GREECE IN EYE OF CURRENCY CYCLONE THREATENING EUROPE (5/9)

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The Greek crisis has yet again been in the spotlight as the epicenter of concerns in Europe and world wide [about the euro-debt crisis]. An unscheduled eurozone countries' finance ministers meeting sparked absurd rumors to the effect that Greece was about to withdraw from the euro.

The panic that ensued confirms what we already know: a Greek exit from the eurozone is not a solution. It is technically and legally impossible to implement in any timeframe shorter than two or three years and it would need unanimous approval by eurozone member states. It would drag Greece into a spiral further damaging its political, economic and social situation. As eurozone chairman Jean-Claude Juncker says, the idea is "stupid."

But a stark reality has emerged with new estimates showing that Greece will need an additional 40 billion euros on top of the 110 billion euros of assistance already in the works. A solution can only be achieved through an injection of capital by the European Financial Stability Fund or other EU sources of financial assistance. This 150-billion-euro amount represents roughly half the Greek debt before the crisis. It is an exorbitant amount.

So, any return by Greece to the three percent ratio of budget deficit to GNP will have to be postponed from its present target date of 2014 to 2016.
Even then, there are no clear solutions for the issue since the yields on Greek debt seem bound to disaster. Facing 25% interest rates on two-year bonds and 15% for ten-year bonds, Greece will not, as was originally planned, return to the international bond market to finance next year's budget. In practice, the country cannot find funding anywhere else but from European assistance funds.

It is understandable that the European Central Bank is opposed to a restructuring of Greek debt. There is something deeply immoral about starting down a path that will, unavoidably, lead to a cut in Greece's debt – in effect, giving Athens a gift whose cost will fall on the shoulders of the ECB, and commercial European banks and insurance companies.

The only way to approach a restructuring therefore involves tying it to even more drastic reforms: these should be aimed at a radical overhaul of the Greek public sector – both civilian and military. The country has a bloated public sector. It would be absurd to perpetuate such an economy that lacks the crucial component of a strong private sector. The Germans are particularly frustrated by the slow privatization of state assets. They are right. This privatization is essential to reduce debt. There is no reason for Europe to fund the Greek public sector.

In addition, there is another issue that no one seems to talk about: tax evasion. Remember the reports that there are only 8,000 pools in Athens that are being taxed – while overhead photography shows 100,000 pools in the city? Greece has an extremely wealthy ruling class that pays only a fraction of its taxes. Greek companies pay almost no taxes. Of course, there are other countries where this is true, but when the EU's tax-payers are asked to dig into their pockets to help a country, that country's citizens should meet their civic obligations. Europe cannot continue to support a country that wealthy Greek citizens do not support.

The [drastic reforms] that should be imposed on Greece could make it possible for the country to see light at the end of the tunnel. It is only in this context that it makes sense to envisage "sharing" the burden of Greece's debt with the holders of Greek bonds. It is an indispensable prerequisite for the unavoidable restructuring that has been put off for too long.

Greece is at the eye of a cyclone that is gaining strength every day. Europe cannot provide a blank check to fund this country.