THE GREEK CRISIS:
A CRACK IN THE EUROPEAN PROJECT

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Abstract

This is an opinionated paper on how the Greek Economic Crisis occurred and how it presents a threat to the European Union in terms of its continuation. The research methods of observations and media headlines regarding this issue is used. My opinions on how the Greek economic crises is persistent due to external and internal factors fueling the crisis is shown. Using this as a guide is up to the readers' discretion.

Keywords: Greek Government, Crisis, Debt, Germany, Eurozone

The Greek crisis is not one of economic crisis only but of social and political nature as well, with foreign influence that causes it to be on going. The chief contributor to Greece's financial crisis is so familiar to Americans who hit tough times in 2008. After all it is the same problem spending. Consumers who become over-leveraged and spent more than they take home. What Greece did it undertook a policy of deficit spending to support its vast social programs? They were mismanaged and ballooned out as the Greek economy soured. The Greek governments borrowed to finance its overspending, issuing debt at an increasing rate. As Greek law makers continued to increase the country's debt load, anxious investors increased the cost of borrowing for Greece by widening the bond yield spreads and increasing the risk premium for credit default swaps on Greek debt. To put it simple as Greece continued to borrow at high levels, the cost of borrowing money increased too, making each euro dollar borrowed cost more in interest than the last.

The saga of Greece starts from its entry into the EEC (European Economic Community) in 1981 by then Prime Minister Konstantinos Karamanlis. It was hoped that membership would provide a betterment for the everyday life for its people. Billions European funds were pouring into improving the infrastructure of the newest member of the EEC.

Then the opposition party called PASOK under leadership Andreas Papadereou called for Greece's withdrawal from both EEC and NATO. This so-called leftist party slowly appealed the the Greek populace with its anti-establishment rectory. Once PASOK came into power this all change. Greece remain as part of NATO and EEC as Andreas Papadereou saw the funds coming in from the EEC which suited PASOK's plans and did not want to change the political balance in the region therefore staying in NATO, but with the closing of the American base of Hellenikon in Athens and a new agreement with the American naval base at Souda bay. This way he saved face to continue to appeal to populist views during that period.

His finance minister at that time Dimitris Tsovolas wanted to distribute these funds pouring into Greece not into infrastructure but to PASOK political cronies especially in the rural area. Greek infrastructure was crumbling, the cracks in the sidewalks started to show. Overnight the poor Greek farmers were seen driving Mercedes Benz and BMW's. The Pension funds at that time were mismanaged also making them weak with the introduction of employment groups within the existing Pension funds at that time. For example, the Greeks from the Soviet Bloc who were repatriated to Greece at that time were put into the NAT pension fund therefore causing a weakening and strain on the pension fund.

At the same time the Greek Communist party KKE was planning it own agenda to appeal to the harder line leftists. They infiltrate into the Greek unions and when new foreign corporations were investing in Greece seeing a potential cheap labor force, strikes were called on a daily routine shutting down production and therefore causing a loss in profit for these foreign investors since KKE were targeting them. Many of them started to leave Greece, causing a rise in unemployment.

The attitude, "who cares since the government will take care of me", was emerging. I will get a public service job by promising to vote for the politician who represented my district region, and that meant a job for life and getting paid without even showing up for work.

Life was so good, with consumer spending up, tax evasion a daily encouragement since even high-level politicians were doing it why not follow this as an example. Attitudes developed within the population "what is good for them is good for me."

Greeks in the villages were in the cafes drinking ouzo while the first foreign workers in Greece were harvesting the fields. A political slogan at that time was "Tsovolas give it all", as reference was made by his policy of redistribution of EEC funds to the ordinary population supporters of the government.

The deficit increase year by year as government revenues decreased and spending increased. More so the debt was adding up yearly.

It became a way of life.

Now let's take it further, PASOK was in power in Jan 1, 2001 under Prime Minister Costas Simitis when Greece join the Eurozone. Under the agreement 340.75 Drachma will equal 1 euro. Greece joins the euro zone under fake statistics provided by the Greek Statistics Bureau. The real statistical numbers that existed in Greece at that time, Greece should never have joined the Euro. Inflation took hold in Greece after joining the euro, making everything more expensive overnight.

The EEC had become the EU and the whole structure of a United States of Europe was taking shape. The powerful north versus the weaker south. The stronger countries in Western Europe would dominate the new members of Eastern Europe. European member states were not equal as Germany the most powerful member and it took a dominated role in dictating European economic policy.

Greek industry was no longer becoming competitive and most closed down or moved to neighboring countries were labor was cheaper, with less bureaucratic hassle in setting up a business with more tax incentives. Just what corporations wanted.

To make things worse Greece was awarded the 2004 Olympic Games to Athens in 2004. A tremendous amount of funds was borrowed for the Olympic projects to be undertaken. The costs skyrocketed because of last minute planning and construction. Last minute preparations cost the Greek taxpayers an extraordinary amount throwing the original budgets in deficits, needing them to be readjusted over and over again. Never mind the kickbacks that corrupt politicians and contractors received to undermine any original budgeted amount.

Afterwards when the Olympic Games were finished instead of maintaining and using the Olympic infrastructure to bring in much needed revenue, everything was left to decay to ruin. Funds completely wasted and left Greece in a tremendous debt.

In 2008 in the United States a financial crisis had broken out with the Lehman Brothers and Golden Sachs situation. Many real estate's loans default causing a banking crisis that started in the United States, to eventually spread to Europe.

European banks found themselves in crisis including German banks.

At this time Greece was not affect by this but it was foreseen that crisis was looming and nothing was done to prevent it. The situation was such that Greece the weakest state in the euro zone was going to be targeted by foreign investors in the marketplace. The government debt was just too high to sustain it and the markets knew this. Payback time was coming and in 2010 PASOK Prime Minister George Papadreou of the ruling party made a statement declaration on the island of Kastelorezo with a beautiful background that the International Monetary Fund agreed to finance Greece debt ridden public sector and there was an invitation on the part of the Greek government to take part in the bailout to save Greece from declaring bankruptcy. The Greek market spreads had gone sky high making it impossible to borrow from the market sector. The Greek spreads reached an all time high within the euro zone.

The troika was set up to bail out Greece. The IMF, The European Central Bank, and the European Union were Germany was the main contributor. German banks had taken a beating during the 2008 crisis and now there was an opportunity to try to recover on the backs of the Greeks. On May 9 2010, Europe's Finance Ministers called the Euro group approved a rescue package worth €110 billion loan for Greece.

There was a price to pay, the Greeks had to endure a tough austerity program in return for the bailout loans. These austerity measures continue until this day, were Greek pensions have been cut drastically, and high taxes being imposed. Greece can no longer devalue its way out of economic difficulties. It will have to forcefully manage spending then it had since the inception of the "The Third Hellenic Republic".

Regardless of the corrective measures chosen to solve the economic crisis in Greece as long as cross border capital flows remain unregulated in the Euro Area, asset bubbles and current account imbalances are likely to continue. For example, a country that runs a large current account or trade deficit (i.e., it imports more than it exports) must be a net importer of capital, and this is a mathematical identity called "the balance of payments ". A country that imports more than its exports must also borrow to pay for those imports. Conversely Germany's large trade surplus means that it must also be a net exporter of capital, lending money to other countries to allow them to buy German goods. At the start of the crisis in 2009 the trade deficit for Greece was $34.4billion, while Germany's trade surplus was $109.7billion.

By changing consumer habits were a country's citizens save more instead of consuming imports this would reduce its trade deficit. The imposition of capital controls in Greece that restrict or penalize the flow of capital across borders can reduce trade imbalances.

The international credit rating agencies like Moody's S&P and Fitch had played a controversial role in the European bond market crisis. They have been accused of giving generous ratings due to conflicts of interest. In the case of Greece, the market responded to the crisis before the downgrades with Greek bonds trading at junk levels numerous weeks before the rating agencies began to describe them as such.

The role of speculators and hedge funds engage in selling Euros have been accused of worsening the crisis in Greece, that some markets at that time banned naked short selling for a few months. One must remember that financial speculators are also players, among them the big investment houses and hedge funds. They gain from instability, and if they can manage to direct it, they can rake in huge profits.

At that time the media discussion of the crisis in Europe had characterized the Greek people as indolent, corrupt, devious, and indulged.

The question is, was the Greek crisis blown out of proportion by interest parties by the help of the media?

The facts

Greece's debt/GDP ratio was the highest in the euro block at about 115% at that time. If that is insolvency, then Japan 190% Singapore 120% and Italy 117% at that time were in similar straits. The debt/GDP ratio does not reflect a country's ability to pay of its debts by raising taxes, and spending cuts that harm growth. Greece had considerable room for maneuver, because of low collection rates in the past.

The truth is the ball was in the court of the media and the CDS market, (a derivative instrument representing insurances against insolvency), which is known as a market in which it is easy to deform prices. The rating downgrade ahead of the date when Greece had to rollover existing loans supplied the interested parties and the speculators with a lever to induce panic.

If you want to fan the flames of a financial crisis, manipulation of media reporting is the main means. Media coverage of the debt crisis in Greece inflated and accelerated the process. The coverage swallowed up the crisis and the basic facts were forgotten. News agencies had become a platform for the leading players in the financial markets to encourage their point of view. The content provided by these news agencies like Reuters, Bloomberg was biased. Coverage of the crisis in Greece was an expression of that bias. When hedge fund managers, big investment houses, and those who worked for them directly and indirectly had an agenda to influence the direction of events.

High unemployment, especially in the youth sector, and Greece continues to be the weakest member in the euro zone. GREXIT is still possible to this day and the Greek economy is in tatters, without much possibility of recovery for many years to come. Foreign investment such as large corporations coming to Greece for investment is unlikely since the government of Alexis Tsipras and leftist SYR.IZA goes against the grain that large corporations behave, cheap labor, and plentiful of resources with tax incentives and with no bureaucrat hassle in setting up business in this country. Alexis Tsipras government believes in a big government and the social welfare state while the Troika is biting into this every time new measures had to be introduced to obtain more bailout funds. The former German Finance Minister Wolfgang Scheubler was not a friend of the current government in Athens and he continues to disagree with Alexis Tsipras on what is has to be done. Nevertheless, Germany pulls the strings when it come to tough austerity measures and Greece will continue to agree on this measure for its survival in the euro zone of the European Union.

It is evident that the economic and political union is not only cracked, but its very foundations are rotten. This was caused exclusively by the problem that an economic union was created ahead of a political one. The structures of economic cooperation nor a mechanism for resolving a crisis has been determined in advance. So here comes Greece, a mild earthquake, shook the euro zone to its core, showing that the single currency was built solely on high hopes and good intentions only. *The Greek crisis was Greece's own doing before 2010, but posed as a challenge to European future unity, and showed the cracks in the European project.*

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