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A GREEK TRAGEDY

The Greek crisis has already prompted a near-blizzard of articles, commentaries and opinions that has sought to explain the implications and ramifications of the seemingly never-ending Greek financial crisis, the latest manifestation of which was that Greece was the first developed country to default on its debt to the International Monetary Fund after missing a $1.7 billion payment. Nonetheless, we thought it might be helpful if we reviewed the situation in Greece in terms of its possible impact on the U. S. economy.

To start with, we expect to see a highly volatile trend of equity prices as investors struggle to assess and digest the latest developments in the crisis, which, in our opinion, is unlikely to be resolved any time soon. As matters now stand, there is no easy way out of the debt crisis which has exposed the inherent weakness of the European single currency.

What is happening in Greece has not only raised questions about the future of the Euro but the future of the European Union as well. One can certainly argue that the entire concept of a monetary union was seriously – perhaps fatally – flawed in the sense that a single currency cannot work without a full political and economic union which in Europe is out of reach. Irrespective of whether Greece leaves the Euro or not, the single currency has suffered considerable damage which will be difficult if not impossible to repair.

Meanwhile, the inability of Greece to meet its debt repayments has led to a worrisome erosion of good will and trust between Greece and its creditors. Recent negotiations have been marked by outbursts of bad temper and allegations of bad faith, which scarcely bode well for the outcome of future discussions. Of concern too is the vulnerability of other Balkan countries to contagion from the financial disaster that has overtaken Greece. And the risk that contagion might spread beyond the countries of southeast Europe is one that should not be ignored – or belittled.

Worries about the possible spillover effects of the Greek crisis on U.S. consumers, investors and businesses could persuade the Federal Reserve to delay the long-awaited “lift off” of interest rates which as of now is widely expected within the next two months. Then too, a further appreciation of the dollar relative to other major currencies is also possible in the event that the Greek crisis enhances the position of the United States as a safe haven for capital. A stronger dollar, of course, could curb the demand for U.S. exports while bolstering the U.S. demand for imported goods and services. Thus, a major U.S. trade deficit could be one result of the disaster unfolding in Greece.

Up to now, the Greek Prime Minister, Mr. Tsipras, has done very little to address the concerns of Germany and other countries that concessions to Greece could create a moral hazard for future debtor countries. Looked at another way, concessions to Greece would set a precedent for other heavily indebted countries. Recent reports suggest that European governments have found the Greek Prime Minister a difficult, if not impossible, figure with whom to negotiate some kind of deal which would involve debt relief in return for far-reaching structural and fiscal reforms. What is troubling is that Greece's debt, which is estimated in the vicinity of $350 billion, is unlikely to be repaid and as a consequence can be expected to precipitate more debilitating crises in future years. Meantime, the near collapse of the Greek economy has played into the hands of Russian President Vladimir Putin, who would be in a position to increase Russia's influence in the least stable region of Europe in the event aid and support is provided to Greece.

No one can predict the final outcome of the Greek financial crisis. We have noted that the Euro currency may not survive the crisis while at the same time raising serious questions and doubts about the future of the European Union. Furthermore, the consequence of Greece's continued inability to repay its debts will likely include not only significant losses for the International Monetary Fund and a number of European governments but would, in our opinion, threaten financial market stability in Europe and elsewhere. This threat to Europe's financial stability has, in our opinion, increased in the wake of Sunday's (July 5) vote in which Greek voters decided – 61% to 39% – not to accept a bailout deal in which Greece's creditors offered debt relief in exchange for the adoption of more austerity measures. At the time of writing, the vote also seems likely to hasten Greece's exit from the Euro and raises the possibility of a complete financial collapse as well as expulsion from the European Union. Whatever the outcome of the present crisis, it is for now difficult to see a quick solution that will satisfy Greece and its creditors.

Norman Robertson