Example of essay on greeces economic downfall

Business, Marketing

In recent news, the problem of the Eurozone has been in the interest of various countries due to the economy's influence over the World Market. While some of the older members of the European Union managed to apply the Euro without many effects in their economies, other member had experienced various financial problems such as debt and increased inflation. Now, these troubled EU member states are facing complications in recovering their formerly stable economies. This problem is still currently present in some member countries, with Greece being the centre of the current economic problem of the Eurozone. Before its adoption of the Euro in 2001, Greece's economy was able to sustain its economy through cheap capital, and increased investor confidence has enabled the country to balance out its debts once it has applied the Euro. However, it has failed to balance out its debts and spending throughout the years and has succumbed to disarray, leading to the current economic crisis since 2008. Despite Greece's attempts to recover from the damages caused by their dwindling economy, their accumulated debts have piled up, and inflation rates have steadily made the government lose all the possible options to prevent bankruptcy. At present, total recovery of Greece may not be plausible unless the members of the European Monetary Union and the member states create a more flexible recovery plan for Greece and to reassess the Euro policy if it can be applied properly by all members of the EMU, or there is a need to change this policy.

Greece's incapacity to recover from the 2008 economic crisis could be contributed to a couple of factors. The first factor is the capacity of the Greek economy and its capacity to resist any form of influence from both internal and external factors. Externally in the international market, each country had to endure the recession phase which started in the United States, then around the globe. Many countries had experienced large cases of unemployment and inflation rates, which have affected growing economies such as Greece. The recession also affected major revenue sources for governments such as companies and investors, and it has also caused governments to fund public expenditure to compensate to inflation and unemployment rates. For Greece, the international crisis has revealed several flaws to Greece’s economic stability. Since the early 1980s, Greece has continuously accumulated debt from its foreign and domestic funds to sustain its growing economy. However, upon the introduction of the Euro, the devaluation of the Greek currency enticed low competitiveness of the smaller businesses and the devaluation has also led to the increase of high public debt due to the introduction of a newer currency with higher value. The Greek government has also failed to manage their yearly budget, as pointed out by other member states, which has added to their debt crisis. Some have pointed out that the budget is wasted because of the 1970 policy that only allows deficit in public investment .

The Greeks also had failed to understand the market in the beginning of the crisis, which continues to complicate their course of action up to the present. Around the late 2008 up to the early 2009, the markets were already deteriorating. Their markets have sold Greek bonds to other member countries, which then prompted the government to stop these transactions. The European Union would have been able to detect the start of the crisis on that period, especially with the actions done by the Greek government.

However, with the 2009 elections coming to a close, the present administration in that period failed to understand the importance of the Greek bonds to the market. Attention was abruptly moved from this issue due to the global credit crunch, which had enabled some freedom for several countries to ease up their economies. Nevertheless, Greece continued to be scrutinized because of their bonds use. After the 2009 elections, the Greek market continued to change which enabled the new administration to push for its proposals for the country. However, the new administration failed to act in a uniform action, which led to a speculative 2010 budget submitted to the European Commission. This showed to the EU Member States that the two administrations of the Greek government to adhere to the policy of the Euro and now questioned its capacity to sustain the currency. Another reason as to why Greece fails to recover from the crisis is due to the lack of confidence to the Greek government by the EMU members, especially Germany, in using the recovery programs that would enable Greece to continue in the EMU. There is also the concern that it fails to report accurate numbers, which causes problems in identifying the losses and debts Greece currently has .

Some members of the European Union who are under the Eurozone and the European Monetary Union have called for referendum as to what to do with the Greece economic downfall. If it continues, Greece would not only default to full bankruptcy, it will also affect the other European markets like what is happening in Spain and Italy. With the Greek 2010 Proposed Budget submitted in November 2010, many EU member states like Germany and France are weary as to the capacity of Greece to repay the bonds that would be used to restructure and recover the now bankrupt country. There have been proposals in May 2010 by the International Monetary Fund and the EU to create a Greece bailout plan support worth €110 bonds or $145 bn, enabling Greece to continue its economy and use the bonds to recover. The IMF would cover the 3/11 of the whole recovery plan, with an estimate of €30 bn. The EU would cover the remaining half with an estimate of €80 bn. Under the bailout plan, Greece would have to improve its situation, from its economy to its competitiveness in the Eurozone and in the globe. The government must also improve the policies that would cater to the proper tax management, and labor and health sectors. Aside from this, there have been proposals to default to debt or bailout from the EMU entirely. Despite this, the interconnectedness of the EU members from each other causes the stronger members like France and Germany to be wary of the continuous use of the Greeks of the euro . For Sarkozy, he proposed for a debt restructuring that would help Greece share their debts to the private sector. For Merkel, she wanted to help impose the bailout proposals as this would entice “ growth impulses and budget discipline” in the Eurozone, without affecting Germany and the other strong EU members. Germany has even proposed for a financial-transaction tax amongst the member countries. They also push for bondholders to reduce the debt burden Greece already has and if they fail to do so, the bailout program will be put on hold until negotiations are settled .

For the United States, the Greek crisis has sparked numerous issues for the US Congress as it may impact the United States as it is a trading partner for most EU member states under the EMU. If the EMU crisis would continue to pursue, especially Greece's continuous downfall, any form of austerity may cause European markets to dwindle in growth. This then would lead US businesses to lose confidence with the euro, causing the US currency to become unaffordable for the Europeans. These complications would also lead to a reduced demand for US exports, and US imports from the Euro countries would increase, which may add in the current US trade deficit. Since Europe would also become unstable for investment, several US investors would pull out from the European countries and look for other markets to invest. However, with the euro's decline, European stocks would become cheaper which may also entice other US companies to invest in the region and buy these cheap stocks and assets.

There is also the risk for US banks to be directly affected by the on-going Greek crises since US and European financial agencies are intertwined with each other. Any form of debt default from the troubled European banks may cause US banks to be exposed to possible losses such as credit commitments, contracts and guarantees. There are also concerns to the current IMF support in Greece, in the form of " bail out", which may lead to the United States to succumb to more debt as they are also part of the IMF. The Congress has ordered their representatives in the IMF to oppose any request for loans by countries with large debts if they could not see any reason or chance for these countries to repay it. The 111th US Congress tried to put into law House Resolution 5299 AND Senate Bill 3383 which orders the Treasury Secretary to oppose any form of approval for IMF loans to EU member states unless they have reached the public debt level of 60% or lower than 60%. However, these two bills have not been accepted by the committee and have not been passed .

Considering that the negotiations in reducing the debt crisis in Greece are still underway, total recovery for Greece would not be possible unless the Greek government officially readdresses their edited reports and create a strategy that would enable them to pay the bailout program on time. This would enable EU member countries to regain its confidence to the dwindling economy and find other programs that could help them recovery. There is also the need for the EMU to address countries which are also experiencing debt, whether they will be given bail-outs or a swift exit from the EMU to prevent massive crashes in the European market. Without these considerations, the end of the debt crisis is far from over.

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