Greece is Out of Options

Writers for The Wall Street Journal's lead article on Tuesday expressed surprise that Greece's fiscal problems are "coming to the boil once more." After all, when Greece went hat in hand to members of the eurozone last year, they were able to secure a $158 billion bailout whose strings attached required severe austerity measures on the Greek citizens to resolve the matter. The matter has obviously not been resolved, and Greece is back to the table, asking for more assistance. This time it's a much tougher sell.

The assumption under the initial austerity plan was that higher taxes on citizens and cuts in government expenditures would allow Greece back into the credit markets to fund their continuing deficits. But the austerity plan has not worked, as raising taxes has reduced productivity which has further reduced tax revenues to the government. This essentially closed the door to the debt markets for any additional financing of Greek debt. And so when Standard and Poor's downgraded Greek debt to junk status, it simply was recognizing reality, and put present bondholders of Greece's debt on notice that they aren't likely to get their money back.

As noted in the *Journal* article, analysts for the banking firm of BNP Paribas were crystal clear about Greece's fiscal difficulties:

> The official line that Greece has a liquidity problem and not a solvency problem is showing its cracks, putting into question the whole framework of financial support.

And that framework, which was transformed from the original European Union concept of making markets freer to the by-now-obvious concept of a dictatorship by fiat of unelected officials, is looking more than a little wobbly. When there are protestations by the unelected elite that any speculation that Greece might leave the unholy union was extremely premature, one knows that something is amiss. French Prime Minister François Fillon assured the EU of the need for "unfailing solidarity," while German Chancellor Angela Merkel insisted that the idea of Greece leaving the union "has never been considered in earnest." Eurogroup President Jean-Claude Juncker confirmed: "We are not discussing the exit of Greece from the euro area; this is a stupid idea and an avenue we would never take."

Finland's True Finns Party's recent success in tipping the balance of power in that government away from the EU is only the tip of the iceberg. As noted by Bruce Walker in *The New American*:

> The mood within the different nations of the Union is increasingly lugubrious. The Greeks, Portuguese, and Spanish are beginning to view the strictures on their national sovereignty as not worth the dubious benefits of union.

The options facing Greece are very limited. Raising taxes didn't work, as noted above. When measured as a percent of GDP, the taxes the Greek government collected were 40.0 percent of GDP in 2007, while it collected only 39.1 percent in 2010. And the GDP was 5.2 percent lower in 2010.

In simple language, the so-called austerity measures, based upon faulty Keynesian ideology, failed. As Louis Woodhill noted in *Forbes* magazine,

> Austerity is always self-defeating, because tax hikes suppress economic growth, and economic growth is the only thing that really matters to government finances.

And so, if austerity doesn't work, and the EU is reluctant to give Greece a mulligan, and the bond market is closed to the Greeks to sell their debt, what is left?

The most sensible thing would be to slash taxes, reduce government interference in the marketplace, and lay off substantial numbers of government workers. In other words, allow the free market to breathe. But in today's statist world, such suggestions will have to wait for significantly greater pain to be inflicted before being seriously considered.

What if Greece were to leave the EU and go back to the way things were: drachmas instead of euros, and self-government without EU interference? This isn't likely, either, according to Woodhill, as the new currency would rapidly be inflated to zero, the Greek economy would go underground (the black market, or free market would flourish, using euros) and revenues to the government would essentially fall to zero. While this would provide the "cleansing" needed to start over, the pain would be dreadful.

What about default? This would likely be forced upon Greece unless a bailout of some kind is arranged. Default would cost bond holders dearly, many of them banks with close ties to the eurozone and the IMF. Any "restructuring" of Greek debt is essentially the same thing as default, only on the installment plan. If such restructuring is severe enough, the European Central Bank (ECB) would most likely come to the rescue.

The only way out for Greece, and others in the European community facing similar problems, is to vote out those favoring the union, and reinstall national sovereignty. This will take years, but if the pain is severe enough, it remains the single viable option for freedom.

Photo: The main building of the Bank of Greece in Athens.