Greece could be broke by June, economist says

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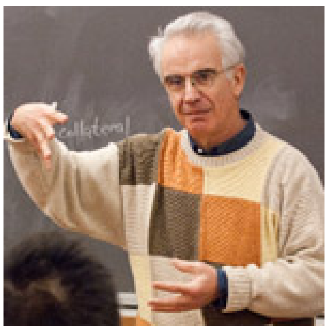

Costas Azariadis

(Phys.org) -- If international lenders refuse to renegotiate substantial reductions in Greek public debt, chances are that whatever government emerges in Greece in the next few weeks will run out of cash by the end of June, says an economist at Washington University in St. Louis.

“At that point, a suspension of interest payments will become almost inevitable, pushing Greece out of the Eurozone and back to the drachma,” says Costas Azariadis, PhD, the Edward Mallinckrodt Distinguished Professor in Arts & Sciences.

“The repercussions from an outright default on the Euro are hard to predict and include some scary scenarios,” the Greek-born Azariadis says.

The May 6 Greek election is expected to result in weeks of financial upheaval after voters took mainstream politicians to task for months of crippling austerity measures and voted a far-right extremist group into Parliament.

“With this election, voters in Greece — and in France as well — lashed out against fiscal austerity,” Azariadis says.

“Politicians who favored the Northern European model of balanced budgets, labor market reforms and global competitiveness were sent packing,” he says. “Many voters, especially those working in the public sector, opted to preserve the European welfare state with a strong safety net, good pensions and free medical care.”

The biggest gainers from the election are fringe parties on the extreme left and extreme right of the political spectrum, he says.

“What distinguishes those parties from others is a desire to renegotiate, and possibly to abrogate, the bailout agreements made with the European Union and the International Monetary Fund by the outgoing caretaker government headed by Lucas Papademos,” Azariadis says.

Samaras was given three days to assemble a coalition from a governing body divided on whether to renege on the terms of bailout agreements negotiated in May 2010.

The conservative New Democracy party and the socialist Pasok party, which were political rivals until the Greek debt crisis made them partners in the national government in 2011, are two seats short of the 151 seats needed for a parliamentary majority.

Greek voters, who Azariadis notes must deal with a 22 percent unemployment rate and a 20 percent drop in incomes, gave a clear signal that austerity has gone too far.

“Prospects for growth continue to be dismal for them and uncertain for the rest of Southern Europe, putting enormous pressure on the Eurozone,” Azariadis says. “Can the European Union find a recipe for faster growth while it keeps public spending under control?

“That seems to be the key question posed by the May 6 vote.”

Provided by Washington University in St. Louis

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