THE GREXIT

The Battle Over The Euro—Greece vs. Europe

When: **Thursday, February 19, 2015**

Time: **5:30-7:00pm**

Place: **Ultimate Yogurt (900 G Street, Arcata)**

Topics to be discussed during the forum:

- What should Americans stance be in all of this?
- Should Germany, IMF, European Central Bank, and Euro Zone change their stance towards Greece?
- Is Greece right in wanting to renegotiate their payment plans?
- Should Greece leave the EU?

EU, IMF Bail Out Greece During Debt Crisis

The opposition Socialist party, the Pan Hellenic Socialist Movement (Pasok), won a resounding victory in elections in October 2009. George Papandreou, the leader of Pasok since 2004, became prime minister. A former foreign minister, Papandreou immediately faced a public financial crisis that caused fear that the country might default on its debt. Indeed, the government acknowledged that Greece's deficit had risen to 12.7% of GDP, much higher than the 3.7% reported by the previous administration. The situation prompted Papandreou, whose father and grandfather also served as prime ministers, to make deep spending cuts, crack down on tax evasion, and increase fuel prices.

In April 2010, shortly after Papandreou requested a $60 billion bailout package from the European Union and the International Monetary Fund, Standard & Poor's downgraded Greece's bond rating to junk status, a move that caused further fear that the country would default on its debt. Germany balked at the aid package without promises of strict austerity measures from Greece. While Germany stalled, the needed amount of assistance ballooned. In early May, Greece agreed to implement deep cuts to its social services, crackdown on corruption, increase the retirement age, and other measures in exchange for $146 billion in aid, which will be distributed over three years. Protests broke out over the cuts, and three people were killed when a bank was set on fire. The protests quickly waned, and by the end of the summer Greece had met the economic benchmarks set by the IMF and thus qualified for the next round of aid.

Increased pressure on the euro and a still-deteriorating financial situation led to a second bailout package in 2011. In July, the "troika"—the EU, the European Central Bank, and the International Monetary Fund—agreed on a 109 billion euro ($157 billion) rescue package for Greece to address the country's financial woes. The package, however, was not sufficient to stem the recession and Greece continued to miss deficit-reduction goals and default seemed imminent. In September, in an attempt to reduce the deficit and secure another round of aid, Parliament passed a new property tax that was resoundingly criticized by the opposition and the public. Another round of austerity measures, including wage and job reductions, was introduced in late October and met with mass protests that turned violent.

In late October after protracted negotiations, the leaders of the euro zone agreed on a package meant to bring the debt crisis under control. The terms included forcing banks to take a 50% cut in the value of Greek debt and raise new capital to protect them from future defaults, increasing the euro-zone's bail-out fund to $1.4 trillion, further deep and painful austerity measures in Greece, and a reduction of Greece's debt to 120% of its GDP by 2020. Many Greek citizens and politicians condemned the deal out of frustration over Germany and France's continued influence over Greece's affairs. Days after the deal, Prime Minister Papandreou unexpectedly announced a referendum on the deal in an apparent attempt to boost his quickly waning popularity and to give voters an opportunity to weigh in on the plan and its attendant austerity measures. The move rankled several European leaders and members of the opposition and revealed a split within his governing Socialist party. Papandreou backtracked and called off the referendum after Antonis Samaras, leader of the opposition New Democracy Party, said the party would support the bailout package. Papandreou emerged badly scarred from the turmoil, but he survived a confidence vote in Parliament on November 4. Two days later, he announced the formation of a transitional unity government to manage implementation of the package and that he would resign after the country held early elections. Lucas Papademos, a former vice-president of the European Central Bank, was named as Papandreou's successor.

According to European Union statistics, Greece's debt increased to 159.1% of GDP during the third quarter of 2011, up 20% from the same period in 2010. In February 2012, parliament passed another round of stringent austerity measures, including a 22% cut to the minimum wage and the elimination of 150,000 government jobs, which was necessary to receive a second bail-out from the European Union worth $170 billion. However, before Greece can receive the money, it must first pay off creditors. The cuts went through despite violent protests in Athens on the eve of the vote. Protesters set fire to some 40 buildings in Athens and hurled Molotov cocktails.

Voters Voice Displeasure with Bailout Terms at the Polls

May 2012 Parliamentary elections were a stunning rejection of the terms of the European bailout and threw Greece's political landscape into disarray. Center-right New Democracy won 18.85% of the vote, or 108 out of 300 seats, a sharp decline from 34% in 2009. The Socialists (Pasok), who long held control of Parliament, won only 13% percent, down from 44% in 2009.

The far-left party, Syriza, which strongly opposed the terms of the EU bailout, provided the biggest shock of the election, taking 16%—52 seats. In addition, the far-right Golden Dawn party garnered nearly 7% and will be seated in Parliament for the first time, with 21 seats. New Democracy and the Socialists (Pasok), however, failed to form a coalition, and President Papoulias asked Syriza leader Alexis Tsipras to form a government. He said he would not form a government with New Democracy or Pasok unless they withdraw their backing of the bailout deal, and new elections were scheduled for mid-June. President Papoulias named Judge Panagiotis Pikrammenos as interim prime minister. Amid the uncertainty fear spread across Europe that Greece would abandon the euro—and the bailout package.

New Democracy prevailed in June's election, winning 29.7% of the vote. Syriza took 26.9%, and Pasok placed well behind with 12.3%. New Democracy formed a coalition with Pasok and the Democratic Left, and Antonis Samaras, the leader of New Democracy, was sworn in as prime minister. Samaras, who has been cool to the austerity measures and has advocated a course of growth rather than cuts, said he plans to renegotiate some of the terms of the country's bail-out packages.

Samaras succeeded in convincing the European Commission, the European Central Bank, and the International Monetary Fund, referred to as the troika, that the austerity measures were not working and were making life intolerable for many Greeks. Nevertheless, the prime minister was forced to introduce another round of cuts in the fall in order to receive the next installment of aid—and remain in the euro zone. In September, members of the troika rejected his proposed €11.5 billion in cuts, but later accepted an austerity package approved by parliament in October that included €13.5 billion in cuts to pensions and salaries while also increasing taxes. The troika said it would allow Greece to phase in the measures rather than implement them all at once. The concession did little to appease the public, and Samaras's popularity began to plummet while Syriza and Golden Dawn began to gain favorability in the polls. In November, eurozone finance ministers and the IMF agreed to a plan to restructure Greece's debt and release €34.4 billion in aid to Greece. Officials hoped the move would reduce the risk that Greece would abandon the euro.

In June 2013 in its continued pursuit of ways to save money, the government made the surprise announcement that it was suspending operations of the state broadcaster, ERT. Protests broke out, and the Democratic Left party bolted from Samaras's coalition, leaving him with a slim majority in parliament.
Parliament agreed to yet additional austerity measures in July in order to receive the next installment of bailout funds—$8.9 billion. The concessions included the elimination of 15,000 civil service positions and reform to the country's tax code.

Political and Economic Woes Take a Toll

In Sept. 2013, the anti-racist rapper Pavlos Fissas was stabbed and killed by a supporter of the neo-Nazi party Golden Dawn. The subsequent shooting of two Golden Dawn members in early November looked to be an act of retaliation. Many in Greece worried that six years of recession, unrelenting austerity measures, and soaring unemployment would send the country into a violent tailspin.

Less than one week later, on Nov. 6, at least 15,000 belonging to Greece's largest public and private sector unions, including teachers, doctors, transportation workers, and municipal employees participated in a 24-hour general walkout. Many strikers stayed home due to heavy rains. The groups were protesting the arrival of inspectors from the "troika" of the European Commission, the European Central Bank, and the International Monetary Fund.

On Tuesday, April 1, 2014, the troika review period was finally, and officially, over. International finance ministers agreed to release 8.3 billion ($11.4 billion) in loans to ensure Greece's return to solvency.

Early elections were called in December 2014, after Parliament failed three times to elect a president. Stavros Dimas, former European commissioner and the candidate put forth by the government, fell short each time. Voters expressed their anger about the harsh austerity measures, which were put in place by the European Commission, the European Central Bank, and the International Monetary Fund, at the polls in January 2015, handing a decisive victory to the left-wing, anti-austerity Syriza party. Alexis Tsipras, the head of Syriza, became prime minister and said he would renegotiate payment terms of Greece's debt. He referred to the austerity plan as "fiscal waterboarding." Just shy of winning a majority in Parliament, Syriza formed a coalition with the center-right Independent Greeks party.

http://www.factmonster.com/country/greece.html

Go ahead, Angela, make my day

Syriza's win could lead to Grexit, but it should lead to a better future for the euro

Jan 31st 2015 | From the print edition of the Economist

IT WAS in Greece that the infernal euro crisis began just over five years ago. So it is classically fitting that Greece should now be where the denouement may be played out—thanks to the big election win on January 25th for the far-left populist Syriza party led by Alexis Tsipras (see article). By demanding a big cut in Greece's debt and promising a public-spending spree, Mr. Tsipras has thrown down the greatest challenge so far to Europe's single currency—and thus to Angela Merkel, Germany's chancellor, who has set the austere path for the continent.

The stakes are high. Although everybody, including Mr. Tsipras, insists they want Greece to stay in the euro, there is now a clear threat of Grexit. In 2011-12 Mrs. Merkel wavered, but then decided to support the Greeks to keep them in the single currency. She did not want Germany to be blamed for another European disaster, and both northern creditors and southern debtors were nervous about the consequences of a chaotic Greek exit for Europe's banks and their economies.

This time the odds have changed. Grexit would look more like the Greeks' fault, Europe's economy is stronger and 80% of Greece's debt is in the hands of other governments or official bodies. Above all the politics are different. The Finns and the Dutch, like the Germans, want Greece to stick to promises it made when they twice bailed it out. And in southern Europe centrist governments fear that a successful Greek blackmail would push voters towards their own populist opposition parties, like Spain's Podemos.

A good answer to a bad question

It could all get very messy. But there are broadly three possible outcomes: the good, the disastrous, and a compromise to kick the can down the road. The history of the euro has always been to defer the pain, but now the battle is about politics not economics—and compromise may be much harder.

Tantalizingly, there is a good solution to be grabbed for both Greece and Europe. Mr. Tsipras has got two big things right, and one completely wrong. He is right that Europe's austerity has been excessive. Mrs. Merkel's policies have been throttling the continent's economy and have ushered in deflation. The belated launch of quantitative easing (QE) by the European Central Bank admits as much. Mr. Tsipras is also right that Greece's debt, which has risen from 109% to a colossal 175% of GDP over the past six years despite tax rises and spending cuts, is unpayable. Greece should be put into a forgiveness programme just like a bankrupt African country. But Mr. Tsipras is wrong to abandon reform at home. His plans to rehire 12,000 public-sector workers, abandon privatisation and introduce a big rise in the minimum wage would all undo Greece's hard-won gains in competitiveness.

Hence this newspaper's solution: get Mr. Tsipras to junk his crazy socialism and to stick to structural reforms in exchange for debt forgiveness—either by pushing the maturity of Greek debt out even further or, better still, by reducing its face value. Mr. Tsipras could vent his leftist urges by breaking up Greece's cosy protected oligopolies and tackling corruption. The combination of macroeconomic easing with microeconomic structural reform might even provide a model for other countries, like Italy and even France.

A very logical dream—until you wake up and remember that Mr. Tsipras probably is a crazy leftwinger and Mrs. Merkel can barely accept the existing plans for QE. Hence the second, disastrous outcome: Grexit. Optimists are right that it would now be less painful than in 2012, but it would still hurt.

In Greece it would lead to bust banks, onerous capital controls, more loss of income, unemployment even higher than today's 25% rate—and the country's likely exit from the European Union. The knock-on effects of Grexit on the rest of Europe would also be tough. It would immediately trigger doubts over whether Portugal, Spain and even Italy should or could stay in the euro. The euro's new protections, the banking union and a bail-out fund, are, to put it mildly, untested.

So the most likely answer is a temporary fudge—but it is one that is unlikely to last long. If Mr. Tsipras gets no debt relief, then he will lose all credibility with Greek voters. But even if he wins only marginal improvements in Greece's position, other countries are bound to resist. Any changes in the bail-out terms will have to be voted on in some national parliaments, including Finland's. If they passed, voters in countries like Spain and Portugal would demand an end to their own austerity. Worse still, populists from the right and left in France and Italy, who are not just against austerity but against their countries' membership of the euro, would be strengthened.

And there are technical problems with any fudge. The ECB is adamant that it cannot provide emergency liquidity to Greece's banks or buy up its bonds unless Mr. Tsipras's government is in an agreed programme with creditors, so any impasse is likely to trigger a run on Greek banks. By stretching out maturities, some of this could be avoided—but that may be too little for Mr. Tsipras and too much for Mrs. Merkel.

Hello to Berlin

So in the end, Greece will probably force Europe to make some hard choices. With luck it will be towards the good outcome outlined above. Greek voters may be living in a fool's paradise if they think Mr. Tsipras can deliver what he says, but the Germans too have to look at the consequences of their obstinacy. Five years after the onset of the euro crisis, southern euro-zone countries remain stuck with near-zero growth and blisteringly high unemployment. Deflation is setting in, so debt burdens rise despite fiscal austerity. When policies are delivering such bad outcomes, a revolt by Greek voters was both predictable and understandable.

If Mrs Merkel continues to oppose all efforts to kick-start growth and banish deflation in the euro zone, she will condemn Europe to a lost decade even more debilitating than Japan’s in the 1990s. That would surely trigger a bigger populist backlash than Greece’s, right across Europe. It is hard to see how the single currency could survive in such circumstances. And the biggest loser if it did not would be Germany itself.

Explore our interactive guide to Europe's troubled economies

Ending Greece's Nightmare
Paul Krugman
January 26, 2015 New York Times; The Opinion Pages

Alexis Tsipras, leader of the left-wing Syriza coalition, is about to become prime minister of Greece. He will be the first European leader elected on an explicit promise to challenge the austerity policies that have prevailed since 2010. And there will, of course, be many people warning him to abandon that promise, to behave "responsibly."

So how has that responsibility thing worked out so far?

To understand the political earthquake in Greece, it helps to look at Greece's May 2010 "standby arrangement" with the International Monetary Fund, under which the so-called troika — the I.M.F., the European Central Bank and the European Commission — extended loans to the country in return for a combination of austerity and reform. It's a remarkable document, in the worst way. The troika, while pretending to be hardheaded and realistic, was peddling an economic fantasy. And the Greek people have been paying the price for those elite delusions.

You see, the economic projections that accompanied the standby arrangement assumed that Greece could impose harsh austerity with little effect on growth and employment. Greece was already in recession when the deal was reached, but the projections assumed that this downturn would end soon — that there would be only a small contraction in 2011, and that by 2012 Greece would be recovering. Unemployment, the projections conceded, would rise substantially, from 9.4 percent in 2009 to almost 15 percent in 2012, but would then begin coming down fairly quickly.

What actually transpired was an economic and human nightmare. Far from ending in 2011, the Greek recession gathered momentum. Greece didn't hit the bottom until 2014, and by that point it had experienced a full-fledged depression, with overall unemployment rising to 28 percent and youth unemployment rising to almost 60 percent. And the recovery now underway, such as it is, is barely visible, offering no prospect of returning to precrisis living standards for the foreseeable future.

What went wrong? I fairly often encounter assertions to the effect that Greece didn't carry through on its promises, that it failed to deliver the promised spending cuts. Nothing could be further from the truth. In reality, Greece imposed savage cuts in public services, wages of government workers and social benefits. Thanks to repeated further waves of austerity, public spending was cut much more than the original program envisaged, and it's currently about 20 percent lower than it was in 2010.

Yet Greek debt troubles are if anything worse than before the program started. One reason is that the economic plunge has reduced revenues: The Greek government is collecting a substantially higher share of G.D.P. in taxes than it used to, but G.D.P. has fallen so quickly that the overall tax take is down. Furthermore, the plunge in G.D.P. has caused a key fiscal indicator, the ratio of debt to G.D.P., to keep rising even though debt growth has slowed and Greece received some modest debt relief in 2012.

Why were the original projections so wildly overoptimistic? As I said, because supposedly hardheaded officials were in reality engaged in fantasy economics. Both the European Commission and the European Central Bank decided to believe in the confidence fairy — that is, to claim that the direct job-destroying effects of spending cuts would be more than made up for by a surge in private-sector optimism. The I.M.F. was more cautious, but it nonetheless grossly underestimated the damage austerity would do.

And here’s the thing: If the troika had been truly realistic, it would have acknowledged that it was demanding the impossible. Two years after the Greek program began, the I.M.F. looked for historical examples where Greek-type programs, attempts to pay down debt through austerity without major debt relief or inflation, had been successful. It didn’t find any.

So now that Mr. Tsipras has won, and won big, European officials would be well advised to skip the lectures calling on him to act responsibly and to go along with their program. The fact is they have no credibility; the program they imposed on Greece never made sense. It had no chance of working.

If anything, the problem with Syriza’s plans may be that they’re not radical enough. Debt relief and an easing of austerity would reduce the economic pain, but it’s doubtful whether they are sufficient to produce a strong recovery. On the other hand, it’s not clear what more any Greek government can do unless it’s prepared to abandon the euro, and the Greek public isn’t ready for that.

Still, in calling for a major change, Mr. Tsipras is being far more realistic than officials who want the beatings to continue until morale improves. The rest of Europe should give him a chance to end his country’s nightmare.