12 Greek Tourism, Economic Crisis and Political Turmoil: Between Scylla and Charybdis

Andreas Papatheodorou and Nikolaos Pappas

Introduction

Economics and politics are structurally intertwined, either directly or through secondary impacts on society and culture. Hence, any multi-faceted phenomenon such as tourism can be expected to be greatly affected by major economic and political changes taking place either nationally and/or at a global level. In the light of the recent world financial turmoil and its subsequent implications for the debt crisis in a number of European countries, one of the key aspects to be examined is whether the economic recession has affected the relationship between tourism and economic growth (Antonanakis *et al*., 2015). In fact, the current crisis has considerably affected global tourism and associated revenues, resulting in sharp declines of key metrics in the hotel and other tourism sectors (Sariisik *et al*., 2011). As expected, a fall in disposable income results in a decrease of consumption of discretionary goods and services such as tourism (Papatheodorou *et al*., 2010) making the sector susceptible to crises (Wang and Ritchie, 2012). Among others, this negative impact is related to the prevailing market structure, characterised by a large number of small and medium tourism enterprises with few means to adopt formal crisis management practices compared to other sectors of the service economy (Ritchie, 2009).

Greece is perhaps a unique example worldwide in terms of the negative repercussions experienced as a result of the global economic crisis that started in 2008. With the exception of a very anaemic positive income growth rate in 2014, Greece has suffered from a continuous period of recession since 2008, as a consequence of its public debt crisis and the subsequent austerity measures introduced by all governments in power; and not surprisingly, this prolonged period of economic asphyxia had very negative implications for the welfare of the Greek population. In 2008, Gross Domestic Product (GDP) per capita in current prices amounted to €21,877 (i.e. the highest ever recorded in Greece) while in 2015 this was reduced to €16,279, i.e. a 25.5% decrease in seven years, bringing per capita GDP in current prices back to 2003 levels. Moreover, the unemployment rate rose from 7.7% in 2008 to 25.0% in 2015 (with a peak of 27.5% in 2013) and general government gross debt as a percentage of GDP rose from 108.8% in 2008 to 178.4% in 2015 (International Monetary Fund, 2016). All these adverse economic developments (and many more including an unsurmountable rise of both direct and indirect taxation) have strongly contributed to rendering Greek citizens among the unhappiest at a world level: illustratively and according to the 2015 World Happiness Report, Greece ranked first among 125 countries with respect to negative changes in happiness experienced between 2005-2007 and 2012-2014 (Helliwell, Layard and Sachs, 2015).

As expected, these tectonic negative consecutive economic shocks took their toll on the traditional political establishment in Greece. In the October 2009 elections, the two major political parties, i.e. the centre-left Panhellenic Socialist Movement (PASOK) and the centre-right New Democracy (ND), which had alternately ruled the country since the restoration of democracy (after the fall of the military junta) in 1974, jointly accounted for 77.39% of the electorate vote, i.e. 43.92% for PASOK (that won the elections) and 33.47% for ND. The Coalition of Radical Left (SYRIZA) ranked fifth with 4.60%. On the other hand, in the January 2015 elections, PASOK ranked seventh and ND ranked second with 4.68% and 27.81% of the votes respectively, i.e. the two parties jointly accounted for 32.49% of the vote, which is less than half of their power five years before. SYRIZA ranked first in the January 2015 elections with 36.34% of the votes and formed a coalition government (of apparent convenience) with Independent Greeks (ANEL), a new populist right-wing party that ranked sixth with 4.75% (Ministry of Interior, 2016). The September 2015 elections did not produce substantially dissimilar results, allowing the two partners to continue in power. This radical shake-up and shift of the political system in Greece has also been characterized by the rise of Golden Dawn, an extreme rightist/fascist party that ranked third in both 2015 elections, demonstrating the despair of the Greek people who sought resolution and comfort in populist and largely unrealistic or even dangerous ideas. Fortunately, and although Greece has been on the brink of political instability since 2009, no serious (i.e. armed) incidents of civil unrest have taken place, thus keeping the social cohesion of the country relatively unscathed.

In such a depressive economic environment, all Greek governments, irrespective of their political orientation, have sought a potential *deus ex machina* to generate new wealth thus assisting the country to exit the vicious circle of the crisis. Given the limited presence of heavy industry and the rather uncompetitive agricultural sector, the emphasis has been put on the service sector of the economy. The latter is represented by two major pillars in Greece, i.e. shipping and tourism (European Commission, 2012). In fact, Greek tourism is regarded as a flexible and dynamic sector which even in times of economic crises appears to be resilient on a long term basis (Guduraš, 2014). Due to the prevailing economic depression, domestic tourism (i.e. Greeks visiting areas in Greece outside their usual residence) is in a state of near collapse, with almost 80% of Greeks revealing in a nationwide survey that they were not planning to undertake holidays in summer 2016 (Greek Travel Pages, 2016). Hence, the predominant emphasis is now on inbound tourism (i.e. foreigners visiting Greece), which is expected to have a net positive impact on both income and employment.

Having all the above in mind, this chapter focuses on the recent Greek multifaceted economic crisis and its implications for the country's tourism and hospitality sector. Further to an analysis of the pathologies of the Greek economic development model, the economy-tourism nexus is studied, considering among others the political changes that have taken place during this period. These refer not only to the changes of governments in Greece but also to the outbreak of the major political crisis related to the Arab Spring and the subsequent immigration and refugee crisis that inevitably affected Greece as a result of the country being a gateway to Europe due to its geographical position. The chapter also discusses the reaction of Greek tourism enterprises facing the threats of the economic crisis and trying to secure financial viability. It finally makes some assertions on the possible implications of Brexit for tourism in Greece.

The Greek economic development model: Rise and fall

It can be validly argued that the roots of the current Greek economic crisis are grounded in the model of economic development pursued by the country throughout the post second world war period. According to Panaritis (2011), since 1945 the Greek governments have implemented free-market principles, albeit within the context of strong statism and political clientelism to protect the war-stricken population by providing alternative ways to improve their livelihood. This Greek welfare state has included among others an automatic indexed salary schedule (introduced in the early 1980s) instead of an annual pay increase based on market indicators (such as productivity), also being further adjusted to include subsidies of all kinds to the agricultural and industry sectors as well as wage benefits related to marital status and number of children. In line with the favourable global economic environment, Greece's GDP per capita rapidly increased up to the first oil crisis, with an average growth rate of 7% between 1950 and 1973; this was exceeded only by Japan during that period (Nation Master, 2016). Still, the limited economic opportunities in the country forced an unprecedented number of Greeks to emigrate, predominantly to other European countries, United States, and Australia (Panaritis, 2011).

From 1979 onwards, however, Greece entered into a prolonged period of relative economic stagnation (Romei, 2015). Since its accession to the European Economic Community (EEC) in 1981, Greece has faced increased difficulties due to its low competitiveness and institutional inability to address low productivity by raising protectionism (as this was now against the EEC *acquis*). Instead of undertaking structural reforms, the country's governments relied on traditional expansionary fiscal and monetary policies that did not improve the country's macroeconomic performance: as a result, the general government gross debt rose to 94.5% of GDP in 1993 from only 25.1% in 1981 (Oltheten *et al*., 2003; International Monetary Fund, 2016). Throughout the 1980s, Greek economic activity stagnated, inflation was considerably higher that the European average, product markets were extensively regulated, the tax system was growing in complexity and induced endemic tax evasion, and unemployment was increasing whilst labour productivity festered (Romei, 2015). During the 1990s, accession into the European Monetary Union (EMU) became a priority for the Greek political class, leading to governmental initiatives that aimed to reduce budget deficits and inflation, thus satisfying the Maastricht Treaty criteria