

The impact of economic crisis on Greece

Introduction

This essay is about the impact of economic crisis on Greece and its entrance into Memorandum. There will be analyzed how economic crisis affected several sectors of the Greek economy. Furthermore, there will be analyzed why Greece entered Memorandum and why this decision was nourished by success while many people and political parties were against this decision.

Main Body

In 2008, the former president of the conservative party and president of the Greek state at that time, Kostas Karamanlis, stated that in the few years the salaries must ‘‘freeze’’, there should be ‘‘cuts’’ in the salaries of public employees and generally the hiring of public employees should stop or at least it should be limited. People, as it was expected, did not like it and they voted George Papandreou in the elections of 2010, when he won for over 10%. Before elections, Papandreou claimed that there is lots of money and the people should not worry about it. Although, the history proved that he was wrong because in 2010 (a few months after Papandreou’s election) the funds were finishing so this meant that Greece needed desperately someone, who would be able to finance it in order to ‘‘keep alive’’ the economy. This will be discussed further due to the fact that now there will be analyzed several sectors that were affected by the crisis.

To begin with the sector of education, the main effects of the crisis were the salary cuts that the Greek educators subsisted. More particularly, the cuts that were imposed reached up to 20%, which makes it the 4th biggest percentage of cuts in Europe. The ‘‘champion’’ of cuts is Latvia, where the cuts reach the 55% with Romania following, where there are 50% salary cuts. Third is Hungary, where the percentage of cuts is 27, 5%. (Vlaxoy, 2012). In addition to that, the Greek government was also thinking of doing layoffs but eventually nothing like that happened. The final decision was that the gaps will be fulfilled through a way, which is called ‘‘mobility’’. Mobility is a very effective method which implies that if the number of teachers in one school exceeds the average number, then those who are in surplus will be moved to a school, which has shortage in teachers.¹

¹ http://www.kathimerini.gr/4dcgi/_w_articles_kathremote_1_31/07/2013_511947

Also, the economic crisis did not affect only the education sector. Specifically, according to recent researches there is a great influence on the social life both of the adults and teenagers. Panic attacks and depression are the major consequences that appeared so far, according to Elisavet Georgiou. The reason why these psychological problems arose, is the social phenomena that the Greeks are struggling with such as the increase of unemployment. It is believed that the constant changes in labor, the fear of being redundant the next day, the low salaries, the bad working conditions, the many hours that they are working, are the most striking reasons why these two big problems appeared. Additionally, it is remarkable to mention that thousands of people were driven to suicide, which indicates how serious their problems are. Of course, this is the most extreme way to express despair. As a matter of fact, the most profitable business in Greece is the pharmaceutical industry since the majority of Greeks buy medicines in order to get over with their problems. (Tsakiri, 2011)

In addition, Greek companies did not avoid the wave of the crisis that hit Greece. The analysts say that the next five years will be very tough for the Greek businesses. Due to the crisis and due to the lack of liquidity, 64% of the companies cannot be borrowed money, because they are judged as unable to repay them back. What is more, the sizes of companies is dramatically decreased which is translated into 70% of companies have lower sales. As far as the profit is concerned, 71% of the firms declared decrease in net profit. However, despite the fact that the numbers are not the best for the companies, the companies are optimistic for the next couple years, when the sales should be increased again. This applies for net profit as well.

Consequently, the Greek government needs health its businesses so that the economy will be stable, as it was over the past few years. Therefore, they plan to a) reduce the bureaucracy b) increase the effectiveness in public sector c) establish a legal and regulatory framework and d) give bonuses to the people that want to invest. (Kalofolias, 2010)

Another sector that was greatly affected was the sector of health. Over the past few months, it is noticed that the most significant consequence is that many people were dismissed. Also, the bonuses that were provided in the past also stopped. The layoffs, the decrease in salaries, the stop in bonuses have a negative impact on the sector of health. It is observed that these factors decrease the quality of services in the health sector. For instance, what happens is that because the doctors and generally the staff of the hospital are not as motivated as they were before, they are doing medical errors. Fortunately, there are not so many, and the medical errors that happened so far were not fatal and did not cost any life. The amount of the cut expense in Greece is the highest in Europe. According to experts, the health sector is the most significant

sector in Greece, not only because it was useful in the past but also people need it, especially during crisis time, when the psychological problems and other disorders are dominate.

(Kanelopoulos, 2012)

These were actually the most affected sectors. Of course all the sectors were affected but not as much as the sectors mentioned above. Now, the Greek government had a dilemma to face in 2010. This was, either to reject the aid of the European Union through the Memorandum or to accept the terms of the Memorandum and secure the loan. The Greek government opted for the second option.

The Memorandum is a set of rules which has as goal to reduce the costs of the Greek state as a result the economy will be stabilized as soon as possible. Also, other objectives are to increase the competitiveness and recover Greece's productive base. The most basic objective is that the Greek economic model will be changed from consuming to productive. This means, that the economy will be based on exports and national production.

Additionally, the Memorandum of understanding included a loan of 50 billion Euros to Greek banks, if the terms were met. In other words, these 50 billion that Greece received (because it met the terms) helped the recapitalization of banks and also helped the funds of insurance, where they were empty. Also, this action brought the fiscal stability because the budget deficit was increased and surprisingly Greece finished with surplus in year 2012. That means, that the debt becomes less and Greece will not need the European Union's help anymore because it can be borrowed from the markets. Actually, according to estimations Greece will be out the 'Memorandum mode' because its debt will be considered viable (it is viable when it is below 140% of GDP) and this is positive sign because this makes a trustworthy economic environment. This trustworthy environment will attract foreign investments, which means increase in liquidity and reduce in unemployment, and also it will import the money that the Greek people exported to foreign banks, because they were afraid that Greece will bankrupt and they would lose them.

The contents of Memorandum mainly were salary cuts, layoffs in the public sector, especially from public organizations that were not active anymore, adjustments in some laws (in order to Greece to become more entrepreneur-friendly country) and privatizations of national organizations in order to be more profitable and to reduce the staff.

All in all, the Memorandum actually saved Greece from bankruptcy, whose consequences will be analyzed below. First of all, if Greece would have rejected Memorandum this would mean that the financing from the Central European Bank (CEB) to the Greek banks would stop. This means, that provided that Greek banks do not have the expected capital they would not be able to work. Automatically, this means that Greece would be obliged to switch into a new currency (probably the one that was used before, drachma). As a result, the depositors would lose, if not all, at least 70% of the value of their deposited money. It is very easily concluded that this would bring about many demonstrations and fights by people who would try to express their anger. Secondly, it would happen a huge devaluation in drachma, and after the devaluation, drachma would be uncompetitive against other international currencies. The result would be catastrophic both for people and for the businesses. It would be catastrophic for people, because they would not be able to buy even basic goods in supermarkets, because the shelves would be empty. The reason for that is that a) Greece imports almost every basic good and do not produce it as it was mentioned above and b) the foreign countries would avoid to make business with Greece, since drachma is so weak against other currencies. Regarding the businesses, they would not be able to sell anything because a) they would not have much to sell and b) the people would not have as much ‘consumer behavior’ as it was in the past, because they would not have so much budget. By switching it to drachma, not only they unemployment would be increased but also the salaries would be 10 times less than they are nowadays.

Apart from the economic downsides (if memorandum was rejected), there are also geopolitical issues. If Greece would reject the Memorandum, this would mean that it would exit European Union. So, it means that Greece would be completely alone against the neighbor countries that Greece competes with. Actually, there were speculations that if Greece exits the European zone, Turkey would make either political or even physical attempt to occupy some islands in the Aegean Sea. The reason is very obvious, because it is scientifically proven that the Aegean Sea hides huge amounts of mineral wealth (oil, gas, gold, uranium).

But from moral point of view, if we suppose that Greece would reject the Memorandum and switch it to drachma and eventually recover from crisis, this would be impossible. The answer to that question is that if Greece would achieve it, the other countries from the south (Italy and Spain) would want to leave the EU and follow the example of Greece. If this would happen, this would mean huge changes and instability in the EU let alone in the euro itself. This is

something that Germany and France would not want in any case, as a result they would not even leave Greece to boom and develop.

Taking everything into consideration, if there is a balance between positives and negatives for Memorandum, by all means the positives surpass the negatives. This is the reason why the Greek government decided correctly and entered this financial supportive system.

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