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"The Greek crisis"

Abstract

The aim of this work is to analyze the crisis exploded in Greece in December 2009 and still unfolding. It is commonly thought that the origins of the difficulties encountered by the Greek economy are related to the high level of public debt, and that the dramatic growth in the yield of Greek government securities represent a measure of the unsustainability of Greek public debt, reflecting the even higher risk premium demanded by investors. Accordingly, Greece has been requested to adopt very tight fiscal policies in order to receive loans from European institutions and IMF, characterized by interest rates lower than those reached on the financial markets by Greek assets.

The present work will start with the analysis of the theoretical foundations of the different concepts of public debt sustainability used in the literature. In the light of this first stage of our inquiry, we will try to understand whether the current crisis finds its roots in the dimension of the Greek public debt itself or, rather, in some structural aspects of the Greek economy, i.e. circumstances which go beyond the dimension of public debt. Consistently with the latter point of view, a relevant part of the literature on Greek crisis is focused on the ballooning Greece current account deficits. An ever growing external debt (that is both private and public) appears as the objective foundation for the possibility of Greece's exit from Euro and therefore of a devaluation and a fall in the prices of Greek assets.

The ability of the European institutions to contrast this phenomenon lays in their capacity to weaken its objective grounds, namely in their willing to finance government indebtedness as well as the current account deficits by money creation. We will consider the fact that money creation might reduce the value of the euro-denominated wealth in terms of other currencies, damaging a specific group of creditors. It is worth noting that the solution of 'money issuing' has already been undertaken, except for government debt: the Target2 system, operated by the Eurosystem, allows for the full monetization of the intra-eurozone current account imbalances, thus removing any monetary constraint to those transactions.

The same treatment is not applied to governments, since the Eurosystem is forbidden to buy public debt on the primary market, so that eurozone members are forced to negotiate loans on the international financial markets. We will show that the particular structure of the Greek government bond's market, far from allowing a balanced negotiation between the counterparties, made it possible the dramatic upward spiral of interest rates that prevented, *ipso facto*, the access of the Greek Government to the international financial markets. Those obstacles to the usual methods of financing public debt, which are of a purely institutional nature, forced Greece to ask for the support package, which is explicitly conditioned to the adoption of particular economic policies, documented by the joint statements of Greek government, ECB, EC and IMF, whose final outcome will be a sizeable redistribution of income from wages to profits.