Defence Academy
of the United Kingdom

Defence Academy of the United Kingdom

The Balkan Series

The Greek Crisis - A Pause

James Pettifer

10/07

The Greek Crisis – A Pause

James Pettifer

Key Findings

- The Greek financial crisis has been a major developing event for the southern and central Balkans that is unlikely to be quickly resolved by the May 2010 EU 'bailout' measures on other than a fairly short term basis.
- European Union policy towards the Western Balkans has relied on assumptions about Greek state structures that have proved to be of dubious credibility.
- The crisis offered the EU central financial authorities an opportunity to restore financial disciplines not only to Greece but to other second and third tier EU member countries. In the main this opportunity has yet to be taken.
- Economic stagnation is occurring in Albania and FYROM/Republic of Macedonia as a result of the repatriation of capital from Greek-owned or partly controlled banks, along with declining émigré remittances, and declining export opportunities to Greece. In Turkey the situation is somewhat more positive, to date.
- Balkan governments will increasingly seek more control over economic issues. Pre-transition methods of government control over business may return to a significant degree, often sanctioned by current law and order campaigns against organised crime.
- Wealthy individuals in these countries are exporting personal capital where they have the opportunity to do so. This has been a significant factor in the Greek banks difficulties.
- The Greek-Turkish security relationship will be affected as the crisis develops, in both positive and negative security dimensions. So far efforts to reduce the economic burden on both countries caused by high defence expenditures have yielded few concrete results.
- The next period of increasing tension is likely to be in September/October when the new school and student output comes to the job market.

Contents

The Greek Crisis – A Pause

James Pettifer

The Immediate Background

'*The second common meaning of the word 'Greek' which developed during the sixteenth century, was based upon the opinion of Greek wickedness, rather than of Greek dissoluteness. A 'Greek' meant what we should call a 'twister', that is, a sharper, a cheat, a crook, any kind of confidence trickster.......this popular usage received full encouragement from learning and literature.'*[1]

The onset of the world economic crisis in 2008-2009 did not have a major initial effect on countries in south-east Europe. Local banks had expanded considerably in the previous ten years of the post-communist transition, usually with partnerships with EU-based banks. Much the most important nations for this activity were Austria and Greece, through Vienna and Athens based parent banks. The type of banking was generally of a fairly simple nature and did not involve work with the more speculative side of modern international banking. Loan levels were low, the mortgage market was only beginning to develop in a modern form and heavily leverage products were not known. There was no close link in the movements of finance capital to affect the region. In this, South East Europe followed the pattern of the Wall Street Crash period where the crisis then did not initially affect Eastern Europe very much.

In the current context this situation has changed dramatically, as it did in the early 1930's. This begun to be the case last year when it became apparent that Greek-owned subsidiaries of Athens HQ banks in the Balkans were starting to rein in lending at a very fast rate, to the extent that some subsidiaries stopped commercial lending altogether. Deposit rates and savings rates in the southern Balkans are generally low, and there was some withdrawal of savings by consumers to enable them to repay outstanding personal and business debt, so weakening local finance capital and the capital base of the banks further.

In EU member countries, like Bulgaria which are not in the Eurozone but where the local currency was unofficially tied to the Euro, there has been a gradual depreciation of the real exchange rate, so that when the new Lev was introduced five years or so ago, it was at parity with the Euro- at least officially- whereas now the street exchange rate has more than halved in value in real terms. Other local currencies like the Albanian Lek have depreciated similarly on the grey market, in a country where there is no formal relationship with a Euro-pegged rate. This is not the case in FYROM/Republic of Macedonia where a fixed Euro peg rate of about 60 denars to the Euro has been maintained for several years.

Greece is the only full Euro member in the region without a local currency and has suffered disproportionately from current developments. The absence of a local currency has meant that it has not been possible for the government to allow the currency to depreciate in line with its real value in the economy, and this has had a particularly serious effect in view of the role of tourist cash in Greece. Prices in Greece for transport, hotels and food are now very high by comparison with neighbouring countries such as Turkey which are not in the Eurozone. Estimates vary but it seems likely that the Greek tourist trade dropped in real terms by 15-20% in 2009. There are a number of other reasons why Greece has been disproportionately affected by the crisis. The Olympic Games in 2004 increased the already very heavy burden of debts. Some of the investments made at that time e.g. the Athens

[1] From Terence Spencer, 'Fair Greece, Sad Relic- Literary Philhellenism from Shakespeare to Byron', Athens, 1954 , P.37

Defence Academy of the United Kingdom
978-1-905962-84-6
July 2010

Metro have heavy revenue account running costs which do not appear to have been planned for at the time the initial capital expenditure was made.

A traditional culture of favours and public sector corruption has always existed to a degree, but the longstanding alienation of many Greeks from their government has increased tax evasion and the role of the grey and black economies are substantial. The demands of the large paper-driven state apparatus drive many small firms into the grey economy to avoid the very onerous minor legal requirements in dealings with the government. Lawyers proliferate everywhere and contact with them is expensive and time-consuming for the entrepreneur. Larger businesses have their own problems. Apart from the banks, the only industry where Greece has a major global presence, shipping, is having a hard time, and in any case many of the ship-owners operations are not in Greece, at all, from the tax and financial viewpoint, but in London, New York, or Switzerland[2].

The election of the new PASOK government brought the crisis to a head in late 2009, with the 'opening of the books' that revealed a much worse fiscal position than had been generally realised, with debt interest obligation way above the Eurozone recommended level and recently subject to continual upward revision by experts. The new government clearly took the decision in the way it did to place as much responsibility for the economic crisis on its New Democracy predecessor. Major statistical manipulation has been admitted. This would be bad enough but unlike Iceland, where the debt crisis was based on massive speculation which, although enormous could be quickly halted and unwound, the Greek debt is not based on this – or the 'hedge fund syndrome' - but serious and long term structural factors in the economy.

Historic and Cultural Factors in the Current Crisis

It is a commonplace of studies of Modern Greek history to state that a major issue for Greece throughout the twentieth century was the need to establish a stable and generally respected system of government. The presence of what was widely seen as a foreign-imposed monarchy, the huge refugee influx after World War I from Asia Minor, the Depression and turmoil of World War II with Occupation and Civil War until 1949 have left deep scars. The dictatorship between 1968 and 1974 depended on the existence of a 'deep state' controlled from the extreme Right inherited from the Civil War period with little relationship to a modern democracy. The Karamanlis government that followed the military dictatorship was the first government to openly espouse the European ideal and full EU member ship followed in the early 1980's. Europeanism was synonymous with democratisation. After an initial refusal in 1999, Greece entered the Euro in January 2001. At the time this decision was quite widely criticised as the statistical basis for Greece to comply with the Maastricht Treaty requirements seemed unclear, but the strong backing of key players in the French and German governments such as Giscard d'Estaing and Genscher ensued that objections were overruled. On the European left, most saw Greece as deserving rewards for ridding itself of the junta and becoming democratic. Greek trade with Germany was increasing rapidly and also openings to Russia where Greece has many contacts as a result of historic cultural links through Orthodoxy and communist Civil War exiles in prominent positions.[3] On the Right, this was not so. In some forms, this debate has continued ever since, a typical article in the January 2010 British press states that ' the Greeks lied and cheated their way into the Eurozone- and letting them get away with it through a bailout threatens the Euro with collapse'.[4]

In these developments, there is little that is not already well known in one sense by the international community but an unfortunate aspect of pro-European ideology (through its

[2] For general background, see Gelina Harlafttis. 'A History of Greek Owned Shipping', London and New York, 1996. There has been some improvement in cargo trade recently. See Financial Times, 12 June 2010

[3] By the time of 1997 under Yeltsin even such an iconic newspaper of the communist period as *Pravda* was Greek owned

[4] The Spectator, London, January 16 2010

positivist and determinist ideological base) is that it tends to project the idea that once a nation has 'joined Europe', particularly the Euro, it loses its previous history and problems and capacity to affect regional and international events. This syndrome is also widely current in some quarters in the United States where the actual workings and realities of the EU are often very poorly understood and it is subconsciously assumed that the EU is an entity like the USA with close control over its component parts[5]. This type of ill-informed US thinking played a major part in Brussels in the US lobbying for Romanian and Bulgarian EU entry as an economic counterpart to NATO membership at the geostrategic level. Greece was also generally welcomed as a Euro member in the United States as a result of the powerful US Greek lobby, the US education and background in the Papandreou family and the move within the EU towards political moderation by PASOK. The recurrent problem of terrorism in Greece against US targets did not spoil this positive perception, with plaudits for Greece's return to the democratic fold. In fact, as experience shows with these and other new EU countries, the inherited political culture continues very much as it did before EU accession so Scandinavian nations that were models of probity and transparency before EU membership remain so, and Mediterranean and Balkan nations are often not. There are some specific aspects of Greek society that are not well understood outside the country at a practical level and are likely to be important in the future development of the present crisis.

These are, in no particular order of importance, the centrality of a few political extended families within the political elite- the *parataxis* of the families of both major party leaders- the strength of Marxist and quasi-Marxist ideology and political parties, the political and economic influence if not direct unmediated power of the Greek Orthodox church, high defence expenditure caused by poor relations with Turkey, the virulent anti-Americanism among very large sections of the educated population caused by US policies in the junta period, the fiscal burden of the Olympics and Bush administration international politics, massive on-costs for the state caused by the fragmented landmass and islands and the dependence on external finance for much infrastructure construction since the end of the civil war in 1949.

Reform of the Greek state and its functions has been called for by outsiders for many years, and appears to be an uncontroversial demand[6]. It is nevertheless extremely difficult, and there is little incentive for members of the major *parataxis* power-families to try, as they would destroy their own political bases in so doing. The political culture is extremely conservative in many ways, the ideologies of Orthodox Christianity and Marxism are very entrenched and distrust of central government is endemic. As the serious rioting in Athens and elsewhere showed in 2008-2009, young people are often alienated from the state and unemployment is growing rapidly and like the national debt is probably much higher than the stated data. Immigration has been high and although the borders are better policed than they used to be, the geography of the landmass prevents really effective movement control and Greek governments do not yet seem ready for the effective and unsentimental measures against illegal migrants used by the Italian government. The external migration patterns of the educated young still exist, particularly for science and medical students but traditional Greek Diaspora host nations like the US and Canada are now much more difficult to enter than they used to be. There are few bright signs for even the most committed friends and apologists for Greece to find in the current political and economic landscape. Recently announced measures by the new PASOK government to cut down the public sector, privatise state assets, clamp down on tax evasion, break professional monopolies and raise excise duties may be worthy in themselves but it remains to be seen what their practical effect on revenue will be. Even the most optimistic estimates suggest the economy will remain in recession for the foreseeable future.[7]

---

[5] See, for instance a distinctly odd analysis by Joseph Stiglitz in The Guardian, London, 26th January 2010. His article makes no mention of the rising costs caused by Euro entry to the Greek economy at all, and he writes of the EU as if it were a Euro federalist state with a united economy based on egalitarian principles.

[6] See arguments advanced in my own book Pettifer.J,'The Greeks- Land and People since World War II', Penguin, London, 1994

[7] See 'Investors Chronicle', London, 7-13 May 2010, data in article 'Hellenic Hell Not Yet Over'.

Economic Development Issues

It is agreed by most economists that the crisis in the public finances has been caused by excessive public spending, although the growth of private sector and consumer debt is also important. This is seen as beginning in the pre-Olympic Games period, accelerated as a result of the Games and then continued as a product of the continuing flow of EU structural fund money into Greece. This history is actually quite flawed; Greek debt has always been very high.[8]The results have been mixed- some worthy long planned projects such as the bridge across the Gulf of Corinth at Rio have been successfully completed, the new airport at Athens, and long overdue new arterial roads and Metro in the Athens area. But other building has been wasteful and seemingly pointless, such as grandiose border posts where there is hardly any traffic, and major new roads, even motorways, in northern Greece where in many cases existing roads were quite adequate. The background to this goes back a long time and is ultimately linked to Athens Right wing government's perceptions of the national security issues. At the end of the Civil War in 1949 much of northern Greece was in an economically ruined state. The communist KKE still had strong and genuine popular support in many places, particularly Macedonia, even though their Democratic Army had been defeated in the Civil War. Insecurity remained. The northern border was a long boundary with either belligerent Hoxhaist Albania, Yugoslavia, Warsaw Pact member Bulgaria and always difficult Turkey in Thrace.

The ex-New Deal Americans who supervised reconstruction in the 1950's and 1960's saw little wrong with heavy public spending in these very large regions, and all that the much criticised EU has done is take over the role of external financial patron that NATO used to occupy. 'Underdevelopment' in northern Greece was presented by Athens as an aid to the communists, internal and external. There was also virtually no Greek welfare state of any kind in the Cold War; much of the growth of public expenditure in the last thirty years has been linked to the PASOK policy of constructing a European-type welfare system. Even a summary examination of the data shows that in 1999 when the original Greek application to join the Euro was rejected, public expenditure was at much the same deficit level as it is today[9]. The growth of private debt has been linked to major social change over the last two generations, where Athens has become a megalopolis, in the ancient Greek sense, with a very large proportion of the nation's population in a single region and an expectation of Western consumerist lifestyles.

It was therefore inevitable that there will be very strong internal resistance in Greece to the scale of public spending cuts being demanded by external economic commentators. Outsiders often do not always appreciate the very poor wage and salary levels of many people in Greece such as schoolteachers, let alone unskilled workers. The fact that in some parts of Athens and Thessaloniki as many as twenty per cent of the vote in the 2009 national elections went to the Marxist parties to the left of PASOK is an indicator. In the cafe climate of Greek politics, there is fertile ground for the argument that the whole crisis is a product of the greed of Anglo-American bankers, Jews, local monopolists and their own expatriate rich. Public attitudes to the Euro are hard to evaluate and often contradictory. When Greece finally became a member in 2001 there was widespread national satisfaction that the country had seemed to have overcome the burden of the conflicts of the past and had become a respectable mainstream European nation. But, within a year, food and daily living costs were rising rapidly because of the Euro and tourist decline had significantly set in seriously. The end of the drachma was widely regretted, particularly by small business.

Providing stability in a general way could be maintained, there is in all probability now an opinion constituency in Greece which would support a return of the drachma. A devaluation of perhaps twenty per cent would be needed to bring a currency with a realistic value against the Euro. This would have a very stimulating effect on tourism and agricultural

---

[8] See, for instance, J.Koliopoulos, 'Greece and the British Connection 1935-1941', Oxford 1977 for a perspective on the 1930's and the post-Wall Street Crash period which has many echoes of modern problems.
[9] In the late 1990's, about 13%

exports but a devastating effect on finance capital and on parts of the state, like the military that depend heavily on imported goods and equipment. Much of this equipment is bought from France and Germany. Those who would oppose this development are the educated with a pro-globalisation outlook. The vast production of intellectuals in Greece is involved. Apart from major new centres of Modern Greek economic studies at universities like Yale and London School of Economics, Greek students are spread all over Europe, often with a strong and exclusive focus on modern economics. A Greek role in the new Eastern Europe was posited, intending to replicate the traditional role of Greek merchants and traders in leading progress there, in the former Ottoman world, through finance capital and globalisation. The theory and ethos of globalisation has been adopted by a generation of Greek intellectuals in a wholehearted way rarely seen anywhere in the world. On the other hand, there have always been (since the days of the Wars of Independence and before) a significant minority of Greeks who have looked towards Russia and a more Byzantine-influenced past than towards the West. Their influence may grow in current circumstances.

Return to the Drachma – A Missed Opportunity?

A central issue in the spring 2010 crisis has been the failure of the Greek and European elites concerned to consider, or even seriously discuss the policy option of a return to the drachma, coupled with debt repackaging and a substantial devaluation. Realistic evaluations of the real economics and politics of the recent past have only been partly taken. In an article in the 'Financial Times' George Provopoulos, a governor of the Bank of Greece set out a cogent position for Greece remaining in the Eurozone.[10] He admits that the Euro has caused Greece, a major loss of competitiveness since 2001, and he advances a conventional script, blaming 'rigidities in the labour market' and 'excessive spending' for the situation, like most Greek and international commentators but without (like them) mentioning the words Olympic Games in his analysis. In terms of the conventional wisdom, criticism of the Olympic Games heritage is a taboo subject as the accompanying over-hyped campaign against terrorism and November 17th was intimately linked with the agenda of the Right to fully integrate Greece into the globalisation processes. Provopolos's nightmare picture of the role of drachma devaluations is likely to be unconvincing, particularly to older Greeks, who saw the social and economic progress of the late 1970's and 1980's and 1990's under the Karamanlis and Papandreou governments. The claim that a devaluation of the drachma would be a negative factor in raising the cost of imports seems particularly unusual, as the consumer splurge on new cars and similar goods was also one of the main causes of the current problems. Social change and population movement in Greece in the last generation has emptied much of the mountain and rural hinterlands and brought a new consumerist middle class in and around Athens into being. The overconsumption patterns of this social orbit are a major cause of the current crisis, irrespective of whether those involved are in the public or private sector.

Again, the situation in Greece is so important as it brings together many threads in the international economic scene generally. The political and economic agenda established for the New Democracy government in Greece in the early 2000s was firmly set in the United States, but without flexibility in application. On the key question of currency level, successive US administrations have been able to gently devalue the dollar as part of responsible international policies, yet the principle of devaluation is closed to Greece by the European Central Bank and Eurozone membership and the absence of a local currency where the drachma would act as a safety valve for many tensions, as has happened with currencies like the Florin in Hungary and others.. The strengthening of the state required to successfully stage the Olympics also involved a big expansion of the internal security apparatus and very expensive external security contractors but the real costs of all this do not seem to have been evaluated at the time.

---

[10] 22 January 2010

The Local Political Background

PASOK had many friends among the European socialist parties and a particularly close relationship with the British government in London. Some key aides in the Papandreou inner orbit have strong British links. It remains to be seen what advice will be offered, and to what extent the Prime Minister will be able to overcome entrenched resistance to draconian economic measures if the government opts to try to stay in the Eurozone. As widely anticipated, all cuts have been opposed by the powerful trades unions which, in a general sense, are closely allied with the traditionalist Greek Communist Party (KKE)[11] The KKE is very well organised and well led and presents the EU leadership with a novel phenomena, a communist party once again with a significant role in events in a West European country. New Democracy is a stable opposition force but is inevitably tarred with the corruption brush over data manipulation in the pre-2009 period in government.

At the moment the PASOK government is in something of a honeymoon period and the need for austerity measures has won widespread acceptance, at least in theory. There are nevertheless serious internal tensions within PASOK over the cuts programme and a future party split cannot be ruled out, although probably not in the short term.

The difficulty the government has is that in the view of many economists the data is still going in the wrong direction.[12] The crisis has produced withdrawals of funds from the banks in Greece by individuals who are uncertain about the future, and their share prices have fallen steeply. Serious income deficit is appearing in a way that has not existed for a generation or more, with beggars on the streets. People are having serious difficulty in repaying consumer debt. The single most critical factor is likely to be the effect of the still relatively high Euro on the 2010 tourist season[13]. A major increase in tourist revenue would buy the government time and financial space and take some pressure of the general population. If the decline continues, social tensions are likely to rise. It will nevertheless be a containable situation in the short and, perhaps, medium term if the government operates efficiently, as despite the reduction of tourist income, millions of people continue to visit Greece and some cash flow is always present from this in even the weakest businesses. The initial debt figures produced by the government in May 2010 were not bad, although what the data really means is bound to be open to expert debate.

The Bad Greek Paradigm

The international danger for the Papandreou government is much deeper. There are many countries everywhere in the world where financial data is poor and misleading and where corruption of statistics is common. There are certainly many in the EU, with Portugal, Spain and others in the limelight currently. In early June 2010 there has been speculation about Hungary's financial stability. Obvious other candidates are among Greece's near neighbours and best friends in the EU, Bulgaria and Romania, and Croatia among aspirant countries. Croatia has a developing debt spiral that appears very similar to that of Greece. If financial probity is ever going to be restored to Bulgaria, for instance, the May 2020 'bailout' of the Greek economy sets an unfortunate precedent. The current lukewarm reaction in the markets to the most recent 'bail out' deal indicates that without facing these issues, the whole future of the Euro project is now at risk. The time has come when major EU contributors like

[11] Known colloquially as 'Kappa Kappa Epsilon' after its acronyms in the Greek alphabet the party is the oldest political organisation in Greece and has been gaining support recently. It has formally distanced itself from Russia and has published cogent and well thought through criticism of developments in Moscow since 1990 but retains many links throughout Eastern Europe, particularly in Hungary, the old GDR area of Germany and the Czech Republic and in the Middle East in Syria, Lebanon and Egypt.

[12] It is interesting to compare the reporting of the crisis in the last six weeks or so between the London Financial Times and the New York Wall Street Journal. See The Wall Street Journal Europe, 19 January 2010, 'Greece Unlikely to get EU help'.

[13] E.g. compared to competing tourist destinations with non-Euro currencies

France and Germany are unable, in a democratic electoral environment, to ask their own electors voting in a tough financial climate to make sacrifices to subsidise minor EU members where it is clear in their view that much of the British, French and German money is being effectively stolen. It remains to be seen what the French pressure on the Berlin government will bring – in terms of the May 'bailout' and in respect of government stability within Germany.

Thus, the Greek crisis is being judged in a different way from that of a nation like Iceland in 2009. The honest and hard working great majority of Icelanders were traduced by an ignorant and ideologically motivated elite into a foolish blind alley, but the nation remains politically stable. It is also an irreplaceable strategic asset for NATO in the northern mid-Atlantic and has long term resources in fish, tourism and renewable energy that enable it to neglect international pressure to make a fast debt settlement. However unsatisfactory this is to debtor countries like the UK there is little doubt that Iceland has the resources to pay its debts and has both the will and the time to do so. In Greece the political challenge to globalisation is much more acute, as there is no guarantee the PASOK government will ever actually be able to improve the fiscal position on the ground and there are major opinion constituencies in the country that are so anti-American that the prospect of debt default and a showdown with the EU and the international banks would be positively welcome. The May 2010 bailout plan is likely to fail to stabilise the situation over the medium term for a number of reasons (see below) but perhaps the most important is that it sees the Greek crisis as one of government liquidity in the economy whereas the actual crisis is one of cash flow and potential solvency. The unknown 'X factor' in all calculations is how far ordinary Greeks will be willing to release their spare cash into the banking system in the current climate of uncertainty.

The European Central Bank is thus faced with a very hard choice. The May 2010 plan in many ways has undermined its authority (as many commentators have long claimed the French have long wanted) and given more power over issues to EU governments. In many transactions involving international sovereign debt, the numbers can be effectively fiddled, or massaged, in order to prevent debtor nation embarrassment. In effect a version of this is what the French have forced on the rest of the EU through the May proposals. French banks have the highest single-country exposure to Greek debt. A significant danger of the bailout plan is that it will only encourage these financially irresponsible tendencies in second and third tier EU countries with the practical result of an increase in inflationary pressures in the Eurozone. There has been a natural tendency to try to help the new government in Athens but it will be difficult with Greece as the whole crisis originated with the exposure of data manipulation, and the financial markets are likely to scrutinise all numbers quoted with great care. The market in March-April made their own judgement before the ECB was able to do very much, by simply driving up the price of Greek debt servicing to exorbitant levels.

The general current of sentiment, both formal and informal, should have been to be hard on Greece in order to avoid setting a precedent for other second and third tier EU nations in poor economic predicaments. The markets had got used to seeing a strong functional Euro, and did not wish to see it devalued through bail out irresponsibility, and protect the parochial concerns of French and other bankers who had in the past taken irresponsible lending positions in Greek debt. This, of course, inscribes a view on both the future of the economic recovery in the short term and the effectiveness of globalisation processes in the long term, and most of all on the politics of EU enlargement. It is a sobering thought to consider what the Euro would look like now if it was linked to failing major depressed economies like the Ukraine.

International Issues – The Security and Defence Dimension

It is unlikely that the central bankers will be considering the effect of a Greek default on neighbouring countries in isolation. The ball is firmly in the EU court. The United States administration does not seem particularly interested in the Balkans, along the lines of the early years of the Clinton and Bush administrations. But the already serious effects of the Greek downturn have already been seen, coupled with strong diplomatic and trade initiatives from Ankara. As mentioned above, the crisis in Greece has already had negative effects on the many Greek-owned, or partially owned, banks in the southern Balkans. The attempts to save money by cutting defence expenditure have not so far produced concrete results, as the recent Erdogan-Papandreou meetings in Athens showed.

Although the Turkish outlook is far from ideal, and excessive debt is present in the economy, along with crises in some manufacturing caused by dumping of Chinese goods, there is a basic resilience about the Turkish situation that underpins the government's current activity in both the Balkans and the Middle East. Turkey has the great strategic advantage of food exports and vast areas of fertile but unused land that are being rented to rich foreign nations in food deficit, like Saudi Arabia, and booming tourism. An independent and assertive foreign policy is developing, with much greater political distance from Israel a key beneficial factor. The border with Syria is fully open to free trade in the south east and in the Balkans. Ankara wishes to be much more involved in the protection of human rights of local Muslim minority populations, as in Bosnia. The key Turkish role in Republic of Macedonia is likely to make progress on the name dispute unlikely, as with many other issues, Balkan governments are unlikely to risk upsetting powerful local opinion constituencies to fulfil foreign policy agendas set by the international community. In international terms current Greek economic discomfiture and Turkish self-confidence makes an early deal over Cyprus also look very unlikely and the possibility of a split of the island is increasing. On the Macedonian name issue, after an early lurch towards Greece in summer 2009, the Obama administration has distanced itself from the US Greek lobby and has improved relations with the Skopje government and has a coherent, balanced policy.

Macedonia and the Neighbours

Many dimensions of the Greek crisis, are detectable in Skopje. While the government has behaved responsibly in the financial crisis almost all functional government depends in the last analysis on foreign cash flows, whether diaspora remittances in the 25% ethnic Albanian community or EU and NATO money for defence, security and major aspects of governance. The Euro peg for the Macedonian denar is set at a very high level and analysts find difficulty in seeing how the current level can reasonably continue. Public expenditure is being savagely cut but it remains to be seen what will actually happen on the ground in a climate so influenced by patronage and client networks involving corruption. Vulnerable institutions such as the universities and hospitals are suffering serious underfunding. A delicate balance with the Albanian community is being maintained but at a cost of social stagnation and the effective end of the Ohrid reform process. Gloomy prognostications about an economic crisis in Macedonia do not, though, seem well founded. Although the currency peg is rigid, a degree of flexibility is being maintained by grey market transactions that may technically be money laundering but do keep the wheel of commerce moving by providing cash flow to the banks and thus credit availability and business solvency. The Macedonian denar is generally respected by all communities and remains a functional local currency. The Greek crisis has inevitably involved a degree of schadenfreud about Athens discomfort and consequence indifference to the many problems between them. A period of stagnation in mutual relationships seems likely, as with Bulgaria.

In the very short term developments are likely to favour the Athens government. The May plan has removed the problem of unstable Greek government/ bond market relationships. Debt funding will no doubt go ahead successfully for a while, although at a very high and probably increasing cost to future generations of Greeks. Many Greeks are likely to resist change now, as they will feel the May deal shows their unique importance of Greece in the world and its Panhellenic heritage in a stable European Union. Greeks are grossly overrepresented on a numerical basis in many Brussels organisations and can no doubt attempt to push policy Athens way. They are likely to be supported by officials from other second and third tier nations with dubious economies who expect more or less eternal subsidy of elite lifestyles from first tier nation taxpayers, it would appear. Papandreou may also be gambling that some other sovereign debt crisis will appear on the international scene soon, and Greece will be forgotten, if, say, there is a major Spanish banking crisis coming.

This may be misplaced optimism. Much of the crisis burden will have to be carried by important mainstream social groups, as urban workers and farmers protest demonstrations demonstrate, and it will be difficult to keep Greece's problems from the media and public eye. An important issue to observe will be the announcement of figures about Greek tourism. These have been grossly inflated in the past and have often been regarded by students of modern Greek society as risible. Publication of objective data would aid a realistic evaluation of the state of the real economy

Social tension is now likely to subside for a while as the tourists arrive and Greeks leave the cities for the beach and holidays, only to resume and intensify as tens of thousands of school leavers and college students come onto the job market in September and find there are very few opportunities of any kind for them

Bibliography

Parties and Elections in Modern Greece The Search for Legitimacy R.Clogg, London, 1987

Greece Land and People since World War II J.Pettifer, London 1994

Greece and the British Connection 1935-1941 John.S. Koliopoulos, Oxford,1977

A Profile of Modern Greece Y.Kourvetaris and B.Dobratz, Oxford 1987

The Rise and Fall of the Greek Colonels C.M.Woodhouse, London, 1985

Europe's Last Red Terrorists G.Kassimeris, London, 2001

Greece on the Road to Democracy From the Junta to PASOK 1974-1986
S. Vryonis New York, 1991

Modern Greece A Short History C.M Woodhouse, London, 1998

Disclaimer

The views expressed in this paper are entirely and solely those of the author and do not necessarily reflect official thinking and policy either of Her Majesty's Government or of the Ministry of Defence.

ISBN 978-1-905962-84-6

Published By:

Defence Academy of the United Kingdom

Defence Academy of the UK
R013 Greenhill House
Shrivenham
SN6 8LA
England

Telephone: (44) 1793 785534
Fax: (44) 1793 785953
Email: Publications.hq@da.mod.uk
http://www.da.mod.uk/r-and-a-b

ISBN 978-1-905962-84-6