The real solution to the Greek crisis

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The Third Memorandum was signed under the worst conditions for Greece. After the disastrous Varoufakis "negotiation" with the EU, the mortal-risk acrobatics of the referendum, under capital controls, with Greece almost over the brink to the total catastrophe of Grexit, the Tsipras government agreed to most harsh terms. These included very large primary surpluses over 3.5% of GDP draining the economy of cash, reductions in pensions, transfer of public property to the creditors for 99 years, and many other measures that had earlier prompted the Syriza, ANEL, Golden Dawn and other anti-memorandum forces to riot violently and curse the Parliament.

The second evaluation of the Third Memorandum proved to be a disaster for the Greek government goals. The government demanded immediate restructuring of the debt, but instead received a vague postponement and a new discussion in 2018. Greece thought it could benefit from the IMF-EU dispute on whether the Greek debt is sustainable. The IMF forecasted slower growth and therefore proposed a lower surplus and immediate restructuring of the debt. The Syriza government, based on an ideology that prevented it from supporting the IMF, backed the EU which imposed a larger surplus and postponed the debt discussion for 2018.

On the issue of the ECB quantitative easing (QE), Greece did not fare better. Without immediate debt restructuring, the ECB does not see the Greek debt as sustainable, and will not include Greece in QE. Nor will the ECB "support" issuing new Greek bonds, without prior assurance of debt sustainability. Thus, the third government narrative that it would issue new bonds like PM Samaras did in 2014 falls apart. The remaining government narrative is the theory of the "compressed spring" that "because Greece had so many years of recession, it will automatically get to growth." This is an obviously utopian theory, far from economic reality. The bottom line is that multi-month postponement of the evaluation resulted in additional uncertainty, lack of trust of Greece by the EU and the financial markets, and postponement of Greece's exit from the crisis.

The real solution

Instead of the various utopian narratives that are excellent propaganda but result in tragic consequences for the life of Greeks, we need a different government with a radically different economic policy and a different approach. This approach should be based on reality and what is feasible, on honesty, without unrealistic promises. Second, it should underline the certainty that Greece will stay in the euro and the nucleus of Europe. Third, it would see the countries of the Eurozone as friends and partners, building a mutual trust between Greece and the EU. Fourth, it will include a realistic economic policy that would benefit both Greece and the EU creditors, a "win-win" policy where both sides would win, departing from the confrontation position of the present government.

A key point of the new economic policy will be an understanding by both Greece and its creditors that Greece will be unable to pay off its debt if it does not have high growth, based on new investment. This implies that the new government should ask the creditors to agree on small primary surpluses, 2% of GDP for five years. With small surpluses and more money in the economy, Greece can achieve high growth rates and pay off its debt later, after it has exited from the crisis.

To achieve the high growth target, we need the following. First, to reduce bureaucracy and red tape in opening and running business. Second, to reduce taxes. Third to reduce the size of the State, whose heavy weight drags down the Greek economy. Fourth, to cut taxes to zero for three years for new companies. Fifth, if there is surplus, to spend it on public investment and not on the general expenditure of the State.

The fifth requirement is to find a way to bring back to the real economy the money Greeks have stashed away at home, in deposit boxes, and in accounts abroad. For example, a program could be created to "legalize" such cash (most of which is legal anyway) by buying special purpose new Greek bonds that would be issued with guarantees from the ECB, fully negotiable and outside of capital controls. Even a moderate success of such a program, would bring in 20 bil euros, over 10% of GDP. Sixth requirement is to find a way to erase the non-performing loans from the books of the banks, possibly though out-of-court settlements, so that the banks can give loans to healthy companies. Seventh, the State and banks should accept real estate as payment for large tax and bank obligations. Eighth, to finally allow privatizations to proceed and give priority to exports.

Greece has lost a lot from the economic crisis. The most important loss is the loss of trust of Greeks and Europeans to the Greek government. Practically none of the policies outlined above will succeed if Greece does not have a new pro-reform government that would earn through its actions the trust of Greeks and Europeans. Therefore, the first order of business is the creation of a strong pro-reforms government with wide popular support of its reformist policies.

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