



Written by [Brian Koenig](#) on December 23, 2010

Greece Continues to Flounder

Greece risks Mediterranean isolation, as government debt accumulates and international confidence weakens — especially now that Moody's Investors Service is reviewing a possible downgrade of its current Ba1 credit rating. With Greece's debt levels rising to 127 percent of GDP, Moody's noted that the "review will focus on the factors, namely nominal growth and fiscal consolidation, that will drive the country's debt dynamics over the next few years."



Translation: The leadership of Greece's near-bankrupt country had better tighten the financial ropes and cease government handouts and trivial spending projects.

The government has been issuing worthless checks for decades. Eurostat, a Directorate-General of the European Commission, amended debt and deficit figures, labeling Greece as the region's most "indebted country." Financial insolvency has nearly crushed Greece's hopes of returning to the international bond market and has aroused negative sentiment among European neighbors.

From Italian and German invasions in World War II to political division resulting from the Greek Civil War, the country's political structure has become deeply instilled with socialist principles. The truly debt-financed country has a labor force with a bloated public sector, with roughly a third of the workforce toiling for the government.

Though the government may at least recognize its fiscal reality — with Greece's new Prime Minister, George Papandreou, claiming the implementation of spending cuts — the country carries heavy baggage. The problem is that Greeks, as a whole, are not committed to change, something that is to be expected in a country with such a massive public sector. They are content in their cozy government jobs — and used to high wages funded by borrowed money.

Greek society is ingrained with the ideology that it is government which creates wealth, rather than individual investment and private enterprise. Citizens expect to work short hours and receive many government benefits.

Another problem is the government's view toward the market economy. [The Heritage Foundation](#) and *the Wall Street Journal's* 2010 Index of Economic Freedom described Greece's limits on economic latitude:

Challenges to economic freedom remain in such areas as government spending and labor freedom. High government spending chronically causes budget deficits and places upward pressure on an already high public debt. The rigidity of the labor market impedes productivity and job growth, undermining long-term competitiveness.

Intrusions into the business environment have exerted a pronounced impact on the market. Greece's



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economy is tanking, with the third-quarter unemployment rate reaching 12.4 percent, leaving 622,000 currently out of work. Labor unrest has sprung up: Riots ensue and labor strikes overwhelm businesses and government agencies.

Despite an ever-mounting wall of government debt, labor unions screech as the government plans to cut state subsidies by 20 percent, including wage cuts and involuntary job transfers. Union workers criticize their government and “global capitalism,” as fiscal austerity measures threaten their professional lives.

Spending itself is not the only problem; government transparency is practically nonexistent. The OECD, World Bank, Transparency International, and other international organizations all agree that bureaucracy is the primary deterrent to Greek investment and business operations. Arbitrary business inspections and financial monitoring produce rampant corruption. Government officials are swayed to favor some private entities over others, generally for political clout and financial incentives.

In the business world, investors and lenders are highly regulated, with “international norms” determining compensation. And in true socialist form, private property may be requisitioned for public purposes. Shady tax practices present a system that is unstable and unpredictable, while the government frequently adjusts tax levels, sometimes compelling retroactive taxation.

The solution to Greece’s fiscal meltdown is not tax hikes, as the country has a top income tax rate of 40 percent, a top corporate tax rate of 25 percent, and other taxes such as inheritance and value-added taxes. The solution is a combination of pro-business tax policies, an expanded private sector, and decreased government spending. Furthermore, bureaucracy must be thwarted and politicians made accountable, by increasing transparency and loosening the government’s reins on economic freedom.

With such a vast public sector, labor regulations must be amended. Rigid regulations on labor hours and government oversight of business layoffs impede the corporate environment. And though corrupt private business practices should not be ignored, unreasonable searches and seizures and regulatory oversight must subside.

For Greece to revive its feeble global reputation, it must prove fiscal responsibility and pro-market growth. Progress in privatization will make businesses more competitive and open the door to technological innovation and development.

Moody’s warning should be a wakeup call, to both the government and the populace, and unless the Greek people embrace individual responsibility, their nation’s financial and economic decline will endure.

Photo: Bank of Greece



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