

## Daniel Calano - Credit problems in Greece: An all too familiar story

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There has been a lot of news lately from the country of Greece, with its \$340 billion dollars worth of debt, representing 160% of gross domestic product. Greece had its first bail out last year to the tune of 50 billion euro, and the European countries are currently arguing about whether to add 110 billion euros to this.

Why is the rest of Europe bailing out Greece? Is it because of its love of Greeks, their antiquities and beaches? I don't think so. On the contrary, it is because predominantly European banks have loaned excessive amounts to Greece on the belief (hope) that they would get paid back. As a result, countries like Germany and France are reluctant to loan more, without a credible payback plan and, more importantly, austerity measures for the Greek population.

How is the plan being received? The sale of government owned resorts, beaches, factories etc. is met with resistance from the general population and unions. The austerity plan which calls for both personal and entitlement cutbacks has met with protests (riots) in the streets. This cannot be comforting to the lenders. However, as pragmatists, they perhaps see more lending as the only way to stretch things out, on the chance they get paid back later.

Sound familiar? Feel like déjà vu regarding our own banking crisis and real estate decline? Throw in credit card and personal debts, entitlement deficiencies, threatened future for social security and medicare, and we sound a little like Greece. In realty, the U.S. situation is not nearly as dire as Greece's, since our growth potential is far stronger than Greece, and thus our debt to GDP ratio is far lower. However, many of the concepts are similar. Banks here, as well as abroad, have practiced excessive lending policies.

You have to ask, is credit inherently evil? No, of course not. Lending is as old as civilization. Ironically, the Greeks and Romans made it intrinsic to their economy and culture. Credit is perfectly reasonable when people can pay it back, even on a protracted time frame. In the simplest terms, the glitch occurs when, let's call it initial credit, which is based upon current income, is increased with second tranche credit, which is based more on future expectations. Excessive credit is based on wild expectations, while turning a blind eye to current obligations. If everyone could just decide on a life style they could afford, borrow against future earnings to purchase it now, and stay contented, things would work fine. But that is not human nature.

Human nature is to push the limits, where lenders lend more on the hopes of greater profit, and borrowers borrow more also hoping for increased profits or material goods. Social forces are also in play. I don't think it's cynical to say that most politicians are elected on the basis of pushing for more jobs, higher standards of living, more personal wealth, and lower taxes, all of which may have to be supported by excessive credit. Any politician who suggests personal restraint, gets what Greece is getting: A protest vote. Further, when people do respond with restraint, the economy slows down,

lenders are encouraged to loosen constraints on lending once again, and the savers are encouraged to spend more to reinvigorate the economy. I wonder with amazement when people talk about the slow housing recovery as a bad thing, as a result of loans being too difficult to be obtained. Many view this as a negative, but do we really want more supply of housing, just to create jobs, when we can't absorb the current amount in the market.

Yes, it is human nature for lenders to lend more, and borrowers to borrow more, all on the bet that wealth will be created. This human nature is further nourished by our culture of bailout, where both lenders and borrowers have little fear of consequences since they have a backup. No, credit is not inherently evil and is not going to go away. But you have to wonder if we were all would be better off when credit was in fact hard to get, and expectations were to pay it back before asking for more. The protests in Greece make me wonder.

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