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Is a Grexit—A Greek Exit from the Eurozone—the Solution?

Ruby Devine*

“Greece is in its own Great Depression. But unlike the United States, it won’t be able to get back on its feet as quickly[.]”¹ For over five years now, Greece has been doddering on the edge of disaster. Receiving its third bailout in five years, Greece is now faced with the task of implementing strict austerity controls that the Greek people have unequivocally rejected. If Greece were to default, one consequence is a Grexit, a Greek exit from the European Union, which many fear would compromise the delicate European system.² On August 20, 2015, Greece narrowly avoided default on its loan to the European Central Bank (ECB), and made a crucial payment to its creditors after receiving new aid from other Eurozone countries.³ Unfortunately, most of the new 86 billion euro (approximately 96 billion dollars) package will largely be used to repay the already existing crippling debt, rather than assist in rebuilding the struggling Greek economy.⁴ Additionally, austerity measures the bailout package required are exactly what current Prime Minister Alexis Tsipras of the left-wing Syriza party had promised to get rid of as part of his platform earlier this year. The conditional deal has already hit rough waters, as creditors have delayed the second installment of two bil-

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1. Jacob Funkirkegaard, an economist at the Peterson Institute for International Economics in Washington. Liz Alderman, et al., *Is Greece Worse Off Than The U.S. During the Great Depression?*, N.Y. TIMES (Jul. 9, 2015), <http://www.nytimes.com/interactive/2015/07/09/business/international/is-greece-worse-off-than-the-us-during-the-great-depression.html>
 2. Tom DiChristopher, *Father of Grexit: ‘Diaster’ for euro zone if Greece Leaves*, CNBC (Jun. 25, 2015, 11:48 AM), <http://www.cnbc.com/2015/06/25/father-of-grexit-disaster-for-euro-zone-if-greece-leaves.html>
 3. *Greece’s Debt Crisis Explained*, N.Y. TIMES, Nov. 9, 2015, http://www.nytimes.com/interactive/2015/bdusiness/international/greece-debt-crisis-euro.html?_r=0
 4. Jon Henley, *Greek Bailout: Alexis Tsipras steps down to trigger new elections*, THE GUARDIAN (Aug. 20, 2015), <http://www.theguardian.com/world/2015/aug/20/greek-bailout-alexis-tsipras-call-snap-elections>

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lion euros.⁵ If Greece continues to fail to meet its targets, this can have negative implications down the line.⁶

Background

The euro was introduced in 1999, binding nineteen of the twenty-eight countries in the European Union (EU) to one currency that is overseen by the ECB.⁷ Such matters as tax and budget policy questions are left to the governments of each country obligated only to its voters and taxpayers.⁸ Some economists argue that the Eurozone's lack of a more federal-style method of transferring money among its members (similar to the United States federal government and the requisite states) is part of a larger issue in the EU.⁹

So how did Greece get itself in such a mess? Following the global financial markets crisis of 2008, Greece announced in October of the same year that it had been understating its deficit for years, leading to uncertainty in the soundness of Greek finances.¹⁰ This prevented Greece from borrowing in the financial markets, and by the spring of 2010, Greece was almost bankrupt. In an effort to subvert another financial crisis, the International Monetary Fund (IMF), the ECB, and the European Commission—Greece's three largest lenders—issued the first of two international bailouts for Greece, totaling almost 240 billion euros or \$264 billion at current exchange rates.¹¹ Despite now having received three bailouts, Greece still has not been able to stabilize. The Greek economy has shrunk by a quarter in the last five years, and its unemployment rate is over 25%.¹² Most staggering of

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5. Niki Kitsantonis, *Creditors Withhold 2 Billion Euro Bailout From Greece*, N. Y. TIMES (Nov. 9, 2015), <http://www.nytimes.com/2015/11/10/business/international/greece-bailout-eurozone.html?mtrref=query.nytimes.com>
 6. *Id.*
 7. *Greece's Debt Crisis Explained*, *supra* note 3.
 8. *Id.*
 9. *Id.*
 10. *Id.*
 11. *Id.*
 12. *Id.*

all is that Greek debt exceeds 180% of its Gross Domestic Product (GDP).¹³

There are many who blame the imposed austerity measures for the country's persisting plight. This is how the leftist Syriza party rose to power this year, with the promise to negotiate the debt and eliminate austerity measures. For example, if strict limits are placed on how much money can be withdrawn from banks, people will inevitably buy fewer expensive items. According to the Hellenic Statistical Authority, the number of cars and motorbikes sold in July 2015 decreased 24% and 39% respectively compared to the same month in 2014.¹⁴ However, these same capital controls are important measures to stop euros from flowing out of Greek banks to oversea banks or to be hoarded by worried Greeks. On the other hand, the country's frustrated creditors blame the Greek government in failing to deliver the economic overhauls as promised under the bailout agreements.¹⁵

To Bailout (with Austerity) or Grexit?

During the height of the debt crisis a few years ago, many experts worried that a Grexit would be a disaster.¹⁶ This notion is focused on the damage it would cause to the European integration process; economist Willem Buiter¹⁷ pointed out that a Grexit "would be the first time since 1951 that a treaty-based integration process" is reversed.¹⁸ A default on Greece's part could be bad for indebted peripheral economies, creating a "who's next" mentality.¹⁹ But now there are proponents that argue it would not be so terrible for the global economy, as Europe has now put in safeguards in order to minimize the effects on other countries on the EU currency.²⁰ An exit would allow for Greece to regain financial autonomy and the EU would be better off without a country always requiring assistance. But many European political leaders see a united Europe as a necessi-

13. Helena Smith, *New Alexis Tsipras-leg Greek Government takes power*, THE GUARDIAN (Sept. 23, 2015), <http://www.theguardian.com/world/2015/sep/23/new-alexis-tsipras-led-greek-government-takes-power>

14. *Greece's Debt Crisis Explained*, *supra* note 3.

15. *Id.*

16. DiChristopher, *supra* note 2.

17. Mr. Buiter is responsible for coining the phrase "grexit." DiChristopher, *supra* note 2.

18. DiChristopher, *supra* note 2.

19. *Id.*

20. *Greece's Debt Crisis Explained*, *supra* note 3.

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ty. It is especially pertinent to note here that the Eurozone has no exit strategy, forced or voluntary, for members to leave. Therefore, an exit from the euro currency as well as the EU would involve navigating a legal quagmire that no country has yet to venture.²¹

Is Recapitalization the Answer?

Reuters columnist Hugo Dixon calls Greece's banks the country's "Achilles Heel."²² Dixon argues that a direct recapitalization by the Eurozone bailout fund, the European Stability Mechanism (ESM),²³ would sever the link between the government and the country's leaders.²⁴ This would allow Greek banks to be recapitalized, while Greece's government would not have an additional 25 billion euros in loans.²⁵ Not to mention, this would remove the government from any management of the banks, as well as cut back on austerity measures. Greece has a strong case for the ESM, which was designed as a last resort option for failing banks in a country unable to resolve the problem on its own.²⁶

The Greek Citizens have Spoken

Although ECB saved Greece by loaning it additional money to make its important payments to creditors on August 20th, many Greeks are not happy with this so-called saving grace. Now the party is split, with twenty-five Syriza lawmakers announcing the formation of a new party, Popular Unity, which intends to remain loyal to their pre-election promises.²⁷ Critics wish to do away with the bailout alto-

21. *Greece's Debt Crisis Explained*, *supra* note 3.

22. Hugo Dixon, *How to Fix Greece's Banks*, REUTERS (Aug. 10, 2015), <http://blogs.reuters.com/hugo-dixon/2015/08/10/how-to-fix-greeces-banks/>

23. The European Stability Mechanism is a fund set up as a crisis resolution mechanism for countries of the euro area. EUROPEAN STABILITY MECHANISM, <http://www.esm.europa.eu/> (last visited Nov. 20, 2015).

24. Dixon, *supra* note 22.

25. Dixon, *supra* note 22.

26. *Euro zone countries agree direct bank recapitalization framework*, REUTER (Jun. 11, 2014), <http://www.reuters.com/article/2014/06/11/us-eurozone-banks-recapitalisation-idUSKBN0EM11M20140611>

27. *What Alexis Tsipras's Announcement Means for Greece*, N.Y. TIMES (Aug. 21, 2015), <http://www.nytimes.com/2015/08/22/world/europe/what-alexis-tsipras-announcement-means-for-greece.html?action=click&contentCollection=Europe&module=RelatedCoverage®ion=Marginalia&pgtype=article>

gether, arguing that the budget savings and reforms Mr. Tsipras agreed to for the bailout are exactly what they had sought to eradicate when they came to power with Syriza in January.²⁸ Specifically, in exchange for the eighty-six billion euro bailout package, Mr. Tsipras agreed to put in place strict spending limits, new tax increases, and changes in the way Greece handles its economy.²⁹ Due to the internal dissent over the new bailout package, Mr. Tsipras took a gamble by stepping down in order to regain power with a new government, knowing that there would not be a strong enough opposing party to takeover.³⁰ This move has been characterized as Mr. Tsipras consolidating his power and solidifying the new bailout plan by having the citizens decide whether or not to re-mandate the Syriza party.³¹ Such political uncertainty also takes its toll on markets; this is the fifth national election in six years, and the third time this year alone that Greeks voted.³²

However, this bailout money could benefit the Greek economy in the short term by alleviating fears that the country would default on its debt and be kicked out of the Eurozone. Investors will be less likely to risk money on a Greece that will no longer be a member of the euro currency.³³ Additionally, Greek citizens who in fear pulled their money out of banks may be comfortable to re-deposit cash again. There are some tentative signs of pressure easing on Greek banks. For example, the Bank of Greece, the country's central bank, requested less emergency funding because the lenders no longer require as much.³⁴

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28. *Greece Sees Lighter Recession Despite Recent Crisis*, ASSOCIATED PRESS (Nov. 20, 2015, 9:38 AM), http://hosted.ap.org/dynamic/stories/E/EU_GREECE_BAILOUT?SITE=AP&SECTION=HOME&TEMPLATE=DEFAULT&CTIME=2015-08-14-03-43-54
29. *What Alexis Tsipras's Announcement Means for Greece*, *supra* note 27.
30. Greece's constitutional laws are complicated, and allow for referendum votes if a opposing party can be formed and take over the parliament. *Greece Sees Lighter Recession Despite Recent Crisis*, *supra* note 28.
31. *Greece's Debt Crisis Explained*, *supra* note 3
32. *Greece Sees Lighter Recession Despite Recent Crisis*, *supra* note 28.
33. Jack Ewing, *Greece Makes Payment to European Central Bank Avoiding Default*, N.Y. TIMES (Aug. 20, 2015), http://www.nytimes.com/2015/08/21/business/international/greece-bailout-debt.html?_r=0
34. *Id.*

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Long Road ahead for Greece

Despite the bailout going through, Greece still has an arduous journey ahead to make good on all the promises it has made. The Greek government's priority is "kick-starting" the "recession-plagued" economy that was harshly affected by the summer of 2015 closure of banks and capital controls.³⁵ The focus will be on improving the business landscape for small and medium companies, which they deem the "lifeblood of the Greek economy."³⁶ Unfortunately, addressing their domestic problems may be stalled if Greece is unable to pass the measures required under the conditional deal.

Greek lawmakers recently approved legislation enacting some of the economic reforms requested by the country's international creditors.³⁷ These reforms include raising the retirement age, cutting pensions, liberalizing the energy market, opening up cosseted professions, expanding a property tax that Greeks already oppose and pushing forward a stalled program to privatize state assets.³⁸ Approving these reforms allowed Greece to receive the first bailout installment, however, its creditors were only temporarily content, because as mentioned earlier, their second installment has been stalled. Each delay is crucial as it could have a snowball effect and disrupt the future schedule, including discussions on whether Greece will receive any debt relief.³⁹ Additionally, another ten billion euro in bailout money is being withheld that would refill Greece's cash-poor banks.⁴⁰ So far, Greek officials have not released details over the deadlock in negotiations, but at least one issue is how much protection against foreclosure to give Greece's indebted holders of home mortgages.⁴¹

Notwithstanding austerity measures, a united European Union, including Greece, is essential. A single currency in Europe allows for the free exchange of money in a region consisting a several smaller states. Creating a single, stable currency among many nations is clearly not an easy feat, and over time the member states have learned that closer economic and monetary cooperation was neces-

35. Smith, *supra* note 13.

36. *Id.*

37. *Greece's Debt Crisis Explained*, *supra* note 3

38. *Id.*

39. *Id.*

40. *Id.*

41. *Id.*

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sary for the market to grow and thrive together.⁴² Economist Vicky Pryce believes this is not the end of bailouts for Greece, and that a fourth will be required to restructure Greece's debt.⁴³ For now, a bailout seems the lesser of two hard choices for Greece, Europe, and the global economy.

42. *The euro*, THE EUROPEAN COMM'N,
http://ec.europa.eu/economy_finance/euro/index_en.htm (last visited Nov. 20, 2015).

43. Smith, *supra* note 13.

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