Question
What do you think of the views held by our Greek-Australian compatriot, Yanis Varoufakis, who was an Economics lecturer at the University of Sydney a decade ago or so and now of course is the Greek party leader of "MeRA 25" about Greece's recovery the last few years?

Answer
There was never any realistic "Plan B". There is an "Inside Story": after Greece failed to implement economic reform connected to the first bail out Germany/Merkel wanted Greece not only out of the Euro currency system but also out of the EU.

Fortuitously for Greece, at around a most critical time, Tim Geithner (US Treasury Secretary, Obama Administration) was doing a tour of Europe and visited Merkel. Merkel advised Geithner of German intentions.

Geithner reported back to Obama and on the basis of the US wanting to avoid instability in Southern Europe (Russian influence) banded together with the IMF and France to successfully block German intentions. Ultimately, Greece narrowly avoided having to default as well as being thrown out of the Euro zone and even the EU. In exchange, Greece was compelled to adopt policies to reform its economy. These were the same policies that the OECD and IMF had been urging Greece to adopt for the previous three decades.

Question:
What would have been the consequences of defaulting or adopting "Plan B"?

Answer
The path (narrowly avoided) to a failed state was never really explained to Greeks by the Greek mainstream media or Greek Parliamentarians. The chain reaction of a Greek Government default and its consequences is the very reason why a default was never viable. The often advocated "Plan B" meant defaulting and adopting the Drachma. This would have been more catastrophic than the Bailout policies and hence was never really an option.

The cost to Greeks of the Bailout Policies adopted was without parallel and inflicted a harsh reduction in incomes, employment and damaged the social fabric of a people. When a nation does nothing for decades to make its own economy viable and allows corrupt practices to exist the adjustments that then need to be done are immense.

A BRIEF DESCRIPTION OF HOW THIS WOULD HAVE PLAYED OUT:

1. The Greek Government defaults on interest payments and principal payments.
2. The Greek Government including all institutions and entities both public and private are also considered to have defaulted.
3. The European Central Bank cannot conduct business with any defaulted entity including the Greek Central Bank.
4. The ECB can no longer support the Central Bank of Greece by way of loans and participation in the Euro System.
5. Greece ceases to be a member of the Euro and reverts to Drachmas.
6. Greek banks are no longer viable without the ECB's support of the Central Bank of Greece.
7. Greek Banks can no longer be considered viable as no Bank in Greece meets Basle capital adequacy standards once non-performing loans are accounted for. Greek banks have zero capital and do not meet capital adequacy requirements.
8. Greek banks will have difficulty raising funds internationally, issuing letters of credit to facilitate international trade and any other banking activity outside of Greece.
9. The introduction of the Drachma will result in major and ongoing depreciations. Inflation will accelerate to levels difficult to imagine. The higher levels of inflation will be devastating.
10. Higher Greek inflation will create demands for wage increases and in turn given union strength in Greece will result in not only civil unrest and strikes but further inflation. A vicious inflationary cycle is likely to ensue.
11. Higher inflation will result in even higher interest rates on existing loans both commercial and domestic. Current levels of non-performing loans will rise significantly higher. A total collapse of the banking system could be avoided by the Greek Government "printing more money" however, this would only add further to inflationary pressures.
12. Additional risks arise with the Greek Budget. Greek budget deficits would not be funded from overseas investors (due to Greece having defaulted) and the Government would need to print more money. That would add to existing high inflation and interest rates.
13. Higher Interest rates would lead to a further collapse of investment and employment in Greece. The extent of economic devastation higher inflation, higher interest rates and a loss of confidence of investors in Greece would be immense.
14. Greeks would avoid holding Drachmas and an informal economy based on US Dollars and Euros would ensue. Similar to the situation in Argentina, Zimbabwe and Venezuela.
15. The expected boost to the Greek economy from the depreciation and ensuing recovery was an extremely high-risk assumption. A depreciation driven boost to an economy's competitiveness essentially means that wages do not rise in response to the initial imported inflation. Since a rise in wages will lead to more inflation and this will reverse any improvement in competitiveness.
16. In Greece's case it is very unlikely given the propensity of unions and citizens to strike to expect wages not rising strongly in response to imported inflation.
17. The downward economic spiral would mean Greek pensioners that would not be able to obtain pharmaceuticals, marginal businesses currently surviving on account of the stability in interest rates and currency bestowed upon Greece by the Euro would fail and ruin the savings of those now holding Drachmas.

Decades of financial incompetence on the part of both Greek political parties in government, that is New Democracy and PASOK resulted in an accumulation of public debt to 213% of Greece's national output.

Question
During the GFC and the adoption Greeks were demonstrating on masse against the Troika. What are your views on this?

Answer
The TROIKA of the International Monetary Fund (IMF), European Central Bank (ECB) and the European Commission (EC) were pursuing a path of ensuring that economic reforms took place in Greece so that Greece would remain a viable EU state, became competitive, managed its own finances, ensured that the banking system was stable and pay its debts. The real TROIKA Greeks needed to demonstrate against avoided exposure. Specifically, (1), a black economy representing about 30 per cent of economic activity combined with tax evasion; (2), corruption also known as a lack of transparency in Government and (3), a political system that grants itself effective immunity from criminal prosecution.

If the real TROIKA had been pursued by Greeks in the previous three decades, Greece would have never needed a bail out. Greece could have been a centre of economic dynamism ad influence in the Balkans. However, many benefited from the entrenched black market, corruption and waste. Many benefited and many avoided the consequences (such as budget deficits and a lack of competitiveness) as long as international investors lent money to Greece to pay for the budget deficit. This enabled Greece to avoid confronting its underlying economic problems - the real TROIKA. The greatest risk to Greece in the coming years is the re-establishment of the Government practices that got Greece into this economic quagmire in the first place and a failure to address Government waste and tax evasion.

Question
In closing, and as we are dealing with this global pandemic, how do you think Greece's economy will be affected short or mid-term?

Answer
Greece's vulnerability has increased. By 2022, Greece it is hoped will return to the path it has adopted since the bail out and gradually steers itself out of an economic turmoil created by decades of corruption, waste, tax evasion and political inaction on economic reforms to make Greece a competitive nation.

For more information on Mr Haralabopoulos' lecture on the Greek economy, please visit the following website slideshare
https://www.slideshare.net/HaralabopoulosAkis/greek-economy-recent-developments-by-akis-haralabopoulos?qid=14164d9e-90fa-4239-993f-0895742e45fd&v=&b=&from_search=2
or go to:
slideshare.net and search for "Greek Economy" and "Haralabopoulos"