Seven myths and seven truths on the Greek economy

By Nicholas Economides, Stern School of Business, NYU

On January 25, the hope is that Greeks, understanding the truths outlined below, will vote against populism and its myths and for growth and prosperity of Greece in the nucleus of Europe.

Myth 1: The Greek public debt is unsustainable and we have to cut it

Truth: The debt is sustainable. Greece just needs growth and no political uncertainty and crazy gambits. No country pays off its debt. Countries only pay interest. Greece has very small interest rate on its loans from the EU (1.82% that the populists call "usury") and a grace period for interest of 25 years on 60% of the debt and 13 years on another 20% of the debt. If Greece grows as it had started in 2014, when it had the fastest growth in the Eurozone, its debt, although large, will become a smaller and smaller part of the Greek economy. The real solution of the debt issue is to elongate its maturities to 70-75 years. In this way, its net present value is reduced by 50% and the Europeans do need to find new money from their tax payers to give us.

Myth 2: We can erase a large part of our debt to the Europeans without Greece finding itself outside the Euro

Truth: The Greek parliament would not accept to forgive the debts that Finland or Holland owe to Greece. Similarly Finns, Dutch, and other Europeans will not forgive the 250 billion that we owe them. If Syriza attempts to erase the debt, it will face a very hostile Europe. The ECB will stop its support of the Greek banks (60-100 bil) and they will collapse immediately. Without Euros to pay salaries and pensions, Greece will be forced to print New Drachmas.

Myth 3: The Drachma is not a bad solution. The euro is not a taboo. If we leave the Euro, we will be better off like the good times of the Drachma.

Truth: Going to a New Drachma is the worst that can happen as a result of the elections! Leaving the euro will be a total disaster for Greece. To start with, Grexit will not bring us to the old Drachma of 341 drachmas per euro. The much worse condition of the Greek economy, combined with the extraordinary conditions of Grexit, will result in a deeply devalued new drachma at an exchange rate of 1000 new drachmas to the euro. This means that the prices will triple very quickly and there will be extreme poverty and social upheaval. The government under Grexit will print many new drachmas to finance its program creating hyperinflation and conditions of Greece of the 1950s without the positive expectations of that time. Grexit will be a disaster of the magnitude of the Asia Minor disaster and could bring Greece out of the European Union, not just the Eurozone.

<u>Myth 4</u>: The Europeans will not dare let Greece leave the Euro because this will be a disaster for them.

<u>Truth</u>: The Europeans worked for years to minimize the economic impact of Grexit on them. Currently, the European politicians agree that the impact of Grexit on them will be minimal. Only Greece is destroyed by Grexit, not Europe. A blackmail of Greece towards Europe with the threat of mutual distraction through Grexit will not work anymore and will not have a positive result for Greece.

<u>Myth 5</u>: Deposits in Greek banks are guaranteed by the ECB and are not in danger no matter what happens in Greece.

<u>Truth</u>: Because of the extreme political uncertainty and the significant probability that Greece will leave the Euro and that it will have a new currency of low trust and uncertain exchange rate and convertibility, individuals and businesses have withdrawn large sums from the Greek banks in the month before the elections. If the opposition party is elected, this tendency will intensify. For the moment, the ECB has covered the liquidity shortage by providing 40 billion of emergency liquidity assistance (ELA) to the Greek banks, on top of the 60 billion it has provided earlier. But this support is only available when Greece is in the Mnemonio (agreement with creditors), which ends on February 28. Syriza, Golden Dawn, ANEL, and KKE do not want to renew it. Without a Mnemonio, the ECB does not support the Greek banks and does not guarantee the deposits. The Bank of Greece does not have the capability to guarantee the deposits on its own. An additional danger to the deposits is if Syriza institutes a compulsory hold on them to finance its program (compulsory borrowing using deposits to buy Greek T-bills). Unfortunately with the money markets unavailable to Greece, and Syriza's blackmail toward the Europeans, it is very likely that that compulsory borrowing from deposits will be the only available financing in euros. The remaining alternative would be financing outside the euro after a Grexit.

<u>Myth 6</u>: Grexit is just danger-talk. It will not happen.

<u>Truth</u>: This is a mistake. If Syriza gets elected, there is a significant probability that Grexit will happen in the following three ways. First, if Greece does not pay its debt to the Europeans (see myth 2). The second way is if the Greek government cannot implement its program (increase of salaries and pensions, increase the number of civil servants, generally increase the size of the State, reversing of privatizations) in the Euro simply because it has no access to more euros. The Europeans will not lend without a Mnemonio, the markets ask for prohibitive interest rates, and internal forced borrowing is reminiscent of the Nazi occupation. Without euros, the Greek government will be forced to leave the Euro. The third way is Grexit happening by accident. The negotiation of the inexperienced politicians of Syriza with the Troika can have unexpected consequences. There are significant chances of an "accident" that leads to Grexit. From the money markets, we know that the probability of a Grexit (from all three causes) is not negligible at all. The prices of Greek bonds in the secondary market show that the money markets assess the chance of Grexit at 25-30% if Syriza gets elected.

<u>Myth 7</u>: We do not need structural reforms. They only hurt the people.

<u>Truth</u>: This is completely wrong. The Greek economy produces much less than it could despite hard work by many Greeks. The huge clientilist state is an unbearable burden on the economy. The crisis created chances for structural reforms such as a reduction of the size of the State, opening of closed professions, reduction of taxation. Very limited changed were implemented. The small reduction of the size of the State occurred only under tremendous pressure by the Troika and despite intense resistance by the Greek governments. Syriza, first in opinion polls wants to increase the State into a giant. Greek society, deeply conservative (with the parties on the left being the most conservative!) tried not to change anything, and looks forward to a larger clientilist State. Without structural reforms, even if Greece manages not to leave the Euro, even if there is no internal stay of payments, even if there are deposits left in Greek banks at the end of February, the Greek economy will lag way behind the rest of Europe without a prospect of improvement.

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