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Greece's Economic Despair Gives Rise to anti-European Sentiment

All economic and social indicators show that Greece is facing an imminent humanitarian crisis and the risk of relapsing from the developed into the developing world. Despite the 'pro-European' result of June 17th's elections, an ever-increasing number of Greeks blames the EU for the country's plight. This spread of anti-European sentiment, in addition to high poverty levels and the unprecedented rise of political extremism pose, is a threat to the very survival of democracy in Greece. Such catastrophe would destabilise the Balkan region and the eurozone, while it would deal a huge blow to the European unification project. Coordinated and urgent action is required in order to avert it.

Introduction: Greece's rapid implosion

Numbers are not enough to depict the Greek drama unfolding during the summer of 2012, but I will give it a shot: Unemployment has hit 22,6% in the general population, and it has exceeded 50% among the youth. Whoever loses his or her job in Greece today, has virtually no prospect of finding another one in the foreseeable future. The Athens Stock Exchange has lost almost 90% of its value in comparison to pre crisis levels, and 2/3 of registered companies published losses in 2011. House prices have plummeted by 50% and non-performing mortgages now exceed 15%. Accumulated GDP contraction is projected to exceed 20% between end 2008 and end 2012. Suicide rates have increased by 22% between 2010 and 2012. Greek police data show significant increase across the spectrum of violent crimes (thefts, robberies, rapes, homicides, etc.). The number of homeless people has risen with 25% over the last two years.

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 an unprecedented cash crunch due to the inability of households to pay their bills. The same is true for the state owned gas supplier. Thousands of apartment blocs, even in middle class neighbourhoods 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 6.7 billion euros to its suppliers, 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. Uncertainty has brought Greek society to its knees: the people in my country cannot be sure what currency they will be using in a few months, if they will be able to travel, if they will be able to make ends meet for themselves and their families.

Attitudes towards Europe

On top of all that, Greeks have to endure daily humiliation in the European press, by publications such as German *Bild* newspaper and *Focus* magazine. They have to hear the director of the IMF, Christine Lagarde, say that she does not feel sorry for them because the children in Niger are in worse statuc and Greeks don't pay taxes. When comments like that come from an official who enjoys tax-free income, it is no wonder that they cause such fierce reactions in the Greek press. The British Prime Minister David Cameron even threatened to close the borders for Greek citizens, in case Greece leaves the eurozone, though thousands of Greeks students are enrolled at British universities.

My compatriots also learn about plans to expel Greece from the Schengen zone, despite the fact that their country had to shoulder most of the burden of countering illegal immigration waves towards Europe, essentially without any assistance from its partners. They listen to demeaning comments about their 'laziness', despite reliable OECD data showing that Greeks work more hours per year than the people in almost any other developed country. They read that they lived beyond their means, despite the fact that private, household, corporate and total external debt in Greece was much lower than it was in most developed countries at the beginning of the crisis. They are forced to swallow borderline racist behaviour when abroad, since many shops in Europe do not accept credit cards issued by Greek banks, while even a Greek surname on a card issued by European banks is sometimes enough for restaurant waiters to say that they cannot accept it. When I tried to open a bank account in Belgium (after I was dispatched by my employers as EU correspondent), I was told by a customer service official of a major multinational bank in Brussels that "we don't open bank accounts for nationals of states such as Belarus or Greece".

Humiliation, desperation and the rapid deterioration of living conditions, due to the economic implosion, have backfired. According to Eurobarometer surveys, trust in 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 (71% against 51% EU average). Moreover, 75% of Greeks were responded at the time 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, Chrissi 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 has now 18 MPs. Chrissi Avgi 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 valiant resistance to fascism and authoritarianism during the Second World War and the Cold War, is indicative of the desperation of Greek society. It seems that not only *Bild* has forgotten that hundreds of thousands of Greeks died from famine during the occupation a generation of Germans that is still alive. The Greeks have also forgotten it.

But there is a reason for all that; the daily routine in Athens is a true nightmare: the centre 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 vandalised 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 centre of the city is stricken by crime, illegal immigration and poverty, and its inhabitants have abandoned it. Under such conditions, extremism finds fruitful ground to develop.

The anger and frustration in Greece against Europe is not only related to austerity and demeaning comments by European politicians. Indeed, when the Memorandum of Understanding (MoU) between Greece and its emergency lenders was signed, polls showed that most Greeks were in favor of the EU backed intervention, knowing that there was something seriously wrong with the structure of their economy. Today, they feel betrayed, first of all, because the burden of adjustment was not equally shared. Successive Greek governments (Greece has changed four prime ministers and four finance ministers since the outbreak of the crisis) failed to inflict any pain on vested interests and tax evaders. And all of these government 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. They were told that after three years Greece would be able to borrow from the markets again. These promises were broken. In truth, I am not 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 realised the depth of the problems facing Greece, the European periphery and the continent's banking system? Or was it because they were afraid that people would not be able to stomach the truth? What is certain is that we are now paying the price for this monumental breach of trust.

"Europe is bluffing"

Given the dramatic situation I described above, 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' (the centre left PASOK and the centre right "Nea Democratia"), 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 to the far right and the far left, including "Chrissi Avgi", 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.

Greeks made the right choice for two reasons: first, because, obviously, the promises of the populists were false. 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 are its own banks and pension funds, and both are still standing because of EU loans. 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.

Besides, Mr Tsipras, the leader of SYRIZA, hinted that Europe's threat to force Greece out of the eurozone was a bluff, thus giving the impression that voting for him was a safe way to "send Europe a message". Evidence and logic both point out that he was dead wrong: EU governments 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 honour 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 didn't 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, too, should 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.

The Greek people realised all this, and the majority 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, both parties are faced with two equally unappealing options: either to enforce more austerity measures in an economy already on the brink of depression or allow for a renegotiation of the terms of the bailout agreement. It is doubtful whether more spending cuts are politically feasible in Greece, but it is also doubtful whether euro area governments can commit to disburse the funds needed in order to allow for a slower pace of deficit reduction.

In my view, it is more likely than not that euro area member states will eventually have to agree to renegotiate the bailout agreement. Depending on the Troika's assessment of where the Adjustment Programme now stands, a compromise can be reached, but this can only occur on the condition that the new government in Greece demonstrates unequivocal commitment to reforms. But time is of the essence, since prolonged negotiations would increase uncertainty in both Greece and the rest of the euro area, further suppressing economic output and making the restoration of confidence even more difficult to achieve. On top of it, a new round of negotiations between Athens and its creditors will once again fuel uncertainty over the country's future, while the 'cash crunch' in Greece will become more severe in the near term, since the smooth disbursement of bailout funds will not resume until a new MoU is signed.

Greece's economic collapse and Europe's responsibility
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 summarised 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".
- **Low competitiveness**: Greece ranked 90th out of 142 countries in the World Economic Forum's 2011-12 Global Competitiveness Index, and 56th out 59 countries in the IMD-World Competitiveness Yearbook (2011).
- **Grey economy and tax evasion**: Shadow economy accounts for around 25% of Greece's GDP, double the OECD average.
- **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.
- **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**: 40% of Greece's workforce is self-employed (EU average 16.6%). Also, 25% of Greece's workforce works in the wider public sector and 97% of Greece's companies employ 9 people or less. Hence, Greece has very few private companies big enough to export goods. Growth was thus based on private and public consumption of goods produced abroad. 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 the EU institutions well before the outbreak of the crisis, even though they violated 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. The revelation triggered a full-scale investigation into the quality of statistics that Greece had been providing to Eurostat since its entry into the eurozone. The scanning formally disclosed what everyone in Brussels already knew: that Greece was systematically giving false data about the fundamentals of its economy.

Following the revelations of late 2009, the Greek government handled the fiscal crisis in a way that was widely perceived in Brussels as clumsy and inadequate. As a result, in May 2010, the largest ever bailout facility of emergency loans was set up, in order to avert Greece's imminent default and to prevent a catastrophic blow to the continent's banking system. Greece's performance in implementing the conditionality terms for the loans it got, has failed to impress. Although public deficit has been reduced substantially, all the evaluations, which have been published by the Troika of international lenders so far, underline the fact that progress in implementing structural reforms, combatting tax evasion and modernising public administration has been unacceptably slow. Without progress at these fronts, the lenders believe that Greece will never be able to stand on its feet without EU assistance.

The latest country specific report on Greece, which was recently published by the EU Commission, clearly states that "comprehensive international financial assistance can continue to be provided only if policy implementation improves". Moreover, an ever-increasing number of EU government officials, ministers and leaders have been issuing warnings that "we 'll stand by Greece as long as Greece stands by its commitments".

This rhetoric demonstrates that Greece has been left with very few allies in the European Council. One of them is France's new president, Francois Hollande, who is said to have argued that "the Greek question is not an economic, but a geopolitical issue". Also, Cyprus, Belgium, the UK, Spain, Italy, Ireland and Portugal are exceptionally worried about the consequences of Grexit. On the other side, officials in the German ministry of finance, as well as some high-ranking members of the EU Commission and of the governments of the Netherlands, Finland and Austria believe that Greece should leave the euro anyway, because its membership does more harm than good to the club. They are also confident that the firewalls, which have been built over the last months, can contain the damage. These hardliners are a minority in the Council, but they have all the "triple As" from credit rating agencies.

Hence, had the radical leftist SYRIZA party won the elections and acted on their promise to scrap the MoU, then both euro area governments and the IMF would have had no other choice but to stop the disbursement of bailout funds, for the reasons I explained above. Faced with the 'perfect storm' of a simultaneous cash and credit crunch, the new government would then have to choose between bowing to pressure or abandoning the euro area. This dilemma is still pertinent for any Greek government, present or future.

From Eurolovers to Eurosceptics?

After an inconclusive election result on 6 May and a closely fought 'second round' on 17 Jun, the centre-right New Democracy (ND) party finally managed to form a pro-European coalition together with the Panhellenic Socialist Movement (PASOK) and the moderate leftist Democratic Left (DEMAR). The only parties in Greece, which clearly favour an outright default, a return to the drachma and an exit from the EU are the Stalinist KKE (4.50% of the vote) and the Neo-Nazi "Chrissi Avgi" (6.92%), while the nationalist Independent Greeks (7,51% of the vote) are ambiguous on the subject. SYRIZA (26.89% of the vote) also supports Greece's membership in the eurozone and the EU, it only opposes the austerity measures. Thus, despite the painful measures, the insults by EU governments, the lecturing and often demeaning comments in the international press as well as the implementation deficiencies of the Adjustment Programme an overwhelming majority of Greeks still supports the country's membership in the eurozone and the EU, while almost half them voted for even more austerity.

The new coalition enjoys a comfortable majority of seats in the new parliament, thus restoring confidence that, for the moment at least, Greece is committed to remaining in the euro area. But it will have to overcome several challenges in order to keep Greece there:

a) Greece does not have a culture of coalition governments. Both PASOK and DEMAR will try to avoid the political cost of implementing the MoU measures; the three coalition partners and extra-parliamentary members of the government have made little effort to hide their distrust of each other. Already, Vassilis Rapanos, the outgoing president of the National Bank of Greece, who was initially named as finance minister, has had second thoughts, which together with his health problems have led him to refuse the appointment. The junior minister of shipping has also resigned, amid accusations that he is a shareholder in an offshore company. Nonetheless, the new finance minister, Yannis Stournaras, is a well-respected economist, has the reputation of being committed to reforms and he was one of the architects of Greece's membership in the euro area.

b) Several ND ministers and parliamentary deputies have expressed their disagreement with the MoU in the past. Their enthusiasm in implementing the Programme now can rightly be questioned. Already, the deputy minister for employment has resigned, saying that he disagrees with the measures that the EU promotes in Greece.

c) Once a fringe group of the far-left, SYRIZA has been catapulted to the centre stage of Greek politics and will soon exercise control over most trade unions, which have abandoned PASOK because of its pro-bailout stance. It will now use its newly acquired power to lead a wave of social agitation and strikes against the MoU. It is worth noting that despite the election result, the leader of SYRIZA, Alexis Tsipras, has said that the MoU is delegitimised. But without a minimum of tolerance from the opposition, it is doubtful whether the MoU can be implemented.

d) Owing to the prolonged pre-election paralysis, a more severe-than-anticipated recession as well as Greece's weak administrative capacity, it is almost certain that the Troika assessors will conclude that the adjustment Programme is off track. However, with the unemployment rate at record highs, GDP contracting at depression rates, the stock market in shambles and house prices collapsing, any attempt to impose more austerity measures will trigger a potentially destabilising social backlash.

Given these challenges, the coalition partners have vowed to ask for a renegotiation of the MoU in order to alleviate social pressure and unrest. In particular, they have asked for an extension of the deadline by which the fiscal deficit is to be brought below 3% of GDP as well as moderate rises in the minimum wage and minimum pension levels. In order to make good on their promises, they need more funds from the euro area. However, it will be extremely difficult for the 17 eurozone governments to convince their voters and parliaments to agree to more money for Greece.

In short, Greece and the euroarea are stuck between a rock and a hard place, as for each side, more cuts or more loans are respectively equally unacceptable. Nonetheless, following the elections, Greece has one very strong negotiating point: in an election that was like a referendum on staying in the euro, Greeks voted in favour. Consequently, it will be difficult to force Greece out of the euro area at this stage, unless the coalition government in Athens shows unwillingness or inability to implement the Programme.

The alternatives: leaving the euro?

Several solutions have been suggested for the Greek predicament over the last three years, as an ever-increasing number of pundits, broadsheet press columnists and academics claims to be an expert on Greece. 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 above, 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 unbelievably 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 in 2012 and 2013, while estimates of the cost for the eurozone range between 1 and 2 trillion euros.

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. It has lifted the burden for everyone, with very little assistance. If the EU thinks that Greece is not really doing a great job guarding its frontiers, wait and see the chaos that will ensue when the country is out of the way and the burden falls entirely upon Italy. A third good reason to 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. The political system will 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 stabilise in recent decades.

Furthermore, our 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 Programme 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 and when the world's media show 100,000 people rallying in Athens, what they don't show is the 4 million other Athenians who are not rallying or rioting; just trying to survive and make ends meet in a country where nothing really works anymore.

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, although everyone is an expert on Greece these days, it seems that they have missed the fact that the country has tried the path they propose: expansionary fiscal policies, successive competitive devaluations, and the like. We've been there and done that 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.

Hence, it is not reform that brought the economy to a standstill. On the contrary, the root cause of the crisis is the fact that Greece essentially ceased its efforts to reform after the adoption of the euro. Haunted by the stock market bubble of 1999 and exhausted by the continuous fights with trade unions, the PASOK government called it quits back then. Greece's competitiveness steadily deteriorated and fiscal irresponsibility led to effective bankruptcy.

Restoring Greek-EU relationships

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 and national humiliation undermine the legitimacy of the Adjustment Programme. The new government has already a herculean task ahead and comments like those recently made by Mrs Lagarde, Mr Cameron and several German politicians only make things worse. Much worse. An apology for what has already been said, would be more than welcome, at least to the millions of Greeks who have paid dearly for their mistakes, but also for the mistakes of their governments, their tax evading compatriots and the incompetence of European oversight institutions. As for *Bild*, there's really nothing to be done, the Greeks should only try ignore it.

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 realised it. But consolidation efforts should not be focused on the achievement of fiscal targets only. 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). Lest there be no doubt: vested interests will resist reform to their last breath. But it's either them or the survival or Greece.

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 Programme 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. The Greek government has already asked for such assistance in the form of an EU Task Force for Greece. So far, the Task Force has not managed to produce tangible results.

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 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. Hence, if the EU, the IMF, the ECB and the Greek authorities finally agree on a definitive deal, which will ensure the medium term financing of the Greek economy, then uncertainty will disappear and the Greek economy will rebound. 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? First, we need a swift deal for an updated MoU between Greece and its lenders. Prolonged negotiations only worsen the cash and credit crunch in Greece, thus pushing its economy further into Depression. Once the deal is finalised, then cash disbursements from the bailout money will resume, Greek banks will be recapitalised and the Greek state will pay its bills to its suppliers. This will allow the Greek economy to avoid asphyxiation.

Finally, Greece's Adjustment Programme 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 recapitalisation 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 prioritise 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. And third, a two year extension to the deadline given to Greece in order to bring its deficit below the 3% threshold, will give its economy enough time to adjust. Obviously, Greece should be required to give something in return: an unequivocal commitment in pursuing reform. The Greek people seem willing to do so.

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Guide to Further Reading

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