MBHS Economics Club

Greek Crisis Notes

Authors: Shriyash Upadhyay, MeiJade Hsu, Eric Shen, Michael Yin, and Sid Taneja

Preface:

This is the story of a pretty pretty ~~clientelist~~ 'socialist' princess who promised to give everyone everything and bring rainbows and unicorns to the birthplace of democracy. This is a story only possible in the land where "okay" means no and "nee" means yes (Greece). This is a play on the scale of nations.

And it sucked. Actually the worst performance: 1/12 stars. But, without further ado, here is the Greek debt crisis.

The Actors:

All the world's a stage, And all the men and women merely players.
They have their exits and their entrances, And one man in his time plays many parts.
Some just forget all their lines, lie, and make the play suck.
— William Shakespeare

- **European Union (EU) https://en.wikipedia.org/wiki/European_Union**
  - A political and economic confederation, a family, of 28 member states in Europe. It was formed in November 1993 with the goals of creating a more peaceful Europe after the dissolution of the Soviet Union in 1991.
  - Contains several supranational organizations that hold jurisdiction over the entire union.
    - e.g. the European Parliament, European Central Bank, and European Court of Auditors, all of which can take actions affecting all members of the EU.
  - All member states adhere to a set of laws that generally concern economic policy, one of the most important being free trade amongst all its members.
  - These factors make the members' economies strongly connected.

Fig 1.0: European Union starfish, the (unofficial) official club starfish.

- **Eurozone**
  - A monetary union of 19 EU member states.
  - Member states share one monetary policy, which is dictated by the European Central Bank [more on this later, just know this is important].
  - Financial crises in one state can have reverberating consequences throughout the entire union.
    - That's what's happening with the Greek crisis. And that's why everyone was freaking out over it.
    - Whereas the German and French economies have suffered from the Greek crisis, the economies of the UK and Denmark haven't, since neither are in the Eurozone nor use the euro. This has to do with a unified monetary policy.
- **European Central Bank (ECB)**
  - Determines the shared monetary policy of the Eurozone.
  - Tells Eurozone member states how many euros they can each print. This is its primary role.
  - Dominated by Germans.
- **Germany**
  - Germany is the most powerful nation in the EU. As such, most board members on the ECB are German, and Europe's largest financial institutions and banks are located in Germany.
  - Germany is also one of Greece's biggest creditors.
  - Consequently, Germany has been very vocal in determining Greece's fate.
    - Angela Merkel is the current Chancellor of Germany, and has been very uncompromising in her approach with Greece.

Fig 2.0: Everybody loves South Park.

- **Greece**
  - They are the main character, although one can't quite call them the protagonist, of the story. More about them below.
- **SYRIZA (an acronym for "Coalition of the Radical Left)**
  - The largest party in the Greek parliament, officially marxist.
  - Replaced the Panhellenic Socialist Movement (PASOK)
  - Its chairman is Alexis Tsipras, the current Prime Minister of Greece.
  - Anti-austerity (against higher taxes and cuts in public spending in order to reduce government debt in times of recession).

The Setting (some economic background):

- **Fiscal Policy**
  - This is what most people think of when they think of government: revenues and spending. This includes all government spending, from military spending, to infrastructure and development, to the costs of social programs.
  - This is the most direct way of influencing the economy. As we covered last lecture, government spending shifts the demand curve and hence affects GDP.
  - This also entails the nation taking on debt to pay for whatever programs it has in place. This is pretty important in the story of Greece.
- **Monetary Policy**
  - An equally important function of the government based around controlling the monetary supply and, by extension, inflation.
  - Used to:
    - Ensure positive consumer sentiment
    - Ensure price stability
    - Instill general trust in a currency
  - Dictates how much money can be borrowed.
  - Influences GDP via shifting the supply curve by changing interest rates to incentivize investing.

Greek History and Policy:

- Greece was ruled by a military junta until 1974. Once democracy was established in the country, it was ruled by the Panhellenic Socialist Movement (PASOK) until 2009, when popular backlash at the global financial crisis and the resulting Greek debt crisis pushed them out of power.
- PASOK was inspired by other European states to expand its social welfare system. And it did. It implemented large-scale social security programs, overhauled the medical system, provided generous pensions, created housing benefits, and changed education throughout the nation.

    - These benefits extended to the point that Greeks had a very high minimum wage, could retire very early, and practically live off pensions.
- Greece has lots of young people who "can't" find jobs, and lots of old people who "can't" work anymore.
    - The youth unemployment rate is at a staggering 50%.
    - There are also plenty of middle-aged people who struggle to find work, too.
    - At the same time, there are plenty of able-bodied Greeks who don't want to work, and therefore live off welfare. Greece actually has a legitimate problem with laziness. This is an exception to a near universal rule because of Greece's clientelist policies.
    - There are also plenty of older Greeks who can still work, but see themselves as "too old" to.
    - Therefore, Greece spends a ton of money on welfare.
- However, the revenue the Greek government brings in isn't even close enough to cover all this spending. So Greece started borrowing money a long time ago, accumulating a sizable national debt that continues to grow.
- Basically, Greece borrows and spends with the fiscal responsibility of a rapper whose comptroller is Kanye West, and whose accountant is Mr. Rose.

Act I: Greece Lies
- Up until the early 1990s, Greece had reported a very high annual budget deficit, ~10% of GDP. However, without much reduction in spending, the deficit "miraculously" fell throughout the 90s until it was low enough that Greece was permitted to join the Eurozone in 1999.
- This was because they were lying through their teeth, from administration to administration. In order to join the Eurozone, they fudged the numbers to make it seem as if their economy was doing super duper great. (Spoiler: It wasn't.)
- When confronted by the Eurostat (the Eurozone's accounting agency), they ~~acted like 4 year olds~~ lied three times, with Eurostat calling BS every time, until audits were held in 2004 and 2009-2011 that showed that Greece should not have been able to join the Eurozone.
    - The 2009 audit occurred because 2004 was a "self-audit". Surprise, the 2004 audit wasn't very reliable.

Act II: Greece Lies (again)
After (sort of) meeting the criteria for becoming a Eurozone member, Greece joined the Eurozone.
- By joining the Eurozone, Greece could now print euros and shared a monetary policy with Germany. This meant that it could borrow money at the same rates as Germany — the equivalent of using Germany's credit card.
- This allowed Greece to borrow at lower interest rates and eliminated Greece's borrowing cap, allowing Greece to increase its spending.

- Essentially, because they followed Germany's monetary policy, they adopted Germany's fiscal policy.
- A terrible idea, since the Greek economy is much smaller and weaker than Germany's.

When Greece had to pay the interest on its loans, it borrowed even more money to do so.
At the time, this was not particularly an issue. So long as interest rates remained low, money would be plentiful and they could borrow money on Germany' credit card to pay the interest.

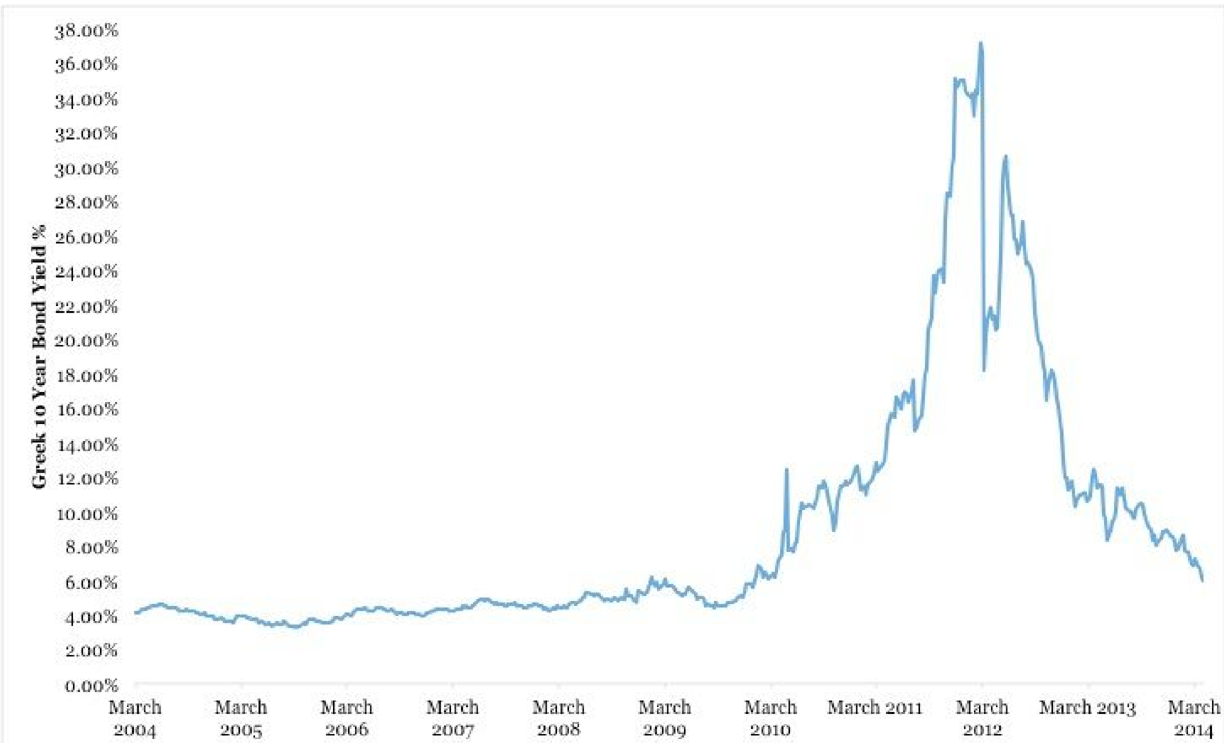

Fig 3.0: A chart of the Greek interest rates. Note how they spiked.

Act III: The Phantom Menace of Greece's Lies

- The problem with Greek policy was that eventually the money did dry up. After the 2008 crash investors were significantly more wary about investing. Greece's debt began constricting around its neck like a noose.
- Greece was unable to print more money like it did before, with drachmas (its old currency).
    - This is because the monetary policy of Eurozone countries, with some exceptions, is controlled by a central board, the ECB.
    - The ECB regulates how many euros can be printed.

- The euro is controlled by the ECB, and the ECB tends to act in the interests of wealthier countries such as Germany.
- Unemployment was roughly 7.8% when the crash began, but the government was forced to undergo massive layoffs, as were private corporation and the unemployment skyrocketed to over 30%.
- As such, the Greek economy is no longer in the neoclassical zone, it's in the Keynesian zone.
    - We should be investing in their country, to encourage an increase in Aggregate Demand, by spending on roads and infrastructure.
    - BUT, the Eurozone wants none of that, requiring austerity for continued loans, seeing as they want their money back.
    - The high interest rates in Greece also deter investment, killing the supply curve.
- Neither side is right, and both screwed Greece, but Greece is probably more wrong: it had no right to lie, and these lies were the root of their problems.

Fig 4.0: Me too, Greece, me too.
(Greece is ~~Socrates~~ Bernie Sanders with a beard).

Referendum

- In July of 2015, Greece held a national referendum on whether or not Greece should accept a bailout which requires austerity measure to be implemented.
- The Greek people voted strongly in favor of rejecting the bailout, with 61% of people opposed to it.

- Greece then tried to bluff and bluster its way out of accepting austerity measures by demanding that money be given to them with no strings attached. If they didn't, Greece threatened to leave the EU. This was an unprecedented event and might have undermined the principle that a nation cannot leave the EU or eurozone.
    - Greece: "If you don't… IF YOU DON'T! WE WILL SCREW OURSELVES OVER!!!"
- Merkel and the rest of the EU didn't buy it, and refused to provide bailout money unless Greece accepted the austerity measure. Greece capitulated, and accepted the bailout with the austerity measures.
- This, by the way, means that Greece narrowly avoided making its issue worse, and has managed to achieve the incredible feat of making no progress at all in the past 10 years.

Fig 5.0: A classic example of Greek democracy.

Morals:

- You can be as left-leaning as you want, but you cannot condone stupidity and outright lying in matters of public financial consequence. Debt *is* a thing, guys.
    - Lying about your finances is a very bad idea, not only to the IRS, but to the large multinational organization that you want to join and to your people.
    - If you fail to recognize this, socialism can quickly devolve into clientelism. The ideals of greater equality are soon sold, along with the wellbeing of a nation, for votes.
- The brunt of the Issue, both in Greece and other Eurozone nations, was facilitated by the unitary monetary policy without matching fiscal policy. To avoid something like this in the future, either the unified monetary policy would have to be removed, or unified fiscal policy would have to be put in place. If you surrender

what your government can and cannot spend money on, how much it can borrow, and what it does, however, you essentially surrender its sovereignty. If the eurozone is to be fixed through this route, it would entail the conversion of Europe into a federalist state.

No legacy is so rich as honesty…
It's a bit late for Greece though.
— William Shakespeare

Shoving words into the mouths of great men is rather fun.
— William Shakespeare

Fig 6.0: Less hair, fewer fears: an older, Greeker, pot-bellieder Voldemort.
Also the ex-Finance Minister of Greece.