Serving Canada's Legal Community Since 1983

Greece still teeters on the brink

By Jeff Buckstein

July 10 2015 issue

Greece's survival in the eurozone is at stake as the bankrupt and heavily indebted country is expected to present a detailed financial package today (Thursday) that it hopes will be palatable to creditors. Greece reportedly wants a new three-year aid program from the eurozone's bailout fund.

But whether its partners are collectively ready to work with Greece, which may be decided at a European Union emergency summit meeting scheduled for Sunday, remains an open question after a decisive referendum that made clear a majority of Greeks don't want further austerity imposed on them.

If Greece strikes out on its own, that could shake up international trade.

"It's a huge issue if Greece leaves the European Union," said Cyndee Todgham Cherniak, founder of LexSage Professional Corporation, a Toronto-based international law and sales tax firm.

"If Greece leaves, what is their status going to be with respect to the Canada-EU Comprehensive Economic and Trade Agreement that's been negotiated? How are they going to trade with the European Union now?" she asked.

Furthermore, all of the benefits that flowed to Greece from being a member of the EU may disappear. Layer on top of that the expected devaluation of the currency and there will be market access and trade issues to contend with, said Cherniak.

"Greece isn't sustainable on a going-forward basis," said Ian Lee, an assistant professor of strategic management and international business at Carleton University in Ottawa.

"I can only see an exit by Greece. Not because of ideology, but because the European side demands reforms to make it sustainable to justify the lending. And the Greeks are saying 'we're not willing to do any more restructuring and austerity,' " Lee said.

Lee also noted that the type of restructuring the International Monetary Fund (IMF) has been calling for in return for more financial assistance involves substantive policy changes to make Greece more sustainable over the long-term, such as privatizing unprofitable government corporations, eliminating protectionism measures that keep out foreign competition, and extending the age of pensionable retirement.

Tom Bernes, a former executive director with the IMF and now with the Waterloo, Ont. based Centre for International Governance Innovation, doesn't think the referendum results mean a lot in terms of clarifying the situation.

"If you ask people, 'are you fed up with austerity?' you're going to get a response, 'yes.' Nobody likes austerity. The question really is 'How do we get out of this?' It's clear the vote was an expression of the frustration that things aren't improving," said Bernes.

John Curtis, a senior fellow at the International Centre for Trade and Sustainable Development in Geneva, and a former chief economist for the federal government's Department of Foreign Affairs and International Trade, has a similar viewpoint.

"The voters were saying 'no' to the policies of the past seven or so years — for example, since the financial crisis of 2008-2009. They weren't voting on the larger 'vision' thing — the EU project, should we be in the eurozone or not, etcetera." said Curtis.

Greece's options have essentially boiled down to coming to an agreement that would allow them to stay within the eurozone, and keep the euro as their currency, or to withdraw from the eurozone and re-adopt their own currency, the drachma.

Staying in the eurozone is likely to take a great deal of compromise, and might eventually include the controversial move of forgiving a portion of Greece's debt. But debt relief has angered many countries in the EU, such as Germany, its largest economy, whose taxpayers will likely be impacted the most. Other countries, such as Ireland, have had to go through their own restructuring programs. And there are a few eastern European countries in the euro that have emerged under the yoke of a communist system, such as Estonia, which have even lower standards of living than Greece, but have not run up large debts.

The issue of moral hazard — namely, if Greece gets away with it, everyone else will too, is an issue, but it shouldn't be overplayed, said Curtis.

"The hazard relates to the debtor only, but clearly the lenders have some responsibility too. Ireland and Iceland have managed to climb out of their economic difficulties over time, with real pain, especially for the younger generation, by restructuring their debts while making themselves more competitive internationally. Greece is going to have to do this too, but the lenders are going to have to help too by developing more pro-growth policies, so that a more competitive Greece can sell more goods and services abroad in addition to tourism and shipping," Curtis said.

"As in everything in public policy, balance is key," he added.

If Greece does strike out on its own, there could be an advantage. The Bank of Greece would gain the autonomy to print its own money to provide to the country's banks, which are running out of cash. But the currency would perhaps lack credibility, risk being locked out of global markets, and there could also be hyperinflation.

And there would be a whole host of other potential disadvantages, on top of the aforementioned disruption to international trade, say experts.

"In the short run, if they leave, they're going to go through a living hell, let there be no mistake about it," said Lee.

"If they return to the drachma, [it] is widely acknowledged by people that the drachma would decline in value by some 50, 60 or 70 per cent. What does that mean? Well Greece, like most countries, imports all kinds of stuff, including food. The price of food would go through the roof. Most people could not afford it. You would have, in the short run, a humanitarian crisis of literally poverty, of starvation."

This has happened before in other currency crises, and it is why the IMF exists, to go in when there has been a sudden stabilization in currency to provide bridge financing, said Lee, who expects that having gone through excruciating economic pain, Greece's economic situation would eventually stabilize.

"I believe in about two years' time — it takes about two years for everything to adopt and adjust — they would regain their comparative advantage in their areas. They've lost an enormous amount of tourism to Turkey in the last few years because the cost of tourism became so expensive in Greece, because they adopted the euro. So there would be light at the end of the tunnel," said Lee.

"If they remain in the eurozone, there's no light at the end of the tunnel. There's just endless, endless grinding austerity and restructuring down the road," he added.

Click here to see this article in our digital edition (available to subscribers).