News Record
ELIZABETH, N.J. — MONDAY, FEBRUARY 13, 2012

Wagner College economist: ‘Greece is going down’

STATEN ISLAND, N.Y., Feb. 13 — Despite the austerity measures approved yesterday by Greek government leaders, and despite the bailout of Greek national debt offered in return by creditor banks and the European Union, Wagner College economics professor Mary Rose Leacy says that “Greece is going down — it’s just a question of when and how.”

For many years, the Greek government spent significantly more than it was collecting in tax revenues.

“Now, when a country has debt, it can do three things: raise taxes, print money, or borrow,” said Leacy. “But historically, Greece has not been able to raise taxes. And it can’t print money, because it is a part of the euro zone. So they borrowed.”

The result is that the Greek national debt has risen to 160 percent of its gross domestic product, or GDP. Next month, a €14.5 billion debt payment is coming due — and, without help, the Greek government will be unable to meet its obligation.

The Greek government has negotiated a bailout package with the European Commission, the International Monetary Fund and the European Central Bank — the “troika.” In return for laying off 19 percent of government employees and reducing the national minimum wage by 22 percent, the troika will provide Greece with a €130 billion bailout.

“But that will only bring their debt down to 120 percent of GDP,” Leacy said, which is where Greek debt stood in 2009 at the beginning of the current crisis. “That’s why I say Greece is going down, and there’s no question about it. The only question is when, and how.

“If they go down in an orderly way, then maybe there’s no panic — maybe it doesn’t spread to Spain or Portugal or Italy. If they go down in a panic, then it spreads to these other countries.

“The issue for the United States is that Greece has borrowed from anyone willing to lend them money, including U.S. investment banks,” Leacy continued. “Our problem is that we don’t know how much Greek debt these investment banks have bought, because there is no regulation in the United States right now for full disclosure. They don’t have to tell anyone how much Greek debt they hold. … Without transparency, there’s no way of knowing what these guys have or haven’t done.”

Mary Rose Leacy, Ph.D., is assistant professor of economics and chairwoman of the Economics Department at Wagner College.