

## **THE FUTURE OF THE EUROZONE. HAS THE «NEVER ENDING» GREEK TRAGEDY REACHED ITS FINAL ACT**

**Alina BUZĂIANU<sup>1</sup>**

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### **ABSTRACT:**

*THIS MEDITERRANEAN COUNTRY DUMPED ITS OWN CURRENCY, THE DRACHMA, IN 2001 IN FAVOR OF THE EUROPEAN UNION'S NEW SINGLE CURRENCY, THE EURO. AS A RESULT, IT GAINED UNPRECEDENTED FOOTING IN FINANCIAL MARKETS. WITH GREEK DEBT BACKED BY THE ROCK-SOLID EURO, THE LEADERSHIP IN ATHENS RAISED BILLIONS FROM FOREIGN PENSION FUNDS AND GLOBAL BANKS AT INTEREST RATES NEARLY AS LOW AS THOSE OFFERED TO GERMANY, THE FISCALLY CONSERVATIVE TITAN OF EUROPE. FLUSH WITH EASY MONEY, GOVERNMENT SPENDING SOARED AND THE ECONOMY BOOMED. WHEN THE GLOBAL FINANCIAL MELTDOWN HIT - AND GREECE'S HIDDEN BORROWINGS CAME TO LIGHT - THE COUNTRY WAS ILL-PREPARED TO COPE WITH SUCH A DISASTER. THE DEBT LEVEL REACHED THE POINT WHERE THE COUNTRY WAS NO LONGER ABLE TO REPAY ITS LOANS, AND WAS FORCED TO ASK FOR HELP FROM ITS EUROPEAN PARTNERS AND THE IMF IN THE FORM OF MASSIVE LOANS. IN THE SHORT TERM, HOWEVER, THE CONDITIONS ATTACHED TO THESE LOANS HAVE COMPOUNDED GREECE'S WOES.*

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**KEY WORDS:** ECONOMY, GREECE, RECOVERY, EUROPEAN UNION, CRISIS, DEBT

### **INTRODUCTION**

Since its beginnings 60 years ago, the European community has almost always stumbled from one crisis to the next. Setbacks are part of its normal mode of operation. A sense of crisis characterizes the modern European era. From it, one can draw the general conclusion that Europe actually isn't a state or a community in the national sense, which grows together organically. It also can't be compared with the ancient Greek city-states, which, despite their differences and rivalries, formed a single cultural unit. European nations are not alike, which is why they can't be merged together.

What unites them is not a community but a societal model. There is a European civilization and a Western way of thinking. Since the Greeks – from Socrates to Plato to Aristotle – Western philosophy has inherited two fundamental principles: Man is not the measure of all things, and he isn't immune to failure and evil<sup>2</sup>.

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<sup>1</sup> Researcher, Romanian Diplomatic Institute, Bucharest, Romania, alina\_idr2013@aol.com

<sup>2</sup> Philosopher André Glucksmann, *A Dark Vision of the Future of Europe*, "Spiegel online", Interview conducted by Romain Leick, translated from the German by Christopher Sultan, August 23<sup>rd</sup> 2012, accessed March 11<sup>th</sup> 2013.

Nevertheless, he is responsible for himself, and for everything he does or refrains from doing. The adventure of mankind is an uninterrupted human creation. Europe was never a national entity, not even in the Christian Middle Ages. Christianity always remained divided -- the Romans, the Greeks and later the Protestants. A European federal state or European confederation is a distant goal that is frozen in the abstraction of the term.

The crisis of the European Union is a symptom of its civilization. It doesn't define itself based on its identity but, rather, on its otherness. A civilization isn't necessarily based on a common desire to achieve the best but, rather, on excluding and making the evil taboo. In historical terms, the European Union is a defensive reaction to horror. The Balkan wars in the former Yugoslavia and the murderous incendiary actions of the Russians in the Caucasus didn't happen that long ago. The European Union came together to oppose three evils: the memory of Hitler, the Holocaust, racism and extreme nationalism; Soviet communism in the Cold War;<sup>3</sup> and, finally, colonialism, which some countries in the European community had to painfully abandon<sup>4</sup>.

These three evils gave rise to a common understanding of democracy, a civilizing central theme of Europe.

In the early 1950s, the core of the union was the establishment of the European Coal and Steel Community (ECSC), the first supranational economic alliance in the area of heavy industry; (it was) Lorraine and the Ruhr area, the ECSC as a means of preventing war. As everyone knows, the counterpart today would be a European energy union. Instead, Germany decided to embark on its transition to renewable energy on its own, ignoring the European dimension. Everyone is negotiating individually with Russia for oil and gas, Germany signed an agreement to build the Baltic Sea pipeline despite the resistance of Poland and Ukraine, and Italy is involved in the South Stream pipeline through the Black Sea.

Complaints about the loss of vitality, decadence and downfall have been a recurring theme in European history. Of course, we are no longer constantly living on the brink of a global political and ideological catastrophe, as we did in the 20th century. But disconcerting shifts are underway along Europe's margins, such as an ominous encounter between Stalinism and old European nationalism in Hungary and Romania. And there is the special case of Greece. The country is an isolated case of sorts, with a horribly chaotic history since independence in 1830 as well as after 1945, complete with civil war and military dictatorship<sup>5</sup>. In many ways, Greece is at odds with Europe, being anti-German, pro-Serbian and often pro-Russian.

### **HOW GREECE GOT INTO SUCH A MESS IN THE FIRST PLACE?**

It is widely acknowledged the fact that, back in 1999, in the beginnings of the single European currency, the European Union had very little reasons for accepting Greece among the members of the newly euro-zone. And its reserve, then, might just prove to have

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<sup>3</sup> Emilia Andreea Duță, 'The Romanian struggle for detente inside of Warsaw Treaty (1966-1991)', *Studia Securitatis*, nr.1/April 2014, 160-171.

<sup>4</sup> Philosopher André Glucksmann, *A Dark Vision of the Future of Europe*, „Spiegel online”, *idem 1*. See also Flavius Cristian Mărcău și Mihaela Andreea CIOREI, „State – The main actor of international relations”, *in Research and Science Today, Supplement No.1(3)/2012*, Iunie 2012, editura Academica Brâncuși, pp. 115-129.

<sup>5</sup> Philosopher André Glucksmann, *A Dark Vision of the Future of Europe*, „Spiegel online”, *idem 1*.

not been quite a far-fetched thought or a bizarre whim. During that year of '99, and furthermore, the Greek debts were simply too high and inflation was out of control.

When the due date came, in 2000, the EU finally allowed it to join, though there were many questions at the time regarding the fact that Greece was operating some peculiar "maneuvers" – squeezing its figures to fit the stringent euro criteria, only for them to slip back to dangerous levels once the country had joined the euro-zone. Indeed many believe Greece simply chose to lie about its figures to gain entry. If we care to take a look at some figures at the time, we can easily see that its inflation was 4%, much higher than the European average, and was suffering from one in ten people out of work – a higher figure than currently in recession-hit Britain. By joining the euro, however, Greece suddenly enjoyed substantially lower interest rates, because then it was able to borrow in Euros. Whereas during the 1990s, Greece was frequently in the situation to pay out 10% or more (even 18% in 1994) to borrow money, in the aftermath of gaining full-membership of the euro-club, its rate fell dramatically to 3% or 2%.

Debt troubles in Greece, especially, should not have surprised anyone, least of all northern Europeans. But, even when the Greek crisis erupted, leaders in Brussels and Frankfurt failed to recognize it as a close cousin of the Argentine crisis of 2001-2002, the Mexican crisis of 1994, and many others in history, including among European countries.

In Argentina, the economy turned from a free-fall depression – with GDP falling at an annual rate of almost 20% at the end of 2001 – to positive 8% GDP growth by early 2002 after default and exit from the currency board. But the transition was very ugly and costly: riots and blood in the streets and dozens of deaths; massive social and political instability and five different presidents in one year; a deposit freeze in the banking system; capital controls; asymmetric pesification<sup>6</sup> and the need to recapitalize insolvent banks; the loss of external market access; a sharp short-term rise in poverty and unemployment (before high growth rapidly cut both); inward-looking economic policies and political economy; the retardation of economic reforms; a sharp fall in inward FDI; and an overall change in economic policies toward long-term populism and policy mismanagement. So, breaking up is hard and costly to do and every country considering it should be fully aware of the risks of such collateral damage. And if a society finds such costs unbearable it should stick to the policy sacrifices necessary to avoid that painful break-up<sup>7</sup>.

Until 2006, most Americans based their economic behavior on the assumption that nominal housing prices, even if they slowed, would not fall, because they had not done so before – within living memory in the US. They may not have been aware that housing prices had often fallen in other countries and in the US before the 1940's.

Needless to say, many indebted homeowners and leveraged bank executives would have made very different decisions had they thought that there was a non-negligible chance

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<sup>6</sup> The asymmetric conversion of loans and deposits into pesos, the increase in banks' non-performing loans and the decline in value of bank holdings of government debt, left much of the financial sector virtually insolvent. To help prevent widespread insolvencies, the Argentine government pledged to provide offsetting compensation to banks. The general principles of the compensation scheme were to: (1) maintain the peso value of each bank's net worth, and (2) leave the banks hedged in terms of currency. To that end, the Argentine government issued two types of bonds to banks: (1) a bond denominated in pesos (BODEN 2007) to compensate for losses linked to asymmetric pesification; and (2) a bond denominated in dollars (BODEN 2012) that the Central Bank offered to affected banks at a discounted price of Ps.1.40 plus CER indexation to US\$ 1.00, to compensate for the consequences of creating a mismatch between a bank's dollar and peso position as a result of pesification. Banks could purchase the BODEN 2012 with either BODEN 2007 or by borrowing the applicable amount from the Central Bank.

<sup>7</sup> Nouriel Roubini, *Full Analysis: Greece Should Default and Abandon the Euro*, "Financial Times", September 22<sup>nd</sup>, 2011, accessed November 10<sup>th</sup>, 2012.

of an outright decline in prices. From 2004 to 2006, financial markets perceived market risk as very low. This was most apparent in the implicit volatilities in options prices such as the VIX<sup>8</sup>. But it was also manifest in junk-bond spreads, sovereign spreads, and many other financial prices. One reason for this historic mispricing of risk is that traders' models went back only a few years or at most a few decades (the period of the late "Great Moderation"). Traders should have gone back much further – or better yet, formed judgments based on a more comprehensive assessment of what risks might confront the world economy.

Greece went on a spending spree, allowing public sector workers' wages to nearly double over the last decade, while it continued to fund one of the most generous pension systems in the world<sup>9</sup>. Workers when they come to retire usually receive a pension resembling 92% of their pre-retirement salary. As Greece has one of the fastest ageing populations in Europe, the bill to fund these pensions kept on mounting.

Tax evasion, endemic among Greece's wealthy middle classes, meant that the Government's tax revenues were not coming in fast enough to fund its outgoings.

By the start of 2010, Greece's debt had hit €300 billion, more than the entire value of its annual GDP. This was very unlikely to fall quickly, as its current budget deficit – how much its borrowing exceeds tax receipts – is running between 12.7-13.6% of its gross domestic product, twice the euro-zone average. In addition, Greece's multi-billion euros debt is 80% owned by foreigners -- mostly pension funds and banks in Germany, Britain and France that are still recovering from the financial crisis. The exposure of U.S. banks to Greek debt stands at about \$18 billion<sup>10</sup>.

Things have come to a head because the international rating agencies have cut Greece's credit rating, concerned that it will default on its debts. This has the immediate effect – just as when a credit agency cuts a consumer's rating – of pushing up the cost of its borrowing, setting off a vicious spiral.

The news sent markets higher. During the year 2010 turmoil and in the immediate aftermath, Dow Jones industrial average rose 1.5%, to close at 10,058%, and Greek bonds and the euro rose as well.

One reason the markets reacted with such enthusiasm is that Greece's problems aren't its alone. Similar fears have hit nations such as Portugal, Spain and Italy, which also benefited from historically low borrowing rates, but which critics say were riskier investments than they seemed<sup>11</sup>.

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<sup>8</sup> Jeffrey Frankel, *A Flock of Black Swans*, "Project Syndicate", August 20<sup>th</sup> 2012, accessed at September 26<sup>th</sup> 2012.

<sup>9</sup> "Their mistake was to go out, borrow money and use it to fund huge wage growth, rather than pay down its already substantial debts", according to Ben May, Greek economist at think-tank Capital Economics, in Harry Wallop, "*Greece: Why did its economy fall so hard?*", The Telegraph, April 28<sup>th</sup>, 2010, accessed January 20<sup>th</sup>, 2014, available at: <http://www.telegraph.co.uk/news/worldnews/europe/greece/7646320/Greece-why-did-its-economy-fall-so-hard.html>

<sup>10</sup> According to a report by Barclays Capital cited in Anthony Faiola, "*Greece's economic crisis could signal trouble for its neighbours*", Washington Post Foreign Service, The Washington Post, February 10<sup>th</sup>, 2010, accessed at March 5<sup>th</sup>, 2014, available at: <http://www.washingtonpost.com/wp-dyn/content/article/2010/02/09/AR2010020903946.html>.

<sup>11</sup> "There are parallels to the subprime mortgages in the U.S., especially with Greece"(...) "They borrowed money on an economy with almost no manufacturing base, one that lives off tourism and agriculture. They have been living beyond their means. Even if they get short-term help from Europe, the question is still, how and when are they going to cut back?", rhetorically asks Thomas Mayer, chief economist with Deutsche

Greece has long lived beyond its means and spent much of the last two centuries defaulting on its debts. Joining the euro was meant to put an end to all that. However, it merely seems to have exacerbated its problems. Although the country saw a long economic boom during the 2000s, analysts say successive governments failed to tackle an inefficient public sector in which wages and benefits ballooned. When the Socialist government came to power in October, its leaders discovered that their predecessors had "doctored" Greek financial data and that the deficit actually was 12.7% of the gross domestic product, as much as double the previous figures. The realization sparked downgrades by rating agencies that triggered the sell-off in Greek bonds, as well as a sharp drop in the euro.

Greece is now in a vicious circle of insolvency, lack of competitiveness and ever-deepening depression, exacerbated by draconian fiscal austerity that is making the recession much worse. And while fiscal austerity and structural reforms are necessary to restore medium-term debt sustainability and growth, in the short run they will lead to an even deeper recession, thus making the deficit and debt even more unsustainable.

Argentina in 1999-2001 fell into the same trap of deficit, austerity, deeper recession, depression, higher deficit, greater insolvency.

### **WHERE DO WE GO FROM HERE?**

Greece's woes presented European leaders with their biggest test of unity since the advent of the common currency almost 15 years ago. In the break of January, the country took over the rotating presidency of the European Union<sup>12</sup> amid hopeful forecasts of an end this year to its protracted recession but lingering resentment of the austerity imposed by the 28-nation bloc. As the six-month governance of the European bloc lands in the hands of Greece, the country faces the challenge of running the entire continent while they figure out how to best run themselves.

Greek leaders put a confident face on their economic circumstances and skirted questions from journalists about whether some of the country's massive debt would have to be written off for the glimmers of recovery to be realized. With great expectations ahead, Athens vows to focus its EU presidential term on reducing Greece's staggering jobless rate and improving security in a country that has become a conduit for illegal immigration into Europe.

Greece continues to implement its "rigorous" austerity measures, which include major job cuts in the public sector, wage and pension cuts, as well as the privatization of state assets. Unemployment in Greece is amongst Europe's highest at 27.8% compared to the 28-member nation average of 12%. Youth unemployment is over 60%.

Six years of straight recession has hit the economy hard<sup>13</sup>, and now the country is experiencing severe deflation; prices have hit 50-year lows, and disposable incomes have diminished by a third since the country dipped into recession.

Europe's biggest economy has been at odds with the IMF and other Troika members over a Greek debt write off. Even after receiving the biggest bailout in European

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Bank in London in Anthony Faiola, "Greece's economic crisis could signal trouble for its neighbors", *idem* 2.

<sup>12</sup> Greece takes the helm of the EU at a critical time, just months before the end of the current European Parliament. This means that Greece will have less than four months to deliver on complicated dossiers, rather than the full six months. The main presidency priorities are the European Banking Union, growth and jobs, migration and a European maritime policy.

<sup>13</sup> The Greek economy has reportedly contracted 15% of its admittedly inflated size in 2008 after tax increases and cuts in wage and public spending. Unemployment has been rising steadily – it went up from 11.7% in April 2010 to a staggering 21% in January 2012.

history, the Greek economy continues to contract, and it is the most indebted country in the euro-zone, with debt totally 176% of gross domestic product.

While the levels of output volumes and new orders increased strongly, jobs kept being lost, which puts a fully fledged recovery in question. Two other leading indicators - economic sentiment and consumer confidence – produced a mixed picture last January: while economic sentiment improved by 1.2 points to 92.6, consumer confidence was down by the same 1.2 points to -64.5.

The International Monetary Fund has admitted it has made mistakes in its handling of the crisis in Greece. Germany has so far been the biggest lender to troubled European economies. The next financial lifeline Greece will receive from Germany and its European lenders for 2014-2015 will be worth, according to IMF's forecast, 10.9-11 billion euro, and Greek Finance Minister Yannis Stournaras has publicly estimated a similar sum for the third bailout.

Although the form of political union advocated by Germany and others remains vague, it would not involve centralized revenue collection, as in the US, because that would place a greater burden on German taxpayers to finance government programs in other countries. Nor would political union enhance labor mobility within the eurozone, overcome the problems caused by imposing a common monetary policy on countries with different cyclical conditions, or improve the trade performance of countries that cannot devalue their exchange rates to regain competitiveness.

The most likely effect of strengthening political union in the eurozone would be to give Germany the power to control the other members' budgets and prescribe changes in their taxes and spending. This formal transfer of sovereignty would only increase the tensions and conflicts that already exist between Germany and other EU countries.

2013 was a year of slight economic recovery and complete political chaos for the nation. The EU's bailouts have managed to stabilize some sectors of the economy despite Greece's serious problems with social safety nets and wasteful spending during the 2004 Athens Olympic Games that have greatly inflated the national debt. Greece's so-called troika of international lenders — the European Commission, the European Central Bank and the International Monetary Fund — has extended the country two bailouts worth €240 billion<sup>14</sup>. The bailout money has been given out in installments in exchange for austerity measures, chiefly tax increases and cuts to salaries and pensions, that have slashed living standards and led to record unemployment rates. The latest measures include steps to lift barriers to competition and a new framework for the continuing recapitalization of Greek banks. It also includes a pledge to distribute €527 million to Greeks on low incomes<sup>15</sup>.

After six years of recession, the Greek economy is forecast to grow at a modest 0.6% rate this year. Structural reforms, albeit slow, are starting also to take root and deliver results. Labour market reforms – a reduction by 22% of the minimum wage, average salaries in the public sectors reduced by 23% and pensions income by 21% - are producing results in terms of fiscal consolidation, but less so in terms of new jobs. But the spending cuts and tax hikes imposed on Greeks have sown resentment, fueling social unrest and

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<sup>14</sup> Greece's government secured enough votes in parliament after midnight on Sunday, March 30<sup>th</sup>, to pass what was called a "key reform bill", ensuring further bailout loans to avoid default. Greece needs the fresh bailout to repay 9.3 billion Euros of debt maturing in May, this year. (*Euronews*, 31.03.2014)

<sup>15</sup> Despite this newly adopted bill, including more than half a billion euro windfall to be spent on poor, the hardest austerity-hit Greeks, the mood on the streets remains highly critical of the government. (*Euronews*, 31.03.2014)

undermining the coalition government's efforts to stay the course through years of hardship.

Austerity and IMF debt have squeezed the indebted Greek economy into the ground. The economy is so far in debt to its lenders, it has to dismember and sell off state assets in order to reduce costs and raise money. Yet, apart from the popular domestic aversion to these conditions, the economic wisdom of austerity in the medium term can be questioned. Greece needs the economy to expand to generate revenues for debt repayment. Unless wage and benefit cuts from the government are accompanied by a corresponding increase in private-sector dynamism, they will not achieve growth.

So Greece may have averted a default – and, in truth, bondholders had little choice but to agree – but many continue to doubt its ability to meet future obligations<sup>16</sup>, given the stringent cutbacks in public spending imposed on it by the troika of the European Commission, the European Central Bank and the International Monetary Fund. As importantly for the euro-zone, this debt swap does not address the larger question of containing the contagion. Portugal and Spain continue to be a worry.

As for the Greeks a painful process of national rebuilding lies ahead, regardless. So they would do well to examine what the real costs of exiting the euro-zone and reviving the drachma will be for their economy. At the very least, that will give them monetary leverage, just as the East Asian economies enjoyed during the 1998 crisis, and which played an important part in restoring the region's growth.

It's everybody's guess, that at least for the near future, the larger question of the Greek economy's ability to recover remains unanswered.

## CONCLUSION

In the midst of the near financial ruin in Greece and Italy, former French President Nicolas Sarkozy wondered a few years ago, whether the whole idea of one Europe needed a rethink<sup>17</sup>. What he had in mind, first and foremost, was the euro, and whether any country should still be admitted into the euro zone. But there has long been more to the European Union than currency; it was never only about the money.

From its beginnings in the late 1950s, the EU has been a powerful promoter of stability and democracy in the region and the world. America has no monopoly on that effort. But now, as the EU turns inward in a bid to save the economies of its original members, its influence will weaken – like the euro itself.

Initially, with Europe exhausted by two world wars, fascism, totalitarianism, and the threat of communism, the EU helped to keep the peace. While combining the coal and steel communities in Germany and France served economic interests, the treaty that brought them together was always about more than dollars and cents. After all, no war could be fought, and no army could be armed, without independent access to mines and steel. Continental Europe tied its own hands to avoid slaughter in the future. The EU played the same role even after the memory of World War II began to fade.

When Spain, Portugal, and Greece moved from dictatorships to democracies, the EU helped ease those transitions by bringing each one into its fold. Once the Soviet Union fell, the EU opened its doors yet again. In 2004 alone, Hungary, Estonia, Cyprus, the

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<sup>16</sup> Indeed, given the fact that Greece was unable to stick to the earlier austerity package following the 2010 bailout of 110 billion Euros, it could be considered unlikely that it will be able to conform to the deeper cuts being imposed this time. The price of the second bailout included more cuts in government spending, equal to 1.5% of GDP, plus steep reductions in pensions, benefits and civil service jobs.

<sup>17</sup> Juliette Kayyem, *A Rethink of Europe*, "The Boston Globe", November 17<sup>th</sup>, 2011, accessed April 30<sup>th</sup>, 2013

Czech Republic, Poland, Malta, Latvia, Lithuania, Slovakia, Slovenia, Bulgaria, and Romania all joined the party.

Following in that same democratizing tradition, the EU embarked on an ambitious European Neighborhood Policy in response to the Arab Spring, to promote „deep and sustainable democracy” in North Africa and the Middle East. The European Union was, in other words, both carrot and stick. It had a disciplining effect on member nations. And it used membership or economic support as a magnet to lure non-member nations toward the ideals of liberal democracy its original members embraced.

The new austerity in Europe also means emerging Arab democracies will get little from the EU. Worse, the EU’s well-known elitism is galvanizing the rise of new populist parties. Anti-globalization, anti-immigrant, and anti-elite, they are also anti-EU. The Netherlands’ Freedom Party, France’s National Front, the True Finns, and the Danish People’s Party combine racism and nationalism in a perfect antidote to Europeanism<sup>18</sup>.

Still, the EU is unlikely to disintegrate. The continent has, after all, been relatively peaceful since World War II. The EU may become smaller and more rigidly structured, as Sarkozy envisioned<sup>19</sup>. And by doing so it may save itself. But a certain idea of the EU will be gone. The latest sovereign-debt ratings and the details of the latest austerity package matter, but they only capture part of the drama in Europe. Even if the EU survives this fiscal crisis, it will be some time until it has the bandwidth or credibility to play the galvanizing role for the many countries now transitioning to democracy.

Finally, the eurozone needs policies to restart economic growth on its periphery. Without growth, any austerity and reform will deliver only social unrest and the constant threat of a political backlash, without restoring debt sustainability. To revive growth, the European Central Bank needs to stop raising interest rates and reverse course. The eurozone should also pursue a policy – partially via looser monetary policy – that weakens the value of the euro significantly and restores the periphery’s competitiveness. And Germany should delay its austerity plan, as the last thing that the eurozone needs is a massive fiscal drag.

To prevent a disorderly outcome in the eurozone, today’s fiscal austerity should be much more gradual, a growth compact should complement the EU’s new fiscal compact, and a fiscal union with debt mutualization (Eurobonds) should be implemented. In addition, a full banking union, starting with eurozone-wide deposit insurance, should be initiated, and moves toward greater political integration must be considered, whether Greece will leave the eurozone or not<sup>20</sup>.

The eurozone’s current muddle-through approach is an unstable disequilibrium: kicking the can down the road, and throwing good money after bad, will not work. Either the eurozone moves toward a different equilibrium – greater economic, fiscal, and political integration, with policies that restore growth and competitiveness, including orderly debt restructurings and a weaker euro – or it will end up with disorderly defaults, banking crises, and eventually a break-up of the monetary union. The status quo is no longer sustainable. Only a comprehensive strategy can rescue the eurozone now.

Unfortunately, Germany resists all of these key policy measures, as it is fixated on the credit risk to which its taxpayers would be exposed with greater economic, fiscal, and

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<sup>18</sup> Juliette Kayyem, *A Rethink of Europe*, *idem 12*. Also Jack Ewing, *The Euro Zone Crisis: A Primer*, “The New York Times”, May 22<sup>nd</sup>, 2012, accessed April 30<sup>th</sup>, 2013.

<sup>19</sup> Juliette Kayyem, *A Rethink of Europe*, *idem 12*

<sup>20</sup> Nouriel Roubini, *A Global Perfect Storm*, “Project Syndicate”, June 15<sup>th</sup>, 2012, accessed November 10<sup>th</sup>, 2013.

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banking integration. As a result, the probability of a eurozone disaster is still lurking. And, while the cloud over the eurozone may be the largest to burst, it is not the only one threatening the global economy.

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