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GREECE: AN ATTEMPT TO REVIVE ITS GLORIOUS PAST- A CASE STUDY

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ABSTRACT

The world since 2008 has been caught in a cobweb of economic of economic crisis's which has effected major economies and hampered the economic growth. The recent G20 summit in México focused on the downfall of Greece which eventually is affecting the Eurozone.The objective of this case study has been to critically analyse the solutions recommended to revive the economy of Greece and to comment on the feasibility in application of the solution. The research methodology used in the case study has been purely **secondary data** and also by application of the practical knowledge of the researcher. In the course of the research it has been found out that though the situation in Greece is complex and tangled, it can still be solved through the methodology discussed in the case study and what might be the future of this great ancient land has been found out.

KEY WORDS: Austerity, Deficit, Economic melt-down, Eurozone, Fiscal policy.

INTRODUCTION

The world has been in a cobweb of economic problems since 2007. The crash of the Wall Street, beginning with the bankruptcy of major financial institution in the US marked the beginning of the global economic crisis of 2008. As known to the general public the crisis in US led to the downfall of the Eurozone and Greece in particular. The question that was left unanswered was that whether the downfalls of US economy was the major reason for the decline of the Greece or were the internal factors to be blamed for it. This case study gives an insight of the Greece economic crisis, to answer the questions those were left unanswered to the common man.

2.1 THE CONCEPT OF ECONOMIC MELT-DOWN:

With the economic situation in the world and Greece in particular now, economic melt-down is a term which we come across quite regularly these days .But what is an Economic Melt-down? Well there is no precise definition for an economic-melt down. The term has been used to describe a broad range of bad economic conditions from a severe, prolonged depression with high bankruptcy rates and high unemployment, to a breakdown in normal commerce caused by hyperinflation or even economically caused sharp increase in the death rate and perhaps even a decline in population. According to business dictionary an economic melt-down is "A situation in which the economy of a country experiences a sudden downturn brought on by a financial crisis. An economy facing an economic crisis will most likely experience a falling GDP, a drying up of liquidity and rising/falling prices due to inflation/deflation. An economic crisis can take the form of a recession or a depression". Miss-management of an economic crisis leads to an economic melt-down, according to Karl Marx "economic crisis is an isolated phenomenon, but is a necessary element in the capitalist economic system". Thus, an economic crisis is somehow an inevitable consequence of the social system in which we live.

Some of the major economic melt-down experienced in the modern are:

- The economic collapse of China (1852-70).
- Weimar Germany (post WWI).
- The Great Depression of 1930.
- The economic collapse of Soviet Communism.
- The Russian financial crisis of 1988.
- The Argentina economic crisis (1999-2002)
- The 2008 global economic crisis (continuing..)

2.1.1 THE 2007-2012 GLOBAL ECONOMIC CRISES

The 2007-2012 global economic crisis or commonly known as the Global Financial Crisis of 2008 is considered by many economists as the worst financial crisis since the great Depression of the 1930. It resulted in the collapse of major financial institution, starting with The Lehman Brothers of the U.S.A. and affecting the wide sectors of the household market which eventually led to the collapse of major world economies. The crisis played a significant role in the failure of key businesses, declines in consumer wealth were estimated in trillions of US dollars, and a downturn in economic activity leading to the 2008-2012 global recession and contributing to the **European sovereign-debt crisis.**

The crisis started with the bursting of the U.S. housing bubble, which peaked in 2007 ,which caused the securities tied to the US real estate prising to take a nose-drop, damaging the financial institutions globally , leading to the fall of the US securities market by 20% from their period of bulls in 2007. There were many theories which were brought up to be the probable reasons for the crisis, whereas **U.S senate Levin-Coburn report** asserted "that the crisis was not a natural disaster, but the result of high risk, complex financial products; undisclosed conflicts of interest; and the failure of regulators, the credit rating agencies, and the market itself to rein in the excesses of Wall Street", whereas critics argued that credit rating agencies and investors failed to accurately price the risk involved with mortgage -related financial products, and that governments did not adjust their regulatory practices to address 21st-century financial markets. But the two factors which have been frequently cited as the probable reason for the crisis has been the liberal use of the **Gaussian copula function** and the **failure to track data provenance**.

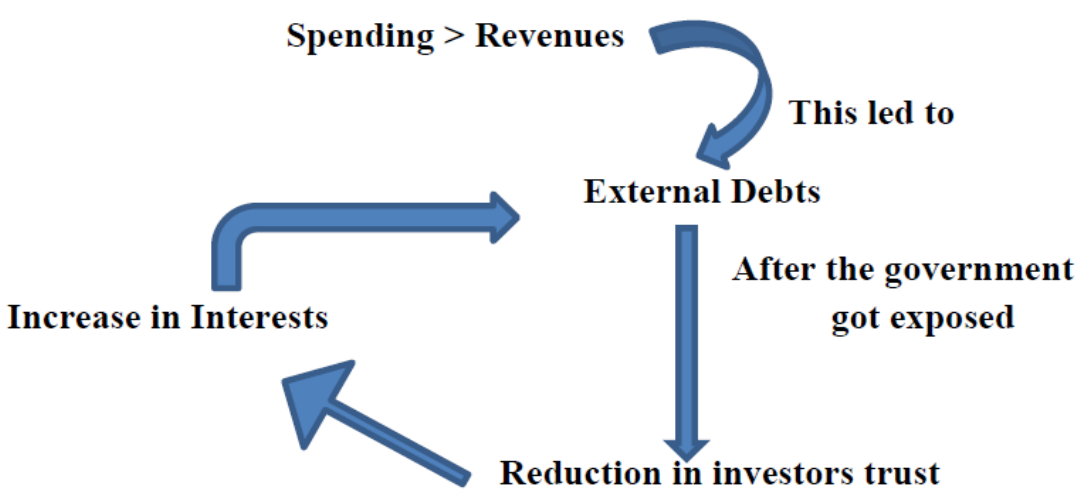
The 2007-2012 global economic crisis led to the downfall of the world economy to a large extent, problems like unemployment was turning out to be a headache of the governments around the world. The **US markets eventually fell by 53.6%,** the wall street collapsed which agitated the people in protesting against the corporates responsible for this situation. The European economy also drastically fell and the countries dependent on the US and the European economy got adversely affected. The situation is still critical and efforts are being made to revive the world economy.

2.1.2 GREECE'S CURRENT SITUATION

The global economic melt-down has affected the economy of Greece adversely, but the entire situation has been misunderstood by the common people around the world. Though it cannot be denied that the downfalls of the American markets are to be blamed to a certain extent for the Euro-zone crisis, it still can't be completely blamed nor can the common currency. It is more about the **fiscal policy and the debt-to-GDP ratio.** Economists believe that this situation is temporary and will not probably lead to the break-down of the euro-zone.

The total debt of Greece stood at **€ 368 billion** as on December 2011, which is roughly **165.3% of its total GDP** and the **fiscal deficit stands at 12.5%** as on date, whereas the safe limit of fiscal deficit is 5% of the GDP. It's not just the external factors but the government in Athens is to be blamed. The net expenditure of the Greek government has always been more than its net incomes i.e. **Government spending > Net Revenues**, so as to fulfil the governments promises made during the elections. That's not all; the government to fulfil the requirements of the European Central Bank (ECB) had used a sort of **accounting shenanigans** to manipulate their books of accounts to make the situation look better so as to take more debts, which led to the overlapping of debts to make things worse. Soon after the government in Athens was exposed , the investors trust on the government hugely declined ,this led to the investors charging more interest on the financial support provided to Greece which overburdened the government with debts.

The situation in Greece has been represented diagrammatically below:



Source: This research paper

Due to these problems Greece has lost access to the International capital market. The country is unable to refinance their state debt when it comes to due and the worst is no country or any international financing institution is now ready to bail-out Greece considering the risk involved or fearing miss-management of funds.

2.1.3 SOLUTIONS TO THE GREEK ECONOMIC CRISIS

Before this topic is discussed it is very important to understand that till the time the Greece's economic problem is solved it becomes very hard for the Eurozone to revive itself which will lead to the world being in an economic jeopardy 'cause the world in this globalized era is fairly dependent on the Eurozone and it may also lead to the United nations funds for various developmental programs to be cut short due to the lack of funds to be received from the Eurozone. Now one of the solutions which most people come out with as a solution as for revival of Eurozone is that **Why not leave Greece out of the Eurozone?** Well that is not something that can be done because:

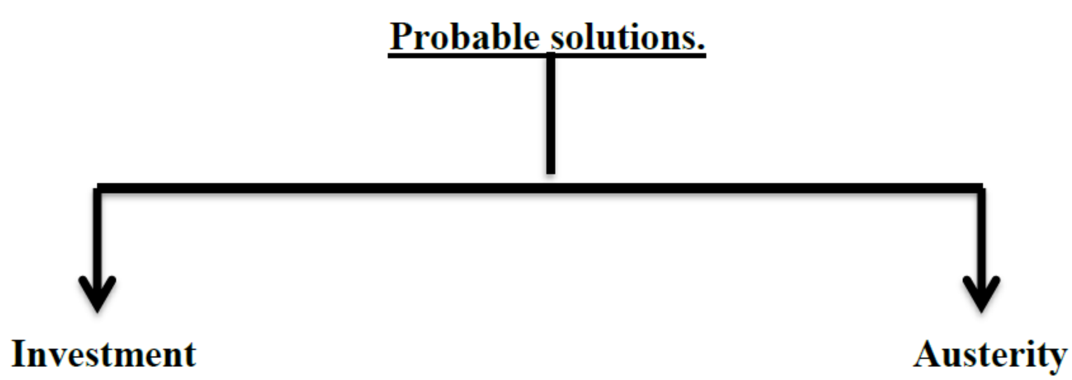
- It wouldn't be justified to leave a country in crisis as it would lead to the violations of the basic concept of the United Nations.
- Would lead to huge devaluation, high inflation and bankruptcies in Greece.
- Would lead to multi-year legal nightmare while its Euro-denominated contracts get re-negotiated (in various international courts).

In short; its financial system would collapse.

2.1.3.1 If not this, then what?

The two probable solutions which has been widely accepted by the Modern School of economists are:

- Increase government expenditure in form of investment to revive the economic cycle.
- Austerity (cut down government expenditure).

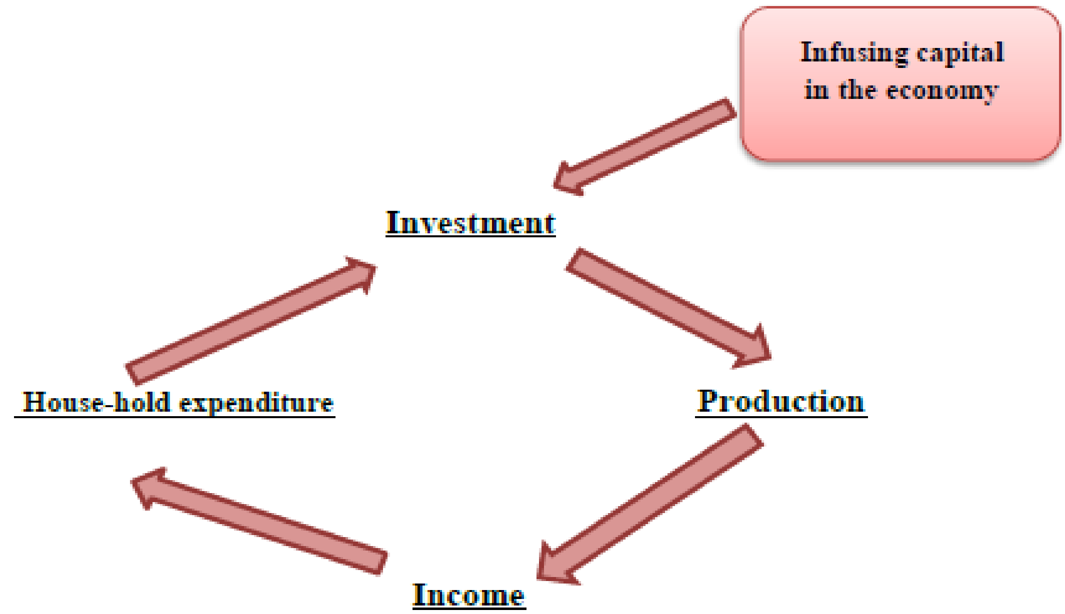


Source: This research paper

Option 1: Increase government expenditure

Prior to 1930's economists believed that under no circumstances was there a necessity for the governments to interfere in the economy and that market forces determine the performance of the economy and the economy is always in equilibrium under full-employment levels. If in any case the economy was not in equilibrium, it would naturally adjust itself. But the thought changed after the theory proposed by **John Maynard Keynes**in his book **"General Theory of Employment Interest and Money".** According to one the theory suggested by him, “The government was an important and integral part of the economy and would have to interfere to revive the economy by increasing government expenditure”. The theory suggested that by infusing capital in the economy the government will help the economy to promote productivity ,which will led to employment and more household expenditure from the factor income received, this will mean more money in the market and hence leading to investment.

The theory has been illustrated below through a diagram:



Source: This research paper

During the G-20 summit in Mexico, this solution of increasing the government expenditure through a bail-out was supported by the Indian delegation under the Indian Prime Minister Dr.Manmohn Singh, but was rejected(by most) as the required action to revive the Greek economy because:

- Athens had been bailed-out before without any substantial difference.
- The Greek economy looks to be chronically uncompetitive within the euro.
- The Greek economy is simply too weak to support a ballooning debt load.
- European governments may not have enough money for a bail- out, and the European Central Bank says its mandate doesn't allow it to.

Hence this solution has been rejected.

Option 2: Austerity

The other option left is to cut down the government expenditure, considering that the net taxations in the past three years have reduced. This resolution was tabled by the **German Chancellor Angela Markel** and has been accepted by the majority.

In economics, austerity refers to a policy of deficit-cutting by lowering spending often via a reduction in the amount of benefits and public services provided. Austerity policies are often used by governments to try to reduce their deficit spending and are sometimes coupled with increases in taxes to demonstrate long-term fiscal solvency to creditors.

Considering that promoting investment through government initiatives seems to be a risky affair, Athens's best chances of reviving the economy to the earliest is by implementing austerity. And there is a threat that the government cannot honour its debt liabilities.

3.1 IMPLEMENTING AUSTERITY IN GREECE

Implementing austerity in Greece is not an easy option considering the standard-of-living there and a big possibility of non-approval of this measure by the people of Greece, as austerity will lead to huge expenditure cut which will result into some of the basic facilities provided by the government being denied to its people.

3.1.1 Argument against austerity

Economists argue that the austerity measures will further weaken the economy rather than stabilize it. Greece has already gone through a few phases of the austerity till now, though it has reduced the external debt of the country but it has hampered economic activity and growth. The current **real GDP growth rate of the country stands at a shocking -6.9%.** Hence austerity doesn't promote growth but will surely reduce the country's external debts.

3.1.2 Austerity may lead to the violation of Human Rights: UN Report.

According to a UN Office of the High Commissioner for Human Rights report, authored by Cephas Lumina, UN expert on foreign debt and human rights, austerity may lead to the violation of Human Rights (HR). According to the report "The implementation of the second package of austerity measures and structural reforms, which includes a wholesale privatization of state-owned enterprises and assets, is likely to have a serious impact on basic social services and therefore the enjoyment of human rights by the Greek people, particularly the most vulnerable sectors of the population such as the poor, elderly, unemployed and persons with disabilities".

While presenting his report in UNHRC in Geneva, Mr. Lumina urged the nations that "The rights to food, water, adequate housing and work under fair and equitable conditions should not be compromised by the implementation of austerity measures,"

The independent expert also called on the International Monetary Fund (IMF), the European Union (EU) and the European Central Bank (ECB) to remain aware of the human rights impact of the policies they design in attempting to resolve the sovereign debt crises in Greece and other countries.

4.1 CONCLUSION

The G-20 summit in Mexico had grabbed all the required media attention not just because it was just a conference of the world leaders but because a very important topic had found its best possible solution. **Point no. 4 & 6** of the **G20 declarations of leaders** provided a ray of hope for the economies and people at large that the ghost of the economic crisis will die soon. The Greece crisis has been dealt seriously. Austerity has been chosen as the solution to the crisis. Though agreed that austerity comes with its own baggage's it is still the best possible solution to the problem.

4.1.1 What is Greece expected to do?

For **Greece**, the objective is to ensure that the public debt ratio is brought on a downward path reaching at most 120.5% of GDP by 2020.

4.1.2 Progress status

For **Greece**, euro-area Finance Ministers approved financing of the second Greek economic adjustment programme until 2014. Under a baseline scenario, the debt-to-GDP ratio would decline to below 117% in 2020 and would keep declining to below 90 % in 2030.

Hence the policies seem to be working and the world can hope to get back to economic normalcy as soon as possible and as far as Greece is concerned, they are expected to have a stable economy if not regain their glorious past.

5.1 QUESTIONS

1. What is the Greece economic crisis all about?
2. Why has austerity been chosen as the solution to the crisis and what areits social implications?
3. Is there some relationship between the business environment and the economic meltdown?
4. If you were a citizen of Greece how had you tried to sail out of this situation?

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