Greece Tempts the Fates

Simon Shuster / Athens @shustry July 9, 2015

After rejecting a new bailout, Greeks find themselves on the brink of an economic disaster

Greeks celebrate voters' rejection of an aid-for-cuts deal in Athens' Syntagma Square on July 5.
Emilio Morenatti—AP

For a few hours on July 5, after a majority of Greek voters had rejected a bailout meant to save their economy, thousands of people celebrated in the streets of Athens as if they had just won a great victory rather than spurned a financial lifeline.

In the city's central Syntagma Square, Greeks set off fireworks and passed around bottles of ouzo and whiskey while vendors hawked souvlaki and blue-and-white-striped flags. Some of the revelers acknowledged the weirdness of the celebrations. "It's like dancing at your own funeral," said Christos Konstantinidis, an unemployed teacher. After years of belt-tightening and recession, the Greeks had just voted to stick it to their creditors, especially Germany, and forget about the fact that the Greek government owes those creditors more than $300 billion. "Honestly, I don't care," said Prodromos Knoring, who was among the 61% of Greeks to vote no on the bailout. "We've had enough."

But if a primal scream felt cathartic on July 5, Greeks woke up the following day to a more painful reality. Their wobbly banks had almost no money left; their government had all but defaulted on its debt; their political leaders had few friends in power around the continent; and their nation was precipitously close to giving up the euro as its currency, a step toward more chronic shortages of imported medications, machinery and fuel.

The impact of the referendum was not felt by Greeks alone. Global markets shuddered, and Europe's leaders found themselves in a no-win situation: they could either cut Greece some slack on its vast debts and thereby weaken the rules-bound fabric of the currency union, or they could stand firm and watch the first exit from the euro zone by a member country, proof that the whole project of uniting Europe in an economic and political bloc simply has not worked very well. For the architects of a united Europe, who were driven in part by their desire to prevent a third great European war, the departure of Greece from the euro zone and possibly even from the E.U. would represent a desperate collective failure.

But the immediate failure is Greece's alone. Its old habits of mass consumption and government waste have helped spawn lines at soup kitchens and unemployment offices around Athens' Omonia

Square, the once bustling district for shoppers and tourists that has recently descended into depression and urban decay. Newer lines that formed outside the city's banks at the end of June, when people rushed to withdraw their savings before ATMs ran out of cash, were a painful reminder to locals of the deep hole that successive Greek governments have dug for their citizens.

Five years ago, the sight of healthy, working-age Greeks begging in the Athens subway would have been shocking. Now it is part of the daily commute for those lucky enough to still have a job. All this strain on society has already brought back the ghosts of a violent political past in a nation that emerged only two generations ago from a military dictatorship. In the annual press-freedom index compiled by the watchdog Reporters Without Borders, Greece has dropped 50 slots since the crisis started in 2009. Ominously, prosecutors in Athens have opened an investigation of how local media covered the referendum. If Greece drops the euro, the value of savings would likely get wiped out by hyperinflation. Any ensuing social turmoil could become an excuse for the government to curtail political freedoms. With all that, no wonder 81% of Greeks still want to remain in the euro zone.

Greece's new government, led by the 40-year-old firebrand Alexis Tsipras, has promised not to let them down. "Greece wants to stay in," says Rania Antonopoulos, the Deputy Minister of Labor in charge of combatting unemployment. "But we cannot accept conditions that would bring about even more recession." Instead, Greece wants to try kick-starting its economy through massive amounts of government spending, which is mostly what got it into this mess in the first place. And that would mean persuading rich countries like Germany and the Netherlands to extend loans and grants to Greece without its enacting all of the cost-saving reforms those countries insist on seeing first. Even after the vote, when the Greek leader went to Brussels to cut a new deal, both sides were talking past–way past–each other. Exhausted European leaders drew up contingency plans for Greece crashing out of the euro, while the Greek delegates arrived without a new proposal, smiled for the cameras and said they were confident of reaching an agreement. Any deal, if it comes, would be only a short-term fix. In the long run, Europe's leaders will have to find solutions to the deeper flaws built into their political and currency union.

If that seems daunting, it is partly because the breach has been decades in the making. In the early 1990s, when Stefanos Manos served as Greece's Finance Minister and Minister of National Economy, he was among the first to see that the country was borrowing and spending fortunes that it could never repay. Other developed countries were also taking on huge loans to fuel an economic boom. "The U.S. was using some of that money to produce stuff, to innovate," says Manos. But "in Greece we produce practically nothing, and we were taking on massive debts just to live lavishly."

Armed with borrowed fortunes, a series of governments began hiring public employees by the hundreds of thousands and plying them with perks. Bonuses were handed out for arriving at work on time and knowing how to use a computer. Forestry workers got bonuses for the hardship of having to work outdoors. Each state employee got a yearly bonus worth two monthly paychecks, regardless of performance.

Greece's government, meanwhile, was as uninterested in collecting taxes as Greek citizens were in paying them. Greeks chronically underreported their earnings, and in the rare cases when they would get caught, an envelope of cash to the tax man would usually be enough to avoid punishment. Tryfon Alexiadis, deputy head of the Greek tax collectors' union, says the wealthiest citizens and the biggest companies were "untouchable" in Greece, because they could always put in a call to the Finance Ministry and ask for a break. Whenever election season came around, tax collectors were also told to take it easy on everyone else. "There was this unwritten rule not to have audits during elections," Alexiadis says. "People don't like it."

The political goal of all this, says Manos, "was to keep armies of supporters relying on the system." The state-run airline would hand out free tickets to voters before an election. The cost of running the state-run railway company became so high that Manos calculated that it would have been cheaper

for the state to hire a taxi for every rail passenger. Manos says the lavish spending was part of the political credo of the times: Do not alienate voters by cutting benefits and salaries when Greece could just borrow more money to pay for more of both.

The arrival of the euro made it even easier to defend this logic. In 2001, Germany, France and nine other members of the E.U. allowed Greece to drop the drachma and instead share the benefits of a common currency. That made it even cheaper for Greece to borrow money.

Only in 2008, when the financial crisis dried up credit and European banks started to scrutinize clients more closely, did foreign creditors start to check whether Greece could afford its plush lifestyle or pay back any of its loans. Sure enough, the new government found a gigantic hole in its books when it took office the following year. Its predecessors had been misreporting a budget deficit of less than 4%, roughly in line with the European average. In fact, Greece was running a deficit of more than 14%, by far the highest in Europe. Subsequent audits discovered that the Greek government had for years been using faulty accounting to hide the extent of its profligacy. “As a country we basically lost our job at the same time as all of our credit cards were maxed out,” says Nikos Kontodimos, an accountant in Athens.

For countries that have their own currency, the typical response would be to print money to stimulate the economy. But by adopting the euro, Greece had ceded the right to print money to the European Central Bank, which was now forced to offer Greece a series of bailouts. Along with the International Monetary Fund and the E.U., the Central Bank provided emergency loans to prevent Greece from falling into bankruptcy in 2010 and to keep Greek banks from running out of cash and collapsing the following year. But the rescue from these institutions, which are collectively known as the troika, came with strict conditions: the Greek government would have to slash spending, raise taxes and impose massive layoffs in the public sector.

The creditors expected these measures to shrink the Greek economy by less than 6%. But the actual pain has been far worse. Economic output collapsed by a quarter. More than half of young people joined the ranks of the unemployed. A quarter-million civil servants were fired or voluntarily retired from 2009 to 2013. Nearly half of pensions were cut to below the poverty line. Private-sector wages were cut even deeper, encouraging people to retire early in order to draw a pension. The suicide rate jumped by more than a third.

In January, Greek voters elected the Syriza Party. Tsipras, their new Prime Minister, went straight to the troika and demanded that it forgive Greece’s debt, ease the terms of austerity and help pay for a stimulus program. But not only did the troika refuse to forgive any debt, it also demanded further austerity in exchange for any more assistance. Its offer came with a deadline of June 30, when Greece was due to make a loan payment that it could not afford.

On June 27, Tsipras called a referendum for July 5 that would let voters rule on the troika’s proposal, even though the offer was officially off the table after the expiration of the June 30 deadline. At a massive rally in central Athens on July 3, Tsipras described the vote in terms of national dignity and liberation. “I’m calling upon you to say no to ultimatums,” he told the crowd of thousands. “Turn your backs on those people that terrorize you on a daily basis!” The crowd roared in approval. Two days later, most Greek voters did as their Prime Minister requested and said no to their creditors. The rift between Greeks and their European brethren had never been wider.

Greece’s struggle to hold on to its generous subsidies seems doomed no matter how negotiations go between Tsipras and any European leaders still willing to sit down with him. German Chancellor Angela Merkel refused to budge on demands for austerity after the referendum, though other European leaders showed a willingness to resume negotiations. Tsipras, too, stood firm on his demand for debt relief even as he traveled to Brussels on July 7 to make his case to Europe’s leaders

for a new bailout. But if there is to be a new aid-for-cuts deal for Greece, it is likely to be on harsher, not easier, terms.

The intransigence of the Greek Prime Minister–now operating with the clear support of a majority of Greek voters–has Europe's leaders wondering whether a nation so accustomed to its social safety net can ever modernize. From one vantage point–the waters directly off the port of Piraeus in Athens–it can feel as if global economic forces have already brushed aside Greece's attempts to preserve its old ways. A few days before the referendum, the Greek shipping magnate Nicos Vernicos, a jovial man with the deep tan of a yachting enthusiast, took a reporter out on one of his tugboats to see the port, which is about 2,500 years old, roughly the same age as Greek democracy. Vernicos warned that the trip would offer as much a history lesson as a look into Greece's–and Europe's–future.

In 2009, when the Greek government was desperate for cash, it granted a Chinese firm a 35-year concession to operate two of the port's three shipping terminals, keeping one for itself. Since then the flood of merchandise from Asia has doubled the total volume of goods that goes through the port, even as the cargo handled by the Greek-owned terminal has contracted by about two-thirds. The contrast between these competing operations does not bode well for southern Europe in a globalized world.

The Chinese section of the port is a frenetic hive of activity, with gigantic vessels moored at every dock and rows of freshly painted cranes unloading their containers. Right next door, the Greek terminal is empty except for one ship with a Panamanian flag. One of the reasons for the difference is the wage disparity. The workers on the Greek side get paid an average of $45,000 in salary and benefits per year, says Vernicos, about triple what the Chinese-run terminals pay their local temporary workers, who get none of the benefits or job security Greeks have long taken for granted.

"We are the privileged ones," Vernicos says, glancing over at the tugboat's captain, a chain-smoking old sailor named Charalampos. "But my heart goes out to the young generation." They will never be able to compete in a globalized economy, he says, unless they invest heavily in the sort of innovation, education and intellectual capital that can give them an edge. The cost of credit, however, will make that extremely difficult. And before those investments begin to pay off–assuming they eventually do–the countries of southern Europe will have to cut back on the high wages and generous benefits that previous generations have enjoyed. "We can't afford it anymore," says Vernicos.

Over the past five years, Greece has shown how painful that transition can be, and how fiercely the public defends its social welfare at the ballot box. But the prevailing political and economic forces in Brussels, Berlin and the Chinese-controlled parts of the port of Piraeus will continue to transform Europe and the world.

Taken together, the countries of the euro zone account for 12% of the global economy. Governments around the world use the euro to store their reserves. So even in a moment of unprecedented crisis, the bonds tying Europe's countries together are far stronger than the pressures driving them apart. Dismantling Europe's economic and political union would bring the kind of chaos that global recessions are made of. Even as Europe's internal rifts become more difficult–and much more expensive–to manage, Europeans know they're better off together. With or without Greece.

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