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WHAT GREECE LEARNED FROM GOING BROKE

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Greece, once the symbol of European fiscal ruin, has become one of the region's most disciplined economies, while larger countries like France and Italy face unrest over rising costs and strained public services. After years of ignoring warnings about an unsustainable pension system, Greece ran out of money in 2010 and had to accept bailouts that brought steep wage cuts, tax hikes, a higher retirement age, and a roughly 25% economic contraction. The painful adjustment eventually paid off: Greece has run primary budget surpluses since 2016 (except during the pandemic), cracked down on tax evasion, restructured debt that is now mostly held by official lenders on cheap, long-dated terms, and now borrows at lower rates than France, the U.K., or the U.S. The crisis also changed the political culture. Even former firebrand Alexis Tsipras now touts his party's compliance with EU budget rules, and voters are warier of promises the state can't afford. The authors note the costs, though…GDP is still about 20% below its pre-crisis level, and Greece remains the EU's second-poorest country on a per-capita, purchasing-power basis. Greek leaders, including Prime Minister Mitsotakis, argue that Europe's aging populations and expensive welfare model require reform before a crisis forces it, and that high growth is needed to keep the social contract viable.

LS Comment: Greece's experience is a reminder that fiscal reform often only happens after markets force it. The U.S. has structural advantages Greece lacked, but with deficits and entitlement costs rising, the risk is that we wait for a crisis rather than act ahead of one.