A COMPARISON OF THE GREEK AND AMERICAN FINANCIAL CRISES: ANOTHER PERSPECTIVE

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ABSTRACT

The recent economic strife in Greece has been well-publicized. After years of unsustainable spending, the government is faced with frightening realities, and austerity measures have only magnified the tensions. The cumulative debt of the country is close to \$1.9 trillion which is about 6.33 times its GDP. This leaves a per-capita burden on its citizens of about \$176,416. In contrast, the total debt of the United States (in all categories and levels) is about \$57 trillion which is about 3.72 times the GDP and a burden of about \$181,355 per citizen.

In both countries significant amounts need to be added for unfunded liabilities from entitlement programs. In Greece these obligations increase the totals to \$5.32 trillion which is 17.73 times its GDP and a per-capita burden of \$494,002. In the United States the unfunded liabilities increase the totals to \$183.44 trillion which is 11.97 times GDP and a per-capita amount of \$583,640.

With a debt to GDP ratio that is less than 68% of the Greek ratio and per-capita earnings that are more than 75% greater than that of the Greeks, Americans could possibly feel some comfort that the country is not as far down the path of bankruptcy. However, the additional uncertainty of the "derivative markets" dwarf all the rest. Through these "insurance policies" on financial instruments, America has become the insurer of the world's economies, and the staggering amount of \$740 trillion has increased by about 35% since the same phenomenon took the world's economies to the brink of collapse in 2008. With these derivative instruments, it might be argued that America is in a more precarious situation than Greece.

INTRODUCTION

In the simplest of terms, the countries of the world have essentially operated under two basic financial/economic philosophies: The first is based on free market economies with localized decision-making and private ownership of property (sometimes called capitalism). The second is based on a socialistic/collective approach with more centralized decision-making and the "spreading" of that which is produced.

Those who advocate the latter approach (socialism/collectivism) argue that it is more fair because everyone can share more equally in the outputs. However, those who advocate the former method (a free market approach) argue that the socialistic approach is less fair because the economic fruits of time, effort, money, and risk-taking are largely "stolen away" by those not participating. Although the purpose of this paper is not to explore the details of the two approaches, it is necessary as a lead-in to the topic to summarize the (1) productivity, (2) economic well-being, and (3) sustainability of the two philosophies.

As to productivity, there are good comparisons from history to show the effectiveness of the two approaches. For example, in the 45 years that Germany was divided between the west under capitalism and the east under communism, West Germany had a per-capita production that was 2½ times that of East Germany. Taiwan (an island nation) under capitalism had per-capita production that was three times greater than the island of Cuba under communism. Likewise, communistic Russia was out-performed 4½ times by the United States. And currently the capitalistic South Korea is outperforming the communistic North Korea by more than 20 to 1 on a per capita basis.

As to the economic well-being of the individual, while there are some who acknowledge capitalism's ability to produce more, they assert that poor people are worse off because the wealthy people take most of what is produced. Of course it is part of capitalism that those who "hustle" will generally have more to enjoy, but the evidence is that poor people are also better off. In the USA, for example, we define the poor as those earning less than $10,890 per year, and that amount is greater than the average earnings of people in 65 other countries, and almost 100% of the bottom one fifth of Americans have more spending power than the bottom one fifth of countries like India. Let's also remember that of those under the poverty level in the United States, 43% own a home, 73% own a car, 97% own a color television, 78% have a VCR or DVD player, 89% own a microwave, and 80% have air conditioning (Williams, 2010). Yes, capitalism consistently outperforms other forms of government, even for the poor people.

As to sustainability, the answer is also largely provided by history. As one example, in the 1920s following World War I, the economies of the world were in a weakened condition. While communistic Russia had to temporarily abandon full communism even to survive, the 150-year-old United States relied once again on capitalism. The highest tax rate was lowered from 77% to 25% and the result was an increase in tax revenues from $77 million to $230 million, the national debt was reduced from $23 billion to $17 billion, unemployment dropped from 20% to 3.3%, the GDP of the country increased annually by 7%, and per-capita income grew by over 30%. In contrast, Russia continued to weaken under its 74 years of communism until it finally went bankrupt in about 1991. In East Germany it lasted about 45 years before bankruptcy. But "mostly" under capitalism the United States continues to endure with strength after 236 years—especially in those industries where free markets have been allowed to flourish.

There are always those who try to distinguish between communism and socialism, but the same problems occur under either approach—increased bureaucracy, red tape, and inefficiency at the central levels and declining incentives and motivation at the local levels. In Europe, for example, where the economic systems have been very socialistic, these countries are almost universally headed towards bankruptcy because of their collectivist and redistributive approaches. While the United States has a Debt to GDP Ratio of 1.04, the countries in Europe generally have a Debt to GDP ratio that is more than twice that amount including a ratio of 12.51 in Ireland, 4.9 in the United Kingdom, 2.59 in Portugal, 2.33 in Spain, 1.64 in Italy, 2.07 in Germany, 2.76 in France, and 2.24 in Greece. In other words, these countries generally have debt to GDP ratios that are more than double the ratio for the United States.

There is also much evidence of it within the United States such as highly socialistic California where four million more people have left the state in the last two decades than have come from other states (Kotkin, 2012). In contrast, highly capitalistic Texas has had the greatest influx of people and has created more jobs than any other state in the nation. On average, free market economies will always have more sustainability than economies of redistribution.

As Adrian Rogers said back in 1931: “You cannot legislate the poor into prosperity by legislating the wealthy out of prosperity. What one person receives without working for, another person must work for without receiving. The government cannot give to anybody anything that the government does not first take from somebody else. When half of the people get the idea that they do not have to work because the other half is going to take care of them, and when the other half gets the idea that it does no good to work because somebody else is going to get what they work for, that my dear friend, is the beginning of the end of any nation. You cannot multiply wealth by dividing it.”

It should be noted that programs of redistribution are usually difficult to stop or reverse because it is always easier for public officials to give or to increase than to take away. In fact, it is characteristic that initial stages of socialism lead to socialistic “creep.” In the United States, for example, when Social Security was introduced to the country in the 1930s, the American people were told that participation would be voluntary and would require a yearly maximum of one percent of a person’s wages up to $1,400 or $14 per year.

Now, 75 years later, it is mandatory and requires the participants (with their employers) to pay 15.3 percent of the first $106,800 or $16,340. In other words, the maximum dollar amount paid each year is about 1,362 times greater than what was first presented. Even adjusted for inflation the burden is now more than 30 times greater than when first proposed, and the additional infusions of capital are still far from being able to cover the outlays. In summary, programs of redistribution usually grow until they “choke out” the productive elements of society, and that is what is happening in both the United States and Greece. Greece has found it to be true as their austerity programs have led to civil disobedience, riots, and the burning of buildings throughout the country.

Many citizens will say that it is only fair that we receive Social Security because we pay into it and some of that is true, but the sad reality is that the government plan is not and never has been actuarially sound. When people are involved in a “risk pool” with a private insurance company, the sum total of the money paid by those people must be sufficient to cover the expected pattern of payouts associated with the risk. In fact, if an insurance plan is not fully and actuarially funded by the insurance company, the company will be closed down by the insurance commissioners representing the very governments that operate without sufficient funds. The United States government never intended for the Social Security program to be actuarially sound. It was known from the outset that the contributions of the participants would not be sufficient to cover the demands of the plan but that forced taxation would be needed to provide the necessary funds.

From a moral standpoint, it is all right for a citizen of society who wants to retire at a given age to put away money to cover that retirement (actuarially), but there are moral problems associated with someone wanting to retire expecting someone else to pay for it. What has happened to the concept of self-reliance? In Social Security, for example, we are moving closer to the point where it will require two people to take care of another person in society, and what a burden that will be for the caretakers and for the whole national system.

Another moral problem is that governments frequently need to borrow money to cover these situations which, in itself, is a problem. Even worse is the fact that our children and grandchildren will be paying for these excesses for many decades to come. Still another moral problem is the fact that the money intended for the beneficiaries is frequently spent by the governments for other needs. In the Social Security Trust Fund of the United States, for example, we are told that there is about $2.5 trillion in the fund, but the truth is that there isn't any money in the fund because the government has spent it and replaced the money with IOUs called government bonds. So when the obligations come due, either the taxpayers need to come up with replacement money or it needs to be borrowed. It is the epitome of the illegal practice of fund co-mingling for which governments put private citizens in jail.

Regardless of where they have been applied, the more "collectivist" methods have taken countries toward the brink of collapse at reckless speeds (including Greece and the United States) and if these processes are not reversed (or at least contained), it is 100 percent certain that these countries will go bankrupt. So let's take a look at the drift towards insolvency in Greece and see how it compares with the United States and its movement in the same direction.

THE GREEK AND AMERICAN FINANCIAL CRISES

The recent strife and turmoil in Greece has been well-publicized. After years of establishing burdensome commitments and spending beyond sustainable levels, the Greek government is now faced with the frightening possibilities of collapse. Other European countries are demanding more fiscal responsibility by Greece and that has led to attempts by the Greek government to establish austerity measures that are beyond what many Greek citizens are willing to accept. Consequently, there has been widespread rioting, destruction, and some loss of life. With that in mind, let's review the Greek situation and how it compares with the United States.

The Gross Domestic Product is, of course, a measure of the total amount produced by a country in goods and services, and as shown in Table 1, Greece produced a total of $300 billion in goods and services in the most recent year of 2011 (in American dollars). With a population of 10.77 million people, the GDP per capita was at $27,855. In contrast, the 314.3 million people in the United States had a GDP of about $15.33 trillion in the same year which was a per capita GDP of $48,775 or about 1.75 times the value produced by each Greek citizen.

Table 1: Ratio of Total Debt to Gross Domestic Product

	America	Greece
Population	314,300,000	10,770,000
Per Capita Gross Domestic Product	$48,775	$27,855
Gross Domestic Product	$15,330,000,000,000	$300,000,000,000
Ratio of National Debt to GDP	1.04	1.40
National Debt (as shown by Federal budgets)	$16,000,000,000,000	$420,000,000,000
State and Local Government Debts	$2,825,000,000,000	$90,000,000,000
Business Debt	22,405,000,000,000	865,000,000,000
Personal Debt	15,770,000,000,000	525,000,000,000
Total State, Local, Business, and Personal Debt	$41,000,000,000,000	$1,480,000,000,000
Total Debt (all "explicit" debts)	$57,000,000,000,000	$1,900,000,000,000
Total Debt per Capita	$181,355	$176,416
Ratio of Total Debt to Gross Domestic Product	3.72	6.33

As to debt, the crisis in both countries, simply stated, is that they are spending beyond their means and paying for it by excessive borrowing. The increased debt levels are already a financial burden, and the possibility of either country significantly reducing the debt levels in the foreseeable future seems remote. In fact, the main emphasis of both countries doesn't seem to be paying down the debt but slowing (or stopping) the increases before there is complete insolvency. As a first measure of this concern we turn to the concept of "National Debt" (Table 1) which is usually defined as a country's "official debt" in the Federal government's annual budgetary process. In the United States this debt figure is about $16 trillion as of about September 4, 2012 (and growing rapidly); in Greece it is about $420 billion (and also growing rapidly). As shown, the National Debt to GDP Ratio in the USA is 1.04 but much more in Greece with a ratio of 1.40.

A major concern with the debt issue seems to relate as much to the pattern or direction of it as much as the amount of it. In Greece the debt increases have been excessive for 16 consecutive years, and in the United States the National Debt has increased by a shocking 60 percent in the last four years from less than $10 trillion to the amount that has now reached $16 trillion. As burdensome as these figures are, it gets worse when one considers the additional debts relating to state and local governments, businesses, and households. When these amounts are added to the "National Debt," we usually refer to the sum as "Total Debt." As shown in Table 1, the "Total Debt" for the United States is at $57 trillion which is 3.72 times the GDP. For Greece, the "Total Debt" is about $1.9 trillion or 6.33 times the GDP.

Also, notice in both countries the amount by which Total Debt exceeds National Debt. For the United States, adding the debts of state and local governments, businesses, and households increases the total by 3.56 times, but for Greece the additions increase the debt by 4.52 times. With the additional debts, the burden on the citizens becomes substantial. As shown in Table 1, For Greece, the Total Debt per Capita is a large $176,416. For Americans the "Total Debt per Capita" is $181,355 which means that families of four have an initial debt responsibility of $725,420 before even considering debts for their own families like buying a home.

But there are other facts that need to be considered before concluding whether it is Greece or America that has more economic challenges. The first of these relates to unfunded liabilities which are largely created by entitlement programs. In the United States the main categories of unfunded liabilities are Social Security, Prescription Drugs, Medicare, and smaller amounts including currency obligations. As shown in Table 2, the total for these four was a whopping $126.438 trillion as of about September 1, 2012. Greece also has many unfunded liabilities, but they don't match up exactly with the American categories, so as shown, there is some combining of numbers to come up with the total of $3.4204 trillion.

Table 2: Debt Relationships with Unfunded Liabilities

	America	Greece
Population	314,300,000	10,770,000
Gross Domestic Product	$15,330,000,000,000	$300,000,000,000
Total "Explicit" Debts (from Table 1)	$57,000,000,000,000	$1,900,000,000,000
Social Security Liability	15,880,000,000,000	}
Prescription Drug Liability	21,008,000,000,000	} $3,420,000,000,000
Medicare Liability	83,550,000,000,000	}
Currency Obligations and Other Debt	6,000,000,000,000	$400,000,000
Total of Unfunded Debts	$126,438,000,000,000	$3,420,400,000,000
Total of Expanded National Debts	$183,438,000,000,000	$5,320,400,000,000
Total Expanded National Debts per Capita	$583,640	$494,002
Ratio of "Expanded" Debts to GDP	11.97	17.73

Table 2 also shows that with Total Unfunded Debts added to the Total "Explicit" Debts from Table 1, the amount is $183.438 trillion for the Americans and $5.3204 trillion for the Greeks. On a per-capita basis the Total Expanded National Debt is $583,640 for the Americans and $494,002 for the Greeks. When Total Expanded National Debts are compared to GDP, the ratio is about 48 percent more for the Greeks at 17.73 than for the Americans at 11.97.

But there is another "jump" needed before any conclusions can be reached about the financial conditions of the two countries, and this category seems more significant. The amounts relate to the fact that America has become the primary insurer (or underwriter) of the world's financial systems by issuing what are known as credit default swaps (also known as derivatives). These are essentially insurance policies that guarantee other financial instruments, and the total was about $550 trillion when the mortgage meltdown occurred in 2008. The entire world's economy was threatened at that time by a systemic "credit freeze" and the world's credit markets were likely within days of a complete worldwide meltdown. It was probably because of America's so-called bailout legislation that a total collapse of the financial markets was averted.

Table 3: Expanded Debt Relationships with Derivative Obligations and Local Debts

	America	Greece
Population	314,300,000	10,770,000
Gross Domestic Product	$15,330,000,000,000	$300,000,000,000
Total of Expanded National Debts (Table 2)	$183,438,000,000,000	$5,320,400,000,000
Potential Derivative Obligations	740,000,000,000,000	50,000,000,000
Total Debt and Derivative Exposure	$923,438,000,000,000	$5,370,400,000,000
Per-capita Debt and Derivative Exposure	$2,938,078	$498,644
Ratio of Debt and Derivative Exposure to GDP	60.24	17.90

Actually, the fact that the United States Government stepped in to solve the problem in 2008 has led to a greater "moral hazard." Rather than making derivative traders more cautious, many of them have become more bold with the belief that the government will bail them out again. Now nearly four years later, the "fragile" derivatives market has increased from about $550 trillion to $740 trillion as shown in Table 3. Of course, nobody can possibly know how many claims might eventually be made with these derivatives (insurance policies), but the mortgage meltdown and bailout of 2008 shows that it can happen.

With the addition of these derivatives, the Americans have a staggering Total Debt and Derivative Exposure of $923.44 trillion and the Greek total is $5.37 trillion. On a per capita basis, the Debt and Derivative Exposure is $2,930,078 for the Americans and $498,644 for the Greeks. With these totals it can be seen that the Americans actually have a more tenuous financial situation with total potential claims being 60.24 times its ability to produce (GDP) compared to 17.90 for the Greeks. Reflecting on these per capita dollar amounts, it doesn't seem realistic or likely that each family of four in the United States can be responsible for potential claims of nearly $12 million. It is a sobering situation to contemplate.

SUMMARY

With worldwide attention having been focused on the Greek financial crisis, the basic focus of this analysis has been to determine how the American economy compares with the Greek economy in the severity of its financial situation and its ability to cope with these financial pressures. The basic finding is that the Greek crisis is currently more serious when considering all forms of "explicit" debts, both public and private, at the national, state, and local levels; For Americans, these debts are 3.72 times the country's gross domestic product, but for the Greeks, they are 6.33 times the country's gross domestic product.

When adding "unfunded liabilities" to these "explicit" debts (like Social Security and Medicare), the Greek situation is still more serious with the obligations at 17.73 times the gross domestic product compared to 11.97 times for the Americans. But when derivatives (financial insurance "policies") are added to the equation, the American situation is far more serious with all obligations at 60.24 times the gross domestic product compared to 17.90 for the Greeks. While some may argue that these derivatives (credit default swaps) are not really the same as traditional debts, nevertheless, it was the American derivatives markets that brought the world's economies to the brink of collapse in the Fall of 2008, and such derivatives have increased by approximately 35 percent since that crisis was mitigated by the "bailout legislation" of 2008. It could very well happen again.

CONCLUDING COMMENTS

With the information above, some logical questions might include "Is it too late?" and "How much time do we have?" Of course the answer to both questions is impossible to determine for a variety of reasons including the question of what kind of leadership the two countries will have in the future. Both countries are involved in an election year with candidates and political parties with significantly different perceptions about the problems and potential solutions.

In Greece, for example, new elections in June left the course of government in limbo. The New Democracy Party (ND) (with US-educated Antonis Samaras as its leader) is the center-right party. The Greek Socialist Party (PASOK) is the party of the "old left," and the Democratic Left Party (DL) is the "moderate left" party. Through two election cycles no party has been able to get a majority vote, so these three parties are trying to form a coalition with all three parties being "pro-Europe" meaning that they want to remain with the euro. There is also a potential threat by the radical left SYRIZA party that wants to turn the country into a communist state, but it appears unlikely that it will make significant inroads in this election cycle.

The future of Greece will largely be determined by the coalition government that emerges and the political/economic philosophies that will guide the country. In the United States, the presidential election is also significant with the two parties (and candidates) having dramatically different political and economic views and perceptions. It will be interesting to watch both elections "play out."

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