

A Grexit would not be a catastrophe for all Greeks

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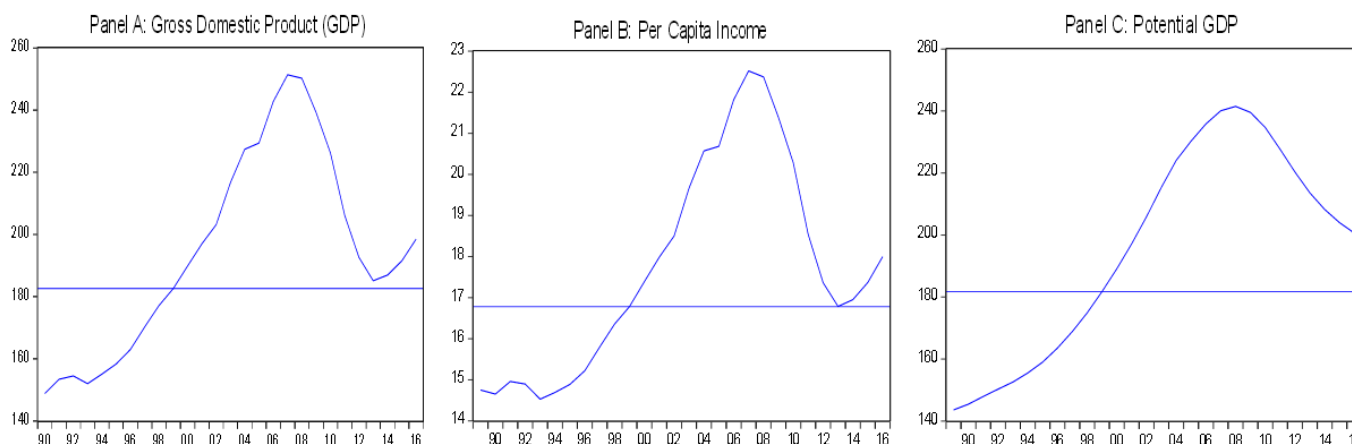
*With no deal reached between Greece and its creditors, there remain doubts as to whether the country will be able to make its next debt repayment to the IMF. **Gregory T. Papanikos** assesses the consequences of a 'Grexit' for the people of Greece. He argues that the Greek government has proven itself incapable of negotiating with other members of the Eurozone and that the fallout from Greece leaving the euro would fall disproportionately on the poor.*



A static economic analysis would have concluded that Greece should not have joined the Eurozone in 2001. The same analysis would have advised Greek politicians against Greece's integration into the European Union in 1981. Both pieces of advice would have been wrong. The Greek economy has evidently benefited from its membership in the European Union as well as the Eurozone, as it continued to experience an unprecedented economic growth from the post-World War II period. And this, despite the recent economic crisis which slashed Greece's GDP by 25 per cent in a span of five years.

As I have documented [elsewhere](#), the lowest level of Greek GDP (and per capita income) in the 21st century is still higher than the highest value of GDP (and per capita income) experienced by the country in the entire 20th century. Even more importantly, the lowest potential GDP of the 21st century was higher than the highest value of the 20th century. Additionally some evidence exists that income distribution has improved. The Figure below illustrates this picture.

Figure: Greek output, per capita income and potential output (1990-2016; click to enlarge)



Source: Eurostat (AMECO database)

Wealthy Greeks will benefit from a Grexit

Today Greece is one of the richest countries in the world both in terms of its per capita income and wealth. It would appear even wealthier in the international figures if the Greek informal economy is taken into consideration. As I have examined [elsewhere](#), this wealth should be taxed, and the revenue proceeds would be more than sufficient to serve the Greek sovereign debt. There is no need for a bail out. But the wealthy Greeks do not want to pay any taxes. Most of them never did. Recently they were forced for the first time to pay a tax on their property (wealth) which was met with fierce resistance. Most of them voted for a Syriza government.

Despite their left-wing rhetoric, the new government wants to abolish (it now talks about 'reducing') the property tax and to substitute it with an increase in the Value Added Tax which will harm poorer households. A Grexit would have made things much easier for wealthy Greeks and of course the Syriza government. As was done many times in the pre-euro years, a Greek government with a money printing machine in its hand would flood the market with inflationary national currency. An inflation tax is a boon for the wealthy, especially those who have deposits in foreign banks. Poor Greek households will therefore pay the full price for the economic crisis if a Grexit occurs.

The euro's exchange value is the problem

A Grexit benefits the state nourished individuals of the Greek economy, including the notorious employees of the public sector and state controlled enterprises. The greater part of them voted for Syriza. Very few were surprised when the new government mandated an increase of 10 per cent in the salaries of employees of the state controlled electricity company. And it is not an accident that the Minister who decided on this salary increase is in favour of a Grexit.

A Grexit would make Syriza's work much easier in serving the interests of these individuals, who make up close to 30 per cent of the Greek electorate. Also Germany's economic interests would be served better if Greece left the Eurozone. The reason is very simple. Germany's economy needs a strong euro. This was the case in the first decade of the euro's existence. On the other hand, the Greek economy would have benefited tremendously from a weak euro. Greece in the Eurozone will always exert a downward pressure on the value of the euro.

Thus, from an economic point of view, Germany would profit from a Grexit. If Germany could minimise the political costs and the economic side effects of a Grexit, it would welcome such a prospect. This is the reason why voices in favour of a Grexit that come from the left and right of the political spectrum of Greece serve Germany's economic interests by making a Grexit politically acceptable both to Germany and Greece. Germany has suggested on many occasions that it would be there to help with a Grexit.

As I have [explained](#), the real Greek effective exchange rate of the euro was 20 per cent overvalued between 2002 and 2014. This has had a negative impact on Greek economic growth. A 10 per cent lower value for the euro during this period would have increased the rate of growth of per capita GDP by almost an additional 1.25 per cent per annum. This would have made the economic recession less severe. During the crisis years, it seems that the ECB's monetary and exchange rate policy favoured particular countries in the Eurozone, and Germany emerged as the big winner. In 2014 and 2015, the euro's value has fallen and the Greek economy was able to show some signs of recovery. Thus, for Greece it is the value of the euro which is the problem and not the Eurozone itself.

The ECB's new policy of quantitative easing will help the Greek economy because it will exert a downward pressure on the value of the euro. The benefits will be enormous for poor Greek households and of course the healthy Greek private sector which does not depend on government support programmes. The new government wants to reinstate the notorious system of state nourished parasitical capitalism: and all this in the name of a left-wing ideology. Very few were surprised when the 'left-wing' Syriza formed a coalition government with the right-wing [Independent Greeks](#), as they both serve the same interests.

The failure of the Syriza government

Not all Syriza members are in favour of a Grexit. But the new government has proven itself incapable of negotiating with the other Eurozone countries primarily because it has been enslaved by its outdated ideological obsessions. It represents those segments of the Greek electorate who are responsible for the current plight of the Greek economy. Even worse, the new government has neither the experience nor the academic knowledge to deal with the challenges of negotiating with other Eurozone members.

The Prime Minister, Alexis Tsipras, has never worked in his life. He has spent his life protesting against the 'system'. His finance minister has no experience in policy making and policy negotiating and his professional academic

background is not in the area of economic policy. He has some talent for playing games, especially with the media and his colleagues in the Eurogroup, but both are not fit for the job, as Greeks will soon find out to their cost.

The new memorandum which the Syriza government will sign with the “troika” will undoubtedly be worse than any of the two previous ones and this will be despite a more favourable global, European and Greek economic environment. And this is the best case scenario. The worst scenario would emerge if Syriza, out of desperation, puts on the table the issue of a Grexit – something that would make some German politicians very happy indeed.

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