**REFLECTIONS ON ASPECTS OF POLITICAL ECONOMY**

**IN THE RECENT GREEK ECONOMIC CRISIS**

by

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**Introductory remarks**

Following some brief initial remarks on the nature and the dynamics of distinct financial crises, on their substantive similarities despite important specificities, and on their recurrent eruptions and grave contagion effects in the evolutionary path of capitalist systems, the relevant analysis that follows is then divided into four interrelated subsections. Their aim is to place into context the causal and primarily domestic factors that triggered the current Greek crisis. To be adequately understood, though, this nationally originated economic and broader institutional crisis—recently elevated into an international *cause celebre* for avoidance by others—has to be interpreted within a much broader historical setting. This has to do with the conditioning implications characterizing the most severe international financial and economic contraction episode during the last 80 or so years.

The rather holistic approach employed will also assist us in addressing more meaningfully the likely evolutions involved not just in another turning point in contemporary Greek economic history but rather the passing of an epoch in the country’s modern economic and social development. This structurally fundamental transformation needs be interpreted by evaluating certain determining alternative scenarios on major macroeconomic challenges and performances confronting the Greek economy and its system of economic governance during the rest of the decade. Drawing from past lessons and corresponding evidence, our focus will mainly address issues after the
conclusion of the three-year period of the “rescue package” recently agreed with the EU institutions and the IMF.

The four main subsections in our presentation have the following headings:

- **The broad contextual contours of the Greek economic crisis** (p. 4)
- **From the US originated subprime catastrophe to the “second great international contraction”** (p. 8)
- **Long-standing and cascading deficits in the Greek economy** (p. 19)
- **Concluding remarks** (p. 30)

In the long time stretch from 1800 to 2009, at least 250 **sovereign external debt default** episodes and 68 ones of **domestic default** have been reported in world economic history. A series of painful and extended **banking crises** have also taken place. These amounted to at least 233 separate cases of which 96 were after the end of WWII. Whether in wealthy or in poorer economies, banking crises constitute an integral part of major economic crises provoking among the more devastating shocks in sectoral and in macroeconomic malfunctioning. They started as early as 1802 in France while, in more recent times, the Nordic countries experienced some of the worst episodes of banking turbulences among industrially advanced economies. Similarly, Japan still lingers over a long sovereign debt **cum** banking crisis triggered in the early 1990’s. Beginning to unfold in the summer months of 2007, the US subprime financial sector catastrophe erupted with serious real economy contraction effects transmitted internationally. In addition, a number of inflation related **currency crashes and currency debasement cases** have also taken place throughout the course of modern economic history.¹

Financial crises of all types and intensity as well as with distinct spatial covertures do not, therefore, constitute rare events in the functioning of the international economy. Instead, they represent an integral part of expanding

¹ For a recently published and thoroughly documented empirical and analytical study on the occurrence of diverse financial crises in the world economic history, see Reinhart, C. N. and K. S. Rogoff (2009), *This Time is Different: eight centuries of financial folly*, Princeton University Press, Princeton and Oxford.
and continuously evolving contemporary capitalist systems in mixed market economies. A characteristic expression of financial crises relates to their tendency to take place in cluster formations. In other words, they combine in an interlinked manner and or in a quickly succeeding order the occurrence of distinct sets of crisis events. Also critical are fundamental and inherently intimate financial-macroeconomic links with corresponding carry-overs resulting in serious and prolonged aggregate downturns in the real economy, often with profoundly deteriorating social cohesion conditions.

The anticipating signals for as well as the negative contagion impacts of financial crises tend to be vividly expressed in a number of fronts. These include high volatilities in the price formation of real and of financial assets as well as major swings in the evolution and in the distribution of the accumulated wealth between and within distinct societal, national and international economic spaces. In addition, financial crises painfully imprint regressive repercussions in aggregate demand and income performances. With special intensity, these are mirrored in adverse labour market conditions and rising unemployment together with pronounced economic malaise performances in diverse productive sectors. As a consequence, the combined effects provoked by such evolutions redress the relative power bases and the distribution of income and of wealth among distinct social groups in modern societies.

A central conceptual and causal thread running through a vast range of different kinds of financial crises consists of the catalytic role assumed by excessive debt accumulation. Whether by governments, by banks and other corporations, or by households and individual consumers, excessive debt tends to enhance the depth and the intensity of their underlying systemic risks and their overall financial vulnerability. The dynamic implications of the emerging adverse prospects are not adequately understood and, much less, they are not properly evaluated during preceding booming years. For example, the occurrence of inflated bubbles in different markets might even be mistakenly considered as a sign of better times still to come. This is especially so if the preceding performances involve significant speculative
returns. Also, fraudulent practices that tend to be covered-up by “financial innovations”, as in the US originated recent subprime mortgage crisis, can magnify benefits for a few financial intermediaries matched, though, by severe costs incurred by many others. The latter are dispersed in diverse geographic locations including other countries in various continents. Eventually, high leveraged operations in distinct fronts of an economy raise the spectrum of abruptly deteriorating conditions that, in turn, provoke a more generalized crisis in confidence.

The emergence of sovereign debt intolerance characterizing the outbursts of the majority of financial crises can be better understood -even defined- as a syndrome of long standing and weak institutional structures and of problematic political systems. Such conditions make external and or internal borrowing over time a tempting device for governments to employ so as to avoid hard decisions about spending and taxing, as well as about the required effective development commitments and institutional reforms. This definition of debt intolerance describes quite accurately the contours of malfunctioning in the Greek macroeconomic affairs over several past decades.

Correspondingly, similar considerations are raised with respect to thresholds of debt intolerance facing the private sector at the corporate and or at the household and individual levels. These result from imprudent corporate -including banks and non-bank financial institutions- as well as from other unwarranted private debt overexposures. Such practices provoke mounting risks in the financial viability of business entities and in the solvency of individual private agents.

The loss of confidence, especially in the world of finances -noted for its inherent properties of high mobility and fungibility- alters radically the prevailing economic realities. This can be expressed in cyclical patterns, thus reflecting the rhythm of financial insecurity characterizing the expanding and contracting phases of modern financial systems, as analytically elaborated by
Minsky. Alternatively and over longer time spans, it can also lead to individual or to recurring financial crisis outbursts, as historically analyzed by Kindleberger.

In some cases confidence can collapse suddenly in a puff of smoke. The sudden timing might turn out to be unexpected even for insiders or for “experts” despite the fact that the main factors conditioning such crisis-prone performances have been present for some time. Also, crises that seemed imminent might take years to be ignited by special circumstances that relate to the idiosyncrasy of each specific case. Yet, once a crisis is ignited its effective confrontation might turn out to be quite painful in economic and social terms as well as long in achieving its effective taming.

The broad contextual contours in the Greek economic crisis

The complexities and corresponding dynamics of financial crises call for an avoidance of the example provided by the proverbial drunk who searches for his/her keys under a lamppost, because the light is better there, even though that is not where he/she dropped them. Instead, the needed comprehensiveness in interpreting the causalities and critical path dependences of financial crises can turn out to be far more complex and diffused even if they tend to portray important similarities among them over time.

In the particular case of the recently exploded Greek crisis, causal factors can be more meaningfully presented and interpreted if structured within a more synthetic framework. This comprises three concentric circles covering distinct sets of issues. Although these circles encompass different causal factors they are, nevertheless, strongly interconnected with respect to key and commonly underlying considerations. In a brief introductory summary, the three

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concentric circles of key themes bearing, through different venues and with distinct intensities, on the current Greek economic crisis refer to the following:

(A) A broader thematic circle draws from the main comparative lessons highlighted in the recent and as well in comparable past sovereign and corporate **debt crises** together with the serious real economy downturns they provoked. More than anything else, the timing as well as the gravity of setbacks in these financial crises were triggered when critical confidence thresholds came to the surface and were reckoned explicitly in the conduct of capital markets and that of other interested parties.

(B) A middle circle on crisis-prone considerations rests on the presence and implications of antagonistic interests by key players actively involved in international economic affairs, both public and or private. The resolution of such conflictive concerns can activate collateral damages for more peripheral economic spaces, as exemplified in the case of the Greek economy. The latter was recently caught in the middle of an aggressive betting contest on an international scale. The corresponding bets were placed by private speculators and distinct national or regional interests who “played” for super-profits and for economic power in the market place through contrasting alternative scenarios with respect to the value of the **euro** as a robust, or as a withering, **international reserve currency**.

(C) The third and core crisis circle expresses diverse categories of long-standing and **cascading deficits** in the manner by which the Greek economy has been functioning over the recent three-four decades. Such deficits are primarily manifested through:

(i) mounting **fiscal imbalances** and dangerously ballooning **public debt**, 
(ii) grave **deficits in the development capabilities** of the real economy as portrayed, in an exemplary manner, by the unsustainable huge foreign trade imbalances registered annually in the country’s external accounts and,
(iii) overall performance deficits in, among others, a number of economic, educational, institutional, attitudinal and other determining fronts that end up being translated in abrupt losses of market confidence with respect to the ability of the sovereign to meet, or to reasonably renew, its outstanding obligations.

In the Greek case, these distortive causalities flourished within longer term structural conditions that portrayed clientelistic, bureaucratic and parasitic activities by key actors in the country's economic space. In a complementary fashion, such activities interlinked the role of the public sector with widespread rent-seeking private sector operators at the political, corporate and household or individual levels. They also involved revealed and widespread preferences for lack of transparency in economic affairs and for extensive tax evasion, for diverse corrupt practices and, more recently, for embarrassingly misleading official reporting to cover up grave responsibilities at home and abroad.

Technically and politically, the example of Greece has recently been elevated to the status of an international cause celebre. Provocative political statements, delaying tactics by key decision makers and pointed analysis by interested parties within the public media, nationally and internationally circulating fuelled this. The references made argued about a paradigm of doom to be avoided by all others. Such generalizations, though, also involved self-serving motivations, both political and economic or business ones. Furthermore, they also tended to overlook the complexities of historical evidence that calls for a more careful reading of emerging crisis-prone realities. The available evidence, though, demonstrates significant specificities among both rich and poor countries that have been lending, borrowing, crashing and arduously recovering their way through an extraordinary range of distinct financial crises at high economic and social costs. Such financial combustions have been interpreted by some analysts as amounting to "rites of passage" for emerging economies. Alternatively, they demonstrate sovereign and private frivoling financial or even fraudulent conduct in well established markets including, as already noted, the recent US provoked subprime catastrophe.
The barrage and the scale of active involvement by major external actors in the Greek case and in the stabilization measures being attempted has been neither due to the country’s relative economic weight in the European scene nor due to its equivalent status in the settlement reached so as to avoid an eminent default during the first half of 2010. Instead, the extent of international interest in the Greek case has been triggered by much broader concerns of self-interest and of protection of “third” parties, mainly from the side of the lenders. At first instance, such vested interests included major Western European banks and leading European industrial exporters, including the armament business. They also involved public institutions, at the regional and international level, concerned about the contagion impact that can be provoked by aggressive speculative financial players who are active in international betting games around relative currency values.

Nevertheless, the longer-term structural gravity of the Greek economic performance noted in (C) above is such that, even in the absence of the other two concentric spheres of issues noted in categories (A) and (B), the systemic crisis of Greece is not likely to have been delayed for very long. Its explosion was a matter of time, while the actual timing was triggered—as it is also true in other international experiences of this sort—by “extraordinary” and primarily domestic conditions. Within an increasingly interdependent world economy, such domestic crisis conditions are, in turn, influenced and take specific forms by broader external parameters noted above in categories (A) and (B).

In fact, the Greek example fits very well the case of an accident long waiting to happen. As already noted and for the country itself, the implications of the crisis do not simply mark a turning point or a kink in the evolutionary curve of economic history. Much more than that, they amount to an end of a specific development era built over a period of several decades. For a number of reasons, the foundations of this era portrayed periodic and respectable aggregate growth rates that transformed the living standards of the country together, though, with shallow development performances and borrowed time characterized by missed opportunities. The latter were often hidden under the
financial veil of resource inflows, largely from European Union coffers. These inflows were part of negotiated compensating packages intended to offset the costs of deindustrialization and of the displacement of other economic activities within the weaker European economies upon entering a unified market. As it was to be expected, a unified market distributes its economic fruits and opportunities unevenly and in ways that tend to mainly benefit the already more advanced economies.

In what follows and in view of their strong interrelations, key issues in the concentric circles of categories (A) and (B) will be jointly treated, while the relevant harsh realities for the Greek economy partaking to category (C) issues call for a separate presentation. As already noted, though, the latter presentation also draws from the conclusions reached on the broader externalities shaped by the preceding two other sets of causal categories.

**From a US banking *cum* private debt financial crisis to the “second great international economic contraction”**

During recent decades, two transcendental structural transformations characterize the model of aggregate growth of the US real economy. In turn, these transformations were at the nucleus of the most severe financial crisis that took place during the last 80 or so years and quickly spread at the international level. Safeguarding for the necessary proportions and distinct historical settings, some analysts have compared the recent US subprime catastrophe to the script of the 18th century banking crisis of Scotland.\(^4\) Others found some strong similarities between the 21st century housing “bubble” in the US and the 17th century tulips “bubble” in continental Europe!\(^5\)

In more recent periods, these two fundamental transformations in the substantive structures of the US economy account for the following radical evolutions:


\(^5\) Comments made by Tomaso Padoa-Schioppa in a public lecture to the Athens branch of the Harvard Business School Club, June 1\(^{st}\), 2010.
First, for a period of about a century and a half, real wages in the US economy experienced a long-term and continuously increasing trend approximating some claim corresponding long-term productivity increases. In the last 30 or so years, though, real wages remained at best stagnant or, as in most cases, they even followed an evidently declining trend. Such regressive evolutions in labour markets were in sharp contrast to the impressive growth performances characterizing over time the US economy and its overall productivity increases. To a large extent, the latter increases were attributed to the effective application of major organizational and technological innovations applied to the country’s productive base.6

Concurrently, though, the unprecedented high propensity to consume by US households has led to practically disappearing savings. Instead, ratios of private consumption to national production reached levels far above corresponding past performances. The stagnating or declining real income earnings from work have necessitated a spree of consumer borrowing to be able to match the increased consumption needs. From the universalization of the credit card to mortgage financed housing (the latter presently constituting, by far, the largest subsector of the US capital markets) consumer credit expanded immensely. This led to levels of private debt as compared to US GDP that nearly tripled in the recent thirty years.7

Depicting important historical differences, the officially reported ratio of household debt to national private personal income in the US was in the order of 30% just before the eruption of the first Great Depression in 1929 and then

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7 See relevant commentary by the former FED Chairman and current Chairman of the US President’s Economic Recovery Advisory Board, Paul Volcker, in “The time we have is growing short”, New York Review of Books, vol. LVII, no. 11, June 24-July 14, p.p.12-14. From a Marxist point of view on these phenomena, the following conclusions were reached by Professor Richard D. Wolf of New School University, New York in a recently delivered lecture at the Doctoral Economics Programme of the University of Athens: “The US workers borrowed from their country’s financial institutions the surplus they delivered to their employers and subsequently passed on for financial intermediation to banks and related financial intermediaries”.

stabilized, well after WWII and up to 1993, at about 80%. Subsequently and within a decade, the corresponding ratio jumped to 120% by 2003, while in only two-and-a-half years thereafter it came to exceed 130% just a short time before the second Great Contraction erupted. As a result, ballooning private indebtedness served to bridge the gap between stagnating and/or declining real wages and exploding consumption expenditures by US households. These radically new conditions in the real private economy of the US are at the epicenter of the recent financial crisis rapidly transmitted internationally. In other words, following the evolving interdependence of international repercussions, the US private sector needs ended-up in forming the core of other countries’ stabilization requirements.

Second, in the short period of a few frightening weeks in the fall of 2008 financial markets practically froze at a worldwide scale. Confidence and trust together with business opportunities within the sector literally collapsed leading to a major financial debacle that quickly extended internationally with critically adverse contagion implications on the world’s real economies.

Presently, the whole financial system upon which modern capitalism functions has been dramatically changed within a historically very short period. As a consequence, the structural transformations taking place recently in the US financial system provoked severe crisis conditions with major international implications. The underlying evolutions reflect a double reorientation of globalized capital markets to express:

- the dominating fast growth of speculative finance capital as compared to productively linked investments and trade related capital flows,\(^8\) together with

\(^8\) For the most comprehensive 25-year data base on trans-border financial flows in the world economy comprising 71 industrially advanced, emerging and less developed economies up to a year and a half before the eruption of the recent international financial crisis, see Lane, P. R. and G. M. Milesi-Ferretti (2006), “The External Wealth of Nations Mark II: Revised and Extended Estimates of Foreign Assets and Liabilities, 1970-2004”, IMF Working Paper, no. 06/69, Washington, DC. Commentary and analysis of this data appears in Greek in Βαΐτσος, Κ. (2010), Αρχές Αναπτυξιακής Οικονομικής: Η δυναμική της κοινωνικής-οικονομικής αναπαραγωγής, Εκδόσεις Κριτική, Αθήνα: 485-495.
the emergence of a vast **shadow banking system**, operating opaquely within purposely intended non-transparent conditions and regulatory loopholes. This major transformation introduced a critical new business actor, namely the nonbanks, at “the epicenter of the recent crisis”.

These evolutions expressed specific political preferences in the US and, secondarily, in the UK that, in the former case, were sanctioned by critical government-induced deregulations under different political parties in power but always matching the preferences and lobbying pressures of finance capital. In the US power corridors it is eye-popping to observe the fast revolving doors between the office of the Secretary of Treasury and the heads of specific investment and commercial banks.

Such a new system was originally founded upon and, to a large extent, was dependent on the evolutionary path followed by traditional banks. The long-standing and active subsidization of the latter through government guarantees to assure safety nets and confidence building for depositors brought along certain matching regulatory practices. These, though, were effectively bypassed through recent evolutions in the business practices of the financial sector accompanied by the market liberalization initiatives promoted by a series of major decisions taken by the legislative and executive branches of the US government. As a result, investment banks spanned-off and in effect became financial trading machines with extensive and speculative off-balance sheet operations. Hedge funds and private equity funds were vigorously activated by operating, to a large extent, within a policy vacuum and on the

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9 See first reference in footnote no. 7 above by Paul Volcker.
10 Transcendental deregulation initiatives in the US centred around four initiatives:
   First, with the 1999 abolition of the Glass-Steegall Act, an integrated functioning was permitted among commercial banks, investment banks and insurance companies. (Footnote continued at the bottom of next page).
   Second, with the 1999 decisions of the Clinton government and of the US Congress the dynamic subsector of derivatives was exempted from the then applied regulatory rules.
   Thirdly, with the 2004 decision of the Security and Exchange Commission, banks were permitted to increase their gearing ratio from 10 to one, to reach 30 to one.
   Fourthly, during his stewardship of the US central banking institution the then head of the Federal Reserve, A. Greenspan, largely applied the policy principles of market fundamentalism to the overall functioning of the US financial system.
basis of unchecked borrowed resources through the introduction of innovative financial engineering practices. As a result highly illiquid assets, like mortgaged real estate, were in effect turned into cash producing ATM machines through modern securitization practices. In addition, industrial firms set up financial affiliates, which rapidly expanded into the sphere of capital markets. In so doing some of them assumed risks that came to expose the financial viability of the entire corporate system whose interests they were supposed to serve including the solvency of their parent firms.

At the same time, derivatives, including credit default swaps (CDS’s) – absent from the business picture and even from the terminology of markets only a decade ago- evolved and predominantly became huge speculative vehicles. In so doing they came to exceed by far their function as hedging instruments. For example and according to industry data, the CDS’s, invented a little more than a decade ago, soared to the peak of a $60 trillion market. This immense scale exceeds by a large multiple the size of the underlying credits that were potentially hedged against default. In other words, derivatives became speculative vehicles, far surpassing their use value as risk hedging instruments.

As a consequence, serious questions have arisen about the economic and market efficiency implications generated through the use of “financial innovations” in derivatives, in complicated options, in highly structured financial instruments etc. Furthermore, even if one were to assume positive allocative efficiency considerations through the active pursuit of integrated and liberalized capital markets, any claims for trickle-down benefits to society at large prove to be highly doubtful. It is indicative that long before the eruption of the recent crisis, real incomes for the average US worker were dropping during the same periods that the financial sector expanded its activities in galloping multiples. The corresponding sectoral prosperity advanced immensely resulting in disproportionately high private returns generated for its executives as compared to all other business areas of the US economy. Such senior financial executives benefitted in an out-of-proportion historical scale on the basis of ruthlessly manifested greed motives
founded on short-term evaluating criteria and directly applied for the fixing of their bonuses.

As a highly expressive example of recent profound transformations in the financial sector one can cite the extraordinary rise, and fall, of many **privately securitized asset vehicles**. The latter have emerged as one of the more important credit means during the first seven years of the decade of the 2000’s.\(^{11}\) By this vehicle, unprecedented business opportunities, representing more than half of overall credit creation in several major US sectors, were generated via “the slicing and the dicing” of debt. Central pieces in the whole endeavor rested on the immense expansion of securitized credit vehicles while remaining at the margin of regulatory and credit rating or other related prudency constraints. Such opaque and highly profitable speculative operations were explicitly pursued through well-mounted practices of non-transparency backed by innovative financial engineering. Their implications on the functioning of the real economies served, during the boom years, to activate macroeconomic growth in the western economies. Abruptly in 2008, though, the committed excesses based on sheer greed and accompanied by the hubris of extraordinarily exuberant bonuses contributed to the eruption of the second most important financial crisis in the last 80 years or so.

To salvage the involved business parties from existential demise and contrary to well-established prudency practices followed by central banks, these nonbank or shadow-bank financial institutions received extensive public sector backing so as to remain afloat. As a result, the prospects for securitization markets have radically been shifted. The current key question is whether and how “real” money investors that manage internationally accumulated savings, such as pension funds and insurance companies, could be persuaded to participate again in buying securitized bonds as they did in the past.

\(^{11}\) According to Citi group estimates, by mid 2007 more than 8 trillion US$ worth of assets were being privately securitized through largely freewheeling financial initiatives. See highly informative article by Gillian Tett on “Global Insight: Collapsed market poses dilemma for G20 leaders”, in *Financial Times*, June 24, 2010, p. 2.
Given the pre-2008 experience and its traumatic implications for the world economy, if such "real" investors reappear they are bound to demand safer investment vehicles and better terms. That means two more likely outcomes: First, the corresponding market size is likely to be smaller than what the investment bankers and hedge funds managers were creating in their freewheeling and “El Dorado-type” financial bonanza during the first seven years of the current decade. Second, funding costs will tend to be raised in order to more appropriately reflect the underlying risk conditions.

In such a changing post-crisis context with still unknown the outcome of the bras-de-faire contest between lobbyists and lawmakers on safer regulatory conditions, there remains an unpalatable political economy choice:

- On the one hand, this choice involves the question as to how long and to what extent the public sector –ultimately the tax payers- will continue to replace the previously privately run securitization market so as to safeguard credit growth sustainability.

- On the other, key questions also center on what market adjustments are needed so as to provide conditions by which credit is far more carefully rationed through effectively regulated private and public institutions, thus being more costly.

It has been noted that the first option, which implies a much more active public policy environment, is strongly disliked by most central bankers who object to the infringement on their independence by other public entities. The second one, implying a more regulated and/or constrained economic environment, could be contrary to the ideological and party preferences of a number of politicians, not to speak of those who face pressing demands from growing numbers of unemployed constituents.

Similarly, the US government socialized huge portions of debt ownership with the public sector insuring private debt and intervening by taking over the
ownership of, among others, the biggest mortgage insurance company in the world, namely AIG, or American Insurance Group. After all and contrary to the ideological base of the party in power, similar nationalization practices were applied by the US government in the ailing automotive industry, especially in the historical case of an industrial flagship like GM. In addition, trillions of US$ were brought into the market by the Fed and the US Treasury so as to increase liquidity, to reactivate aggregate demand and to salvage the malfunctioning private financial and other major corporations. Comparable initiatives, of diverse types and directions, were undertaken by other governments around the globe in countries as different as those of Germany and China.

As a result the rules and conditions of the financial game have been radically altered: the main emphasis has suddenly shifted from what started to be the breaching of confidence thresholds due to high private debt risks and became a major sovereign debt malaise. This evolution was made possible through the mounting of a dual public sector indebtedness:

First, for many years preceding the crisis the unique case of the US economy was able to soak up two of every three $ worth of surpluses in the world generated, at the aggregate level, by net savers –meaning that they saved more than they invested- namely China, Germany, Japan, Saudi Arabia, Russia etc. This was made possible through the massive issuing of Treasury bills to cover the gapping US trade deficit, particularly vis-à-vis China, and the acceptance by the rest of the world of the $ as the main reserve currency.

Second, due to active policy commitments to counter the contagion effects provoked by the US originated financial crisis, operating fiscal deficits have also increased significantly in practically all industrially advanced countries. At the same time, though, the previously fast expanding financial funds and private banks faced collapsing private sector activities in the demise of which they had greatly contributed. In these new market
realities, financial intermediaries switched their attention from private debt arrangements to new speculative prospects of betting, this time focusing on the mounting sovereign debt around the globe. Thus, speculation-driven financial institutions participated both in the original creation of the crisis and are now taking advantage of the measures aimed to correct it. In addition, they bring to bear immense lobbying pressures so as to reduce to cosmetics the needed new regulatory provisions.\(^\text{12}\)

It is in this precise international and crisis-prone context that a thunderous and internationally extended lightning was struck upon the troublesome Greek sovereign debt scene. The case of Greece was originally explicitly chosen as a weak first link, to be followed perhaps by others like Spain, Portugal and Ireland etc, in order to test broader and internationally contrasting exchange rate interests. These involved greed-driven profits to be derived from speculative betting on sovereign risks linked to the credibility of the architecture of EU institutions and of its key policy instruments like the role of the euro.

The actors involved in the shaping of relevant markets include destabilising speculators whose behaviour is characterized by motives of private greed and their conduct resembles, what has been referred to, as the modus of “herds of wolves”. (Metaphorically, comparable images emerge from scenes of anarchic gangs of adolescent thieves that storm and comb the tourist beaches of Copa Cabana in Rio de Janeiro)! In the financial sector, the overall scenario has also included a small number of private and internationally functioning rating institutions. Their past evaluations were demonstrably proven to be contradictory to business realities, as in the case of Lehman

\(^{12}\) In this context, issues of moral hazard have become a key, perhaps the most crucial, challenge for the much-needed financial reform. In that line of thinking, US and some European policy makers, especially within the ECB, are examining the institutional and legal requirements posed for a “new resolution authority” to supersede traditional bankruptcy procedures. (Incidentally, the etymological origin of this term in English includes, as a prefix, the word “bank”, now to also refer to nonbank financial institutions). The whole endeavor comprises diverse concerns on the viability treatment of financial entities in trouble, including the preparation of the institutional settings for “a dignified burial” of some of them).
Brothers and of others, while their present role is questioned as far as its objectivity and independence from specific vested interests.

In order to understand how confidence thresholds operate in contemporary international financial markets, it is highly relevant to refer to two critical quantifying rating instruments used in evaluating a country’s vulnerability as a foreign borrower:

- The first involves the well-known index of the accumulated external debt to GDP ratio supplemented, if needed, by data on the corresponding ratio of external debt to the export earnings of a country. The Maastricht Treaty sets an upper limit of 60% for the corresponding debt/GDP ratio although many eurozone members have long surpassed it.

- The second main rating indicator applied by professional investors relates to quite detailed information provided twice a year by economists and sovereign risk analysts at leading global banks and securities firms. Through this information, a rate grading is constructed in the form of a quantified index that serves as a synthetic proxy for sovereign default vulnerability. Such an index is widely consulted by business decision-makers on the basis of estimates reported by the *Institutional Investor Ratings* (IIR). The latter consist of a range on a scale from 100, for the most secure borrowers, to zero for the least secure and more likely to default within one to two years.

Countries with a history of recurrent defaults or of serious institutional weaknesses and corresponding political uncertainties, as reflected in low IRR ratings, experience symptoms of debt “intolerance” at relatively much lower levels of debt ratios relative to GDP that reach well below 50%.

Three general observations and supporting evidence are highly pertinent in the search for a clearer understanding on the current financial turbulences
and on the timing of the Greek crisis in light of such international evaluations of its sovereign debt performance:

First, international evidence indicates that if a country falls significantly in its rating in the IIR scale, the process to upgrade itself and to attain again competitive access to international borrowing opportunities is long—often taking several decades—and not easy to achieve. It is indicative that, even before the IRR ratings were established, after Greece’s first default in the early 19th century, it took 53 consecutive years to reenter the then existing international capital markets and this not at the best of terms. For this reason, a planned and organized rescheduling of external sovereign debt obligations is highly mistrusted. In actual market practices such rescheduling implies, in effect, an actual default incident with the forced downsizing of outstanding obligations. (The recently agreed settlement for the Argentinean sovereign debt involved a so-called “haircut” - that is, a forced reduction in the value of its outstanding debt obligations- of about 75%. Future IRR ratings for that country are likely to vividly reflect this experience, thus increasing the country’s borrowing costs for a number of years).

Second, although not definite in its lasting effectiveness, the pull of an outside “political anchor” could prove significant in reversing the slippage of a country provided, though, that certain fundamental institutional improvements and debt deduction targets are also effectively implemented. The reference to such a pull from a strong “political anchor” in the case of Greece, and also of Portugal or of others, has to do with their participation in the eurozone area. This turns out to be of strategic importance for Greece in facing the present crisis. Efforts in the past to question the circumstances of Greece’s entry to the euro or recent suggestions for exiting from it in the face of the current crisis constitute dangerously myopic and irresponsible initiatives. Their pursuit in serving narrowly political or other interests end-up damaging

13 The vast majority of past Greek default cases took place in the 19th century leading to the country’s last default that erupted during the world-wide crisis of the early 1930’s. For the specific contents of the by-annual survey see, for example, the September 2002 issue of Institutional Investor and their Web site. See also analytical and wide-ranging empirical references in Reinhart and Rogoff (2009), op. cit, p. p. 29-30.
strategic national concerns and should be treated as such. This is because the effective alternatives available in such cases will condemn the Greek economy and its people to a long-run demise of growth prospects and of broader welfare attainments for its citizens.

Thirdly, it is highly relevant to observe that by 2008 Greece was already reporting one of the highest ratios in the world as far as its sovereign debt to GDP is concerned when it practically reached the 100% level. Furthermore, the highly weak and overall dysfunctional nature of the Greek public governance system was not unknown to the vigilant international financial institutions. Despite, though, such dangerous and worsening performances, in the March 2008 published IRR ratings —based on information collected just before the current crisis— the Greek economy was evaluated with an index of market confidence of 81.3 in the IRR scale. This was 18.7 points above its 1979 rating, characteristically before the economy became a full member of the EEC. The 2008 rating for Greece was slightly below that reported for Italy (84.1), for Portugal (84.8) and for Spain (89.6).\textsuperscript{14} All of them but especially Greece —in view of its substantially much larger foreign indebtedness relative to its GDP— were benefiting in their ratings by being members of the eurozone area. Therefore, their cost in further borrowing was correspondingly lower during these years despite worsening foreign debt conditions.

As far as Greece is concerned, its above stated rating performance enabled the country to continue borrowing before the end of the decade at only modestly higher interest rates above “the paragon of fiscal rectitude” Germany. Suddenly, though, all hell broke loose with major repercussions to follow immediately thereafter in the real economy as far as growth rates, unemployment, business expectations, grave socioeconomic uncertainties etc. Some knowledgeable commentators argue that the 2010 Greek debt

\textsuperscript{14} Most of the other eurozone members registered ratings at that time in the mid-90’s range. Despite its huge surpluses, China had a rating of 76.5 and in Asia only Singapore and Japan were above the 90 level. All other emerging countries were rated at much lower levels, some of them as low as in the 40’s and 50’s and occasionally in the 60’s range. Figures are from various years’ data published semiannually by \textit{Institutional Investor}. See also Quian, R. and C. M. Reinhart (2009), “Graduation from Crises and Volatility: Elusive Goals”, Working mimeograph, University of Maryland, College Park.
crisis resembles strongly the corresponding 1827 Mexican crisis. In both cases grave changes in market confidence took place during an extraordinarily brief time span, thus igniting the course of their respective longer-term financial crises.

More than the issues concerning the very timing in the eruption of the crisis, though, the more relevant questions in each case have to do with the time path followed in the underlying causal factors affecting real economy conditions and corresponding international capital market responses. This takes us to the issues raised in the next and final section that treats the third and core concentric circle of long standing causal factors affecting the current Greek financial crisis.

**Long-standing and cascading deficits of the Greek economy**

The substantive causes leading to the severe public finance deadlock presently confronting the Greek economy have been brewing for several decades. Since the return to democratic rule in the mid-1970’s, the accumulation of structural distortions in the sphere of public finances represents one of the more sustainable development deficits in modern Greek economic history. In the final analysis and at their core, such deficits do not stem from financial epiphenomena partaking to macroeconomic accounting imbalances. Instead, they originate from the very structural inabilities of the productive bases of the economy to creatively confront and adequately manage the country’s *employment-unemployment needs* together with the corresponding income-from-work challenges within the evolving prospects of contemporary European realities.

As a consequence, the escape valve that was available up to the 1960’s through the use of emigration and the depletion of the country’s younger labor force was subsequently substituted by the tutelage of the public purse. The latter included, explicitly, the continuously negative performances of the public

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budget and, implicitly, the out-of-budget-deficits of publicly owned enterprises and of other state-run institutions. Yet, this radical shift in major policy venues and in the face of persisting structural inabilities to match structural unemployment challenges provoked a series of further development burdens that conditioned the overall conduct of the rest of the Greek economy. The resulting repercussions of the so structured state apparatus and of the composition of public finances shaped, in turn, the co-evolutionary paths of institutions, of social-economic structures and of the clientelistic attitudes of productive forces intimately linked to the economic role assigned to or assumed by the Greek state.

Such an organic and distortive public-private sector complementarity in the country’s development process advanced its own political-economic dynamics vividly mirrored in the evolution of distinct political cycles. They were also manifested in the average earning power of public employees, especially in the case of publicly owned enterprises. The average effective earnings in the latter case is reported to have evolved to be significantly higher as compared to the corresponding ones for the private sector employees. In practice and in its specifics, the continuously ballooning sovereign deficit over the intervening thirty or so years reflected these structurally embedded institutional policies.

Economic institutions, or the lack of them, set within a clientelistic system of political patronage did not only give a false and unsustainable sense of prosperity based on borrowed resources, mainly from abroad, that had to be paid by future generations. More than such inter-generational income transfers, though, the predominance of inappropriate institutional bases led to significant missed opportunities. In turn, the latter mortgaged severely the country’s prospects in the medium and longer run by opting for shallow and weak, largely parasitic and counter-productive development venues. By contrast, policy attention was focused on short-term benefits from low quality and easy to attain growth performances. The country therefore experienced a relatively high growth – low development trajectory. The mismatch among those two was bound to be accounted for at the end leading to the eruption of the recent crisis. In other words, such a mismatch created conditions of
“immiserizing growth” for the society at large, especially for the employment prospects of younger as well as of future generations.

The erupting crisis was even further aggravated by the fact that the benefits from past growth performances often went unreported due to generalized tax evasion practices. The latter contributed directly to the structural tendency for enhanced fiscal deficits and for widening real income and economic wealth inequalities. At the same time, actual macroeconomic growth achievements were fueled by increased private and public debt together with an internal migration movement. Such an internal shift of population and, therefore, of labour availability sacrificed environmental and overall living standards to the prospects of growing urban monetary incomes and, to a lesser extent, of real ones largely concentrated in two territorial conglomerates. These spatial conglomerates are based around the greater Athens and Thessaloniki metropolitan areas that came to represent about half of the country’s GDP and about 45% of its population concentration.¹⁶

In the fiscal policy sphere and as a corollary to such evolutions, recent Greek economic management faced twice the institutionally mandated restrictions set by the rules of the Maastricht Treaty and applicable to eurozone countries that confront excessive fiscal deficits relative to their GDP. Corresponding and more development related considerations arose in the real economy on account of the provoked out-of-proportion deficits in the external trade balance relative to the country’s GDP. These deficits are due to the structural inability of the production and of the earnings capacity of the economy to adequately cover the transferring of a significant part of its own real purchasing power to foreign economic spaces, especially for the benefit of the more advanced EU members. The existence of a common currency in the eurozone area cannot suppress or hide indefinitely the effective real economy repercussions, especially in the labour markets, arising from the substantial transferring of such purchasing power out of Greece. This transfer of potentially wealth producing resources is due to the growing needs to match

¹⁶ See Πετράκος, Γ. και Γ. Ψυχάρης (2004), Περιφερειακή Ανάπτυξη στην Ελλάδα, Εκδόσεις Κριτική, Αθήνα.
pressing import and debt servicing requirements. In effect, the domestic economy, its policy-makers and the overall attitudes of society at large acted on an illusion as if the country commanded an international reserve currency that the rest of the world was more than willing to continue to accept on behalf of Greece!

The concluding years, though, of the first decade of this century coincided with the lifting of the second tight supervision of the Greek economy by E.U. authorities. In this recent period, the fiscal front did not simply continue on its long-term deficit-prone track but, instead, it ended by being completely derailed. Such a performance prompted a radical shift in the confidence of international capital markets about the conduct of and the basic trust in the quality of public governance in Greece. The “political anchor” of the euro was simply not enough, or not strong enough any more, to save the economy from its own broader malfunctioning in both political and real economy terms. Consequently, markets -fueled by aggressive speculative practices aided by political and public media pronouncements at the very core of the EU- reacted abruptly and violently. This brought the country to the very brink of a fiscal collapse facing a severe national crisis to be triggered by an eminent sovereign debt default.

This long-waiting-to-happen default raises implications that are still difficult or too painful to fathom. What is certain is that the price for facing realities on the fiscal front -this time with borrowed resources from the E.U. institutions and the IMF under their strict conditionality terms- implies, in the best of circumstances, an at least half or, quite probably, a full decade being lost in GDP and employment terms. In other words and under reasonably optimistic scenarios, after its fall during the initial years of the first half of the current decade, the country’s GDP is expected by 2016 to barely reach the level of 2009. This performance will be accompanied by an exploding unemployment burden lagging well into the beginning of the 2020’s together with seriously aggravated social-economic inequalities and continuously pressing fiscal realities. The threat of a new wave of emigration, this time among the educated younger professionals, constitutes the most serious socio-
economic hemorrhage that Greece might incur as a price for the ongoing crisis.

As far as the deficit paths of Greek fiscal matters are concerned, the relevant picture can be expressly synthesized through key indicators concerning the conformation of the primary fiscal balance of the General Government. This primary fiscal balance expresses the relative performance between central public revenues and corresponding public expenditures before counting for outlays needed to cover the servicing of accumulated public debt obligations. During the more recent stretch of the period between 1998 and 2009, the public primary fiscal balance in Greece experienced a significant and evolving transformation with continuously deteriorating structural traits.

As a result and if debt servicing outlays are also taken into account, then the overall public deficit continued, without interruptions during the whole 1998-2009 period, to fuel an annually mounting sovereign indebtedness for the Greek economy. As officially reported, this pace registered a further explosive increase with a deficit of about 7.75% to GDP just in 2008. Although that year was not an election one, the revealed public deficit performance was even worse than the corresponding partaking to the 2004 Olympic Games period and to the political cycle of that year’s national elections. Subsequently, overall public deficit relative to GDP continued with a further galloping rise reaching the unprecedented level of about 13.7% just in 2009.

It can be convincingly argued that the primary causes for this jump in the fiscal deficit increase have not been triggered by the usual cyclical movements in the economy. Instead, the rising trend in the Greek sovereign indebtedness is, more than anything else, due to structural parameters and to a governance situation that simply got out of hand. Such evolutions involved a policy-linked collapse in the revenue collecting capabilities of the state aggravated by longer-term attitudes on acute tax evasion and tax avoidance practices within a socially unjust and fiscally counter-productive tax system. They were also caused by well entrenched and discretionary fuelling of public
expenditures through political clientelism and corrupt practices now explicitly surfacing to public view.

With respect to sovereign debt considerations and as macroeconomic accounting tools conclude involving relevant stock-flow analysis, a critical conclusion is reached: The loss of confidence in a sovereign’s ability to meet its obligations provokes a real drop of that country’s overall stock of accumulated wealth.\(^{17}\) In other words, under such circumstances the wealth of a nation registers a fall and its economy turns out, on the whole, to become poorer even if, at the end, it might manage to escape default. Such a serious relative impoverishment was triggered in the Greek economy during the 2009-2010 spell when it lost the stabilizing influence of the “political anchor” of the euro. The mirror image of this negative evolution in the accumulated value of national wealth was also registered quite actively in the flow charts of debased incomes, of diminished employment options and of shrinking productive performances. It was also reflected in foregone opportunities for productive expansion and for improved welfare attainments by the Greek economy during that time and in the years to come.

The magnitude and intensity of the longer-term fiscal deficits and their more recent explosion are such that their effective confrontation in terms of the required fiscal effort is likely to be long and arduous. In this respect it is noteworthy that, without exception, in practically all past twelve years the applied fiscal policy mixes tended to aggravate the repercussions of the economic cycles instead of counterbalancing them. As a consequence, unemployment increased during recession periods and inflation pressures intensified during expansive ones. In sum, the requirements of proper fiscal policies have tended to be violated throughout the 1998-2009 period.

In the face of the risks involved from catastrophic implications arising from an eminent sovereign default, a set of two critical thresholds loom in the horizon. The first has extensively been debated recently as far as the harsh medicine

and the socially unjust terms imposed on Greece by the lenders in the recently agreed three-year rescue package with the troika. This also included the manifested ideological bias of IMF, especially by attributing international competitiveness considerations exclusively to labour costs. Surprisingly, no reference was made by the lenders to the now-days generally acknowledged and far more significant influence exercised by a host of other parameters in shaping a country’s international competitiveness. Such parameters include:

- well planned and productively applied organizational and technological innovation advancements,
- targeted policy pursuits for attaining scale and external economies partaking to the productive bases to an open economy,
- aggressive promotion of quality based product and service differentiation matched by investments in well recognizable trade names,
- application of market power and of specific restrictive business practices by large corporations operating in international markets,
- collusive conduct exercised worldwide between large private and public actors, mainly from the industrially advanced countries etc.

The loan facility, though, that was finally agreed upon amounted to an unprecedented in scale arrangement of €110 billion. The sheer scale of this very impressive amount is commensurable to the resource armory required to defend the Greek economy in a major “financial war” against the speculators and the short-sellers in international capital markets. (The term of a war-like situation is attributed to the present US Secretary of Treasury when he tried to persuade the political leadership in the German government about the needed critical mass of financial response and the pressing urgency in facing “the Greek problem”. Otherwise, the contagion risks could quickly spread internationally in the face of a quite vulnerable sovereign debt situation in the EU and US economies).

The sum of resources that were loaned to Greece at quite attractive terms for the lenders are to be progressively disbursed subject to compliance with strict
conditionality terms. Undoubtedly, the existence of this financial facility offered a unique and strategic breathing space to Greece to commence dealing with its grave structural developmental and fiscal problems. Hopefully, this will eventually enable again the country to begin functioning without being cut-off from access opportunities in international capital market operations.

The second threshold for the Greek economy involves the rest of the current decade following an intended successful completion of the three-year agreement reached with the troika in May 2010. In this context one should bear in mind that historical evidence in comparable situations confirms that no favors are known to be granted by lenders to borrowers in default. Past experiences in the political context of previous centuries include extreme examples, as in the case of Egypt and others, of penalties involving even an out-of-war full ceding of the borrowers’ national sovereignty to the lenders for several decades after default.

In the contemporary Greek case a critical fiscal issue has to be confronted that will eventually come to determine the country’s future socio-economic trajectory. This critical matter has to do with the need to target and achieve the generation of a primary fiscal surplus during the immediately forthcoming years while also, though, recognizing the need to lessen the social duress emanating from unequal and painful ramifications, especially for the lower income brackets. Such a fiscal attainment will serve to stabilize the now dangerously exploding sovereign debt/GDP ratio of Greece.

The policy responses on this front and the resulting crucial social-economic implications are dependent on the likelihood of alternative scenarios in three determining economic performance fronts. These refer to:

a) the real average macroeconomic growth rate to be achieved by the Greek economy in the years to come subject to explicit development restructuring commitments,

b) the real interest rates in servicing the ballooning foreign debt and,
c) the desired level of debt/GDP ratio intended to be achieved so as to be able to reenter, under reasonable terms, the international capital markets in the years to come. Otherwise, performances on the front partaking to (b) above will strongly exceed the corresponding ones in (a) thus leading to a longer-term socioeconomic doom scenario.

Three alternative trajectories confront the Greek economy for the rest of the decade until 2020:

- The first scenario refers to performance conditions which imply that, during the second half of the decade of the 2010’s, the real economy of Greece will remain within a pessimistically recessionary scenario or it will even achieve positive aggregate growth rates which, nevertheless, will continue to be lower than the average applicable real interest rates on foreign borrowing. In such a trajectory, the dynamics of the sovereign debt to GDP ratio are likely to register significantly worsening performances as compared to the base year of 2010. This will bring us again, even after a potentially further renewal of the loan agreement, to the brink of a second round of grave repercussions.

- The second alternative scenario is based on modestly positive performance expectations for 2016-2020 with the real growth rate of the economy approaching or even slightly surpassing the levels of relevant average real interest rates for the country’s international borrowing needs. In that case, the concluding sovereign debt/GDP ratio at the end of the decade could be registering a mildly improving path yet at still worse levels than the equivalent ratio reported for 2010. This could evolve into a quite costly, even if politically “manageable” socioeconomic trajectory with nevertheless quite onerous cohesion and developmental terms.

- A third case involves a more optimistic scenario that incorporates the dynamic benefits from effective structural reform initiatives with resumed macroeconomic vigor. According to this third scenario, the
real macroeconomic growth rate needs to increase during the rest of the decade at levels that exceed the average applicable real borrowing interest rates. Then, and only then, will the debt/GDP ratio be starting to improve again and to approximate, at the end of the decade, the 2010 base level.\textsuperscript{18}

It is apparent from the above that the strategic nucleus in confronting, in the medium term, the acute crisis exploded in the late 2000's centers upon the country's \textit{real macroeconomic growth} performance and the latter's determinant \textit{development requirements}.

Summing up the above, a weak course of real growth prospects is likely to confirm the fears of eventual default and of scenarios signaling an eminently serious fall in the Greek people's standard of living in the years to come. In contrast, an energetic growth track, built upon a more sustainable and demanding "development model" based upon effectively implemented structural transformations in a number of fronts during the rest of the current decade, constitutes a \textit{sine qua non} scenario for progress and for improved social-economic cohesion. At this historic juncture, such a scenario is indispensable so as to safeguard prosperity for the generations of younger Greeks in the forthcoming decades.

Furthermore, though, one has to account for the fact that Greece is presently a structurally heavily indebted country with its accumulated sovereign debt exceeding the country's GDP. The servicing of this mounting external indebtedness will imply, like in the case of Japan and of other countries during past decades, a continuous heavy resource leakage due to the continuous transferring of sizable real purchasing power to its foreign lenders. This creates a cleavage between the country's performance in its gross domestic product (GDP) and it's corresponding one with respect to its gross national income (GNI). The difference between the two aggregates is accounted for

\textsuperscript{18} See very recently published detailed calculations and conclusions on the above three scenarios in Μπαλφούσιας, Α. Θ. (2010), "Αξιολόγηση της ελληνικής δημοσιονομικής πολιτικής", in ΚΕΠΕ, \textit{Οικονομικές Εξελίξεις}, Τεύχος 12, Αθήνα, Μάιος, σελ. 58-69.
by the servicing charges on debt, even at reasonable terms in international capital markets. Under existing sovereign indebtedness conditions in the Greek economy, optimistic scenarios on future performances will imply that the annually reported GDP growth rates will be, more or less, absorbed by debt servicing charges. Therefore, for the years to come gross national income (GNI) indicators become highly relevant in judging the average welfare path of the country’s population.\footnote{In the equivalent case of Ireland, the difference between GDP and GNI performances is reported to amount to an order of magnitude of 15\% of the former. This is due to the requirements posed for transferring abroad resources required for dividend and other payments accruing to foreign owned enterprises, which were critical in promoting the country’s growth during past years. In the case of Greece the corresponding resource transfers will be related to the servicing of mounting external debt.}

Finally and in order to achieve a further improvement in the Greek sovereign debt/GDP ratio and thus reduce the resource hemorrhage in servicing the already heavily outstanding debt, three supplementary additional initiatives could take place. Each one of them has different implications for the country’s economic track record and varying difficulties in being implemented. The three additional sets of policy initiatives encompass the following undertakings:

(I) In acknowledging the existence of the large “black market” («παραοικονομία») still flourishing across-the-board in contemporary Greek economic spaces, a periodic administrative adjustment could be introduced in the reporting of its GDP. This, though, has to be agreed with the EU authorities and with transparent criteria that are convincing to the international capital markets. Such an adjustment will correspondingly increase, at periodic shots, the so registered Greek GDP in order to approximate better its real value that presently goes unreported for tax evasion reasons. Such practices have also been applied by other member E.U. countries, especially among the southern European ones in which their own «παραοικονομία» is also high.
II) Privatization initiatives and schemes to commercially utilize public real estate assets have been presented as an effective means to reduce sovereign debt and to enhance revenues for the public sector, the latter through appropriate asset leasing, factoring and related market based mechanisms. The realization of such activities, if politically approved under appropriately transparent conditions, does not constitute an immediate “quick fix” for the foreign debt problem. Instead they are likely to require some time to be effectively implemented, especially the ones linked to the commercial use of public real estate properties. This is due to important legal, institutional and administrative, political as well as market related hurdles that call for concerted corrective efforts to be overcome. Such hurdles also involve a number of other critical considerations on economic expediency and on the domestic sharing of major social costs at stake. Therefore, the corresponding initiatives in this front have to be carefully and selectively implemented and justified, politically and policy wise, on a case-by-case basis instead of being presented as an easy and blanket panacea to offset the heavy sovereign indebtedness that Greece presently faces.

III) By further front-loading the creation of additional primary fiscal surpluses, the country could attempt to reduce sooner its reported annual deficits in the coming years. Such a further front-loading, though, could backfire by provoking recessionary spirals thus also enhancing the computed weight of the outstanding debt relative to the country’s potentially deteriorating GDP. The resulting implications are likely to worsen the economic realities by reducing both the GDP and the GNI levels as well Greece’s fiscal earnings, especially in the area of indirect taxation and elsewhere.20

Therefore, the effective options that are realistically available in attempting an *a priori* effort to bring about a reduction of the sovereign debt/GDP ratio do not constitute isolated ends by themselves. Instead, they relate to broader political and societal needs and to key economic expediency considerations. In so doing they also need to face the emerging economic dynamics in terms of multiplier effects and related external implications of each particular endeavor on both the tax (or other public earnings) and the expenditure side of the budget.

**Concluding remarks**

In the future, the 2009-2010 periods will most likely be acknowledged in history books as the **passing of an epoch** in modern Greek economic and social affairs. Such an epochal change confronts the country’s existing restrictive institutional bases and societal attitudes, as well as key governance matters concerning the role of the public sector. Even without the US originated subprime catastrophe and the so provoked globalized contraction, the Greek crisis would –most likely- have taken place, not necessarily at the time it occurred nor with the intensity and gravity Greece currently faces. Instead and given past performances and the revealed lack of effectiveness and questionable responsibility in managing adequately the sphere of public affairs in the context of the country’s long-standing structural problems, a new chapter in the history of national challenges is commencing for Greece’s productive and social bases.

Facing the severity of a major default, the deep rooted risks involved are only starting to be seriously faced under painful and unjust conditionality terms in the current “rescue plan”. The latter gives a breathing space to Greece and also constitutes a safety net for the lenders’ past exposure in financing sovereign indebtedness needs in third countries. Nevertheless, the true acid tests for the country’s economy are still to be faced during the rest of the decade. In the best of circumstances, at the end of the current decade the country could start with a GDP level just approaching or slightly surpassing its performance at the base period of 2010 but with seriously altered institutional
and functional structures. The latter require political accountability and societal resolutions that are indispensable so as to assure more favorable prospects for the generations of Greeks to come together with the country's place and its role in Europe.