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The Greek Economic Crisis: How did it happen?

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ABSTRACT:
This paper delineates the causes of the recent debt crisis of Greece and how did the formation of European Union pushed Greece towards financial turmoil. Given the fact that Greece has a history of financial commotion, sky-high fiscal expenditure, and mismanagement, tax evasion-acted as incendiary factors and made the situation worse than it was. I have thrown some light on the fiscal inconsistency Greece has followed and how it dragged it to the point of ending up as a defaulter, along with the possible steps that European Union might have to take up in the near future

KEYWORDS: European Union, Debt crisis, bailout package.

I.INTRODUCTION:

International tariff barriers in Europe made it extremely cumbersome for countries to trade with each other. With the end of World War II (WWII), a destroyed Europe was in need of non complex restrictions to conduct trade across borders. This lead to the partial exemption of tariff fee slowly as all tariff barriers were falling down the idea of united Europe emerged

On February 7 1992, 27 countries joined hands in forming the united Europe, signing the Maastricht treaty. This marked the birth of the European Union (EU) which reflected serious intentions of all countries to form a common economic and monetary union. Yet, there existed the problem of paying extra fees to the currency exchange agencies. The only solution to this problem was single currency, which could be used across the EU and on 1st, January 1999 Euro was introduced. Currently, more than 337.5 million EU citizens in 19 countries use it. The European Central Bank (ECB) is the central bank for the Euro area which was formally established on 1 June 1998. However, it was only after the introduction of Euro that the bank could exercise its administrative powers. The bank has been formulating monetary policies for the countries of EU, with price stability as the primary objective. Fiscal policies for the countries are coined and implemented by the government of individual countries. This is one of the key reasons for crisis.
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The euro convergence criteria (also known as the Maastricht criteria) are the criteria which European Union member must stand onto in order to enter the third stage of the Economic and Monetary Union (EMU) and adopt the euro as their currency. In November'05, when Eurostat took Greek economic accounts under scrutiny, it was revealed that Greece forged the data.

Report by eurostat-"Recently, the Greek budgetary statistics have undergone a very large revision The government deficit for 2003, which was initially reported at 1.7% of GDP, stood at 4.6% of GDP after the September 2004 notification. The deficits notified to the Commission for 2000, 2001 and 2002 were also revised upwards by more than two percentage points of GDP. Such substantial increases resulted from earlier actions undertaken by Eurostat as well as initiative taken by the incoming Greek government in spring 2004 to launch a thorough fiscal audit.

Revisions in statistics, and in particular in government deficit data, are not unusual. After the publication of the first outcomes in March by the national statistical institutes, data are often revised because new information comes available, or because errors are detected. However, the recent revision of the Greek budgetary data is exceptional. Figures for 2003 were revised by almost 3 percentage points of GDP. The government debt figures were also significantly revised (by more than 7 percentage points)"
So, numbers were faked and despite of being financially unstable Greece managed to enter the EU. This embarked the onset of crisis. The fiscal structure of Greece is in shambles. Below mentioned are the few problems which entailed the crisis.

PLAUSIBLE EXPLANATION FOR CRISIS*:*

INFLUX OF EURO:

Greece joined Euro Area in 2001.Before this Greece could only borrow a set amount and that too at high interest rates but after 2001 Greek economy had access to credit and was charged low interest rates. After this Greece experienced profusion of euro flowing into her economy, like never before. Government expenditure increased which was financed by the borrowed money. Eventually, debt accumulated and the debt was being repaid with more borrowed money. Lenders believed if Greece fell out, Germany and other big economies of Europe would intervene and help Greece because as they are bounded by a common currency, Euro.

ANOMALIES IN TAX SYSTEM:

According to an article by Washington Post, 89.5% of the tax in 2010 went uncollected and in Germany the figure was just 2.3%. In the light of this, analysts claimed that the root cause of the crisis was that the taxpayers simply didn't turn in the taxes that year. However, there is a need to review this claim. The figure 89.5% is from OECD report which tabulated the historic tax debts and not what Greece had to collect from its citizens in 2010. There are accounting anomalies in Greece and this is why the figure was misinterpreted. Nonetheless, there are few shortcomings in the tax structure.
A recent study done by Labor Inspectorate (SEPE) suggested that one out every three employees in Greece isn't registered. Clearly, a large proportion of shadow economy is operating in Greece and a study by IMF between 1999 and 2010 quoted it to be 27% of its GDP which is around 20.2% of the GDP in other rich countries. Tax rates in Greece are found at the top range of the OECD. High tax rates could be a strong incentive to not to reveal the true income as the value of marginal benefit derived from it exceeds the value of revealing the true income. There are no reliable figures but according to OECD Greece collected 34% of the country's GDP which is slightly below the EU average of 38.5%.

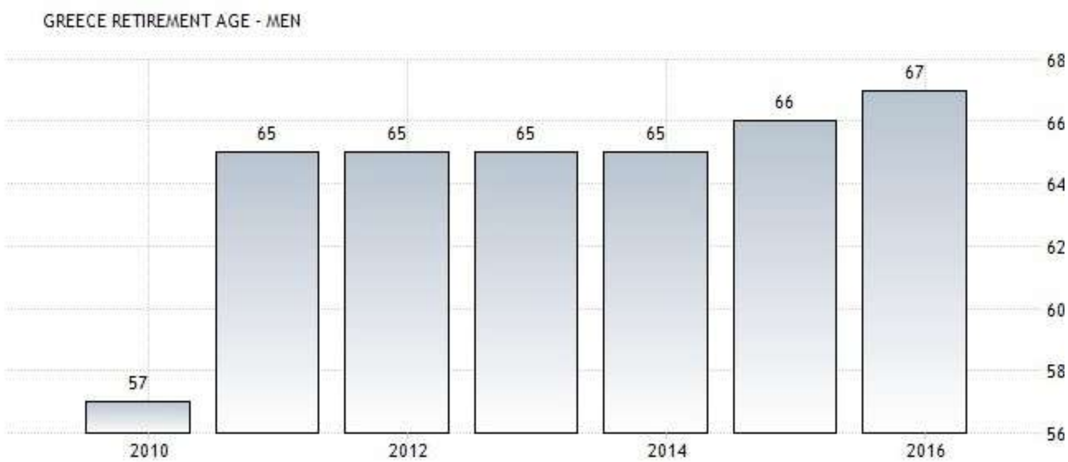
Tax collected in 2010

Country	Percentage of GDP
Italy	41.7
Germany	38.3
UK	35.5
Greece	34.0

Source: Eurostat

INFLATED EXPENDITURE ON SOCIAL BENEFITS:

In December 2015, Yiannis Vroutsis then labour minister presented the following date to the parliament of Greece:"In the public sector, 7.91% of pensioners retire between the ages of 26 and 50, 23.64% between 51 and 55, and 43.53% between 56 and 61. In IKA, 4.44% of pensioners retire between the ages of 26 and 50, 12.83% retire between 51 and 55, and 58.61% retire between 56 and 61. Meanwhile, in the so-called healthy funds, 91.6% of people retire before the national retirement age limit,"The average retirement age in Greece in 2009 was as low as 57. In 2010 IMF's survey computed that wages and social benefits constituted 75 percent of total public spending, public wage and pension bills. In 2014 it was raised to be 66 and 67 in 2015.
Source: Ministry Of Employment and Social Protection, Greece



The early retirement and the public sector fuelling up the pockets, it is one of the rationale behind the crisis. Clearly, in 2010 Greece's government spent a hefty amount on most of the people who were fit enough to be a part of the working labor. A large proportion of the economy was enjoying generous state benefits and the tax collection problem rocked the boat.

SHORTFALL OF LAND REGISTRY SYSTEM:

The authority responsible for land registration in Greece, Land Registries, is under the direction of the Ministry Of Justice. Greece secured €100m of funds as a promise to create a land registry (a Cadastre), De Volkskrant, former Dutch MEP Derk Jan Eppink singled it out. In an economy if property rights are not clearly laid out and enforceable, it cannot function. But then if there is not a concrete land registry system it would engender corruption and manipulation. In Greece, the easiest way to conceal the non paid tax was to buy real estate. Also, there is no working national land registry system in Greece. Even in the world of digital era Greece's land transactions are recorded in handwritten ledgers, jotted down by the last names. There is no official system which can be held accountable that whether two people, or 15, have the ownership of the same property. Many experts have cited lack of working land registry system as a hurdle in the progress. This problem makes collection of taxes as virtually impossible and hurt the investment sentiments.
Dodecanese Islands, which were dominated by the Italians from 1912 to the end of second World of War, is the only part of Greece which have had land registry system and cadastre. But cadastre maps have never been updated and many include paths that have disappeared. Nevertheless, according to residents they are helpful.

STEPS TAKEN UP TO CURB THE CRISIS:

Eventually Greece ended up in the infamous economic crisis. Since then three economic adjustments programme had been undertaken. Timeline and background for are as follows:

1. On 2 May 2010, Greece was offered a total amount of €80 billion to be disbursed from May 2010 to June 2013. The loans pooled were called "Greek Loan Facility"– GLF. However, as the events unfolded Slovakia backed out from GLF agreement and so did Ireland and Portugal as they themselves were in the need of financial assistance. Consequently, the agreed amount was reduced by €2.7 billion.
2. On 14 March 2012, the second economic adjustment programme was approved by the Euro Area. The un-disbursed amounts from the first programme (GLF) along with an additional amount of €130 billion for the years 2012-14, this committed by the Euro Area Member States and the IMF. The key difference in the second programme from the first programme was that the second programme was financed by the European Financial Stability Facility (EFSF) whereas the amounts for the first programme were pooled by bilateral loans.
3. In the June of 2015, the total financial assistance of the second programme was predicted to be of €164.5 billion, out of which the Euro Area committed €144.7 billion and the IMF committed to contribute €19.8 billion. Also, when the second programme was all set to be launched it was agreed that the private sector involvement (PSI) should be enhanced.

Wolfgang Schäuble, then finance minister of Germany, proposed 'Time Out' for Greece, in which he argued that Greece should opt out of the monetary union for five years. However, on 13th of July, Euro Area leaders at a crucial summit envisaged a framework for the third economic adjustment programme. On 14 August, the finance ministers of Euro Zone signalled the financial assistance of €86 billion.

CURRENT SCENARIO:

Even after the third bailout programme Greece's economic problems haven't disappeared. The above mentioned programmes brought stability to the finances of the country and curbed the market fears but economy has narrowed down. The money which flows into Greece through the bailout programmes soon make its way out as the debt payments and this acts as an impediment to growth. Greece still has staggering loans to pay back and the deep economic reforms are the need of the hour.
The problem is bigger than it is appearing in front of us. Even if Greece or for that matter Ireland, Spain and all the countries in Euro Zone which are on the onset of crisis strengthen their fiscal structures or take the measures to put a full stop on the crisis, there is no mechanism which can prevent it from happening it again. The monetary policies are being coined by the ECB and the fiscal policies by the individual countries. Had there been one autonomous organisation which could have prevented the intricacy caused by the monetary polices and the independent fiscal policies, maybe the current debt crisis which has swept Europe could have been avoided.
Thus, the question now in front of entire European Union is to whether establish an autonomous organisation which would form fiscal policies for the nations -which would require the nations to surrender their political powers- or let the incongruous forces work.

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