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Student Research Internship Report

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The year was 2015 and a third bailout in 5 years was being negotiated with the European Union (EU); at that time Grexit or Greek exit from the eurozone seemed inevitable. Nevertheless, Greece could not help to think of the time it gave up its currency, the Drachma, to adopt the Euro in 2001. Along with the surrender of the Drachma, monetary policy operations too were capitulated to the European Central Bank. The Greek could not have begun to imagine the disasters that would follow in the coming years.

As a victim of the 2008 crisis with a mix of fiscal profligacy since the 1980s, Greece began to tread on already turbulent waters. To make matters worse, in 2009 the newly elected leader George Papandreou had disclosed that the fiscal deficit numbers were understated for years, which led credit rating agencies to downgrade Greek bonds status to junk and raised its yields significantly to almost 30 percent in 2012. This meant that no one deemed Greece as debt-worthy at least at reasonable rates and the outcome of the worldwide economic downturn was a sovereign debt crisis felt in Europe with Greece facing the brunt and veering towards bankruptcy. To prevent a full-blown catastrophe, the nominal Troika commission- a trio of the International Monetary Fund (IMF), ECB and European commission, issued the first two bailouts totaling more than 240 billion euros in 2010 and 2012. As there is no free lunch, the bailouts came with austerity conditions and budget cuts to get the Greek fiscal house in order.

The austerity measures led to politically grueling policies such as tax raises, pension, and other social care cuts and even a reduction in wages to lower the cost of goods. It does not take an economist to understand what happened next- recession and widespread unemployment. The economy contracted around 25 percent while the unemployment rate hovered at a similar range and youth unemployment skyrocketed to reach above 50 percent. Unsurprisingly, more than 30 percent of the population lived under poverty. The cutbacks would have been worth it if it the bailout funds would have seeped into the real economy but that did not happen; however, they were used to pay other creditors. The troika finances were also provided on the condition that the debt to GDP ratio would improve; instead, the ratio from 120 percent in 2012

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reached 175 percent in 2015 due to the drastic decline in the denominator or the GDP. The scrupulous austerity conditions had turned a recession into a depression.

If Modern Monetary Theory (MMT) teaches us anything is that a monetarily sovereign country that issues its own currency can never run out of money. Hence, during economic downturns increases in government expenditure as a source of stimulus is justified even when running deficits as these countries can just print more money. Unfortunately for Greece, it does not retain the function of conducting its own monetary policy. The ECB, in charge of printing Euros, decided not to due to inflationary pressures on the strong economies in the EU such as Germany, France, among others. This put Greece in a vicious cycle of relying on external assistance for debt payments and everyday activities of the government. Again, the lack of integration of fiscal and monetary policy did not allow Greece to devalue its currency as a measure to enhance exports. This in turn led to reduction in wages to maintain export competitiveness. A decision that hurt the workers deeply also led to the dwindling of aggregate demand and in turn acted as an accelerator to further unemployment.

The question does arise as to why didn't Greece leave the Eurozone when it would have been clearly beneficial for its currency as prescribed by MMT? In 2015, the crisis had reached its inflection point when the SYRIZA party entered into government on the basis of its anti-austerity campaigns. On 25 June 2015, a referendum of the Greek population rejected the stern bailout conditions. The subsequent rejection of the deal led to the bailout funds on hold until terms were settled. As a result, the banks were cashless, and withdrawal of euros was limited for the people. At that moment Grexit felt severely imminent as it was felt that the debt crisis was a Greek problem and not the European Union's as the other debt laden EU countries were overhauled.

Ultimately, the government succumbed to the internal bankruptcy pressures and accepted the cruel demands of the EU. However, in an alternate universe how terrible would it have been for Greece to leave the Eurozone? Eminent economists such as Paul Krugman, Joseph Stiglitz believed that the decision to revert back to the Drachma would have been the best way to revamp the debilitated economy. Even though there would be odious short-term tribulations, the restoration of the legal duty to print their own currency would have been a blessing in disguise for Greece. There would have been a large outflow of capital, depreciating the savings of Greek depositors but there would also be light at the end of the tunnel. Exports would rise due to the devaluation of the Drachma, tourism would have been boosted due to the cheap currency but most of all, the people would not have to suffer due to the obstinate impositions by a third party.

The economy showed positive trends before the Covid-19 pandemic but at what cost. The entire debt crisis has exposed the viciousness of the Neoliberal era. The economic calamity of plummeting incomes and high unemployment also led to the creation of a humanitarian disaster with a surge in homelessness and suicide rates. The cutbacks essentially meant heavily burdened present and future generations suffering due to the neo liberal policies thrusted by the troika commission. Although Grexit would not have been an all in one solution to the ailing economy but at least Greece would have finally been answerable to its own problems with no one to blame. Unfortunately, the Greek government and its people preferred short term relief over a long-term recovery.

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