

The Greek economic crisis: facts and myths*

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In the last five years, Greece's economy has become the center of international attention. On the occasion of the crisis, economists, who had never written a single word on the case of the Greek economy, became concerned and started to write scientific papers and journalistic articles in their attempt to provide an explanation for the phenomena occurring during the recession and predict the future. Nobel Prize winners are competing as to who will offer the best economic advice while economists and journalists are lamenting for the social and personal drama of everyday Greeks. Reports unveil how desperate Greeks commit suicide and how malnourished children fainting at their way to school. Some politicians go even farther by comparing the current "plight" of Greek people with the human disaster of Nazi occupation of Greece in the early 1940s. And all point to the high official unemployment rate of 25% and the catastrophe of 60% of unemployed youth. A real Greek tragedy indeed! But is it true or is just a well-played theatrical drama? Whatever it is, the foreign and domestic media love it.

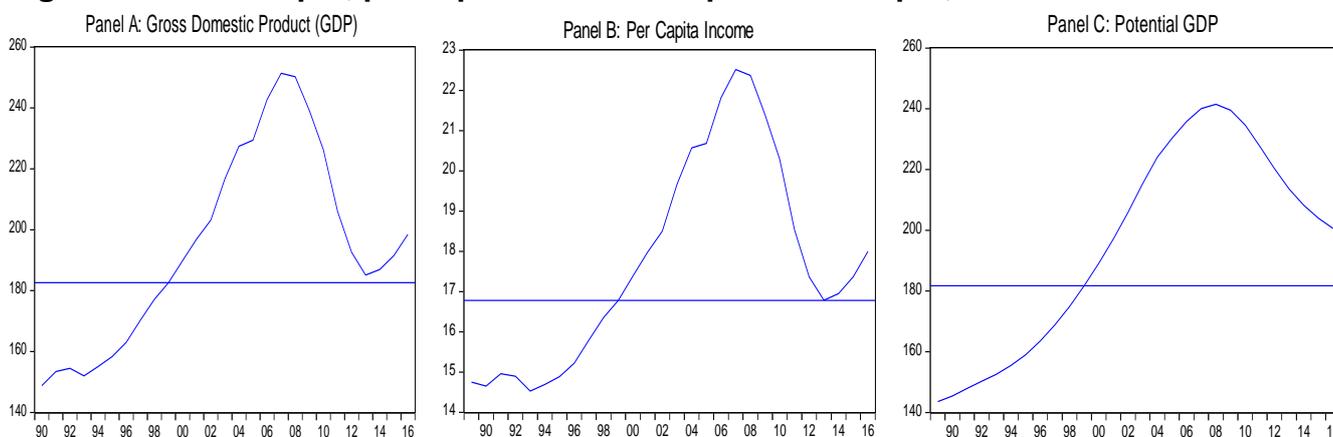
Greece is as rich as never before

There is no doubt that the recent economic crisis is associated with the deeper recession that existed in peace years. As shown in Figure 1 (Panel A), the output *crumbled* in 2013 from 251.36 billion euro in 2007 (the maximum ever Greek output since WWII) to 185.11 billion in 2013 - all values being expressed in constant prices of 2010 euro. This is a loss of 26.4% of output in just six years.

* Opening speech at the 33rd International Labor Process Conference, 13 April 2015, Athens, Greece.

What is not visible at first sight and almost never mentioned in the public dialogue, but is reasonably noteworthy, is that the national economy's GDP level in 2013 is indeed the lowest in the 21st century but it is also higher than the highest value in the 20th century. The latter is indicated by the horizontal line in Panel A of Figure 1. In other words, Greece, at the bottom of its recent recession, was producing as many final goods and services as in its best year of the 20th century.

Figure 1. Greek output, per capita income and potential output, 1990-2016



Source: Eurostat (AMECO database)

Similar are the comparisons of per capita income. Panel B of Figure 1 shows that the lowest value of per capita income in the 21st century (16786 euro) is higher than the highest value in the 20th century (16781 euro).

Finally and most importantly, Panel C of Figure 1 shows that the lowest potential output of the 21st century (213.62 billions) is much higher than the highest value of the 20th century (181.74 billions). Thus, in any year of the 21st century up to now, the Greek economy had the potential to produce more goods and services than in any year of the previous century.

In summary then, **if there is a "humanitarian" crisis** as a result of the current economic recession **then this cannot be worse than the "humanitarian" crisis of any year of the**

20th century after WWII. And if this is the case, then why did nobody pay any attention to the Greek human tragedy of the second half of the 20th century?

A perceptive economist could point out that income and wealth distribution have worsened (become more unequal) during the recent economic recession. In other words, the poor paid for the recession! Even if this argument were valid, the alleged humanitarian crisis would then have been the result of unequal distribution of existing income and wealth and would not be attributable to the Greek economy's inadequacy to produce the amount of goods and services necessary to cover the needs of its citizens!

As opposed to the above considerations, income distribution improved during the last recession. In a policy paper on "Fiscal policy and income inequality" (2014, p. 45) published by the IMF it is stated that:

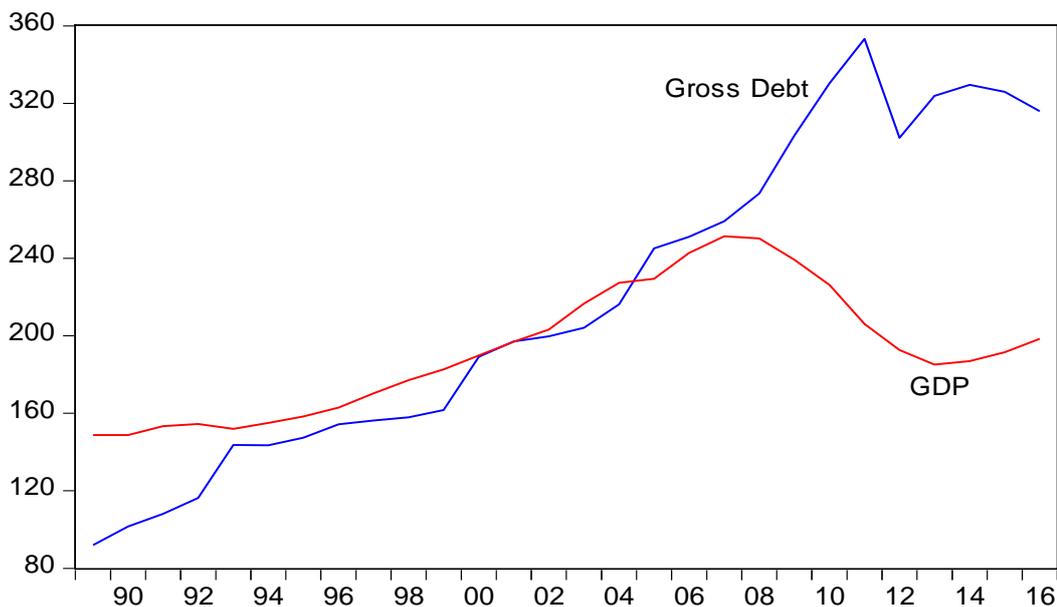
"A more detailed analysis of fiscal measures suggests that both revenue and spending measures can be designed in ways that reduce their burden on lower-income groups. Among the economies where detailed data are available, simulations of the impact of these measures on disposable income show that five countries (Greece, Latvia, Portugal, Romania, and Spain) **implemented progressive measures between 2008 and 2012**, with households in the richest quantiles bearing most of the adjustment cost ... In Greece, there was also a larger drop in incomes of the poorest ten percent of the population, but the **overall effect was progressive**, as the second to fourth decile experienced relatively low decreases in their incomes."
(bold added)

The question that arises here is why would the "poorest" ten percent suffer more in Greece? The explanation is very simple. The "poorest" Greeks are all those, who, for tax evading purposes, report an income below the taxable income threshold. Most of them are lawyers, doctors, engineers, plumbers, electricians, farmers, small entrepreneurs, and civil servants who made money by accepting all kinds of small and large bribes. Accumulated bribes became wealth: houses with swimming pools, expensive cottages, bank deposits inside and outside Greece, expensive cars, boats, and shares of listed companies.

Those are the so called "poorest" of the Greek economy, state-nourished and constituting the parasite class in Greece with large private properties for which they were recently effectively taxed for the first time; thanks to the fact that, unlike their income, their wealth cannot be concealed! Those are the ones who, with crocodile tears, are mournful about the Greek "humanitarian" crisis but it is their personal loss of wealth that brings them those tears!

A shrewd economist would point out that the interest payments made to serve the debt have increased, leaving a small amount of public money to care for the "devastated" Greek people. This is another myth. During the post crisis period, less interest was required to serve the debt compared to the pre-crisis period. Despite the massive debt increase after the crisis outburst in 2008 (fig. 2), the interest payments dropped from about 12 billion constant 2010 euro in the pre-crisis years to about 7 billion euro in 2013.

Figure 2. Greek Gross Debt and GDP, 1990-2016 (in billions of 2010 euro)



Source: Eurostat (AMECO database)

The above figure unravels the essence of the Greek debt crisis. Up to 2007, the Greek debt was growing at the same rate as GDP. After that, the Greek state was borrowing at historically unprecedented rates to satisfy the insatiable demands of its state-nourished and

parasitical social classes. This had nothing to do with the world economic crisis of 2008 because the debt exceeded the GDP much earlier. In 2005, the debt/GDP ratio was over 100%. With or without the world economic crisis of 2007-2008, Greece would have faced a sovereign debt overhang as faced it many times in the past.

The "drama" and comedy of youth unemployment

Greece's informal economy is ubiquitous. But who works for the notorious Greek underground economy? Many find work in the non-reported sector of the economy, including the officially unemployed Greek youth. Employment in "bad" jobs yes, unemployment no. Structural unemployment yes, but youth unemployment of 60%, definitely not. The informal economy is estimated at about [25%](#). This is about equal to the total official unemployment rate of 25%. If the real youth unemployment rate were 60%, there would have been an (armed) revolution in Greece. If there was ever a world revolution, it would not start from modern Greece, unless the immiseration of the working class is not the only cause.

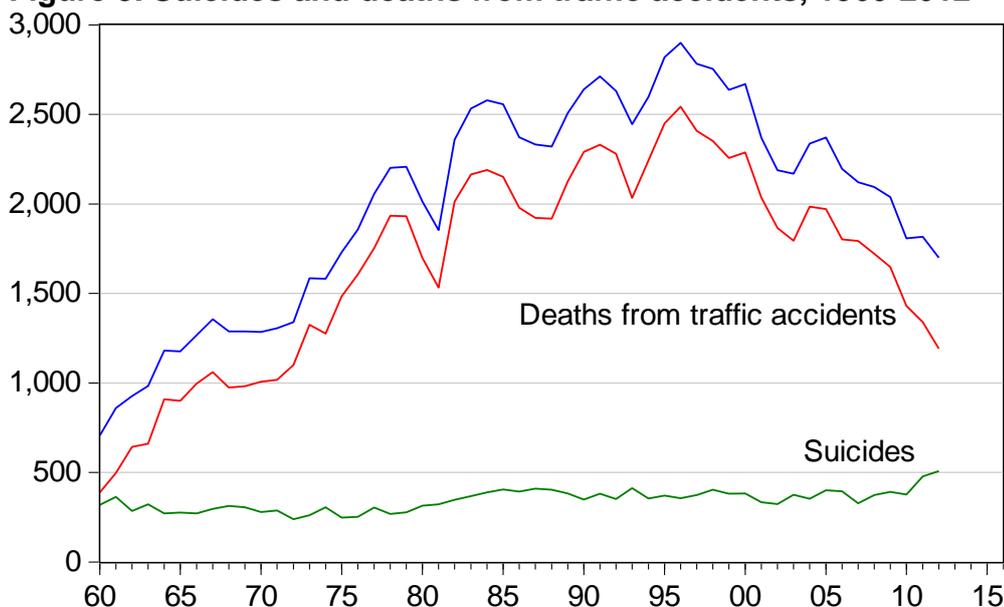
A humanitarian crisis: suicides and deaths from traffic accidents

Many people relate the current economic crisis to an increase in the number of suicides. It is true that suicides have increased but some caveats should apply. A suicide is a personal decision and relates very much to the psychological (psychiatric) state of the individual. Publicity about suicides may even increase the number of people who want to do a "heroic" exit from this life. And in fact, a few have done so! Also, the number of reported suicides may increase, if it is more "socially" accepted. In Greece, a suicide is considered a stigma for the other family members and in many cases they do not report it as a suicide. The Greek Orthodox Church plays a role as well by denying a proper funeral to those who have committed suicide. But during the recent crisis, suicide was portrayed, by some media, as a

"heroic" act! Very soon many understood what effect this had on suicides and stopped the nonsense.

Unquestionably, suicides have increased during the recent crisis. It is also true, though, that the economic crisis has reduced the number of fatal traffic accidents, especially of youth because there was a decrease in traffic. It became too expensive to drive a car around. Figure 3 shows the number of suicides, the number of deaths from traffic accidents, and the sum of the two. The gains of saved lives from a reduction in fatal traffic accidents far outweighs the loss of lives due to suicides. Overall, the current economic recession saved many lives! An absurd but true conclusion.

Figure 3. Suicides and deaths from traffic accidents, 1960-2012



Source: ELSTAT (Greek Statistical Authority)

The so-called humanitarian crisis that evolved in Greece, played a significant role in the pre-election campaign of the new coalition government of SYRIZA (left) and ANEL (far right). Now as a government, their first act of law was to cope with the humanitarian "plight" of the Greek people by spending 200 million euro. A few weeks later, they decided to pay 500

million euro to the USA military industry to upgrade five surveillance planes as part of Greece's NATO commitments. From an optimality point of view, this is an efficient and effective allocation of scarce public resources. The humanitarian funds will most probably not be absorbed. On the other hand, additional funds will be required for the military spending. The latter has been a common practice in the past.

Only Greek private wealth owners should pay for the crisis

Lest some readers misunderstand what is said here, it should be repeated that the current crisis was partially paid by the Greek rich. This is the reason why there is so much noise about it. **But it should have been exclusively paid by them.** 75% of the four million Greek households are included in what I consider to be rich. The only way they can be made to pay is to impose a harsh tax on their private wealth, including their "little" and not so little property. After all, by definition, poor people do not possess private property either as a durable consumption good or as a capital good.

It should be highlighted here that all private wealth, without any exception, should be progressively taxed in order to overcome the crisis and regain growth. Unfortunately, all Greek political parties, from far left to far right, are against taxing private wealth, including private property. In the beginning of the crisis, it was possible to design a package of fiscal consolidation measures which would have made only the Greek rich (wealthy) pay for the crisis. The rich group of households would have included the 10% "*poorest*" cohort of tax evaders. Alas, all political Greek parties are against it but the strongest opposition comes from the "left". As in many other European countries, private wealth is well protected, but in Greece this protection is more outrageous because most of this wealth has been accumulated through the practice of tax evasion. The beneficiaries of such practices are the ones who support so fiercely the current government of the left-far right wing coalition as they have been promising to reduce, and even abolish, the tax on private property.

Conclusions

The arguments made in this article can be summarized as follows:

1. *Greece is a very rich and wealthy country despite the recent economic recession.* The lowest Greek GDP level in the 21st Century is higher than the highest level in the 20th Century. The lowest Greek GDP per capita in the 21st Century is higher than the highest GDP per capita in the 20th century. The potential Greek GDP in the 21st century is much higher than any value of the 20th century.
2. *There is no mass unemployment in Greece.* There is, however, structural unemployment and a scarcity of "good" jobs. Many vacancies of manual jobs do exist in rural and urban areas, which are filled with legal and illegal migrants.
3. *There is no humanitarian crisis in Greece.* The country's diachronic problem is the unequal distribution of income and wealth between the non-privileged classes (workers and entrepreneurs in the non-state nourished private sector) and the parasite classes which depend on the Greek state. This includes public employees, the workforce of the state-controlled enterprises, and the "entrepreneurs" of government contracts and procurements.

My observations and policy recommendations go beyond the *pseudo* dilemma of whether the current crisis is the result of deficiency in aggregate demand or supply side structural weaknesses such as competitiveness and productivity. In Greece's case, the wages and income of the state nourished parasitical classes should be slashed, optimally at the minimum wage level. They produce less than that. The Valued Added Tax (VAT) and the income tax should be abolished and replaced by a wealth tax. The after tax (disposable) income of the real poor Greeks will increase, and the elimination of VAT and income tax will increase competitiveness and productivity. In this way, one stone (wealth tax) kills two birds. All that is required, is a willing stone thrower.