Written by Bruce Walker on September 7, 2012

Unemployment Rate of 24.4% Puts Greece at the Edge

The unemployment rate in Greece was last reported at 24.4 percent for this past June, according to official figures released September 6. This means that almost one out of every four Greek citizens seeking work cannot find a job. According to Trading Economics, “Historically, from 1998 until 2012, [the] Greece Unemployment Rate averaged 11.57 percent.” Just one year ago it was 11.6 percent.

Unsurprisingly, the level of unrest in the country is increasing daily. Yesterday, 50 members of the Greek Police Officers’ Association — protesting government-ordered budget cuts to their salaries and pension benefits — actually picketed police facilities in northwest Athens and blocked riot police buses heading to the city of Thessaloniki.

The Greek economy shrank by 6.2 percent in the second quarter of this year, making it increasingly difficult to float Greek securities. The interest paid on those bonds will reflect their junk status. And the interest required to pay this debt will increase with every bond auction.

German Chancellor Angela Merkel has stated that Greece is her top priority, though it was not immediately clear just what action she would take. Michael Fuchs, a parliamentary leader of Merkel’s Christian Democrats, declared,

> We long ago reached the point where the Greeks must show they are capable of delivery a shift. A policy of last, last, last chance won’t work anymore and must come to an end. Even if the glass is half-full, that is not enough for a new aid package.

Luc Coene, a governing member of the European Central Bank (ECB), has warned that what applies to Greece applies as well to both Spain and Italy. He stated that it made no sense to start financing Spain and Italy:

> It would only lead to the ECB taking on the whole public debt of Spain and Italy onto its balance sheets. We haven’t forgotten what happen in August of last year. We bought Italian bonds and right after that the Italian government reneged on its promises.

Spain is in some ways even worse off than Greece. Its unemployment rate is 24.7 percent. Though its sovereign debt crisis is not as severe as that of Greece, it is almost impossible to conceive of anything keeping Spain from continuing to move even closer to a meltdown. Powerful political pressure within Spain is pushing the country away from austerity measures.

Behind all this turmoil is the question of what would happen if one of these nations — Greece is most often mentioned — either dropped the euro or left the European Union. The value of Greek government bonds and bank securities held by other nations would no doubt plummet. Greece owes money to numerous banks in other nations. Though the $3.5 billion owed to American banks is relatively small potatoes, the $5.5 billion debt owed to German banks and the $8.2 billion owed to British banks could seriously affect those nations’ economies. Worse yet is the staggering figure of $38 billion owed to French banks.

If Greece were to reintroduce the *drachma*, its historic currency, it would almost immediately face a revaluation (really, a devaluation), making a lot of paper wealth around Europe simply vanish overnight. The domino effect this might have on struggling banks in Europe could be catastrophic.

There would be the danger, as well, of the Greek government simply printing money to pay its obligations. Such a move is an easy, though destructive, path which defers economic pain for only a short period. Although the Greek economy itself is not large, if Spain or Italy began hyperinflation, the effect on financial transactions throughout much of Europe could be horrific.

Is there light at the end of the tunnel? The economic data from, for instance, Switzerland (not part of the eurozone) and Hong Kong (technically connected to Red China although its economy is free) show examples of nations with low unemployment, stable currencies, and a high degree of economic confidence. Small and decentralized government really works, as does frugality with the public fisc, and a willingness to let individuals, and not the state, create and manage wealth.

Photo of anti-austerity protesters in Athens, Greece, September 6: AP Images