

# The Continuing Crisis in Greece and Eurozone

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The latest negotiations between Greece and its lenders are continuing with the latter insisting that the world's preeminent deficit-reduction experiment continue unabated despite its spectacular failure. The goal of a decrease in the debt to GDP ratio has shown to be pure fantasy as the recent level of over 170% testifies especially, if one considers that this ratio was about 125% at the onset of the crisis four years ago prior to any "rescue" support from the country's lenders, and even after the world's highest debt "[haircut](#)" in 2012. Greece maybe the hardest hit, but is not alone. The ratio for Italy has increased to 130%, for Portugal 127% and Ireland 125% all of them higher than at the beginning of the crisis.

In Greece, specifically, the latest reports on economic conditions are still stubbornly negative. Employment creation, for example, is not encouraging especially if one considers how many jobs were created and lost during the months of July and August –the height of the summer tourism season. The numbers for July and August marked minimal increases in both employment and unemployment raising the total of unemployed workers, on a seasonally adjusted basis, to 1,365,334 with a significantly higher unemployment rate for women (31.4%) than that of men (24.3%). Employment in the [tourism sector](#) overall is still below 9,800 persons in the second quarter of 2013 as compared with the same quarter of 2012. At the current rate of job creation an employment level assumed to be at full employment will take more than a decade to achieve.

Other short-term indicators of economic activity show the performance of the Greek industrial sector to be very weak, absent the demand from the rest of the world, both from the Eurozone and non-Eurozone countries. The current levels of three [harmonized Eurozone competitiveness indices](#) based on consumer prices, GDP deflators, and unit labor costs show that Greece, at least in terms of unit labor costs had the second-largest decrease after Germany which systematically maintains lower values for all competitiveness indices over the 1999-2013 period. In Greece, on the other hand, while relative unit labor costs have declined, consumer prices have not followed suit. The dramatic fall in unit labor costs since their peak in 2010 by approximately 25% – the strategy imposed by the Troika aimed at increasing exports through internal devaluation – has not brought about the anticipated effects on a sufficient scale, as the statistics on the balance of trade confirm: despite the growing exports of goods (mainly from oil refined products that more than offset a recent fall in non-oil products) and the falling imports due to the deepening recession, the trade deficit is far from being closed. The strategy has brought, instead, deteriorating living standards and a precipitous decline in domestic consumption, the most important stabilizing driver in an economy.

What is happening to Greece is not unique, but afflicts all its Eurozone neighbours. Their exports, save for Germany, are hurt by a reduction in their trading partners' demand. Lower wages, pensions and prices in one member country engenders competitive deflation and compounds the problem as each country tries to gain advantage in order to promote growth through exports. And this has come to pass.

To be sure, exports are important, but domestic demand is more crucial. Even China, the giant export-guided economy has recently taken the necessary steps to increase and stabilize its domestic demand. And this should be the economic policy emphasis for Greece and the other countries of the Eurozone's South.

[Fiscal consolidation](#) entails deflationary risks that are rising in the Eurozone and even the OECD is now concerned about them. The latest economic report is suggesting that unconventional measures be implemented by the ECB to avoid the threat of damaging deflation. Avoiding deflationary pressures requires adopting policies that ensure economic recovery and employment growth for both the currently unemployed and discouraged workers together with the young entering the labor force. Policies to achieve these goals are available, political will is not. Moreover, the improvement of the current account deficits in the periphery countries from price adjustments due to labor cost declines, to gain competitiveness, works as a feedback loop to increase deflation that is contrary to achieving economic growth and debt sustainability.

What one observes now in the Eurozone is that in the one hand, the harshness of the fiscal consolidation measures in the periphery countries show no convincingly visible signs of a “light at the end of the tunnel,” while on the other, the anger and refusal of the core Eurozone countries to pick up the bill for what they perceive to be the periphery’s profligacy. Given the impossibility of reconciling these two perspectives, no one should be surprised with a large rise of extreme-right parties of xenophobic nationalism, racism and Euroscepticism at the [European Parliament elections](#) next May – all of them known for their anti-euro stance. Marine Le Pen of the National Front party in France, Geert Wilders of the Party for Freedom in the Netherlands, the Alternative for Germany anti-euro party, and the Golden Dawn in this country, are only but a few examples commanding stable voter preference. Last month’s Barometro Gallup poll as reported in the Financial Times showed very significant declines of support across countries for the European Union and what such Union represents.

Maybe the May elections will send a strong and unambiguous message that not all is well in the Eurozone.