

# The fiscal crisis of Greece within the framework of the European and Global crisis

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# When was the Greek debt created.

## The expansion of the State, 1974-1993

- 1979-1993: Public debt increased from 20% to 110% of GDP
- 1949-1974, the “golden era”, the state remained small (25% of GDP) and the Bretton Woods had no space for public borrowing
- 1974-1993. It became a typical European economy with the state having a 45% of GDP.

# Why was the public debt created?

1. 1973 and 1979 crisis, state take over failing companies, deindustrialization and state management of the 1980s and privatization of the 1990s
2. The establishment of a proper welfare system ( National Health Service, education, insurance, pensions )
3. The expansion of the state under a regime of high inflation and stagnation
4. Financed by loans, both foreign and internal

# Why was it not financed by taxes?

1. The taxation system indirect and direct taxation  
(2/3 and 1/3)
2. The introduction of VAT (Full member of  
Community 1981)
3. No changes in direct taxation
4. Huge increase in indirect taxation and  
insurance contributions
5. Inability of such a system to finance expenses  
of 40-45% of GDP (36-40%)

# Stabilization and Growth, 1995-2008

- the second “Transformation of the Greek economy”
  - neoliberalism and globalization
- comparative advantages, open economy, privatizations
- tourism, shipping, banking, construction, telecommunications, commerce
  - Balkans and Eastern Europe

# The new economy

- trade balance, expansion of imports to 35% of GDP, exports 10%
  - tourism (10%) and shipping (10%)
- The question of the deficit of the balance of payments
  - foreign loans, both public and private
- employment growth 3,3 to 4,3 millions, 1 million migrants
- hard drachma and the Euro central to the new economy
- the impressive growth and the convergence to EU average

# Why the public debt was not reduced in the boom period?

- low interest rates and abundant supply in international finance
  - sustained growth the preoccupation
  - the budget deficit was contributing to growth
- the public cost of privatizations was undermined (insurance system)
  - Olympic games and infrastructure
  - defense expenditure skyrocketed
  - the peak of the stock market 2000
  - the “Greek statistics” in the Euro area

# The protection of wealth

- the 'fragmented" taxation system"
- each sector, each profession, each occupation gained a special taxation system
- the protection of wealthy consumption
- off shores, tourist villas and yahts, personal loans, banking loans, gifts to the poor
- the industry of legal tax evasion
- it was the case all over the world, the Greek peculiarity was the specific technics.
- nowadays, private saving (400 billion). (Kalecki)

# Is the big state the problem?

- the current IMF and EU policy in Greece targets public expenditure
  - neither the size nor the composition differs between Greece and the EU (health, pensions, public administration, education-defense)
    - the 4 sectors have each 10% of GDP
    - indirect taxes, social contributions, even business taxes are the same
  - only the personal income tax differs, in EU is 11% of GDP, in Greece is 5%. (It explains 90% of the Greek annual deficit)













# The two Greek records: the fiscal deficit and the stabilization plans

- 33 years it runs an annual budget deficit.
- It also runs successive stabilizations plans (1985-1987, 1990-1993, 1996-2000, 2004-2007, 2010-2013)
- They cut wages and salaries, and public expenditure
- They all produce minor recessions and increase, rather than decrease, the public debt.
- Due to the “political circle” they are followed by fiscal expansion

# The global crisis and public debt

- from the credit crunch to the public debt crisis
- 2008-2011, world public debt increase from 28 to 44 trillion (world GDP 54 trillion)
- financial markets have a reduced capacity to lend
- the printing of new money in USA, China, Japan and elsewhere
- under normal conditions the rate of interest should go up, now it is close to zero, thus “regulated”
- financial markets started to speculate on public debt

# The response to the crisis

- save the banks, buy the toxic assets
- liquidity in the system
- fiscal stimulus
- no big company failure
- yet the “liquidity trap”, banks are not lending money
- the “balance sheet” crisis and low investment
- the slow and unsustainable recovery
- a W crisis

# The public debt crisis in the EU

- the public debt crisis emerged first and most in the EU because of the dominant economic policies, “monetary policy is inadequate to contain the crisis”
- national fiscal stimulus
- no change in the architecture of the Euro. Competition, Maastricht, and European Central Bank all were undermined
- the re-emergence of economic nationalism
- the policy gap and the new “buffer” mechanism

# The Greek crisis

- The suffocation of the public debt. The 7 year Greek bonds, all international.
- The failing response (the IMF-EU package)
- The Greek problem turns into Irish, Portuguese, Spanish, Italian.
- From “no bail out” to “successive bail outs”
- The debt trap and the Greek recession
- IMF' s dream. Reduction of public expenditure to 32% and a surplus of 6% of GDP

# Back to the European and Global crisis

- Currency stability
- Trade stability
- Public debt (EU and the rest)
- Regulating the financial markets
- Income distribution again (the 1 trillion debate)
- In search of new arrangements in Europe
- The flow of trade and the flow of money