Evaluation Of Austerity Policies Adopted In Greece

Research Topic: An evaluation of austerity policies adopted in Greece and whether they will lead to economic recovery after implementation and if not, its impact on unemployment in the nearest future.

Purpose: The purpose of this research is to assess several options available to the Greek lenders and the measures adopted by the Greek government to survive the current economic crisis. Hence, the question arises whether austerity measures lead to economic recovery, and if not, what has happened to the Greek job market. The global financial crisis in 2002, affected the world economy and the Greek economy is one of the most affected countries in the world. The adverse effects of the recession on the Greek economy put the sustainability of the Eurozone and European Union (EU) integration in great peril. Hence, the decision by the German government and other donors to bail out the Greek government. In June 2015, the Greek government received two bailout funds from donors totalling €326bn with various stringent conditions attached (Selmic, 2016).

Abstract: This research paper explores the causes and effect of austerity measures imposed on the Greek government by lenders. The principal objective of this study is to investigate the reason for austerity deployment in Greece and why it may be inadequate in reviving the Greek economy. By examining the historical financial situation of Greece, this paper clarifies the change of events from when the country was financially stable to the present condition. This research paper mainly covers the pre-austerity era until current. Also, this research work presents several viable alternatives to austerity. Some information and data were extracted from various books, websites and recognized published reports. These discoveries show that no country has successfully bounced back from the economic crisis into a financial powerhouse after the imposition of austerity.

Keywords: Austerity, Economic Crisis, Alternatives, Lenders.

Introduction

Greece joined the EU in 1981 and subsequently adopted the Euro as currency in 2001 (Romei, 2015), a transition popularly conceived to be valuable and imperative for the acceleration of a modern Greek economy (Ozturk & Sozdemir, 2015). According to Romei (2015), these events particularly Greece’s integration into the European Union marked the beginning of its economic decline.

Over the years, the issue of austerity measures in Greece has been a subject of discussion among various scholars (Kentikelenis & Papanicolas, 2011; Ifanti, Argyriou, Kalofonou & Kalofonos, 2013) and governmental institutions such as the European Union. Austerity measures mean any decision of the government or an organization aimed at reducing expenses (or raise taxes) which is an avenue to minimize deficit budget during a slow economic period (Pettinger, 2015).

It is worthy to note that generally austerity measure impact mostly depends on the economic

situation of the country involved at the time of implementation. For instance, austerity policy is certainly not a planned tax increase during an economic boom or growth. But, if the government policy is to reduce spending during a period of growth decline, this would be seen as austerity policies. When nineteen countries are sharing one currency, problems like the economic crisis are bound to happen due to the imbalance in wealth and distribution of natural resources among these countries. At the peak of Greece financial crisis in early 2013, there was a sharp increase in unemployment rate, 27.6% of Greece population were unemployed due to austerity measures introduced by the Greek government which had further fueled the general slowdown of economic activity (Matsaganis, 2013). Greece with a population of around 10 million currently faces unprecedented high unemployment rate in its history.

Research Methods: This research paper will be based on previous work conducted on similar topic. However, this write-up will be based on Greece and may not be viable in comparison to other countries facing similar scenarios.

Austerity Measures and Unemployment in Greece

While studies about austerity measures abound, there have been just as much literature and articles on its inefficacy in Greece (e.g. Knowledge at Wharton, 2015; Kentikelenis, Karanikolos, Reeves, McKee & Stuckler, 2014; Ifanti, Argyriou, Kalofonou & Kalofonos, 2013; McKee, Karanikolos, Belcher & Stuckler, 2012). The former Greek finance minister Yannis Varoufakis also shared this perception, and have started that austerity cannot solve the financial problem presently facing Greece. This research will demonstrate that austerity might not be the best policy for the Greek economy and has exacerbated the recession. As noted by Worstall (2015), a Forbes Economics and Finance contributor, “the Greek economy’s reaction to austerity has been far worse than other countries as evident in the fall in GDP akin to the Great Depression of the 1930s in the US.” The prevailing assumption is that the underlying structure of the Greek economy is at the root of its problems and thus, the failure of crisis measures to effect even the smallest positive change (Worstall, 2015). The impact of the crisis and applied austerity measures is evident in socioeconomic life, adversely impacting employment, health care, job security, education, economic wellbeing to mention but a few (Ifanti et al., 2013). In essence, the cure is starting to look worse than the disease.

Unemployment, particularly youth unemployment, have soared in the wake of the economic crisis and the imposition of austerity. The findings from a 2015 Eurostat study highlighted the drastic change in unemployment rates between 2008 and 2015, where unemployment rate showed a significant increase from 21.9% in 2008 to 48.6% in 2015 (Papadopoulous, 2016). Around 40% of households reported at least an unemployed family member, reduction in working hours as a result of the crisis (Ifanti et al., 2013) and one in three businesses defunct (Carassava, 2017).

Tax evasion was another avenue the IMF wanted the government to work on, a practice that has become widespread in Greece and exacerbated the uneven distribution of wealth, and depriving the economy of the much-needed funds for its expenditures (Monastiriotis, 2011). Generating more revenue will require more action on tax evaders. A study conducted by Ernest & Young to examine the problems of tax evasion in Greece concluded that around €11 to €16 billion is lost every year as a result of recurrent tax evasion (Georgakopoulos, 2016). These resulting loss in government revenue negatively affects government spending and consequently

an already weak Greek economy. Under the circumstances, Greek businesses, foreign investors and international community grew increasingly wary of the economic situation in Greece, which resulted in the massive cash outflow from the country (Roussanoglou, 2016; Ewing & Alderman, 2015) marking another critical reason for Greece's persistent and substantial unemployment.

Greece's tourism sector was also massively affected in 2009 due to the global financial downturn that started in the United States. Greece was disproportionally affected, and inflow of visitors into the country was at the lowest in history brought on by the recession, dwindling businesses and consumer spending as well as a diminishing capital market (Kapiki, 2011).

Will Austerity stop the crisis?

Stuckler, Reeves, Loopstra, Karanikolos and Mckee (2017) stressed that austerity measures restrict fiscal improvement of countries in financial crisis. The Greek economy has found it quite challenging to overcome their economic debacle with the imposed austerity plan put in place by the troika of lenders – the International Monetary Fund (IMF), the European Central Bank (ECB) and the EU (Elliot, 2018), and in the process, subverting its long-term growth and development potential (Koratzanis & Pierros, 2017).

A country with a brain drain and a lack of skilled workforce will find it extremely difficult to multiply when competing with countries like Germany, France and other European powerhouses. The success of an austerity policy depends on various factors which Greece does not currently possess. For example, Greece has limited investment opportunities attractiveness unlike Israel, Canada and Australia (Knowledge at Wharton, 2015).

Social Distrust Between the Policy Makers and the People

A combination of decades-long corruption, financial extravagance, convoluted bureaucracy, mismanagement by the Greek government has been attributed to be among the causes of Greece's present economic situation (Lyrintzis, 2011). The implication is evident in most Greeks' decline in faith and confidence in the political class (Donadio, 2011). Many Greeks, Donadio (2011) noted, have begun to assess the government with closer attention than before. A study focused on Greece by Transparency International indicated that 80 % of Greeks believed their parliament lacks credibility while 90 % acknowledged that their politicians were corrupt. The Greek people think the politicians are to be blamed for the current financial crisis due to corruption and unsustainable promises.

Social Benefit Cut

To sustain the Greek economy, the parliament was presented wide-ranging pensions amendments designed to save billions of euros by restructuring the pension system (Heise & Leirse, 2011). Such reforms, according to Heise and Leirse (2011), justifies pension spending in addition to the provision of employment incentives. Cutting out early retirement loopholes, reducing higher retirement payments and high social benefits payments have been described as one of the ways by which the much-criticized Greek's pension system has seen a slight improvement (Nardelli, 2015). For Nardelli (2015), the Greek pension system still requires significant reforms in order to be sustainable.

Greece Rejection of Austerity

The perception that a Greece steeped in uncertainty and a declining standard of living but unencumbered by austerity policies was also shared prominent economists (Iordanoglou & Matsaganis, 2017). Although, a majority of Greek voters vehemently voted ‘no’ to another set of bailout terms at the July 2015 referendum, a fierce rejection of the policies imposed by the IMF and other lenders in an added attempt to seemingly boost Greece’s waning economy (Danner & Hartmann, 2015; Hartmann, 2015), the Greek government, nevertheless, approved the austerity measures. Statistically, the “NO” side won with over sixty-one per cent of the vote (Ignatio, 2015).

The health sector was also impacted by the financial crisis and austerity measures in Greece. The healthcare system reported a 30% reduction in budget in 2012 compared to the previous year; a shortage of medication; and 30% increase in public healthcare admissions (Ifanti et al., 2013). In 2012, Greece recorded the highest suicide rates seen in 30 years (Branas, Kastanaki, Michalodimitrakis, Tzougas, Kranioti, Theodorakis & Wiebe, 2015) as a result of cuts to social benefits, labour strikes, political turmoil and little, if any at all, social progress. Indeed, a bleak future. Many Greeks, believe there should be another alternative to their present economic challenges instead of austerity measures that make life unbearable. The anti-austerity protest is nurtured by hunger, fear of a decline regarding access to medical care and increased job loss.

Survival Mode Activation

To survive the current economic hardships facing the nation, thus far, a significant number of Greeks are relocating - or considering - to the countryside for survival as a result of job loss in the urban area (Babington & Papadimas, 2012). While, some move abroad, a lot of them also move to the countryside for survival by venturing into agricultural farm produce in places like Levidi and Konitsa. Since the unemployment rate is high and government help is not forthcoming, the Greek farmers Union estimated that around 40,000 Greeks had migrated back to villages to start farming (Kohne, 2011).

Suggested Solution to Greece Economic Problem

There are various ways the economic crisis in Greece can be resolved in the long run. Countries like Spain, Italy and Portugal are also undergoing one form of financial crisis or the other; however, it has been appropriately managed over the years via growth in export, restructuring and adequate pension reform. These measures will also be useful in taking Greece out of its present economic inconsistencies in addition to debt forgiveness.

Drop the Euro

The financial crisis raised the possibility of a Grexit (Greek’s exit from the eurozone) and the adoption of the drachma as the national currency which means a retirement of the euro, which European leaders will not want to encourage. Many Greeks believe the adoption of the euro is one of the causes of their financial problem. 'If Greece was not in the euro, it could have boosted its economy by printing more its currency, the drachma. This would have lowered the value of the drachma in international markets, making Greek exports more competitive” (Lee,

2015). The temporary return to the drachma would allow Greek economists to make the decision that would help revive their dying economy. Lenders such as the German government and IMF would not support the idea of Greece dropping the euro due to its impact on European integration. However, if this policy were implemented, the country would have the capacity to grow. Purchase of Greek products and services by foreigners would encourage this model which can indirectly lead to more income for revenue.

One of the reasons why traditional methods of solving the financial crisis are not efficient in the Greece situation is because the euro is being used as the official currency of the 19 EU member states. Hence, it is practically impossible for Greece alone to devalue it.

The Greek government could turn to tourism for improvement in revenue generation. The tourism sector largely influences some countries' gross domestic product (GDP). This area was explored more by Frietas (2010), noting that “tourism contributes to over half the gross domestic product (GDP) in many Caribbean countries”.

Debt Forgiveness

The key objective behind debt relief is to help the country in question to restructure and encourage investors to buy into the economic recovery of the country concerned. Several allocations of the financial supplement were pumped into the Greek economy to act as stimuli in reviving the economy. Debt relief to Greece will boost investors’ confidence, encourage cash inflow into the tiny European country and trigger economic growth and development. Considering that majority of the debt is owed to European institutions, debt relief to Greece should be classified into bad debt written off. The burden of the Greek financial crisis is on the shoulders of rich EU countries; hence, it is imperative for them to grant debt forgiveness in the interest of regional solidarity. It is in this context that Cline (2013) asserts that Greece’s public debt should be manageable and avoid an exit from the euro and another critical round of output reduction.”

However, Gros (2017) stated that debt forgiveness is not the solution for Greece, emphasizing growth in exports as the only sustainable approach to Greece’s economic growth. But despite the simplicity of this position, it still stands that very few investors, local and foreign, are still unwillingly to invest their capital into the economy due to Greece’s political instability and regulations.

Liquidation of Assets

Multinational companies adopted several methods to survive the cash crunch during the financial crisis. For example, a company can decide to sell a subsidiary to stay afloat. This method has been proven successful over the years and can be adopted by countries in a similar financial situation. However, for this method to scale through, the legislative arms of the Greek government may need to deliberate on it before a final decision is reached, this process may be an arduous and time-consuming task. Two of the biggest industries in Greece are shipping and tourism. To restructure the Greece economy, privatizing national assets would generate more funds to improve the economic situation. China’s growing investment presence in the Greek economy is evident by its acquisition of Greek ports (e.g. in Piraeus). With China’s investment into Greece, jobs are created for the local populace and the ports kept at an optimal level of

services (Johnson, 2018).

Conclusion

The purpose of this research paper was to evaluate austerity policies adopted in Greece and the impact of austerity on the Greek economy. In the process of analysing this topic, some important alternatives to austerity emerged, debt forgiveness is key to solving the Greek financial crisis. Granting debt relief to countries in high debt increases the likelihood of compliance to economic reforms and policies of lenders and provide the needed ability for loan repayment (Sachs, 1989). However, the possibility of the Greek economy achieving a sustainable growth despite several austerity measures remains a contentious issue. Finally, I emphasize the combination of economy boosting stimulus by the lenders and excessive waste controlling mechanism, as possible solutions to mitigate the Greek economic crisis.

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