

## Briefing memo for the State of Europe Forum meeting in Athens, in May 2014

### **The Greek Economic, Political and Relational Crisis: Symptoms, causes and ways forward by Michael Schluter<sup>1</sup>**

#### Summary

There is great social and economic distress in Greece, leading to political unrest. This is caused by a combination of debt, unemployment, poverty and lack of healthcare. The current crisis has resulted from globalisation of trade and the immediate problem of an overvalued exchange rate (the Euro). Historical reasons for the crisis stretch back to the Ottoman Empire and the Second World War; lack of social harmony makes it hard to establish fair procedures in civil service appointments, use of government funds and local government. To move towards a resolution of these challenges requires fresh social and relational initiatives, which might include a Trust and Reconciliation Commission and an annual Day of Forgiveness. As debt is relationally toxic in most cases, fresh economic policies are needed to lower levels of household indebtedness. These might include negotiation for a write-off of national debt, and a shift from debt to equity in business and housing finance. The paper concludes with four questions for discussion.

#### Introduction

This short paper has been prepared as a contribution to the State of Europe Forum being held in Athens in May 2014, and is a Christian response to the far-reaching and deep distress of the Greek people in their current financial crisis. The Christian starting point is always 'relational' in the sense of recognising that behind economic realities and political tensions lie relationship problems, both local and international. It is these relational issues which are often, if not always, the key to resolving the political and economic challenges a country faces. Thus, the paper will explore ways forward which address in different ways the relationship problems which are perceived to lie at the root of the social and economic hardships faced by the Greek people.

1. The people of Greece are in deep distress. Some symptoms of this moment, when they cry out to God, Europe and the world, are as follows:
  - a. The unemployment rate in Greece is around 27 per cent (Figure 1). Youth unemployment (under 25) is around 60 per cent and most have little or no prospects of jobs in the foreseeable future. The youth and adult suicide rates have risen sharply in recent years.
  - b. Growth of poverty: especially in the last few years there has been huge growth in levels of poverty (Figure 2) as GDP has fallen sharply (Figure 3). Savings rates are low so most household are vulnerable to income shocks (Figure 4). In many cases people don't have enough to eat, and there is widespread malnutrition.
  - c. Healthcare – public health spending dropped 25 per cent 2009-2012. Some hospitals are being reclassified as 'healthcare centres' to reduce government spending. Unemployment has lowered levels of monthly insurance contributions available to fund health services. Stocks of prescription drugs are critically low because many pharmaceutical companies have not been paid. So there is limited capacity to treat adults or children, and often the public lack access or funds to obtain drugs and care.
  - d. Massive debt – household and national debt are rising fast. National debt is now 180 percent of GDP, a level which realistically can never be repaid, and household liabilities are close to 75 percent of GDP (Figure 6). Non-performing loans are close to 30 percent of all loans and rising fast (Figure 5).

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<sup>1</sup> This memo is written by a friend of Greece in a spirit of humility, recognising the deep flaws in inter-personal and inter-group relationships which exist in all societies and especially his own. This memo uses data from the most recent IMF financial programme review in July 2013 and information from the European Commission's Economic Adjustment Programme for Greece, as well as personal observations and comments from colleagues. It may well contain errors and omissions for which the author is responsible and for which he apologises to any individual or group which has been misrepresented.

- e. Housing – house prices have fallen over 30 per cent since 2009 (Figure 7). At least 25 per cent of mortgages are delinquent. Many have their homes under threat of repossession by the banks so live with insecurity. There has been a moratorium for foreclosures for those unable to pay their mortgage for 4 years. The EU and IMF are insisting that the moratorium ends now.
- f. University education has been disrupted by strikes of administrators making it difficult for many young people to get qualifications.
- g. Emigration of professionals continues to weaken the availability of core competencies in the economy and in society.

## 2. Economic and political reasons for this distress:

- a. Globalisation of information and trade, and the euro, have made it more difficult for countries like Greece to hide inefficiencies behind walls of protection and declining exchange rates.
- b. Government (sovereign) debt is so great now (nearly twice GDP) that the creditor countries/EU institutions are imposing severe measures to put things in order. While these measures may lead to greater efficiency in the medium term (5-10 years) there are such high short-term costs and consequent political instability that a positive outcome is uncertain.
- c. GDP has been declining by 3 per cent a year. In addition, instead of inflation or a steady price level, prices are falling at 3 per cent a year. So, nominal GDP has been declining currently at 6 per cent a year. This means that the debt burden in real terms is rising, and it is difficult for financial institutions to pay a positive interest rate to incentivise savings and reward investors. In such a context, many businesses find it impossible to make a profit.
- d. There is lack of administrative capacity in government departments to implement policies to achieve economic recovery and growth, e.g. to collect outstanding tax liabilities from the public, to collect outstanding social security contributions and to implement a new and simplified property tax.
- e. These economic and political difficulties have led to lack of confidence, lack of hope and political instability which further discourages investment and growth.

## 3. Spiritual and relational roots of Greece's national crisis

- a. The Orthodox Church in Greece has had a difficult history, most notably under the Ottoman Empire whose rule over Greece only came to an end in during the course of the War of Greek Independence (1821-32). However, the Orthodox Church has not fostered strong relationships with other churches across Europe, resisting their efforts to do evangelism and plant churches in Greece, perhaps on occasion putting nationalist considerations ahead of the proclamation of the global gospel.
- b. However, the Orthodox Church has a remarkable record of seeking to help vulnerable members of society. For example it distributes 270,000 meals each day throughout Greece for the homeless, migrant and poor. It also tries to fill some of the gaps in the rather torn safety net of the Greek national health service e.g. it provides care residencies for special needs such as Down Syndrome, senior citizen homes, dementia centres, orphanages, and kindergartens for impoverished communities. The Roman Catholic Church and the Greek Evangelical Church also have welfare organisations.
- c. There are long-term roots to the deep social distrust across Greek society. These go back to mutual suspicion arising from first Ottoman occupation in the 19th Century, and more recently to Nazi occupation in the Second World War. More recently, sharp political divides have strained trust between the Left and the Right. These sources of distrust, and sometimes even hatred, exist between extended families and individuals.
- d. Having pointed to strains in relationships between families and communities, it is also important to recognise the strength of many extended and nuclear family relationships in Greece relative to those in much of the EU area.
- e. The decision by Greece to apply to join the Euro, and the EU's acceptance of its application, was characterised by lack of transparency on both sides. The result has been an escalating level of Greek national indebtedness and no formal mechanism by which Greece can escape the currency straitjacket, even if it wishes to.
- f. Tax evasion is practised widely in the population, but especially by the wealthy, so that the needs of the vulnerable in society cannot be met by the government, and the wealthy can in some cases be rightly accused of ignoring the needs of the poor.

- g. There is said to be widespread corruption in political parties, the civil service, the healthcare system, the judiciary, the police, and even the church, leading to a lack of public trust in key public institutions and perhaps accounting for public reluctance to pay taxes.
- h. There is a political culture which allows civil service appointments and allocation of government funds to be based more on nepotism and personal connections than on rational, unbiased processes of decision-making.
- i. Too often EU countries have turned a deaf ear and a blind eye, both in the churches and in wider society, to the distress and suffering of the Greek people in terms of direct support to agencies seeking to alleviate the worst of the suffering. Many churches across Europe have failed to **pray** for a resolution to the Greek crisis and reach out to their brothers and sisters in need.

#### 4. Restoring Relationships with EU countries and institutions

- a. The present continuing crisis should not be underestimated. Current news of a government surplus in its fiscal budget is said to be misleading as it fails to take into account deficits in local authorities' and in the state pension fund. Also, the balance sheets of the banks fail to report the fact that arrears in servicing mortgages now affect between one third and one half of the housing stock. It is not clear what the value of this housing is in the current economic context.
- b. A strong case can be made for Greece, perhaps with other Southern European countries like Spain and Portugal, to leave the euro altogether, if there is to be healing of relationships with other EU countries and institutions. This is because as long as northern Europe and southern Europe have differing rates of growth of productivity, without being able to correct these by exchange rate adjustments, there will continue to need to be falls in real wages and prices if Greece and other Southern European countries are to increase levels of employment. In practice, such changes in wages and prices are extraordinarily difficult to achieve in a democratic political context, especially where countries like Greece and Spain are heavily in debt so that deflation increases the real costs of debt repayment.
- c. The first step towards negotiation of an exit from the euro, or towards a new 'Southern Europe euro', would be for Greek and other Southern European governments to apply capital controls with immediate effect to allow a period to negotiate publicly with their Northern European neighbours. The negotiation might well take 12 months, and would perhaps require Greece and other Southern European countries to help their EU partners recognise that failure to exit in a given timescale might lead to even more radical and negative outcomes.
- d. Understandably, both the EU and many in Greece wish to stay within the Euro as Greece both historically and today plays an important part in European thought and culture. The tension is between recognition of the roots of much European thought in Greece and the current financial costs of keeping Greece within the Euro.
- e. It is the author's view that if Greece is to stay in the euro, and once again attract investment, 80 per cent of Greek debt needs to be written off – so national debt is reduced from 180 per cent of GDP to 25 per cent of GDP. One reason that this is difficult to achieve is because Germany in its constitution is probably unable to lend again to a country once debts have been written off in this way; however the write-off is essential if Greece is to be able to attract foreign direct investment. Few investors will put their capital at risk as long as such a huge debt overhang continues to create uncertainty over any long-term growth strategy and taxation policy, and the possibility of a rise in interest rates on the debt threatens even the present government's small fiscal 'surplus'. The losses to Greece's creditors could be mitigated by:
  - Some debt for equity swap (i.e. some debt is exchanged for a share in the ownership of Greek property, infrastructure, energy reserves ...)
  - Some warrants, options or securities on Greek bonds linked to GDP growth so if the economy picks up some additional payments are made to owners of these bonds (recognising that governments often manipulate GDP statistics).
- f. From a Northern Europe perspective, the present 'compromise' may seem to be fair to both Northern and Southern Europe. Cheap loans are provided by the North on a 'never-never' repayment basis to compensate for the fact that Greece suffers from low levels of investment and employment due to the inappropriately strong Euro as their currency. However, this does not resolve the problem of Greece's need for foreign investment to help generate new jobs, the unhealthy dependency in Greece's relationship with its Northern neighbours, and is creating, rightly or wrongly, a legacy of resentment.

5. Possible Church initiatives to help Greece move towards a more Relational society

- a. Recognising that cultural transformation is essential if Greece is to re-establish itself, a first step might be for the Orthodox Church to set aside past misgivings and welcome all churches based on established Christian tradition, i.e. based on the Bible and the ancient creeds, to come and both preach the gospel of Jesus Christ and establish local churches in Greece. The influence of Christian teaching and ethics is vital to the long-term transformation of the Greek economy, as well as society more widely.
- b. Many people have failed to pay taxes, some over a long period. The government has limited capacity to pursue unpaid tax obligations so that much will never be recovered. Thus the Church might propose to the government a Truth and Reconciliation Commission not dissimilar to what happened in South Africa. This would mean that where individuals or groups are prepared to acknowledge unpaid tax obligations, whether these are income tax debts, social security debts or perhaps even mortgage debts, and are willing to pay half of that unpaid debt, the rest of the debt would be forgiven provided they also keep to a commitment to pay taxes going forward. This would save, perhaps, the immense costs and ill feeling of other debt collection measures and processes.
- c. The churches in Greece could also establish an annual Day of Forgiveness, appealing to all Greeks to forgive one another past wrongs, to re-establish contact with those they have avoided, and rebuild friendships. Without forgiveness and the willingness to move on from the past, relationships in the community will continue to be characterised by suspicion and bitterness. The key to such relationship restoration often will lie in previously-hostile families sharing a meal together; this might be particularly promoted and encouraged through the annual 'Day of Forgiveness'.
- d. The churches could seek to encourage schools to become 'relational schools', so that right and healthy relationships are actively promoted within schools, between parents and teachers, and between pupils. This could contribute to building a culture of 'other-person-centredness', forgiveness and reconciliation in the years ahead.<sup>2</sup>

6. Possible steps towards a more Relational and debt-free economy

- a. Begin to encourage the principle: **'No reward without responsibility, no investment without involvement, no profit without participation'**. This would have many implications for the way Greek families and individuals relate to one another because shared financial interests help to develop inter-personal and inter-group relationships. The implications include:
  - Higher taxation of interest-based transactions and financial instruments relative to equity because fixed returns (interest) reduce the incentive for savers/investors to be engaged with where and how their funds are used. Companies should be discouraged from using debt finance (bonds and bank loans), and encouraged to use more equity finance, through the tax system.
  - Incentives for shareholders to engage actively with companies where their funds are invested, as the responsibility principle should require investors to accept some degree of responsibility to contribute towards payment of debts if the company incurs losses (i.e. some limitation on 'limited liability'). This would give more transparent legitimacy for returns on investment, whether in agriculture or industry, because no-one could accuse investors of being 'absentee landlords'.
- b. Lower mortgage debt by restructuring housing finance. Many households in Greece cannot pay their mortgages and will not be able to service such a high level of debt in the foreseeable future. One way forward would be to convert a significant proportion of mortgage debt to a shared equity ownership structure so that families own part of their property and rent the remaining part from the financial institution which owns the rest of the property. This would have the following advantages:
  - It avoids the possibility of negative equity;
  - It provides greater flexibility for households to increase or decrease the size of the share of the property that they own depending on their economic circumstances. [In order to maintain the relationship between the lender and borrower, it is essential that the lender is not permitted to sell on their share of equity in a property to a third party who has no knowledge of the original borrower.]
  - From the bank's perspective, it would in many cases save them from needing to repossess homes, and prevent a further decline in house prices.

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<sup>2</sup> See [www.relationalschools.org](http://www.relationalschools.org)

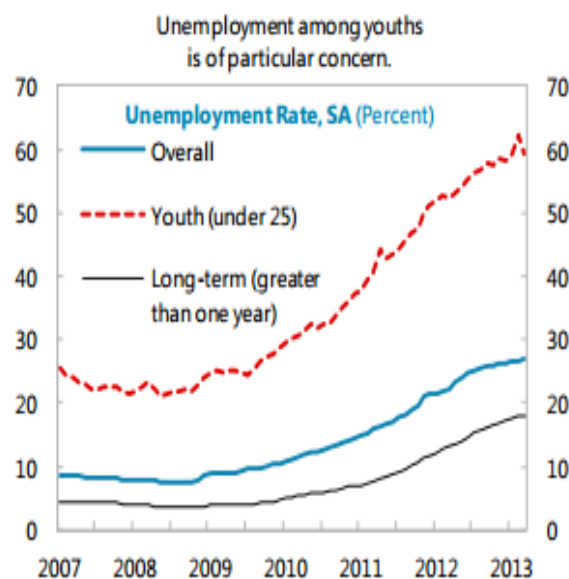
- It would help potentially to recapitalise banks' balance sheets.
- c. A 'Relational Ratings Agency' could be established to measure the quality of stakeholder relationships among stakeholders, both between and within companies and parastatals, as proposed by the paper 'Transforming Capitalism from Within'<sup>3</sup>. This also is consistent with recommendations of the International Integrated Reporting Council.
- d. Debt counselling services are an important way to reduce stress in households (and companies). The church in Greece could request the EU to fund such a service using church-related debt-counselling services, training Greek speakers to deliver such counselling from UK, Cyprus etc, in addition to what would be available from Greece itself. Government could provide practical advice and help for all families to renegotiate their personal debts with government utilities and financial institutions so as to help households to escape from the slavery of personal and household debt.

## 7. Questions for discussion

- a. What are the positive opportunities, from a long-term point of view, arising from the current economic crisis in terms of the renewal of Greek society?
- b. What is the potential for a Truth and Reconciliation commission in regard to unpaid tax obligations in Greece? What obstacles would need to be overcome? Who could initiate such a process?
- c. Is the idea of an annual 'Day of Forgiveness' a realistic proposal for Greece? Who should promote this idea? What issues from the past should be its main focus?
- d. How can the international Christian community help to resolve both the immediate financial crisis and the longer-term underlying economic problems in Greece? How can the international community help to empower Greek civil society to address the current extensive social needs?

Cambridge, UK, 7<sup>th</sup> May 2014

Figure 1



Sources: Elstat; Eurostat; Haver; and IMF staff calculations.

1/ Includes wholesale and retail trade, transportation and storage, and accommodation and food service activities.

<sup>3</sup> Transforming Capitalism from Within, a Relational Approach to the Purpose, Performance and Assessment of Companies, by Jonathan Rushworth and Michael Schluter. Downloadable from the Relational Research website: [www.relationalresearch.org](http://www.relationalresearch.org)

Figure 2

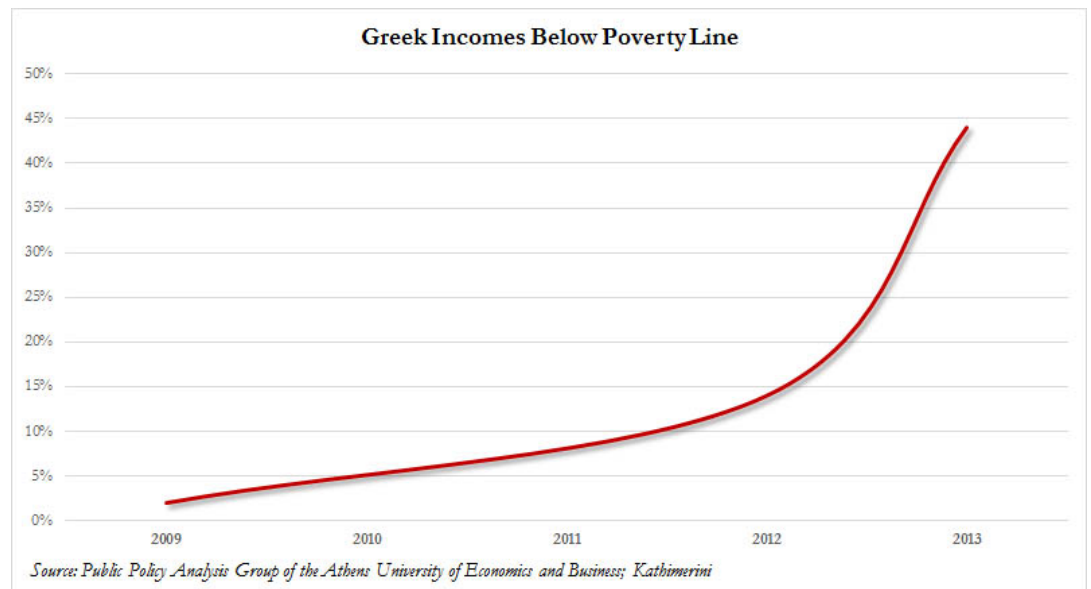


Figure 3

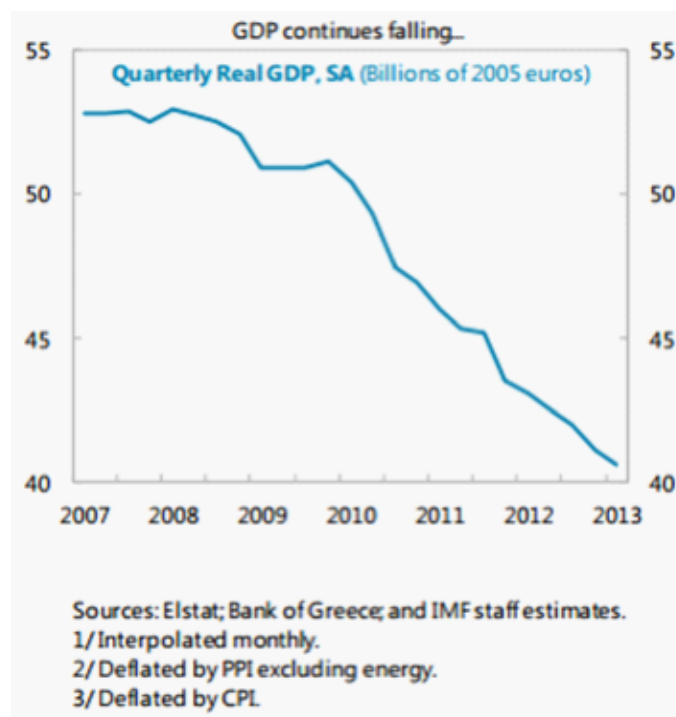


Figure 4

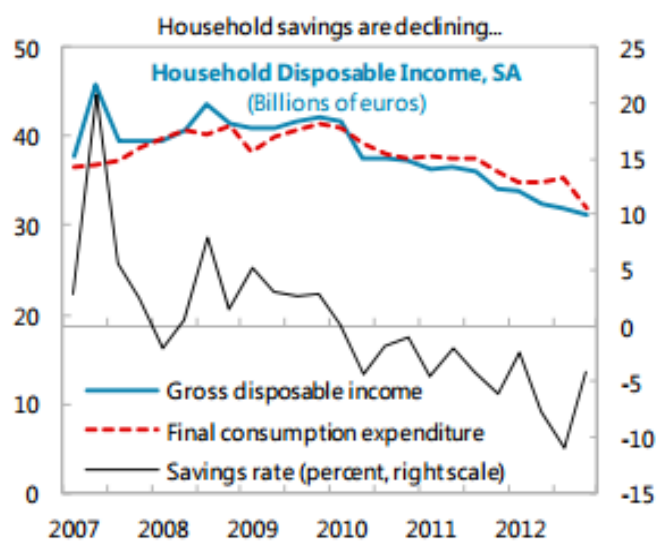


Figure 5

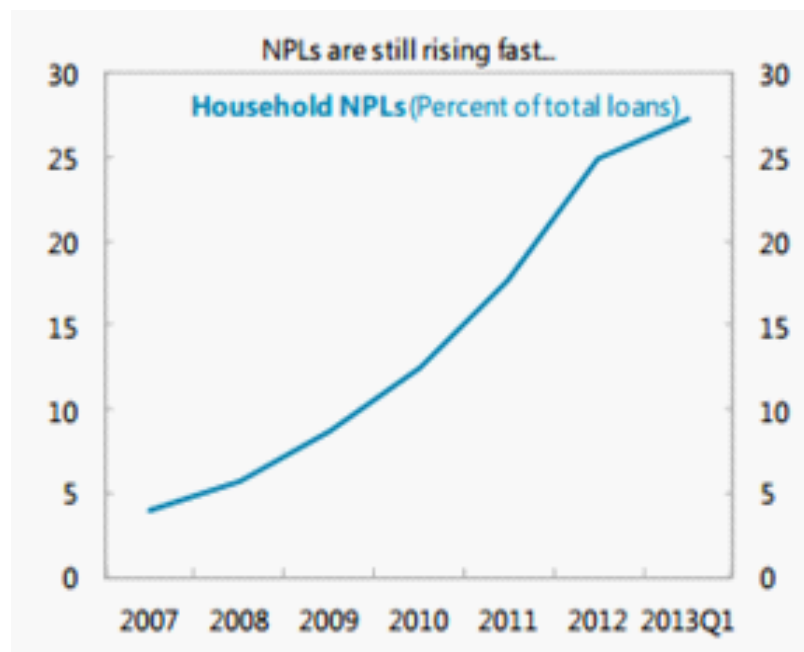


Figure 6

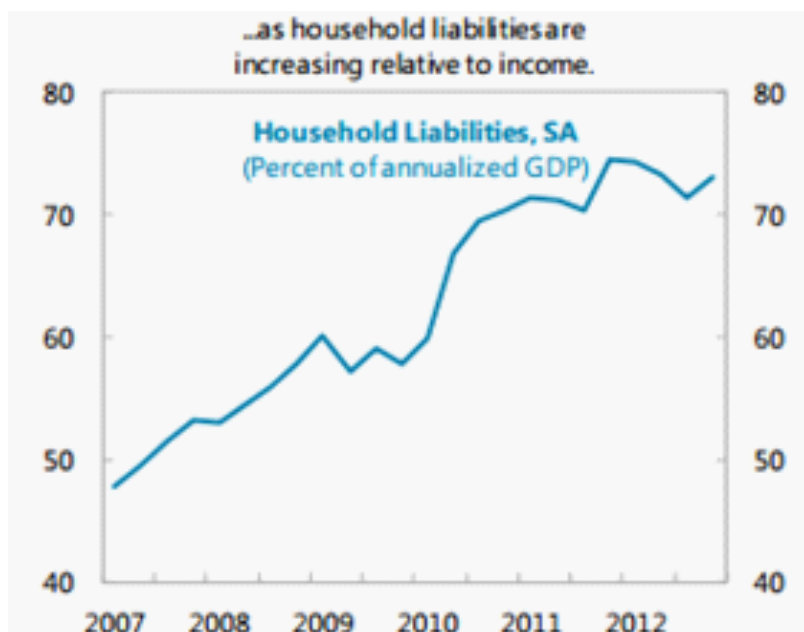


Figure 7

