FIRST DRAFT

The Greek Economic Crisis as a European Economic and Political Crisis

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1. Introduction

The current economic crisis started in the U.S. in 2007, spread over Europe in 2008 and hit Greece very hard by the end of 2009, resulting in unprecedented austerity measures in peace years. Greece was put under the supervision of modern economic "protective" powers: the European Central Bank (ECB), the European Commission (EC) and the International Monetary Fund (IMF), the so called *troika*. If it were not for the tragedies created by troika's amateurish economic consultations and predictions, their involvement would have made a good scenario for Aristophanes to write a witty comedy to entertain generations to come. Not only has troika produced amateurish and foolish[1] reports but numerous other studies and reports on the Greek economy have seen the daylight of similar value, many of them by eminent and well known (Nobel prize winning) economists. Analyses and proposed actions range from ridiculous and absurd to extremely dangerous (economically, politically, socially and culturally) not only for Greece but also for Europe and the rest of the world. It is amazing how their ideology has led them to do so many mistakes in their analyses and prognoses. Most of these solutions can be identified with a well known Greek proverb: *Decapitation is the solution to your headache!* However, it is quite possible that European people's economic headaches may be relieved, if the heads of some politicians and chiefs of the troika organization are taken off, of course, I mean it in political terms. It should be done now, or later might be too late.

The euro is not the problem. The problem is the monetary and exchange rate policy imposed by conservative forces that have taken over the destiny of the ECB. The present author was one of the three economists who studied the effects of the euro on the Greek economy commissioned by the Greek government in 1996. The results of the study were presented both in writing and explained orally to the relevant minister and to other senior consultants and bureaucrats. The analysis had shown that an external shock, like the current crisis, will hit the Greek economy harshly and the only way to get out would be to lower real wages. However, to play on the safe side, it was suggested that the benefits of being a member of the eurozone required deep structural reforms, particularly in the area of public administration and the management of public enterprises. Unfortunately, at the time, the key issue which was considered as structural by the Greek polity was the conversion of the drachma into the euro.

Life, however, took its own turn. In the following years of the first decade of the euro circulation (2002-2011) two developments worsened the situation. First, real wages, nominal wages and the unit labor costs in Greece were rising at an unprecedented rate. As shall be explained below, these benefits were not equally distributed among Greek workers. Wage hikes were primarily financed by running budget deficits and the accumulated public debt was financed by borrowing from abroad. Second, during the same period, there was a sharp appreciation of the euro *vis a vis* the US dollar and the British pound. Simple

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[1] It is ironic that the intellectual founder of the IMF, John Maynard Keynes, has warned that "[h]aving regard to *human nature* and our institutions, it can only be a *foolish* person who would prefer a flexible wage policy to a flexible money policy". (Keynes 1936, p. 268 Emphasis added). Unfortunately the three institutions of troika are governed by foolish persons and I should add, very dangerous, from a political and social point of view people. More recently, Alesina & Barro (2002) have warned that in the presence of asymmetric shocks, a single monetary policy across the eurozone may not be sufficient to account for all business cycle shocks.

calculations show that these two issues created the symptoms of devastating current account deficits and the accumulation of sovereign debt. The latter was inflated by the higher interest rates paid by the Greek government on external borrowing. Both events have been the cause of the current Greek plight. The wage effect of the crisis can be blamed on Greek Politics, but the exchange rate policy is entirely a decision taken by the conservative authorities of the ECB supported by Germany and other countries of the euroland. Very few people in Europe will disagree that the current monetary and exchange rate policy of the ECB serves the economic interests of certain German political elites and of a few other satellite governments of the eurozone countries.

The word satellite is used to describe an economic, political and ideological relation of secondary states which follow a global (i.e. USA) or a regional (i.e. German) hegemonic power. For a recent discussion of these issues see Williams et al. (2012). They discuss the strategies and the motivations of the followers (satellite states) by developing three explanatory frameworks: (a) realist arguments and material power distributions (b) domestic politics and (c) international organizations and global norms. Pérez-Caldentey, E. & Vernengo, M. (2012) call these countries core countries, distinguishing them from the periphery or noncore countries. For our purposes here, these countries - Germany, Luxembourg, Austria and the Dutch (GLAD) - can be considered the group of countries whose elites support the current monetary and exchange rate policy. They are very 'GLAD' with the eurozone and the party they have enjoyed in the first 10 years of the euroland because the bill is paid by the other countries of the eurozone.

At the same time, the GLAD countries were following a very restrictive nominal wage growth policy with Germany being a wage depression leader. Wage increases in Greece would not be so severe if countries like Germany did not follow a wage restraint policy.

One of the purposes of this paper is to shed some light on the stylized facts of the two issues mentioned above: the wage and the exchange rate effect. Both economic effects were entirely determined by the conscious design of the conservative forces of the eurozone countries, with Germany and their few satellite countries playing a leading role. Their mercantilist approach[2], in combination with the restrictive monetary policy for the entire eurozone and their control of their wage increases at the national level, generated huge trade surpluses. These two important stylized facts are presented in Section 2 of this paper.

The policy of restraining wage increases can be considered legitimate from the German people's political point of view[3] but it constitutes a policy-imposed distortion[4] of free trade for the rest of the eurozone countries. It is well known in the literature of international trade, that the optimal trade policy for large countries such as Germany is not free trade. And this is exactly what they are doing at the expense of the other countries of the

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[2] The purpose of this paper is not to go into deep analysis of these issues. Cesaratto & Stirati (2011) state that German mercantilism (wage restraint and export-led growth) is the reason of the current crisis. Pérez-Caldentey, E. & Vernengo, M. (2012) added to Germany their satellite countries as well.

[3] In a representative democracy the German people have the right, as other people, to vote for their preferred economic policies as these are stated in the programs of the various political parties. However, a large country, such as Germany, should take into consideration that their vote might affect the people of other countries. And the people of Europe, including Germans, have paid a very high price and a great loss of lives of youth because of such "irresponsible" democratic voting in the past.

[4] The analysis of the typology of such distortions to free trade is discussed in Bhagwati (1971).

eurozone. If their wage policy is their democratic right, there is no democracy and political legitimacy in imposing a monetary and exchange rate policy which is harmful to many other countries of the eurozone. In Section 3, Greece is used as a case study to show how this policy, imposed by ECB and the Germany's distortive trade actions, have created the current economic disaster in Greece.

The current economic and political crisis in Europe could quite possibly develop into a social and cultural crisis[5], unless serious actions are taken by some political forces. These forces have remained either silent or are too weak to react to a sweeping conservatism at the central level of European economic and monetary policy making. What are the alternatives for the euroland countries and how can these be implemented? This question is taken up in section 4 of this paper.

The final section of the paper concludes the arguments presented in this study and, most importantly, outlines the type of further research needed in order to design an economic policy mix at the eurozone level which will take into consideration the interests of all the countries involved. Of equal importance is the fact that the policy mix must take into consideration the welfare of all people in the eurozone, with emphasis on those that are at the bottom of the income distribution. Indeed, these people exist in all euro member countries, including many Germans.

2. The stylized facts of the current crisis in Europe and in Greece

The main argument of this paper is that the monetary and the exchange rate policy of the ECB, which was dominated by Germany and their satellite countries of the eurozone area, is the most important reason for the current economic crisis in all South European countries. The first years of the euroland (2002-2012) are characterized by a mercantilist approach followed by the GLAD countries, which created unprecedented trade surpluses, at the expense of other countries of the eurozone area.

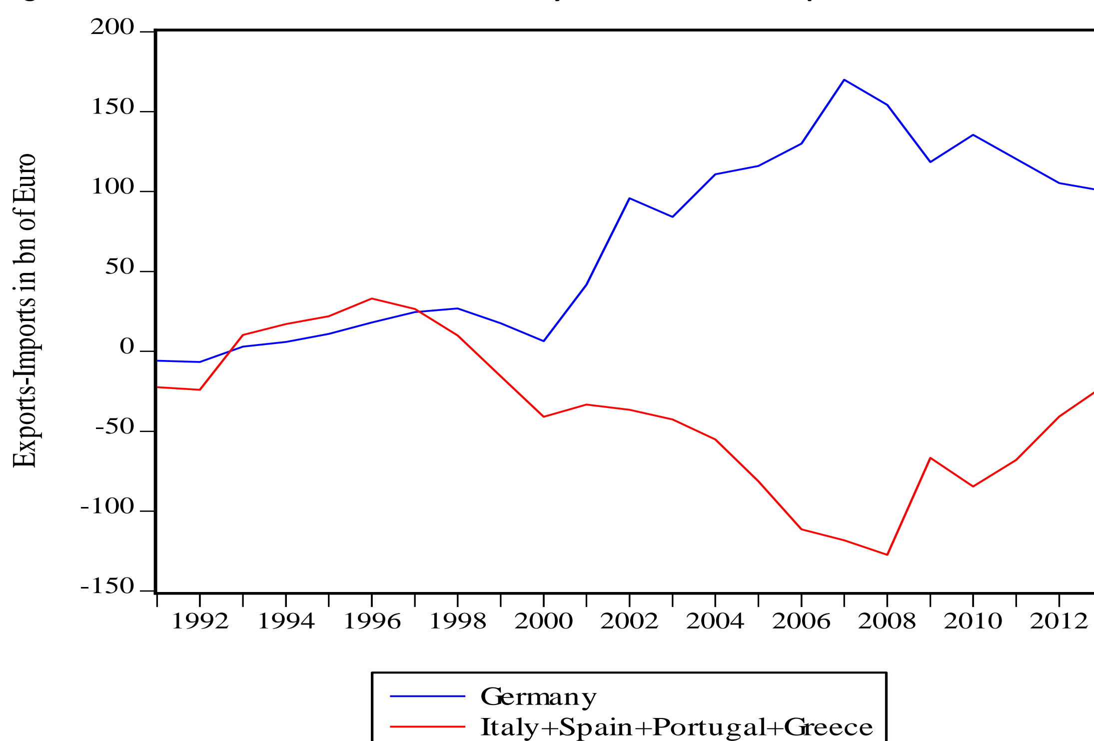
These policies were implemented by non-legitimate political means applying a pressure on the ECB to follow a strict monetary policy which resulted in a dramatic appreciation of the euro relative to the USA dollar and the British pound. However, this is not the complete

[5] This is echoed in the populist mass media of both Germany and Greece. German newspapers such as Bild and periodicals such as Focus started to blame the Greek culture and the notorious laziness of Greeks laying under the sun as the reason of the current Greek plight. This despite the data which show that Greeks, on average, work more hours than Germans. They also added the very popular argument, since antiquity, of corruption of the Greek public sector, ignoring that it was the corrupted state of ancient Athens that built the Parthenon and the other monuments (actually built as public works) and invented ideas such as democracy and political freedom. Of course, their colleagues in the Greek press responded immediately by reminding the atrocities of the Nazi during World War II and emphasizing that German's contribution to world and civilization was close to nothing. This is not funny at all! Serious people must take this very seriously. Such ideas in both countries are cultivated and supported by the ultra right wing and fascist elements. Immediate action is needed. Germans and Greeks have developed a friendship built on the ruins of the World War II which is an example to follow. The current events have been very painful. Even though we do not have a single incidence of 'anti-German' in Greece, some Germans now fear to travel to Greece. It is really ironic that the euro and the whole idea of the European Union was supposed to make it easier and safer for people of Europe to travel.

story. By keeping their wages very low, Germany was able to obtain a comparative advantage *vis a vis* other countries of the eurozone. This social dumping found little or no resistance from the German workers and also from the other countries who actually paid the price of such unfair trade practices. There is nothing which dictates common actions in the area of wage policy inside the eurozone and nobody, as yet, is seriously discussing it.

The lack of any democracy, transparency, and legitimacy in the decision making of the ECB made things easy for the Germans and their satellite governments in the eurozone to follow beggar-thy-neighbor policies. Figure 1 shows the German current account balance (Exports-Imports) and the sum of the trade balance of Italy, Spain, Portugal and Greece. Up to the establishment of the euro, 1 January 1999, the trade balance of the four countries was approximately the same as Germany's. Some years, it was even higher. With the introduction of the euro as the common currency in circulation, 1 January 2002, Germany's gains are almost matched by the losses of the four countries.

Figure 1. Current Account Balance of Germany and the South European Countries



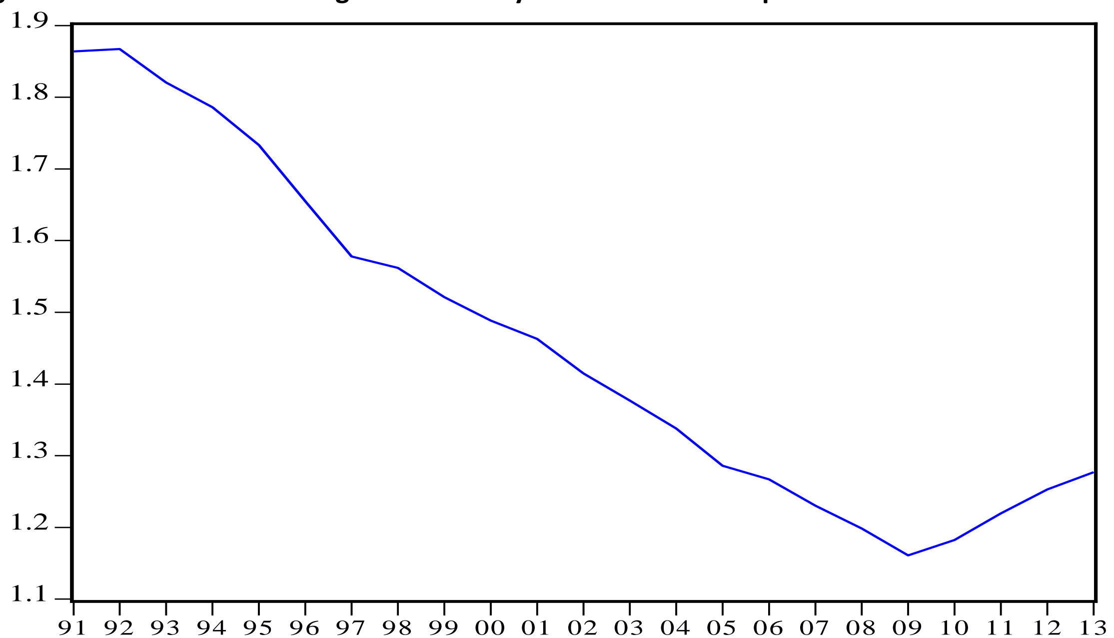
The accumulated current account surpluses of Germany exceeded one trillion euro over the period of 2002 to 2012. The euro is not to blame, but the policy of an overvalued euro[6]; at least from the perspective of the four South European countries. The picture does not change if we add France to the group of South European countries and all trade surpluses

[6] Some analysts confuse the concept of a strong euro with the concept of an overvalued euro. The euro is strong and healthy if it responds to fundamentals of the economies it represents and not being subject to manipulative practices by some countries through political means. The euro is strong when it does not depreciate more than it is required by the fundamental determinants of its value because of global economic crises. The history of the euro has shown that it is a weak currency albeit an overvalued currency relative to the US Dollar and British pound. During the crisis years, the euro depreciated from 1.4707 US Dollars in 2008 to 1.3257 in 2010.

countries of the eurozone on the side of Germany. It is worth noting that in the three years between 2006-2008 Germany accumulated trade surpluses of 454 billion euro and during the same period, the accumulated trade deficit of Greece was 91 billion euro, whilst France has accumulated deficits of 89 billion. France in the decade preceding the introduction of the euro had trade surpluses greater than Germany's. Greece was hit hard because it depends so much on international tourism receipts and an overvalued euro has had detrimental impacts on its tourism industry. This is further discussed in the next section of this paper.

However, the huge accumulation of trade surpluses by Germans and their satellite countries in the eurozone were not equally distributed to their people. Their workers were getting less when their exports were booming[7]. Figure 2 shows that in the early 1990s the average wage in Germany was almost twice as high as the average wage of the four South European countries. In 2009 it was close to parity. This is the substance of the German miracle, i.e. paying lower wages to get a competitive advantage relative to its euro partners. In addition, the cost advantage of German production is also based on outsourcing part of its production to low wage countries of East and Central Europe. This is what is meant by a mercantilist approach to international relationships and the German way of "solidarity" with its allies in the euroland. There are many in Europe who start talking about the German problem of Europe and they have now the evidence to prove it. Section 4 below examines alternatives on how to deal with the German problem of the eurozone.

Figure 2. Ratio of Nominal Wages of Germany to Four South European Countries



[7] Cook (2011) provides evidence on the introduction of the euro and the negative impact on real wages. However, this can only happen under conditions of monopolistic power at home so firms can increase their mark ups over wages and the pressures to reduce wages that come from the international integration of the common currency.

This is not the first time that German economic growth is based on other people's work and money. The German miracle of the post World War II is not so German. It was financed by the Marshall plan and by other countries, including Greece, when they wrote off billions of today's value euro that were loaned to the Nazi government. This is well documented in the literature. What it is not stated is that the German miracle was also based on the workers of Greece, Turkey and Italy who went to Germany to work and, in this way, helped Germany to recover from the ruins of World War II. One wonders what Germany would have achieved if it had not the external finance and the foreign workers. Nobody wants to draw an analogy what happened after the World War I when Germany did not have such support. Similarly, the Greek economic "miracle" of 1950s and 1960s was based on Marshall Plan's inflows and the economic growth of the 1990s on foreign workers, legal and illegal.

3. Greece Should Not Have Joined the EURO but Now It Must Remain a Member

There is no question that Greece should not have joined the common currency in 2002[8]. Greece could not have benefited from the common currency for a number of objective reasons. Simply put, its economy is geographically far away from the center of countries of the euroland and its structure of exports and imports are such that it depends very much on tourism and shipping. Both industries were deeply affected by an overvalued euro. In the long run, a currency union will be beneficial to Greece when its neighbor countries join the EU and the eurozone. As argued in the next section, if Turkey joins the currency union, this would be of great economic benefit to Greece[9].

The economic crisis hit Greece hard for two reasons. First, it allowed the nominal and real wage rate to increase for a segment of the labor force which had the political power to dictate such wage increases. These pay raises were financed by borrowing from abroad. However, the most important reason is the monetary and exchange rate policy of the ECB. Both issues are discussed in this section.

Greece's economic miracle in the 1950s and the 1960s started with important economic policy measures in 1952 and a very successful depreciation of the Greek Drachma in 1953. This economic miracle was put to an end by the crisis of the early 1970s and other political events which decreased the long-term economic growth prospects.

In 1981 Greece became the 10th member of the European Union and in 2002 it adopted the euro as its currency. Greece depends very much on tourism and an overvalued euro has had devastating impacts on its tourism receipts. Up to 1999, Greece was able to manipulate its currency in such a way as to minimize whatever loss in competitive advantage was

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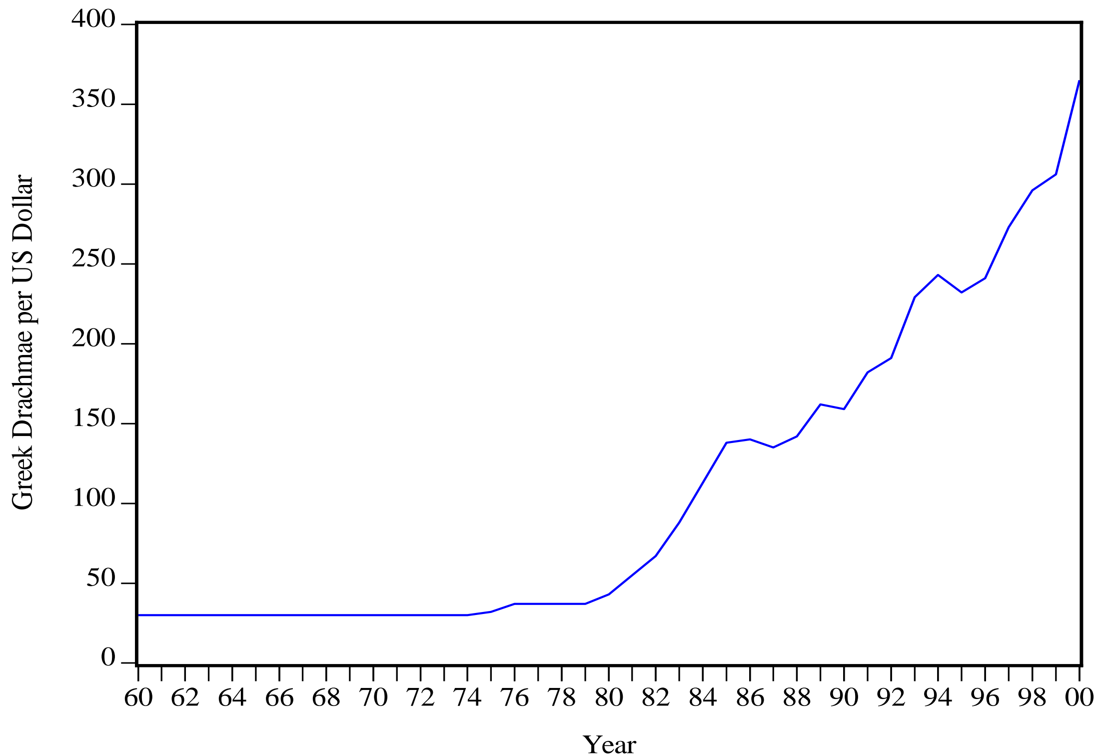
[8] It is also true that it should not have joined the European Economic Community in 1981 but it did so for political reasons. However, as it turned out, it worked very well for all countries. But Europe at the time had Social Democratic governments in many countries with very strong leadership, especially in France and Germany. The current crisis has shown what weak and conservative leadership in France and Germany can do to the rest of Europe. By coincidence the period of the early 1980s was a period of one of the worst crises.

[9] The purpose of this paper is not to refer to the numerous papers written on the subject. Rose's 2000 paper has been very influential in shaping the literature of the trade benefits of a currency union. The benefits estimated by Rose were too large (three times as large). See also Frankel (2010) for an excellent study on this issue.

caused, not only by internal developments but by external developments too. As can be seen from Figure 3, the Greek Drachma from a long period of fixed exchange rate with the US Dollar in the 1960s and the 1970s, moved to a period of periodically devaluating its currency throughout the 1980s and 1990s. As shall be shown below in this section, this worked well for the Greek economy and its dollar revenues from tourism increased.

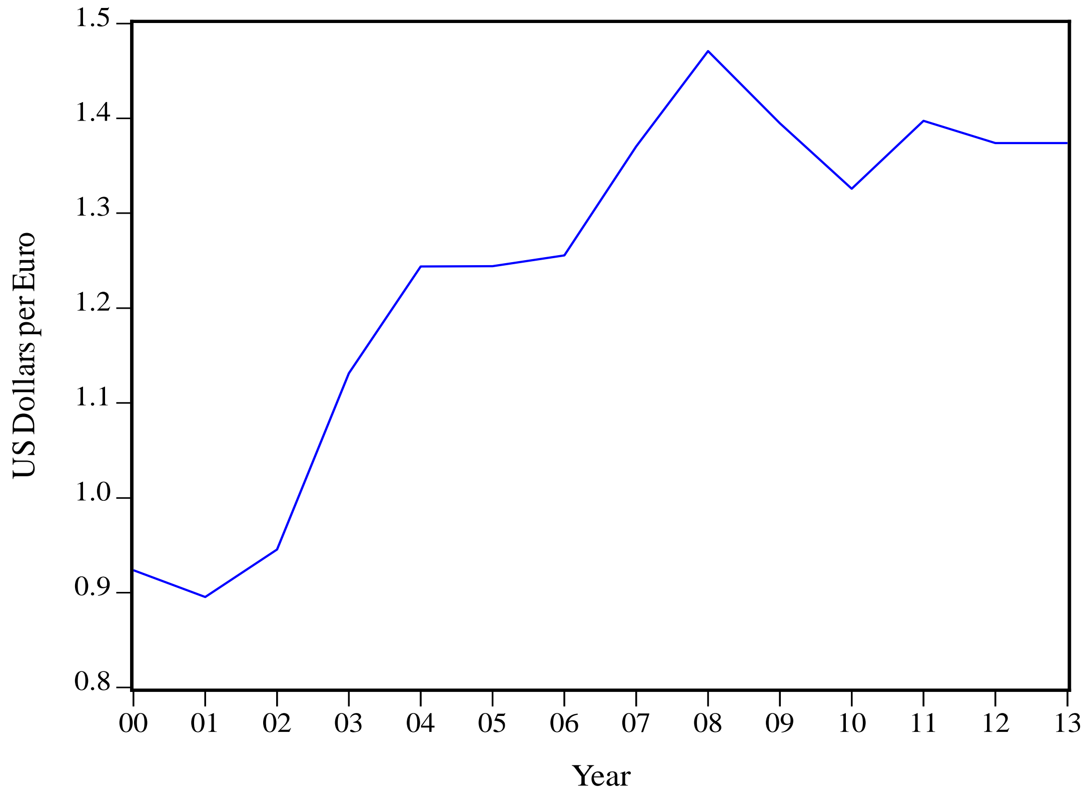
Figure 3. Greek Drachma per US Dollar, 1960-2000.



The introduction of the euro not only changed this policy but reversed it. The new Greek currency, the euro, was constantly appreciating, not only against the dollar but against the British Pound, an important source country for the Greek tourism industry. An overvalued euro has benefited the tourists of the GLAD countries to enjoy their vacations in the Mediterranean countries at a very low cost. These countries included both the euro and the non-euro members of the area. The cheaper tourism alternatives in the non-euro countries were used as a tool to reduce tourism prices in Greece, the only euro country in the area. The tourism market is dominated by a few tour operators, the largest being TUI, a German firm. The methods they use to reduce prices from hotels and other small companies in the travel business should be questioned to determine whether they violate not only the competition policy but criminal law in general.

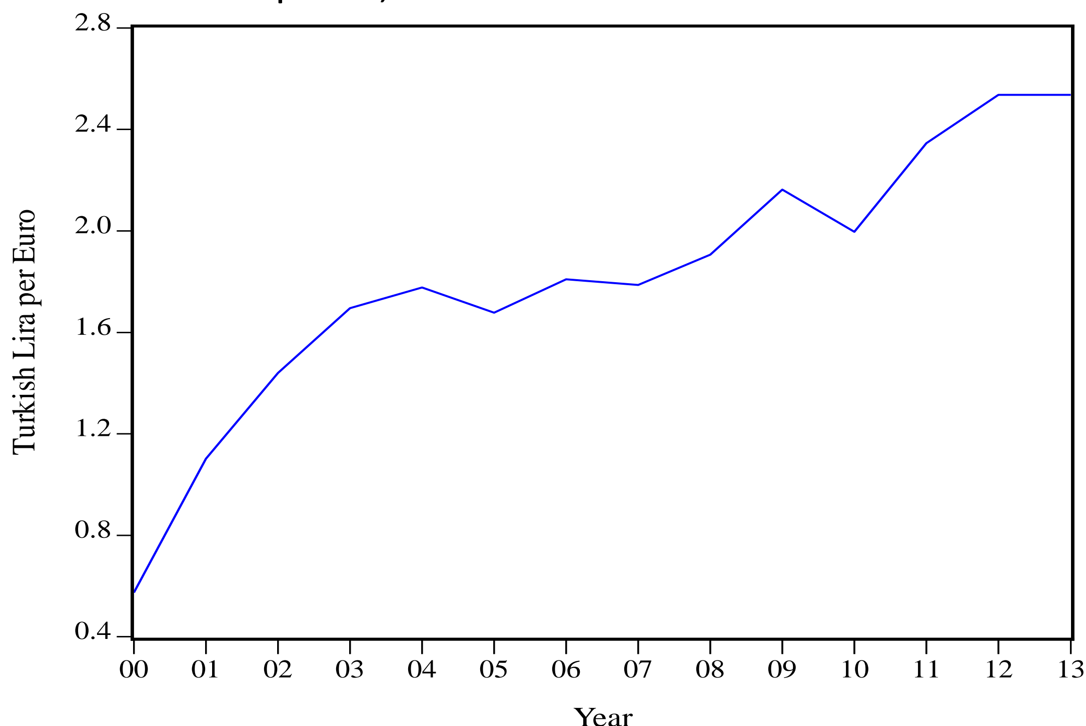
Not only did the new Greek currency (euro) not devalue but, on the contrary, it was constantly appreciating, serving the interest of the GLAD countries. Figure 4 shows the appreciation of the euro against the US dollar. Only recently and after the economic crisis, has the euro started to decline in value against the U.S. dollar.

Figure 4. The US dollar Value of Euro 2000-2013.



The Greek tourism industry is a big industry and a sector where Greece has a unique comparative advantage within the eurozone. The introduction of the euro had raised the expectations of a booming Greek tourism sector. There was a talk that Greece could become the Florida of Europe. And rightly so because the potential of a currency union is tremendous. But alas, the goddesses of fate (Moirai) have spinned out the thread of Greece's future economic life differently. Instead of a boom in tourism, Greece lost ground with serious long run implications; it is well known in the tourism economics literature that there is a persistence effect, i.e. tourists tend to come to the countries they have visited once in the past. The appreciation of the euro and the devaluation of currencies of the non-euro countries has had a devastating impact on the Greek tourism industry. For example, the Turkish Lira was depreciating against the euro (see Figure 5) throughout the first decade of this century and this is in sharp contrast with the Greek currency (the euro), which was constantly appreciating.

Figure 5. The Turkish Lira per Euro, 1960-2000.



Tourism revenues started to slow down from the dynamism of the previous decades. Figure 6 shows the tourism revenue (tourism export earnings) for Turkey and Greece. Up to the 1990s, Greece's revenues were higher than Turkey's. After the introduction of the euro, Turkey's revenues surpassed Greece's, despite the positive international publicity Greece received from organizing a very successful Olympiad in 2004 and the related improvement in the tourism connected infrastructure, such as new and renovated hotels, airports, ports, trains etc.

The overvalued euro did not only harm Greece but Turkey too as the Turkish tourism product is complementary to the Greek tourism product. The correlation coefficient between the Turkish and the Greek tourism revenues is positive and strong (r=0.8166). Thus, the two revenues grow together but the introduction of the euro changed this relationship. A close look at Figure 6 shows there is a change in the slope of both curves (became flatter) after the introduction of the euro. In other words, tourism revenues were increasing at a lower rate than in the period prior to the euro in both countries. This makes sense if both countries' tourism product is sold as a bundled commodity. An overvalued euro makes the Turkish product cheaper but the Greek product more expensive. The demand will depend on the price of the bundled commodity. This requires further research because the losses for both countries might be considerable and in the order of billions of euro on an annual basis. Rough estimates for Greece, and counting only the immediate impact of the euro appreciation, indicate the cost to be 1.5 billion dollars per year or 16 billion dollars for the 2002-2012 period.

Figure 6. Tourism Revenue in Turkey and Greece in 2011 US Dollars, 1988-2013.

This is an area of further research not so much to verify the complementarily of the two products but to measure the negative impact of an overvalued euro on the tourism industry of both countries. However, a simple analysis of segmented trend, before and after the introduction of the euro has given the following results:

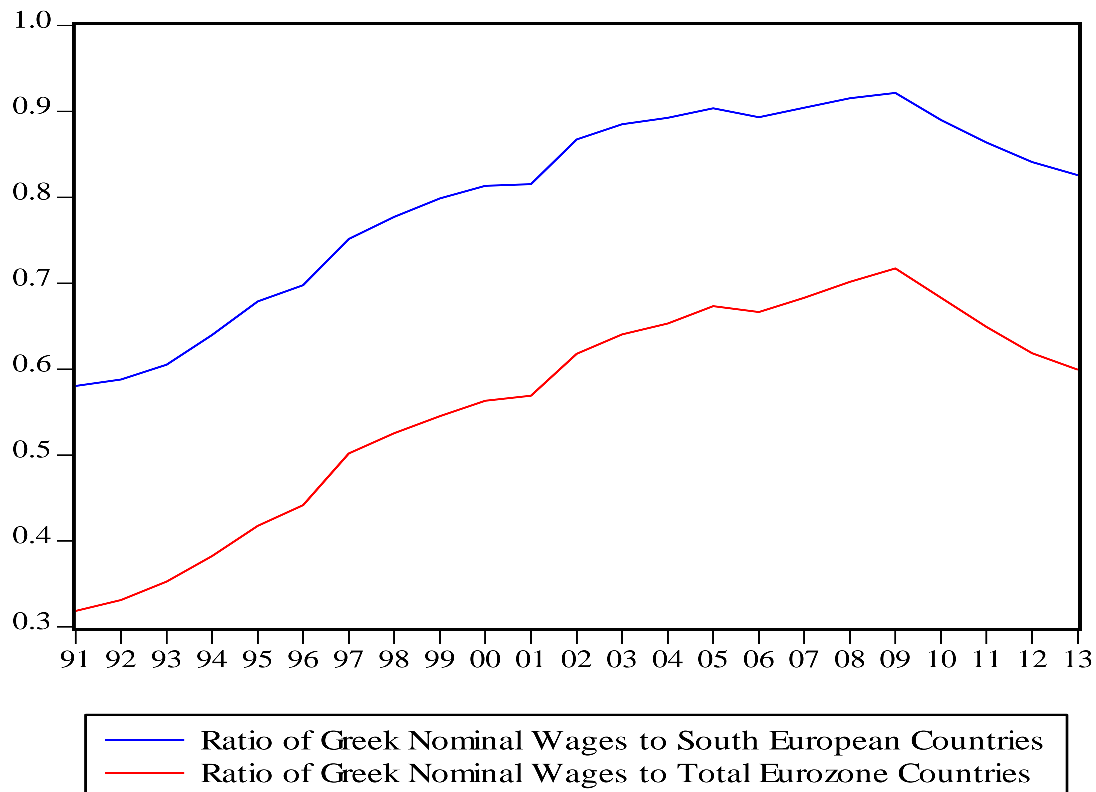
Turkish Tourism Revenues = -28156 + 1088*(NonEuro Trend) + 1016*(EuroTrend)
(4.99) (6.89) (7.81)
Greek Tourism Revenues = -9711 + 631*(NonEuro Trend) + 243*(EuroTrend)
(-2.14) (4.96) (2.31)
Note: t-values in parentheses

Since tourism revenue is measured in millions of 2011 US dollars, the equations state that tourism exports receipts rose by 1088 (631) million dollars per year through 1999 (before the introduction of the euro) for Turkey (Greece) and by 1016 (243) thereafter. For both countries the euro effect is negative but a Wald test shows that the difference in slopes before and after the introduction of the euro are statistically significant only for Greece. There is no doubt that if the Turkish Lira was not depreciating in the first decade of the euro existence, the impact on the Turkish tourism revenue would be much higher. As can be seen from Figure 5, in the first years of the euro, the depreciation of the Turkish Lira was very steep. If the two countries' tourism industries are complementary, then the devaluation of the Turkish Lira helped Greek Tourism by making the bundle of the two products cheaper than would be the case if the Turkish Lira was pegged to the euro.

Greece's situation became even worse because of its nominal wage increases which were higher than any other country in the eurozone. Figure 7 shows the ratio of Greek

nominal wages to eurozone of the original 12 countries and relative to an average of the countries of the south. Up to 2010, Greek wages were increasing relative to both groups of countries. Unfortunately, these increases were financed by borrowing money from abroad, taking advantage of the historical low interest rates that Greece was enjoying because of the euro. The GLAD countries accommodated such loans and when Greece reached a point of no return they raised interest rates. The lack of strong political leadership in Greece made things even worse. Inevitably, the Greek economy was put under the "protection" of troika.

Figure 7. Relative Greek Wages, 1991-2013.



Before we discuss the European alternatives to the current economic and political crisis, it is worth mentioning a few things about the alternatives available for Greece given the existing economic and political power structure at the center of the eurozone. To understand the nature of the problem, a short analysis of the Greek labor market is in order. The Greek labor market is trichotomized. There is an elite segment of the workforce which controls the two large trade unions of Greece. In effect, both trade unions represent the workers of the public sector, either the public administration or the state-controlled enterprises. The control can be direct (public enterprises) or indirect through the private companies, usually large, which depend upon the state. The latter include private companies which supply the Greek state with various products (i.e. pharmaceutical companies) or undertake various public works such as building highways, schools, hospitals, airports etc. It also includes the public and private banks.

The union leaders along with the state nourished "entrepreneurs" who control the association of Greek enterprises, are fully responsible for the irresponsible wage increases shown in Figure 7. The weak political leaders of the two ruling parties were unable to refuse

any demand made by the trade union leaders and the state nourished "entrepreneurs". Their demands were made easier because the left parties of Greece were demanding even more wage hikes and of course the representatives of business were not seriously objecting because these were paid by borrowing money from abroad and not by taxes, and the higher wages were primarily for workers of the public administration and the state controlled enterprises. Very few people were able to warn that the day will come when these loans would have to be paid back or be negotiated at a higher interest rate. They were also warning that the invitation of the IMF would be inevitable.

The second segment of the Greek labor force consists of workers in small enterprises (less than 10 workers), usually family businesses. It also includes the large number of independent professionals. Their remuneration and types of work differ dramatically and this segment of the labor market is responsible for the tax avoidance and money laundering achieved in harmonic "collaboration" with corrupt public employees.

The third segment includes the legal and illegal immigrants who work as manual workers both in the urban and the rural sector offering a variety of services to various sectors such as agriculture, the small industry and handicrafts, the tourism industry, care giving industry, street vendors etc. Even if their employment is legal, they are paid less than the minimum wage if their work is counted in hours work[10]. This segment of the labor market has benefited the least from the huge increases in wages, and have only indirectly secured more income through the higher demand generated by the first and second segment of the labor market.

The wage increase of the first segment was really huge from 1999 to 2009 with a mean annual rate of 5.44% and a cumulative increase of 67.65% in nominal and 31.22% in real terms. The true number was even higher because these figures are for the total workforce. Starting in 2010, this segment of the labor force must now pay back all these increases in their salary. Their wages must decrease. In the first three years of the austerity program, their real wages decreased by 10% and this has affected the pensions as well. By the end of the austerity measures, it is expected that the nominal wages will decrease by close to 40% and with positive price increases (inflation), the real decrease will be even higher.

Not surprising then that the trade unions (i.e. public employees) are against the troika. But what are the real alternatives? Realistically there are two other alternatives at least in the short and medium term. One is to default on the sovereign debt but stay in the euro, if this is possible. The second alternative is to default but return to drachma. Both policies are inferior to troika's program primarily the second. It is true though that the return to the drachma will benefit the elite of the Greek labor force and the state nourished "entrepreneurs". In this case, a devaluation of the drachma can be designed at the whip of the nomenclature of trade unions and state nourished entrepreneurs. The cost will be paid by the rest of the Greeks as an inflation tax. In addition, the Greek citizens will continue to receive low quality public services. Greece will also be isolated both economically and

[10] There are many ways how this is done. For example, private banks or other financial institutions ask junior employees to sign a contract as managers, paying them a higher monthly wage as a bonus for being 'managers' and in this way they can work longer hours without violating the letter of the law. However, if you divide the total remuneration by the hours worked, it turns out that the hourly wage rate is lower than the minimum wage rate. Even large corporations employ this strategy.

politically from the rest of Europe. Then Greece, the first country to enter the EU from the Balkan peninsula, will be the only one left outside.

Of course, there is another option but this is at the hands of all eurozone countries. In the long-run, Greece will benefit the most if its neighboring countries enter not only the European Union but the euroland as well. Of great importance is the full membership of Turkey. Under certain political arrangements and political will from both sides, the existence of such a huge market next to Greece could be considered as a God given gift. It is well known in ancient Greek myths that *Moirai* did not have the final world. Zeus, the God of Gods, could, if he chose, save all those who were already on the point of no return. Greeks can only hope that the modern Zeus is not made from the same DNA as the ones that currently rule Germany and the ECB.

A final point relates to the question as to whether a strong political leadership in Greece and responsible trade unions and entrepreneurs could have possibly saved Greece. The answer is no. Many Greeks accuse the two big parties as the reason for the current Greek economic situation. This is not true and such arguments serve the purposes and interests of the elites of the GLAD countries. If the foolish leaders of Greece were to blame, then countries like Italy, Spain, Portugal and Ireland would not face the same problems. In addition, the disadvantageous geographical position of Greece and its dependence on tourism and shipping can also explain the severity of the economic crisis relative to other countries of South Europe. However, the main reason for the severity of the economic crisis in Greece is the irresponsible monetary and exchange rate policy of ECB and the mercantilist policy of GLAD countries. A drastic change of this policy is one alternative discussed in the next section.

4. What are the European Alternatives?

I argue that there are three alternatives to the current economic situation. Maintaining the status quo is not one of them. First, Germans and their satellite countries should transfer part of their illegitimate made trade gains back to the other members of the eurozone because in the long run their mercantilist approach is not sustainable. These countries have unfairly benefited from a non legitimate and transparent monetary policy, without paying any cost. One of the disadvantages of the eurozone is that there are no automatic stabilizers, as they exist, for example, in the USA and the Provinces of Canada. There is a need for political action to complement the monetary policy with a euro fiscal and common wage policy. In the meantime, though, the current arrangement with the haircut of the Greek debt should be applied to all the other countries. But this is a short run solution only. If the same policy continues, the GLAD countries will continue to accumulate trade surpluses.

Second, the eurozone countries should decide on a different exchange rate policy. Eurozone countries like Greece, Spain, Portugal, Italy, Malta, Cyprus, Slovakia, Slovenia, Ireland, and France might benefit from a monetary policy that keeps pace with the US dollar. This can be imposed by democratic means, since the majority of the European people who are members of the eurozone are suffering from such a policy. Even though it goes beyond the purpose of this study, China's exchange rate policy follows the same rule but they have

gone to the other extreme of really undervaluing their currency as this is determined by the huge current account surpluses that have accumulated over the years. But in this case, these funds are returned into the USA as net capital outflows, i.e. investments. Germany does not do the same in the case of Greece and the other countries of the eurozone which pay the price of the German mercantilism.

Third, if the above two policies cannot become politically correct, then Germany should be forced out of the eurozone. It is about time that the South European countries take the lead and change this policy, even if this policy results in Germany being excluded, or more politely put, leaving the happy land of the eurozone. And of course if the other happy countries of the GLAD group do not stop their anti-competitive and social dumping policies they too should be asked politely to leave the euroland. It is not a bad idea if the ancient idea of ostracism comes back and the people of Europe can vote if they want such a Germany in the eurozone[11]. The party is over and they must pay the bill If they want to stay inside this happy land of the euro. There is a short run economic cost for all the eurozone countries but in the long-run the sustainability of the current situation might lead to situations that Europeans do not want to live through again.

Even though nobody wants Germany and its satellite countries out, the other countries and the people of the eurozone should do everything that can be done to keep them inside the eurozone, however, in the long-run this might be the only alternative. If Germany is kept in the eurozone area, then this should be done for political reasons only because the economic costs are too high for the other countries of the eurozone. It is true that there will be economic costs for Germany but the history of Europe of the last century has shown how dangerous it is for the other countries of Europe to allow Germans and Germany to play their games. This game should stop very early because the cost might be too high at a later stage.

One might argue that if Germany is kicked out of the euroland, the euro will collapse. This might be true. In the short-run there will be an "undershooting" in the value of the euro but a common sense analysis of the dynamics (the path analysis of return to equilibrium) will show that this is a stable situation. A depreciated euro will create trade surpluses for all the countries of the eurozone that now suffer. Such surpluses will restore the equilibrium value of the euro to where it should be based on economic fundamentals and not on the manipulative practices of the GLAD countries. These practices destabilize the economies of South Europe and are moving away from equilibrium; they are destabilizing the eurozone in general. The current problem of the eurozone is not the accumulated debt of some countries but the knowledge that the current arrangements in the euroland do not guarantee a long run equilibrium. On the contrary, they will most probably lead to moving even further away from reaching an equilibrium point. The markets know that. The foolish people who rule the euroland institutions, the IMF and the governments of the GLAD also know it.

In addition, if Germany leaves the euroland, then the door will be open to other countries to join the eurozone such as Turkey and other Balkan countries, which will further

[11] In order to protect the ancient Athenian democracy from tyrants, people voted to expel that person for 10 years. It was called ostracism. It would be a good idea to implement such a policy in the eurozone for large countries that constitute a threat to democracy.

empower the new euro currency union. Unfortunately, German's hegemonic role in the eurozone and in the European Union has excluded countries like Turkey from progressing towards full membership and eventually becoming a member of the eurozone. From an economic, political and military point of view, Turkey's full membership in the EU and the eurozone will be the long-run solution to the current economic, political and military problems of Greece. But again, Greece has to deal with German economic interests because if Turkey becomes a full eurozone member and accepts the European status quo, Greece's military costs will be drastically decreased at the expense of German suppliers of military equipment. And I should admit many other countries' military industries will be very unhappy. They will do everything to keep the Turkish threat alive. This brings us to another issue that requires further research, i.e. the role of German interests and the corruptive practices of their large and in some cases state controlled businesses, like Siemens. They might not only violate the competition law of the European Union but also the criminal law of all the countries involved[12].

It is well known that the conservative forces of Europe do not want Turkey into the European Union and the Eurozone because this will result in an economic weakening of Germany and their satellite countries and will shift the political power from the center of Europe to South European countries. They do not want Turkey for other reasons that have to do with fascist and racist ideas that are ubiquitous in many countries of the European Union. It is, however, the only long-run solution for Greece. Not only Turkey but all the other countries of the Balkan Peninsula should become, as fast as possible, members of the eurozone. It is only then that Greek economic growth can return to its high long run growth potential. Otherwise, the Greek economic growth will continue to look like GLAD's countries weather temperatures on the cold days of their winter. Of course, political action is required by the countries of the Balkan region despite the divide and rule policies which Germany follows, demonstrated by its recent role over the Cyprus issue. This, however, requires further economic and political analysis and goes beyond the scope of this paper. It does very much relate though to issues discussed here because the economic policies of the large economies like Germany are in most cases ruled by both corrupt politicians and corrupt large businesses. The difference with the small and poor countries is in the name. In the latter countries corruption is a sin, in the former it is called public relation practices or lobbying.

The above argument is well documented in the economics literature too. Alesina & Barro (2002) presented a model where the optimal currency area depends on a number of

[12] But this discussion will bring us to what corruption is. If a Greek pays a few hundred euro to a surgeon under the table to have an operation outside the official waiting list, then the doctor and the Greek patient are corrupt. If a German company, like Siemens, pays hundreds of millions of euro under the table to get a contract, then it is called lobbying and it appears in the business accounts as public relations expenses. It is a matter of interpretation. If the company is caught, then their lawyers with the full support of their German government will settle the issue out of the court. It will simply increase the public relations account. No country dares of course to exclude Siemens from future public contracts because they possess the monopoly in the parts for the equipment they have supplied by bribing.

variables such as the size of the countries, their distances, the levels of trading costs, the correlations between shocks and "…on institutional arrangements that determine how seignorage is allocated and whether transfers between members of a union are feasible. The type of country with the strongest incentive to give up its own currency is one that has a history of high inflation and is close in a variety of ways to a large and monetarily stable country" (p. 435). Greece has had a history of high inflation but it is far away from meeting the other condition, unless Turkey becomes a member of the eurozone. This requires political will and a good economic policy preparation. Greece has very good experience of helping other countries to enter the E.U. It successfully helped Cyprus to become a member of the EU despite its thorny political obstacles arising from the long Turkish occupation of northern Cyprus. The issue of the Turkish-EU stalemate can be solved if Turkey first becomes a full member of the E.U. and then proceeds with solving the Cyprus problem. It is after Turkey's EU full membership, that the end of occupation will become easier for both Turkey and the Turkish Cypriots. Greece can play a leading role and promote the unconditional Turkish membership of the EU and the eurozone. This policy serves the long run national interests of Greece.

5. Conclusions

It is more than evident by now that this study reflects the author's personal and no doubt controversial thoughts. Many claims made in this article are based on personal judgments and they require future empirical research, particularly on the trade effects of GLAD's unfair competition policies based on an emerging German mercantilism. However, one thing is certain: *the current arrangements and fait accompli in the euroland are not sustainable*. Germany cannot continue as a member of the eurozone with such huge trade surpluses at the expense, as it is claimed here, of the majority of the countries of the euroland. Unfortunately, the euroland has become Germany's Disneyland and it has forgotten or is unwilling to pay the entrance fee. The other countries might ask her to pay the fee, even if it is an exit fee. The euro currency manipulations by GLAD cannot and should not be tolerated by other countries. Germany by overvaluing the euro and by drastically decreasing its wage costs relative to its partners in the eurozone, has in practice restricted trade. For countries that depend on tourism, like Greece, such a policy has been disastrous, creating unprecedented trade deficits and making their economies very vulnerable to external financial and economic shocks.

The recent easing off of the monetary policy and the euro depreciation have reversed this negative trend in the trade balances of the South European countries, including Greek tourism revenues. But this is not a long run (permanent) solution. The vested economic and other interests of Greece should re-evaluate Greece's role and policy towards the other Balkan countries and especially towards Turkey. However, the same is true for Turkey. The economic benefits for both countries will be tremendous, if Turkey becomes a full member of the eurozone. Both countries should work very seriously along with the other countries of the Balkan area to speed up the process of becoming eurozone members. It is expected that this will be met by strong resistance from all the conservative and ultra right wing forces that are spread all over Europe. This is the reason why this policy requires a strong and

cooperative action by all progressive forces of Europe, which, up to know, have remained silent.

New institutional arrangements and rules are needed. These include clear *ex ante* and *ex post* rules of orderly disciplining a member state of the eurozone in the case where such state is definitely not competent nor agreeable to adhere to the necessary adjustments in its policies which harm the other members of the eurozone. These rules must be clear and must include the possibility of excluding such a country from the euro. In many cases, if the competitive market forces cannot work, because some countries violate the assumption of homogeneity (being large with arrogant governments), then the threat of exit might work in disciplining them, by bringing unfettered competition to work again in the same way that the threat of entry works in contestable markets.

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