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GREECE'S ECONOMIC WOES

The Greek government narrowly passed an austerity bill recently allowing the country to receive a large loan from the European Union (EU) and the International Monetary Fund (IMF). This will be Greece's second loan and without it, the country would default on its current debts.

Greece is a country of Southern Europe bordering Albania, Macedonia, Bulgaria and Turkey. It is a peninsular state, surrounded on three sides by the Aegean Sea, the Ionian Sea and the Mediterranean Sea. With an area of 50,949 square miles (131,957 sq. km), Greece is about the size of Alabama.

Of the 10.8 million people in Greece, about 5.1 million are part of the labor force. Sixty-five percent work in the services sector, while 23 percent are in industry and 12 percent are in agriculture.

Greece has an unemployment rate of 12 percent and 20 percent of its population lives below the poverty line. Its per capita gross domestic product (GDP) is about two-thirds that of other leading European economies.

Greece's financial crisis is tied to its recent history. Between 2004 and 2007, Greece's economy grew about 4 percent a year. That growth was due in part to an increased availability of credit that kept consumer spending high. Infrastructural spending related to the 2004 Athens Olympic Games also helped grow the economy during that time.

According to the BBC (June 29, 2011), when Greece adopted the euro as its currency in 2002, it became easier for the government to borrow money commercially. Greece spent above its means. It borrowed money heavily and public spending skyrocketed. The government raised public sector wages, almost doubling them over the last decade, and paid out pensions with much of the borrowed money. Lack of tax revenue kept the government borrowing to make ends meet. The country also has a big problem with tax evasion.

When the global financial crisis hit around 2008, Greece was in deep economic trouble. As Greece became less and less creditworthy in the eyes of world financial markets, it became too expensive for the country to borrow money. In 2010, with its debts looming and no money to pay them, Greece received its first bailout of $145 billion from the EU and the IMF.

Unfortunately, a little over a year later, Greece still has massive debt, the money from the first bailout is gone, and the country cannot afford to borrow more. Now, Greek politicians have voted to enact tough austerity measures required to receive a second rescue loan. Greeks are furious and have responded with protests and riots, questioning why they should pay for years of financial mismanagement by their government.

While raising $20 billion through taxes and privatization, Greece will simultaneously cut $20 billion in public spending. Taxes, as well as prices for fuel, alcohol and tobacco will go up. Cuts in spending will include losses of many jobs in the public sector, school closures and restrictions on pensions and welfare benefits. The government will sell the postal service and some of its most important ports to private companies. And rigid tax law enforcement will be incorporated.

If Greece were allowed to default on its loans, the result would not only be serious for Greece, but its neighbors as well. A Greek default would diminish confidence in other countries with faltering economies in the Eurozone like Ireland and Portugal. As with Greece, they could find themselves struggling to pay their debts, increasing their chances of default as well. More bailouts among the 17 countries of the Eurozone could weaken the euro and even jeopardize its future.

International banks have loaned the money to Greece, potentially creating a new global banking crisis. Along with the IMF, Germany and France will bear the brunt of the Eurozone's newest loan to Greece. Some Germans and French question why their taxes should be used to rescue another country that has made poor financial decisions.

With Greece part of the Eurozone, however, default on its loans could have a staggering economic effect across the region. Though distasteful, sacrifices of some may be necessary to save many.

And that is *Geography in the News*™. July 22, 2011. #1103.

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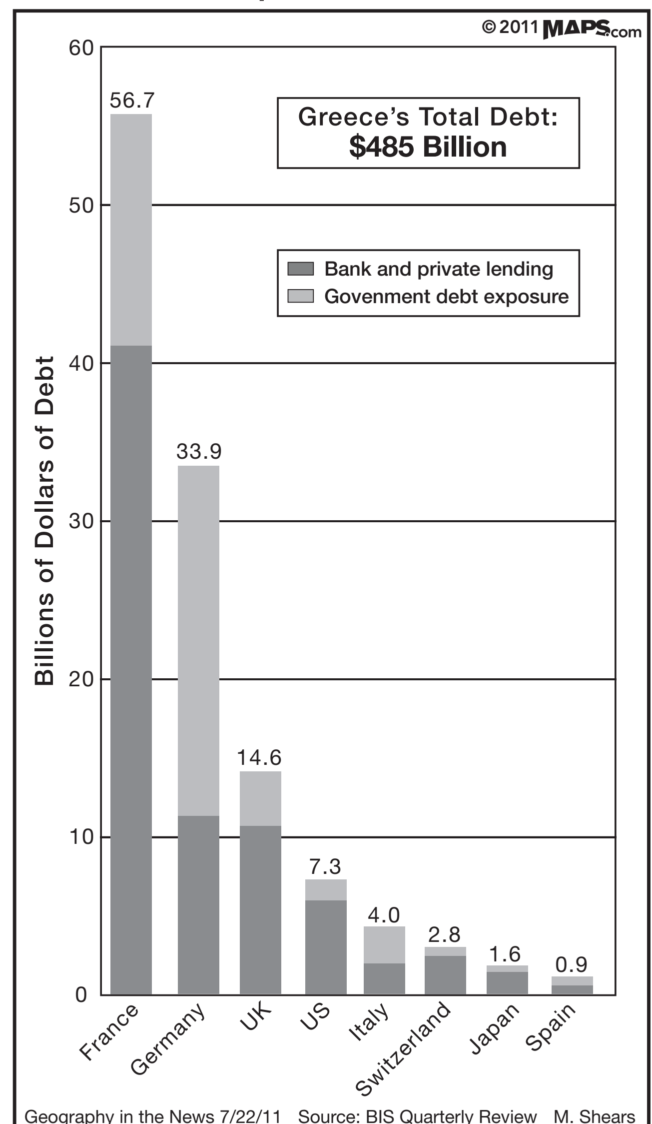

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