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One Reason to Support the Greek Bailout: A Response to “Five Reasons Not to Support a Bailout of Greece”

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May 26, 2010

With the financial tension and market pressure emerging from Europe, especially in the face of the Greek budgetary crisis, many experts in the field have expressed their opinion on this topic. In “[Five Reasons Not to Support a Bailout of Greece](#),” Ms. McNamara and Mr. Foster, both of the Heritage Foundation, offer reasons not to support the Greek bailout. While these reasons are valid in their own regard, we feel they discount the primary reason to support the Greek bailout: avoiding global economic catastrophe. The European Union, Greece included, has taken corrective steps (albeit slowly) in not just distributing emergency funds, but also in addressing structural concerns. While the situation is tenuous at present, the foundation is being laid to stabilize the markets and begin the recovery.

The structural reforms enacted by Greece have paved the way for a healthy economic future for not just the Mediterranean country, but the EU as well. Only offered after tough fiscal belt-tightening measures were accepted by Greece, the joint EU-IMF bailout package, coupled with the nearly trillion dollar stability fund, underscore the EU’s commitment to addressing the financial structure. While the lack of fiscal regulation and the absence of a defined safety net aggravated an already flammable issue, Greece and the EU now seem to be taking appropriate action (in cutting spending, increasing national revenue, and making reforms to the EU policy on these and related matters). Greek austerity measures, listed below, are projected to save nearly \$14 billion:¹

1. Public sector pay frozen until 2014
2. Public sector salary bonuses - equivalent to two months' extra pay - scrapped
3. Public sector allowances cut by 20%
4. State pensions frozen or cut; contribution period up from 37 to 40 years
5. Average retirement age up from 61 to 63; early retirement restricted
6. VAT increased from 19% to 23%
7. Taxes on fuel, alcohol and tobacco up 10%
8. One-off tax on profits, plus new gambling, property and green taxes

¹ Factbox: Austerity measures around eurozone. <http://www.reuters.com/article/idUSTRE64P2G020100526>
Released May 26, 2010. Accessed May 26, 2010

In addition, other EU member countries, especially those in precarious fiscal positions, have also started implementing various austerity measures all in the hope of reining in large deficits. One area in particular that is being targeted for budgetary reduction is social welfare programs that have, in some cases, negatively affected the growth of the EU economy. President Sarkozy recently pledged to enact constitutional reforms that would commit all subsequent French governments to reducing deficits.² The Italian, Irish, Portuguese, and Spanish governments have all followed suit, announcing strict austerity measures of their own.³ The EU (and its member countries) is showing that they have learned a valuable lesson about commitment and responsibility; each nation is indeed its brothers' fiscal keeper. More attention will be paid to the medium and long-term economic prospects for the European Union.

Further, the Greek bailout is not exactly unpopular; indeed, polling numbers show that in certain countries, especially those that are fiscally susceptible, the public is willing to support the Greek bailout.⁴ History has shown that in certain cases, a bailout is the lesser of two evils. The absence of a bailout, especially now, could have resulted in a global economic downturn and the complete collapse of the EU. If the EU collapsed, the destruction of this union would have sent a toxic geopolitical ripple across the globe (note: transatlantic economies comprise 45% of world GDP, transatlantic trade is nearly 30% of world trade in services and 23% of trade in goods).⁵ While the bailout plan is certainly not a panacea and will not please everybody, it is safe to say that, thus far, it has limited the speculative attacks on certain Eurozone countries. Furthermore, it has prevented further reductions in market confidence, which could seize credit markets worldwide and throw the global economy back into recession.

The EU leadership, however strained, has shown its commitment to deep fiscal reforms by addressing the underlying structural issues. And perhaps more importantly, the EU, in spite of French want, accepted IMF involvement, which brings technical expertise and experience to tackle this fiscal quandary. As the US is one of the charter members of the IMF, it has a voice in public financing goals of the Fund. The IMF has committed, as a percentage of GDP, comparable amounts across the globe (Hungary \$15.7b, Sri Lanka \$2.8b, Jamaica \$1.27b).⁶ American involvement in the IMF, which is, in turn, involved in the Europe, is actually of benefit to the US. By doing this, the US is actually investing in its strategic interests. Promoting economic recovery and stability in Europe will promote increased trade and investment with the United States.

While there is no point in making grand assumptions as to what is going to happen to the markets tomorrow or in a month because of market volatility, we can confidently state that the markets

² France, Germany Urge New Discipline. <http://online.wsj.com/article/SB20001424052748704513104575256601475843106.html> Released May 21, 2010. Accessed May 24, 2010.

³ Factbox: Austerity measures around eurozone.

⁴ Europeans opposed to Greek bailout: poll. <http://www.eubusiness.com/news-eu/summit-economy-poll.3ut/> Released March 25, 2010. Accessed May 24, 2010

⁵ Hamilton, Daniel S. and Quinlan, Joseph P. The Transatlantic Economy 2010. The Center for Transatlantic Relations. http://transatlantic.sais-jhu.edu/publications/books/te2010_final_text.pdf Released 2010. Accessed May 24, 2010

⁶ IMF Lending at a Glance 2009 <http://www.imf.org/external/np/exr/map/lending/index.htm> Released 2009, Accessed May 24, 2010

base their fluctuations on perceptions, and at the present time, the markets are slowly acknowledging the commitment taken by the EU.

Interestingly, the fiscal crisis has opened a unique window of opportunity for the EU, if it acts appropriately, to further perfect the political union. The crucial question now is, how much national sovereignty is each nation willing to surrender? It is widely acknowledged that the crisis has shown fractures and fallacies within the union. So far Europeans have enjoyed the benefits of a monetary union without risking their sovereignty; the crisis has put an end to that story. Now the EU leadership faces intense external pressure to contain the spillover effects with measures that inevitably will bring the political union into question.

It is obvious that missteps have been made by the EU in establishing the monetary union and creating budgetary rules, both established by Maastricht. The political lines within the EU are being redefined as we speak and the future of the EU experiment is at stake. As much as EU skeptics want to see the project fail, this decision remains attached to the political will still present in the EU spheres of power.

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