

GREEK ECONOMY: 1950 - 2014: HOW DID GREECE GET INTO THE PRESENT ECONOMIC CRISIS: INVESTMENTS AND EXPORTS ARE THE WAY OUT

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SUMMARY

Up until the 1970s, Greece was a paradigm of a vigorous economy: Growth rates were high (5-8%), borrowing was low (less than 20% of the Gross Domestic Product - GDP), government budgets run either at a surplus or at small deficit. Even when the international economy experienced a recession in the 1970s on account of the oil crisis, the Greek economy continued to grow (with the exception of 1974, a year marked by political instability and the Turkish invasion of Cyprus). It was by and large for these high growth rates that Greece was accepted in the European Economic Union.

In the 1980s an imprudent fiscal policy mix (involving higher pensions, higher salaries to civil servants, early retirements, overcrowding the civil service and loss-making state-owned enterprises through new hires, etc.) produced large deficits which, in turn, led to increased borrowing (reaching 120% of the GDP by the mid-1990s) as the economy's growth rate slowed down. Between 1995 and 2007, attempts were made to reverse the situation. The relative improvement in a number of areas and economic indicators allowed Greece to enter the Eurozone in 2002. However, to the extent that growth depended almost exclusively on consumption (over 90%), the situation was not sustainable. The advent of the international financial and economic crises in 2008-09 led things to a head: consumption plummeted, incomes (output) and state revenues followed, deficit borrowing rose, and the debt-to-GDP ratio escalated.

The rest of the story is pretty much known. As the country's creditworthiness declined it became harder and to obtain the funds needed. So Greece turned to its lenders of last resort, the International Monetary Fund (IMF), the European Union (EU) and the European Central Bank (ECB), frequently referred to as the troika. To secure the bailout package, Greece had to guarantee (via a memorandum of understanding) to become again a reliable borrower. That is, to gradually bring the deficit down and return to surplus, for it is only then that borrowing will stop. So, harsh steps were taken, steps that any technocrat would recommend. They involved wage and pension cuts, which, in turn, adversely affected consumption, making the recession inevitable. To recap: Our consumption-based economy was not viable. While fueling growth for a long time, it also fed the deficit. Now that borrowing is cut, for no one lends us money just to spend it on consumption, consumption is shrinking, so GDP is shrinking too. Consequently, we are faced with a recession.

It is a problem with a straightforward solution: Increase exports and investments. Both are GDP components. Investments in particular, beyond positively affecting exports, may also stimulate viable consumption (which lately relied on borrowing). The combined effect ought to bring us back to a sustainable growth path. Back in the 1970s, when we had a vigorous economy, investments were more than half of consumption; in 2009 a mere one sixth of it.

In this paper we will demonstrate the beneficial impact of these two variables, exports and investments, on the economy, and present alternative scenarios regarding the evolution of these factors and their impact on the GDP.