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What next for Greece?

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Did Greece gain by its successful referendum of July 5 on: “Do you accept the proposals of Greece's creditors, which the government has rejected?”

Out of those who voted, 39 percent said “Yes” and 61 percent said “No”.

Though it is reported that government got the result it desired: “No austerity,” it is privately said that the Greek Prime Minister expected a “Yes” result.

He would then go to the negotiating table, agree for austerity cuts and blame it on democracy and the referendum!

Or, he can use it as an excuse to quit, leaving the next government to handle the hot potato.

Continuing would be an issue of prestige, as he won the election on the promise of no austerity.

Riding the tiger or getting off its back is equally difficult.

The “Yes” result endorses the socialist slogan: bailout should be on Greece’s own terms and not on creditors’ terms! However, 70 percent of the people wanted to stay in the Eurozone with euro as common currency, as a recent poll indicated.

Have my cake and eat it too!

No austerity and enjoyment of all goodies offered by Eurozone membership.

In 2001, Greece (population: 11 million and GDP of US$ $242 billion or 2 percent of GDP of Europe) became the twelfth member of the exclusive club, the Eurozone. The eleven original founding members had to strive hard to start the Eurozone in 1991 by fulfilling the convergence criteria: fiscal and monetary discipline; fiscal deficit not exceeding 3 percent of GDP; annual inflation under 3 percent; and public debt below 60 percent of GDP.

Eurozone is a unique experiment, a currency union with one currency, similar to the United States of America, the ultimate nirvana of economic integration of sovereign nations, keeping political sovereignty intact. The Eurozone provides a single economic space for free mobility of goods and services and mobility of labour and capital.

In the case of Greece, convergence criteria were compromised, as it fudged the official statistics.

Initial seven years of milk and honey

Capital flowed in. Private creditors were under the impression the European Central Bank would underwrite their loans. The global downturn in 2008 exposed Greek's fiscal problems. The economy declined by 25 percent in the in the next six years.

Government did not have enough tax revenue.

Greece had to seek bailout funds, from Eurozone member governments and the Troika: European Commission, European Central Bank and IMF.

Greece's debt, a combination of official and private creditors, is €323billion. It is about 175 percent of its GDP. It was all due to bailout packages of last four years.

The Eurozone governments' loans to Greece were €52.9 bn under the first bailout in 2010 and another €141.8bn under a bailout in 2012. Germany's exposure is the highest: for the two bailouts it is €57.23bn, followed by France (€42.98bn), Italy (€37.76bn); and Spain €25.1bn.

Where did the bailout money go?

All bailout assistance has conditions: budget cuts and tax increases; and streamlining the government and ending tax evasion.

Bailout money went to paying off past loans and did not go into the economy and foster domestic growth. Any recovery is predicated on public sector reforms. Minimum requirement is wage cut and pension reforms. In Greece everyone, public servant or self-employed gets pension. When he retires he gets full State pension. If his profession is a hazardous one, he can retire with full pension at 50. About 450 professions are classified as hazardous. One of them is hairdressing!

Already the deadline for payment of €1.6 bn (US$1.8 bn) to IMF was over on June 30. One more is coming up on July 20 for payment of €3.5 bn (US$3.8 bn) to European Central Bank.

It is feared that if Greece misses it, it has to leave the Eurozone and return to its old currency

Can Greece do an Argentina?

Argentina too defaulted on its sovereign debt of US$93bn in 2001. Argentina quit US dollar and returned to a sharply devalued peso. But devaluation helped, as its major exports of soyabean meal, corn and soyabean oil, supported by a commodity price boom, came to rescue the economy in the next three years. Argentina has vast shale oil and gas reserves that could make it self-sufficient.

Greece has no oil resources. It depends on imports of oil and refined petroleum products. Its exports of fresh fish are limited by the EU quotas. Cotton production has decreased due to fall in demand for textiles. The only export of importance is tourism.

Economists predict exiting the Eurozone will lead to 25 percent contraction and devalued drachma will end in hyper inflation, as imports will be more expensive. The result will be social unrest.

There is no choice: accept austerity. That is known as Hobson’s choice!