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Could the Greek Financial Crisis be the end of the EU as we know it?



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Years of unrestrained spending, cheap lending and failure to implement financial reforms left Greece badly exposed when the global economic downturn struck. This whisked away a curtain of partly fiddled statistics to reveal debt levels and deficits that exceeded limits set by the Eurozone. Greece's credit rating has been downgraded to the lowest in the Eurozone, meaning it will more than likely be viewed as a financial black hole by foreign investors. Greek national debt, put at more than €300 billion, is bigger than the country's economy, with valid estimates predicting it will reach 125% of gross domestic product in 2011. This leaves the country struggling to pay its bills as interest rates on existing debts rise. The Greek government of Prime Minister George Papandreou, which inherited much of the financial burden when it took office about a year ago, has already scrapped most of its pre-election promises and is unsuccessfully in the process of implementing harsh and unpopular spending cuts...

But is the Greek financial crisis only Greek? Is it only a financial crisis? Is it only a social crisis? Or is it rather primarily a political crisis of the whole of Europe?

Only a mindfully blind, naive or uninformed person cannot realize that this is no longer a matter just for Athens, but for Brussels. Indeed, it is now mostly a Franco-German problem above all since their banks are most exposed.

Greece will never be able to repay its debts at the announced short period. The EU cannot expect a miracle from Greece, as if it could undo the results of 30 years of lax policies in a few months. It is impossible! The numerous aid plans, even if they have so far succeeded in avoiding default, failed to clear the long-term liabilities (See also by Pytheas "[The long overdue loan for Greece is announced. Is it enough?](#)").

Yes, (a) the Greek economy must be reformed; (b) the unimaginable waste of tax payers money, through gross fund allocation inefficiencies, political favoritism, vote mongering, cronyism and corruption must end; (c) a much smaller and reformed public sector, that serves the taxpayers best interests and needs and not those of political patrons must be established; (d) a pursuit and prosecution of presently wide spread tax evasion practices must take place. All of the above would immediately provide Greece with a considerable primary surplus, enabling the Country to keep repaying its debt; and it would also immediately enable the Country's creditors to grant Greece with debt schedule extensions and/or other term revisions that would make repayment less onerous.

But what about the average Greek? **Does the average Greek view things the same way and is he/she willing to undertake any sacrifices? The clear answer is NO! Despite the fact that to a large degree the average Greek is equally responsible through his/her direct involvement in corruption and tax evasion... is now in the streets demonstrating against the government, not willing to produce, not willing to work... the Greek demonstrating in the streets day after day, is by vast majority the same Greek that through favoritism also abused the system, for decades... characterized by some kind of a "spoiled child syndrome", by excessive self-centered and immature behavior... that wants chocolate no matter what... expecting in this case for his fellow European citizen to pay for this chocolate...**

Another dimension... One must remember that the European monetary union has political opponents that are now playing their hand and aspiring to its collapse. No less importantly, one must remember that financial speculators are also players, among them the big investment houses and hedge funds – who are doing what they have been doing since their existence: make money – who gain from instability, and if they can manage to direct it, they rake in huge profits... **These antagonists of the Euro and the speculators found an ally within the Eurozone: German populism.** From the beginning of the European project, Germans accepted it with mixed feelings. Within a united Europe, Germany loses its uniqueness. But that was precisely the declared aim of the union: when Germany is part of a united Europe, there are no European wars. Or are there?



Although Germany is the greatest beneficiary of the European Union and the Eurozone, the Germans feel that Europe lives at their expense. As the largest economy in the EU, Germany makes the largest contribution to its budget, but the EU's budget is small, about 1% of the GDP of each member state. This expense pales into insignificance in comparison with advantages from which Germany benefits.

To see how far Germany's populist narrative inverts reality, you only have to remember that the fact that Greece has a trade deficit (for which Greece is guilty) works to the benefit of the other EU countries, and first of foremost to the benefit of Germany, which is the leading exporter to Greece. Salary costs in Greece (another Greek fault) have financed private consumption in Greece, which has financed German exports.

The accession of Greece and the "weak" countries to the Eurozone generated a spiral of rising prices, which brought in train wage rises. One of the reasons is that exporters' prices, chiefly of German exporters, became uniform in the Euro block despite the gaps in purchasing power between the populations in the different countries. Again, Germany gains!

The aid to Greece will not cost the German taxpayer anything. Germany will lend to Greece at 5% while Germany itself raises money more cheaply. Greek recovery will serve the interests of the EU and its member states beyond the common interest in preserving the stability of the Euro. Despite this, German nationalistic populism has broken out again in an ugly way, and Chancellor Merkel did not have the courage to tell the Germans the truth!

And another dimension... Media coverage of the debt crisis in Greece not only inflated and accelerated the process; it became a central part of it. The coverage swallowed up the crisis, and the basic facts were almost forgotten.

The chief reason is that the main providers of information, of which the most prominent are Bloomberg and Reuters, are called "news agencies", but in fact long ago they have also become a platform for the leading players in the financial markets to promote their point of view. The overwhelming majority of the content provided by these agencies originates with interested parties. It's interesting, newsy, but to a certain extent biased. When hedge fund managers, big investment houses, and those who work for them directly and indirectly, provide assessments and forecasts, they have an agenda to influence the direction of events. **What makes the problem worse is the fact that the news agencies are almost the only sources for investment advisers in all the world's financial systems. They are also the main providers of material for business internet sites.** Thus the stance of the leading players is disseminated in the Anglo-Saxon communications media as the basis for the experts' opinions. The unanimity that was the outstanding feature of the coverage of the crisis in Greece was an expression of that bias.

The current crisis cannot be resolved by Greece exiting the Eurozone, as some have suggested. This would undermine the European banking system within days and increase the public debt of other European countries.

Now that the consequences are manifest, it would be easy to dwell on the mistakes that got the EU to this point. The EU should not have let Greece enter the Economic and Monetary Union with falsified figures. The EU should not have let the debt grow so large given the country's weak economic fundamentals. The EU should have forced the Greeks to establish effective fiscal and economic institutions long ago... This though is now history!

If Greece is let to go bankrupt, the Euro will disappear. The very principle of the EU will be challenged. Unemployment will rise again, Germany including (which has up to now only benefited from an undervalued Euro). If we let Greece go bankrupt, what lies ahead is an economic and political crisis worse than that of 2008. It is therefore necessary to change our perspective. We must stop thinking of the Greek problem, and start thinking of the problem of the European Union. Solutions exist. We are only in dire need of the political courage to implement structural reforms and an



appropriate mechanism within the EU that could solve such problems at birth enabling swift response and action. Establishing a European Ministry of Finance should be amongst other a serious consideration.

At the same time the Greek political parties should realize that a spirit of collectiveness, pride and transparency must compliment every effort undertaken, stop being vague, put their personal interests aside and work as one, to first, explain and convince their co-citizens that constructive painful steps need to be undertaken, and second, convince the European public opinion that Greek people are not lazy, corrupt, devious, and indulged, incapable of coping!

See also other publications by Pytheas on Greece:

- ▶ [The long overdue loan for Greece is announced. Is it enough? \(April 2010\)](#)
- ▶ [Greece must change or sink! \(December 2009\)](#)
- ▶ [Greece unlikely to escape its worst financial crisis of modern times! \(July 2009\)](#)

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