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Reflections

The Greek Financial Crisis May Be Over, but Greece, and the Eurozone, Will Never Be the Same

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(SAKIS MITROLIDIS/AFP/Getty Images)

It can be difficult to separate the important from unimportant on any given day. ***Reflections*** mean to do exactly that — by thinking about what happened today, we can consider what might happen tomorrow.

Highlights

- ***After three consecutive bailout programs, the Greek economy is growing again. But structural problems, ranging from state bureaucracy to tax evasion, remain extant.***
- ***Greece's massive debt, which currently stands at above 180 percent of the country's gross domestic product (GDP), will be a national burden for decades.***
- ***Greece also faces the long-term consequences of mass emigration and a subsequent brain drain, which will make it harder for the country's economy to recover.***

Like many English words, "crisis" has a Greek origin — the word "krisis," which in its initial form meant "a decisive moment." It is an ironic twist of fate that during the past decade the word has become so intimately linked to the country where it first originated. In recent years, any discussion about Greece has demanded acknowledgement of the deep financial, economic, political and social crisis that has afflicted the country since the late 2000s. And that makes Aug. 20 a bittersweet day, as it marks the end of Greece's third consecutive rescue program since 2010 and, in a way, the formal end of the Greek crisis. It took eight years, more than 300 billion euros in international loans and six prime ministers for Greece to reach this moment. Now the two biggest questions are: Was it worth it? And is Greece really out of the woods?

These questions do not have easy answers, because post-bailout Greece is a country of contrasts. The economy is growing again, albeit at a very slow pace, and though unemployment is going down, many of the jobs being created are temporary, part-time or low-wage positions. After years of massive fiscal deficits, the government in Athens is currently running a primary budget surplus, but there is no guarantee that future administrations will remain committed to it. The tourism sector is booming, but the Greek economy is still smaller than it was before the crisis. And while the reforms introduced by successive Greek governments were painful for large sectors of the population, they focused too much on tax hikes and spending cuts and too little on structural changes to make the economy more efficient. Greece is still burdened by issues such as tax evasion, state bureaucracy and massive amounts of non-performing loans, while many people's standards of living are considerably worse than before the crisis began.

What's Next For Greece?

Even if Greece looks relatively stable for now, the country faces two massive challenges in the future. The first is the heavy burden of its debt, which remains the highest in the eurozone, at above 180 percent of its gross domestic product (GDP). The Greek government and its citizens will have to live with this challenge for generations — especially if the European Union is unwilling to make the debt relief concessions that the International Monetary Fund is pushing for. So far, the European Union has decided to grant Athens a grace period for the repayment of its debt and the European Central Bank has declared that it will return to Greece some of the benefits it made by holding Greek bonds. But the idea of simply forgiving some of Greece's debt remains unacceptable for the bloc.

Still, Greece faces another, possibly even more serious challenge: the effects of brain drain. Over the past decade, more than 400,000 Greeks, many of them in their 20s, have left their country, which is not a minor thing for a nation with a population of roughly 10 million. Emigration is not an altogether new phenomenon for Greece; there are large Greek diasporas in places as distant as the United States or Australia. But the current wave of emigration is happening at a time when Greece is also dealing with some of the lowest fertility rates in Europe. Together, these issues have left Greece with a limited number of working-aged people available to generate the economic activity needed for overcoming the country's debt.

What Does the Greek Financial Crisis Mean For the Eurozone?

Beyond Greece, the crisis also says a lot about the eurozone. From a purely systemic point of view, the European Union can breathe a sigh of relief: The eurozone managed to stay together through the worst crisis of its short existence. Though it may seem like a foregone conclusion in 2018, that outcome was not so obvious only three years ago, when the Greek government was negotiating its third rescue program. There were heated debates within the European Union over whether — as technocrats in Germany and other countries argued — the eurozone would be stronger without Athens in it. Ultimately, the largest economies in the bloc — Germany, France and Italy — reached a political agreement with Greece on a new bailout package, driven by the fear that Greece's dismissal from the eurozone would prompt other countries, especially in the Mediterranean, to leave out of widespread panic.

This concern speaks volumes about the broader stability of the eurozone, a currency area with 19 very different members. It takes only one weak link to break the entire chain. A few years ago, that link was Greece. These days, all eyes are on Italy, whose populist government promises to challenge EU rules on fiscal sustainability and approve an expansive budget that could lead to higher deficit levels for the country, which even now has a public debt that exceeds 130 percent of its GDP. Rome's argument is that, as a sovereign nation, Italy has the right to approve whatever economic plans it deems appropriate. If the European Union intended for its tough economic measures on Athens to serve as a cautionary tale to other eurozone members, it's not clear that the bloc succeeded.

This highlights one of the primary shortcomings of the eurozone: governments commit themselves to respecting certain common rules, but the whole system depends on the will of those governments to enforce the rules. In the decade since the Greek crisis began, the eurozone has introduced tools and mechanisms to better react to financial crises, so in that respect it is now more prepared. But problems will continue to crop up as long as the bloc maintains the contradiction of having a currency union united by the same monetary policy but lacking the requirements of shared fiscal policies that come with a proper fiscal union.

The Greek crisis is over, at least from an institutional point of view. Representatives from its creditor entities, the IMF and the European Union, will continue to visit Athens, but they will come less frequently than before. Greece will begin issuing sovereign debt in financial markets like a "normal" country again. But the effects of a decade of international rescue packages and painful domestic measures will be felt for generations. In the meantime, the internal flaws of the eurozone and the political and economic risks attached to it have not faded away, which means that the prospect of another "krisis" still looms.

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