress that did not match the serious nature of his discussions with European lenders, but also for the casual manner in which the Greek government reached out to potential partners beyond Europe. Public statements by Tsipras, Varoufakis, and others in the Greek government demonstrated a willingness to work with countries currently at odds with Greece's Western partners — most notably Russia, which has been entangled in a proxy war with NATO in Ukraine, and China, which has contentious relations with the US.

Russia, which has a cultural affinity with Greece, has some cash reserves that it might be willing to lend to Greece. Moreover, Tsipras and Russian President Vladimir Putin have begun discussions about the construction of a pipeline carrying Russian natural gas to Europe. Moving closer to Russia, however, would likely be seen as a means to divide Europe and could jeopardize overall Greek security.

On the other hand, flush with money, China is considered by some to be a better alternative partner for Greece. China has already established financial relations with Greece, including major investments in Greek infrastructure at the ports in Piraeus and Thessaloniki, airports on the island of Crete, and energy projects in Attica. Beijing sees Greece as an important and inexpensive stepping stone into the EU, and for its "New Silk Road" initiative. While this posturing may provide Syriza with some short-term leverage, however, it too is a high-risk proposition which could easily backfire.

A Very Greek Tragedy

Today, Greece's options are limited. Because it uses the euro as its currency, which is controlled by the European Central Bank, Greece can no longer print money to devalue its currency as a mechanism to pay down its debt as it once did prior to joining the euro zone. Greece has therefore continued to live from loan to loan. Government-imposed austerity and massive public protests have led to Greek government requests for additional loans to pay for public services, loans that are provided on the condition of additional austerity. Greece has had to face this vicious cycle over the past several years with no end in sight.

Ongoing negotiations between the Greek government and euro zone leaders, particularly Germany, have been difficult as they are unwilling to risk further loans to Greece to keep the country afloat, certainly without corresponding austerity measures to ensure repayment in the eyes of German taxpayers. There are limits to which European lenders can go for Greece without offending other European debt-ridden countries, such as Portugal, Spain, and Italy — all of which would seek more lenient terms to their loans if Greece were treated more favorably. If pushed too far, the euro zone countries risk alienating Greece to the point that it will have no alternative but to default on its loans and/or exit the euro area, thus damaging the fragile European economy and possibly ruining the single European currency experiment.

While some economists have argued that the fallout from a Greek default or euro zone departure could adequately be contained, it would be tempting fate at this point if both Greece and the EU did not do everything in their power to avoid such a tragic outcome that would have wasted five years of Greek austerity and billions in European bailouts. The latest round of emergency euro zone negotiations at the end of June 2015 reached a standstill after Tsipras revived the idea of a Greek referendum on the euro and further austerity at the eleventh hour. It is too soon to tell what the firm rejection by the Greek people of additional austerity will mean, or whether Greece can bridge the growing gap with its euro zone creditors in the midst of looming deadlines and a deteriorating economic situation. If, as a result, Greece defaults on its loans and is forced out of the euro zone, the consequences for the long-suffering Greek people, as well as the political and economic fabric of Europe as we currently know it, would be enormous.

In any event, Greece is facing a very painful economic road ahead as the crisis enters a new phase. Yet, much like the Ancient Greek myth of Sisyphus, the dishonest and ruthless king who was forever condemned to roll a large boulder up a hill only to see it roll back down once he reached the top, until Greece and its euro zone creditors can *permanently* resolve their differences and take some very difficult and unpopular political decisions, the Greek debt crisis will remain a major obstacle to European growth for some time to come. JS

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