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Financial Crisis in Greece: Challenges and Threats for the Global Economy

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ABSTRACT

This article is devoted to the research of the reasons behind the occurrence of the crisis in Greece and challenges and opportunities that arise both for the global economy and the economy of the European Union (EU). The theme of the article is rather urgent by reason of incomplete understanding of the nature of the crisis in Greece, its suddenness and impossibility to predict its consequences for the global economic relations. The main goal of stating the materials in this article is to analyze the reasons of the crisis in Greece in terms of economy, history, sociology, and other scientific areas. Basic tasks include the following: To reveal a complex of all aspects of the economic crisis in Greece, to analyze its deep (historical) reasons, and to reveal challenges for the world economy and economy of the EU and Russia related to the Greek crisis. The following basic conclusions were made within the article: (1) The crisis in Greece has not only economic but also political reasons. However, at the same time the Greek crisis cannot be solved only in terms of economy. It is necessary to take systematic measures to solve the occurred problems, (2) the economic crisis is only a visible part of structural problems of the Greek economy. At the present time a great number of social, technological, and humanitarian problems have been hidden behind the mass revealing of economic crisis tendencies, (3) the basic reason of the economic crisis is in the incomppliance of social and economic model of the Greece development with the EU based on the West-European logics of functioning. Practical application of the results of this work by scientists and economists will allow to objectively reconsider the essence of the Greek crisis, and make conclusions that will contribute to the development of recommendations aiming at preventing the crisis in other countries.

Keywords: Greece, Economic Crisis, European Union, Global Economy

JEL Classifications: G01, N24, F63

1. INTRODUCTION

The Greek economic crisis of the beginning of the XXI century is unprecedented both according to the duration and the size of fall among the developed countries. Today the country that has greatly contributed to the global civilization undergoes a deep economic depression (Cheskidov, 2015; Sergeev, 2013). Over the recent years the national income of Greece has made up 0.25% of the global gross domestic product (GDP). As a consequence, the occurred crisis affects all countries of the world (Kolodko, 2015).

Logically there is a question related to the reasons that attract closer attention to Greece in the whole world. And if these are global problems, what challenges does this crisis create for the global economy? Or is this only deflecting attention from more important problems and Greece is “the Gordian knot” where all negative features of the contemporary global economic order have concentrated?

In order to get answers to all these controversies, it is necessary to study the uniqueness of the Greek crisis. It is necessary to acknowledge and understand that the Greek crisis contains as much

policy as actually economy. The peculiarity of the Greek crisis lies in the fact that traditional methods, for example devaluation of the national currency, cannot be merely used because Greece is in the Eurozone and its currency (Euro) is common for other 26 European countries. The situation is complicated by the fact that legal procedure of withdrawing from the Eurozone is not provided (Plotnikov and Novik, 2013). At the present time a number of countries of the European Union (EU) like Greece, Ireland, Portugal, and Spain have a serious problem: After economic bubbles on the markets of consumption and residential property have burst, these countries have to experience a long period of recession. During this period they will have to pay a high interest on their sovereign bonds.

The Greek economic and political crisis has been taking place during many years, and has not completed after the latest global economic crisis. It is necessary to note that excluding Greece from the Eurozone at least for some time and return to the drachma to use traditional devaluation of the national currency would be one of possible solutions contributing to the decrease in the acuteness of the accumulated problems. Although this solution had been discussed by European politicians, it was eliminated from the agenda in 2011 (Miroshnikov, 2013; Malakhova et al., 2011). Herewith, few experts can predict consequences of the withdrawal of Greece from the Eurozone. It is quite likely that the most dangerous consequence can be “the domino principle” when Italy, Portugal, Ireland, Spain, or Britain (in 2016 the latter intends to have a referendum about possible withdrawal from the EU) will leave the Eurozone and entirely the EU after Greece. All these countries are combined in a single group - PII(G)S although according to the crisis duration Greece is distinguished among them.

Regular allotment of credits both from the International Monetary Fund (IMF) and European structures in exchange for promises to implement reforms in Greece contributes to the growth of negative information in the global informational space that like a catalyzer aims at occurring of panic spirits in the Eurozone. Greece is a classic example of fiscal and economic irresponsibility of almost all global governments after the Second World War. For the whole period of the Greek crisis the IMF and the European Central Bank have allotted above USD 300 billion of financial help as term credits (Markantonatou, 2013; General and Regional Statistic, 2015).

2. METHODOLOGY

The theoretic basis of the article was the works of leading researchers in the area of macro-economy, global financial and economic crises. Special attention is paid to the works that systematically and comprehensively considered reasons and consequences of the crisis in Greece from the political, economic, social, and technological standpoint. Methods used in this work include methods of comparative content-analysis of publications on the research theme, methods of economic and statistical, and financial analysis. Besides, within the article methods of extrapolation, retrospective comparison and forecasting were used. The aggregation of theoretical and methodological techniques

enables the authors to systematically, comprehensively and gradually reflect the interrelation of the reasons of occurrence and consequences of the development and scaling of the crisis in Greece. Based on the obtained analytical and comparative data, basic problems that do not allow to eliminate crisis tendencies at the present time were defined. In addition, basic solutions were defined, whose implementation will allow to decrease the urgency of problems and direct the developed countries to the relatively stable course.

3. RESULTS

Greece is the 73rd state according to the number of its population, and the 95th state according to its territory in the world. During the period from the end of the Second World War till 1973, the Greek economy was growing at priority rates (the annual growth was not <7%, and in some years - not <10%). After the completion of the Second World War the Greek economy was recovered due to using a number of measures, including the ones that were provided by the “Marshall Plan.” It is necessary to single out the following measures:

- Measures aiming at abrupt devaluation of the national currency (Drakhma) in order to recover the economic potential of the country lost during the invasion
- Measures aiming at the raising foreign investments required for recovering the infrastructure of the country and its recreational potential, including tourism development
- Measures aiming at the development of the industrial sector of economy (first of all chemical industry) in order to integrate the country in the global economic processes, and
- Measures aiming at developing mass construction not only to provide the adequate level of the population life but also to diversify the GDP.

The priority rate of the Greek economy growth was over in 1974 (then the fall of GDP was about 6%). It was related to the change of the political regime and political order. At a later stage the social and economic growth of Greece recommenced, its inconsiderable decrease was observed in the 1980s. It was related to the general economic stagnation. Thus, starting from the 1950s till the global financial and economic crisis that started in 2008, Greece had been one of the most successfully economically developed countries on the European continent. When world-wide crisis tendencies overgrew, crisis tendencies in the Greek economy started occurring. They were both a part of its own debt crisis and a part of the general European debt crisis (Figure 1).

In addition, after the priority rate of the economic growth that was over in 1974, the annual budget of Greece was at a sustainable deficit and was weakly structured. In order to enter the EU, Greece made changes in the financial and credit policy. On the one hand, it provided the decrease in the level of the inflation. However, on the other hand, it started accruing problems that only aggravated the budget deficit. In order to constantly cover the budget deficit, the Government of Greece permanently increased the debt loading, and herewith deformed the state financial reporting and provided the declarative state of the budgetary deficit at the required level of 3% (Nelson, 2015).

Thereby, at the definite moment Greece could not fulfill its debt obligations, including due to the global economy entering the system crisis. It led to the fact that in the middle of 2015 Greece had to announce its default.

4. DISCUSSION

It is necessary to understand that the nature of the Greek crisis is not the oversupply of production like during the “great depression” in the USA, and this is not only “the financial bubble” at the real estate market. This is a two-level reason of the crisis, including basic and external (Figure 2). In order to prove these words, it is necessary to specify that the crisis in other PI(D)GS countries is not so urgent in the agenda of the European power unlike the Greek crisis.

It is possible to indicate the following basic external reasons of the Greek crisis growth:

- Weak maturity of the Greek economy in comparison with other EU countries except Romania and Bulgaria
- Late financial, economic, social and political reforms
- Falsification of financial statements sent by the Greek Government to Brussels, and
- Discrepancy of the labor productivity indicator as to profits per head of the population.

Figure 1: Dynamics of growth of debt obligations of Greece and Eurozone Countries for 2000-2014 (EUROSTAT, 2015)

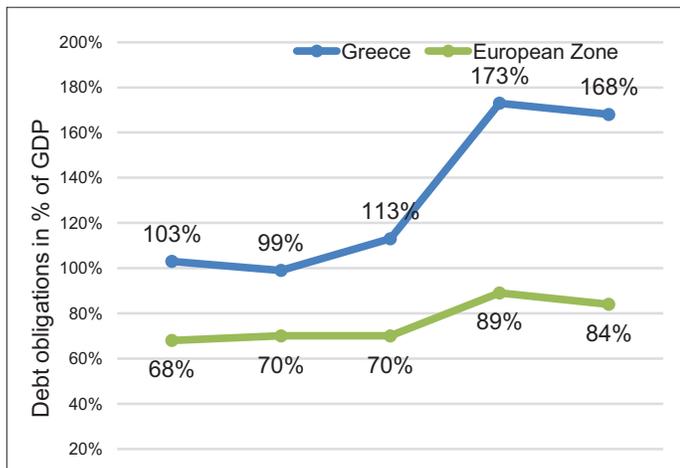
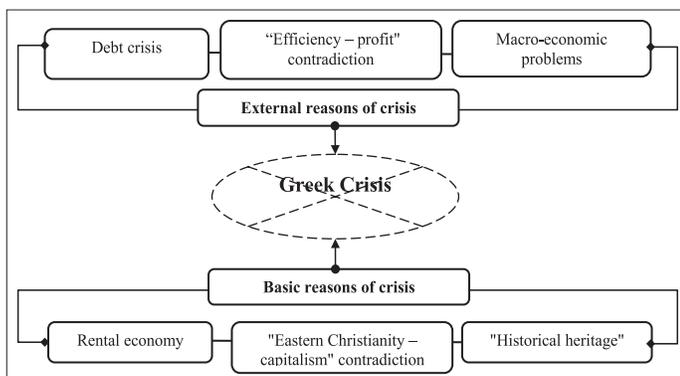


Figure 2: Two-level structure of reasons of occurrence and expansion of Greek crisis



Besides, this category also includes the reason related to the non-compliance of the level of the Greek economy efficiency (rather low) and profits of Greek citizens (relatively high).

In our opinion, one of the basic internal reasons of the Greek crisis is still a rental type of the Greek economy and simultaneous political and economic union with the West-European logics of functioning. The West-European logics of state functioning considerably differs from the logics of the Greek elite in spite of the fact that to a large extent the Western civilization is based on the principles that were founded in the Ancient Greece. In many respects philosophy of the Western world has begun in Greece.

If we analyze the impact of non-economic factors on the Greek crisis more fundamentally, unlike the ancient Greece, philosophy was not actually singled out from religion and mythology in the East. Thus, in India and China the transfer from mythology to philosophy took place on the basis of the strongly formed and extremely rooted ritual. As a result, the Greek rationalism was a basis of the European practicalism. This is a reason of taking various solutions that are illogical at the first sight; for example, keeping Greece within the EU at whatever the cost. The reason behind is not merely economic estimation but also culturological one.

Taking into account the stated above, it is possible to make the conclusion that the rental economy of Greece is not based on oil like in the Saudi Arabia. However, the Greek economy is based on the tourism industry. As for Greek cultural and historical heritage, it is necessary to specify that a sort of a brand of the Ancient Greece has been formed. At the same time it is the main basis for the development of the tourism industry (Khodov, 2006; Sotiropoulos, 2014). The impact of caves and geo-ecological environment as well as marble on the formation of the Greek culture was principle among fundamental reasons of the ancient Greece becoming a center of the Western culture birth. Great achievements of the ancient Greece in arts were undoubtedly caused by the creation of the ideology related to focusing on innovations in any area of activity in it (Hirooka, 2006; Metcalfe, 1995). Unfortunately, at this moment the rental economy of Greece is based not on innovations that could become one of the locomotives for the formation of a new economic model of Greece.

If we analyze the tourism industry that is the locomotive area providing the development of the whole national economy of Greece in more details, it is possible to note that the majority of tourists arriving to the country include citizens of Germany. They are rather saving in relation to expenses on the territory of Greece. Their vacations are not long, and they fly basically by using services of their own air companies that offer the opportunity to get to Greek resorts for several dozens of Euro. Therefore, it is possible to say that financial profits from functioning and development of the tourism industry in Greece are not maximized.

However, tourism, hotel business and transportation are still a perspective for the current development of Greece, its full transformation of the whole social and economic system (Nedelea and Paun, 2009). At the present time the country does not have

serious investors who are ready to finance the becoming and development of tourism, hotel business and transportation in Greece on the qualitatively new level. That is why to a definite extent the crisis is also deepened by non-availability of investment internal resources. Under the conditions of crisis the investment attractiveness of Greece has considerably decreased for external investors. However, to our mind, the crisis in Greece is not a reason to refuse from investing in its tourism, hotel business, and transportation infrastructure.

It is interesting that the top-priority geo-political decision on Greek entering the European Economic Union has been taken not only under historical “pressure” but also from the standpoint of the profitability of the West itself. It is necessary to specify the USA as one of the tutors of the Western course of Greece at once after the Second World War. The USA made a lot of both overseas and economic efforts. Even the “Prometheus” plan related to the dismantlement of democratic freedoms presented by the military junta in Greece did not cause the stigma of Western democracies from Greece but only slowed down the drift of Greece in the Western vector. At the same time defending the place of Greece in the EU by Western states can be explained by the bicycle theory of the EU offered by Hallstein. It considers the European integration as an endless process and does not provide the interruption of this process or its reversal for considerations related to the tactic course of events. According to this theory the economic rescue of Greece is only an insufficient part of the Europe-wide integration policy (Sotiropoulos, 2014; Matsaganis, 2013). Although this theory does not cover the withdrawal of Greenland from the European Economic Community in 1985, and ceasing of the process of integration of Iceland, Switzerland and Norway in the EU.

Besides, this theory also comes into a conflict with the theory of optimal currency zones developed by Mandell (who in 1999 received the Prize of the Sveriges Riksbank in Economic Sciences in Memory of Alfred Nobel) (Butorina, 2012). According to this theory, the introduction of the unified currency in the countries that are so different in terms of their social and economic development put the conceptual controversy that could be postponed in time only by the effect from introducing the unified currency (economy in time and avoiding exchanges from different national currencies), as well as relatively favorable financial state of the world economy. As the theories of Hallstein and Mandell are not compliant, although each of them explains aspects of functioning of the EU, it is necessary to note the initial dualistic conceptual basis that can lead, during historical challenges, to the obvious overbalance of the inconsistencies in the EU and entirely destroy its basis of financial and economic stability (Schinasi, 2014; Adrian et al., 2013).

It is also necessary to note that except challenges (problems) the economic crisis in Greece can also have opportunities both for the global economy and separate regional economies. The basic perspective that the global economy gets due to the Greek crisis is the development of the scientific thought in the area of theoretical characteristics of the reasons of the Greek crisis in the area of economy, policy and state management, and sociology. It is abundantly clear that the reason of this crisis does not lie exclusively in the economic area.

The basic challenge for the EU is in the fact that the Greek crisis has not so much financial as structural threat. As a matter of fact, this is the crisis of the whole system of European institutes, and in order to correct the situation it is not enough to merely comply with the measures of economy and conduct careful policy of state expenditures. The whole course of the European integration over the latest 20 years, starting from the Maastricht Treaties, and the policy of the EU expansion to the east are challenged. When economic problems occur, independent national currency can be depreciated to improve the national trade balance. However, the price of the Greek bankruptcy is not only “the health” of European financial institutes. The Greek default challenged the success of the EU as a large-scale currency and macroeconomic project (Matsaganis, 2013).

Specialists say that the main reason of the Greek crisis is the discrepancy between the centralized monetary and credit policy and the decentralized economic policy (Woods, 2013). In order to prevent this state of affairs, the EU had developed the treaty of stability and growth that was based on a number of criteria. It is reasonable to single out the following basic criteria: The maximum share of the external debt of not more than 60% of the country GDP and the maximum share of the budgetary deficit of not more than 3%.

In addition, it is necessary to note that territorially and geographically Greece is considerably to be remote from the economic, industrial, and scientific center of Europe. Particularly, if one draws a circle with the radius of 300 km on the map of Europe, with its center in Strasbourg, it will happen that about 2/3 industrial capacities of the EU, about 70% of the bank capital, and about 80% of research centers are focused here. Greece is located far from this circle. Half of the Greek ships are registered in Cyprus, and it does not allow vessels to enter Turkish harbors (Nelson et al., 2015).

The economic crisis in Greece also appears in social and economic indicators. It is reflected on the level and quality of the life of population. Over the recent years in Greece the level of unemployment, and first of all among young people has increased, and national sentiments adjoined to xenophobia have increased. These processes result in the countrywide demonstrations of the Greek population against migration, because migrants are perceived not only as bearers of strange cultural and national traditions that contradict to the Greek mentality but also as candidates for workplaces meant for indigenous population.

The social aspect of the crisis is also based on the fact that in spite of the overtaking nature of the development, the lack of the normalized governmental and political institutes, general technological arrearage, Greece uses the model of the state with excess social functions (Sotiropoulos, 2014; Matsaganis, 2013; Dudin et al., 2014). While before the global financial and economic crisis of 2008-2010 Greece could provide its citizens with a rather high level of life on the background of low productive rental economy, by the present time the resources and reserves to provide excess state obligations of social nature have already been exhausted.

In its turn it has led to the necessity to conduct a number of social reforms in pension coverage, education, and public health service. It is possible that the positive effect from them will be observed in the long-term perspective. The current overestimated expectations of the results from these reports only worsen the general economic and sociopolitical situation in the country.

5. CONCLUSIONS

The contemporary global economy is developed in the epoch of globalization. This process is historical. It has been continuing for decades. Its nature can be spontaneous or entirely chaotic because it has not been planned and is not managed. The analytical approach to studying the problem allows to make the conclusion that the Greek syndrome is to a larger extent political and not economic challenge. There are no doubts that the reasons behind the crisis lie in the self-indulgence, avoiding taxes, inadequate fiscal system, and too mild financial policy. However, Greece, unlike many European countries - France, Great Britain, Italy, Spain and Poland, has already got initial budgetary profit. The latter means that without taking into account servicing the state debt, the social purse gets more funds than spends. The Greek crisis is simultaneously European. This is an excellent example of how difficult it is to solve economic problems under conditions of democracy that is outside the framework of the national state and its boundaries.

It is possible to naturally consider that economic, political, social instability and technological arrearage of Greece are above all the problems of its government and population, but not the EU or the IMF. The debt crisis in Greece has “superficial” reasons related to the non-compliance of the labor efficiency and citizens’ level of profits because if to compare the debt load of Britain, Ireland, and Luxemburg with GDP or the level of the gold and currency reserves, the Greek situation does not seem so dramatic.

However, it is also worth mentioning that Greece relinquished a part of its sovereignty when it entered the EU. It imposes specific obligations on the union, and undertaking additional debt obligations by Greece were largely based on striving for complying with the criteria developed in Brussels.

The main challenge for the global economy and separate regional economies in the Greek crisis may be not only the economic component, including the loss of the potential economic and geo-economic profit. Most likely, this is the transformation of the Greek society to overcome this crisis and “full” inflow in the European family that basically consists of protestant and catholic nations. In its turn, it deforms cultural basics that provide not only external economic but also external social and political relations.

On the one hand, Greece is a rather important state on the European continent. However, at the same time it is necessary to understand that its ability to influence economic process of the global level is not high enough. That is why in terms of economy such possible phenomena like withdrawal of Greece from the EU, full refusal to fulfill external obligations will certainly have negative impact on the global, economic and social processes. However, the biggest

challenge for the global economy in relation to the development of the Greek crisis may include the unpredictability of the situation development, and subsequent possible collapse of the economy of the EU. The relation of Greece with the leading and developing world regions lies not only in tourists’ trips to Greece or in infrastructural projects, but also in the cultural area. Very often this is more important than a temporary profit in terms of history.

Thus, concluding this research, it is necessary to note that the crisis in Greece has and will have definite subsequences for the global economy (destabilization, structural reconstruction, reforming of external economic and internal political relations, etc.) expressed to a different extent. In order to resolve the problems related to the Greek crisis as well as to resolve the problems of the crisis of the European countries that are analogous to Greece, it is necessary to firstly understand that the crisis is always a system phenomenon stipulated by a number of factors.

Secondly, there is a need in large-scale reforms not only of economic but even more political and social nature. Political reforms are required to decrease the level of corruption and normalize governmental institutions, create clear and functional model of the state management. Social reforms are required to refuse from superfluous obligations, whose financing leads to an increase in the debt load, and consequently forms sources of possible future crises.

Thirdly, there is a need in the well thought research and technical and innovational policy of the development of Greece. The use of the rental economy model that exploits only natural and recreational potential of the country will go on decreasing the stability of the economic development and affecting social and political processes.

This article is an aggregated summary of the key problems that contributed to the formation of the crisis tendencies and expansion of the crisis in Greece. This work did not consider in details specific possible solutions in the social, political, economic, and technological area that would allow to overcome the key problems and to start the country recovery as quickly as possible. These aspects will be considered in more details in next works related to this theme.

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