ADDRESSING THE CRISIS IN GREECE: THE ROLE OF FISCAL POLICY

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1. Introduction

The crisis in Greece has defined political and academic debates for more than two years. Following the deadlock-marred Greek Parliamentary

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euro zone becoming an ever more tangible reality that was discussed openly around the world. Although the June 17 elections reduced fears of an imminent "Grexit", Greece remains present in mainstream media coverage worldwide, frequently perceived as a litmus test of the euro zone crisis (Visvizi 2012a). Clearly, the crisis in Greece is by no means a linear and simple process. The events concerning Greece that have shaped popular opinion and imagination since late 2009 form a sequence of different yet interrelated, and to some extent overlapping, crises that have beset Greece since 2008. In other words, it is possible to distinguish between the demand crisis and the liquidity crunch (2008–2009) caused by the global financial crisis, the sovereign debt crisis (2010–present) related to a specific course of action taken by the Greek government in Autumn 2009, and the progressing economic recession (2011–?) that resulted from an inappropriate policy-mix implemented by the socialist government under the aegis of the so-called Troika, i.e., representatives of the International Monetary Fund (IMF), the European Central Bank (ECB), and the European Commission since 2010 (Visvizi 2012c).

Although a rich body of literature has emerged in an attempt to offer insights into the correlated exogenous and endogenous causes of the crisis in Greece, a more focused discussion of the empirical pattern of the phases of the crisis in Greece is still largely absent. Specifically, more insight is required on the question of how particular policy instruments employed by the Greek authorities may have influenced/fuelled the subsequent stages of the crisis. Accordingly, the objective of this paper is to focus on the

relatively under-researched issue of the role and efficacy of fiscal policy and fiscal policy measures in addressing the crisis in Greece. The major thesis that this paper advances is that the front-loaded fiscal adjustment measures consistent with the introduction of excessive taxation and marginal expenditure reduction constricted economic activity in the country, leading to an exponential rise in unemployment, a dramatic fall in general government revenue, and increased expenditures on social transfers. Moreover, the paper argues with the very popular – yet inaccurate – view according to which tax evasion was and remains the main reason behind shrinking government revenue in Greece, and thus of the uncertain fate of the two loan facilities generously offered to Greece by its international partners.

The argument is structured as follows: In the first section, the background of the €110 billion financial assistance package that Greece received in May 2010 is discussed briefly, and the major qualitative and quantitative performance criteria attached to the assistance programme are outlined. In the next section, the focus of the discussion is directed towards the scope of fiscal adjustment that was proposed and/or implemented in Greece over the period May 2010–June 2012. In what follows, the efficiency and appropriateness of the fiscal consolidation measures implemented in Greece as a means of addressing the crisis are examined. Subsequently, the thorny issue of tax compliance is raised. Conclusions follow.

2. The background of the €110 billion financial assistance package for Greece

A set of endogenous and exogenous variables led Greece to the brink of losing access to financial markets in early 2010. The state of Greece's public finances was deteriorating, the economic forecasts for the country were alarming, the spreads for Greek treasury bills began rising in an uncontrolled manner, and Greece's credit ratings fell to the "close to junk" category. As the outlook for Greece's public finance was deteriorating (see Table 10-1 for more details), in early 2010 the then IMF managing-director, Dominique Strauss-Kahn, suggested an early debt restructuring for Greece, a proposal rejected by the then Prime Minister of Greece, George Papandreou. As time passed and Greece's inability to service its debt became apparent, in March and April 2010, discussions were held at various levels in the EU regarding the means of addressing Greece's insolvency problem. Although the ECB pushed the limits of its prerogatives by repurchasing Greek bonds, and a bailout was not an

option, the European Union (EU) did not have a mechanism to assist Greece. Therefore, two alternative methods to approach the crisis in Greece were discussed in the EU. Some EU leaders suggested a strictly European solution whereby the EU member states would offer bilateral loans to Greece. This approach was stymied by a view promoted by Angela Merkel, who argued that the IMF's involvement was needed. The IMF's engagement with a possible future rescue package for Greece offered the promise that conditions would be attached to the rescue loan granted to Greece. These loan conditions would in turn increase the probability that Greek authorities would comply with the terms of the loan and consequently not only repay it but also improve Greek public finances in line with the provisions of the Stability and Growth Pact (Visvizi 2012b).

In May 2010, a financial assistance programme for Greece was agreed on by the Eurogroup and the IMF Board. This unprecedented loan, with a total value of €110 billion, was to be disbursed in twelve tranches over the period 2010–2013. The loan consisted of a €30 billion Stand-by Agreement (SBA) approved by the IMF and €80 billion in bilateral loans granted to Greece by euro zone member states, centrally pooled and managed by the European Commission. The implementation of the programme was to be overseen by the representatives of the Troika. The major objective of the joint EU-IMF €110 billion assistance package was to aid Greece in overcoming its debt crisis, revive growth, and modernise its economy. It was expected that by 2012, Greece would regain its ability to finance its debt. The major quantitative targets of the economic reform programme that the Greek government suggested, included a reduction in the gross government deficit, a gradual reduction in the debt to GDP ratio, and the restoration of economic growth.

In principle, the economic reform programme approved by the Troika in May 2010 was based on fiscal consolidation and fiscal discipline that – coupled with structural reforms – were expected to yield positive outcomes in the form of growth and increased government revenue. The fiscal consolidation measures included in the Memorandum of Understanding (MoU) of May 2010 included front-loaded revenue enhancing measures, i.e., increases in tax rates and a broadening of the tax base, as well as plans for reducing expenditures, including reductions in public investments, the public sector's operating costs and the wage burden. These measures were to be complemented by structural fiscal reforms focusing on tax administration, the reform of the tax collection mechanism, enhanced auditing, simplifying the general tax framework, and combatting tax evasion. The structural reform measures listed in the

programme included public administration reform, labour market and wage-negotiation reform, pension reform, healthcare reform, business environment reform, reforms aimed at promoting foreign direct investment and exports, and reforms increasing the levels of absorption of structural and cohesion funds.

Table 10-1 The Greek economy: major macroeconomic & fiscal indicators 2008–2012

	2008	2009	2010	2011	2012 (target/ forecast)
Total revenue					
% GDP	40.7	38.2	39.7	40.9	42.4
in m. of EUR	94,833.0	88,601.0	90,247.0	88,075.0	86,267.50
Total expenditure					
% GDP	50.6	53.8	50.2	50.1	47.7
in m. of EUR	117,963.0	124,646.0	114,106.0	107,769.0	97,050.9
Primary deficit/balance					
% GDP	-4.8	-10.4	-4.7	-2.2	-1
in m. of EUR	-11,193.0	-24,128.0	-10,666.0	-4,664.0	-2,034.6
Overall balance/deficit					
% GDP	-9.8	-15.6	-10.5	-9.2	-7.3
in m. of EUR	-23,130.0	-36,045.0	-23,859.00	-19,694.00	-14,852.6
Gross government debt					
% GDP	113	129.4	145	165.3	162.1
in m. of EUR	263,284.0	299,685.0	329,535.0	355,617.0	329,810.30
GDP					
growth rate	-0.5	-3.6	-3.7	-6.9	-6.0*
in m. of EUR	232,920.3	231,642.0	227,317.9	215,088.2	202,182.9*
Current account balance					
% GDP	-17.9	-14.3	-12.3	-11.3	-7.8
in m. of EUR	-41,692.7	-33,124.8	-27,959.1	-24,304.9	-15,869.9
Unemployment					
in %	7.7	9.5	12.6	17.7	19.7
Inflation rate (HICP)					
in %	4.2	1.3	4.7	3.1	-0.5

Source: Eurostat; forecasts for 2012 from: European Commission (2012b); * from Alpha Bank (2012)

Overall, the objectives set in the MoU followed the traditional recipe of fiscal consolidation that the IMF tends to offer as a lender of last resort. In this sense, these objectives delineated a routine means of assisting a country in the restoration of its shattered public finance. In the case of Greece, however, as insiders would have argued, the programme suffered from three significant drawbacks from the beginning. On the one hand, the programme was founded on incorrect assumptions regarding the nature of the crisis in Greece. That is, the crisis was initially approached by Greek authorities and Greece's European and international partners as a liquidity problem. Thus, the structural causes of the crisis were downplayed in the MoU. On the other hand, the fiscal consolidation targets and especially the extremely short time-span within which fiscal consolidation was to be implemented, were overly ambitious and thus unfeasible.

Finally, it is important to emphasise that the MoU of May 2010 was largely identical to the provisions of the Updated Hellenic Stability and Growth Programme (SP 2010) approved by the Ecofin in February 2010. In addition, the MoU incorporated an excessively stringent Tax Law in April 2010 (applied retroactively as of January 2010) passed in haste by the PASOK parliamentary majority prior to the arrival of IMF officials in Athens. In this sense, the design of the fiscal consolidation programme of May 2010 created vast opportunities for the Greek socialist government (PASOK) to employ the programme in an instrumental way. Here it is worth considering the fact that the fiscal consolidation programme assumed the possibility of cyclical de facto readjustment of the programme's quantitative objectives. That is, if a progress report produced by the Troika on a three-month basis were to reveal discrepancies in the quantitative performance criteria, to keep the programme on target, new fiscal policy measures would be introduced to guarantee the programme's success. This mechanism allowed the socialist government to shift the burden of fiscal adjustment away from the public sector and thus away from expenditure reducing measures towards the private sector and revenue enhancing measures. Specifically, as presented in Table 10-2, several of the expenditure reducing measures were either not implemented or came into force with a significant delay or in an amended, "soft" version, thus having little impact on the strained state budget.

Table 10-2 Major consolidation measures in the authorities' programme of May 2010: commitments vs. implementation

	Revenue-enhancing measures	Implementation
1	Increase in VAT rates & base	04/2010
2	Increase in excise tax on fuel	01/2010
3	Increase in excise tax on cigarettes	01/2010
4	Increase in excise tax on alcohol	01/2010
5	Luxury goods tax (yachts, cars, pools)*	01/2010
6	Taxation on unauthorised establishments	01/2010
7	Gaming royalties	01/2010
8	Gaming licenses	01/2010
9	Special/emergency levies on profitable firms	01/2010
10	Levies on illegal buildings	01/2010
11	Green tax	01/2010
12	Presumptive taxation (“amnesty”)	01/2010
13	Increase in administratively set prices of real estate	01/2010
14	Increase in taxation of real estate	04/2010
15	Privatisation	Practically none until 09/2012
	Expenditure-reducing measures	Implementation
1	Wage bill (13th, 14th wage, allowances)	Late 2011, several exceptions applied
2	Intermediate consumption	11/11 & 07/12
3	Pension cuts & freeze	2010 & 2011 & 2012
4	Elimination of solidarity allowance (introduced 10/09)	No
5	Public investment reduction	2010, 2011, 2012
6	Introduction of unified public sector wages	11/2011, several exceptions applied; the majority of state-owned enterprises (SOEs) did not conform with it;
7	Local administration reform (“Kalikrates”) savings	questionable
8	Reduction in operational expenditure	minimal
9	Reduction in public employment	illusory
10	Unidentified measures	

Source: Adapted by the author from: European Commission (2010)

Simultaneously, all of the planned revenue enhancing measures were implemented on time with further policy instruments being added periodically, thus increasing the tax burden on the private sector. Increases in taxation, e.g., personal and corporate income taxes, and the imposition of new taxes, e.g., emergency contributions from vehicles, yachts, motorbikes and pools; levies on credit cards and cheques; and surcharges on mobile telephony, have been complemented by the introduction of the so-called income thresholds. These administratively established thresholds effectively increase the taxable income base, in that taxation – rather than being imposed on real income – is imposed on an estimated (and thus usually exaggerated) annual maintenance cost of a vehicle, a house, an apartment, etc. The thresholds are also imposed on tuition fees, healthcare expenses, etc. A focused study of these thresholds would reveal a direct correlation between their imposition and plummeting consumer demand for goods and services. As the discussion in this paper will depict, as a result of the overemphasis on revenue-enhancing measures, an expenditure drift occurred over the period 2010–2011. The socialist government sought to balance this situation with additional tax increases, a practice that the authorities legitimised by producing the myth of tax evasion in Greece.

3. The scope of fiscal consolidation in Greece 2010–2012

To obtain insights into the scope of the fiscal adjustment in Greece, in the following paragraphs, the milestones of the (planned) fiscal adjustment effort over the period 2010–2012 are described. By contrast, Table 10-3 offers a summary picture of the scope of the fiscal consolidation process in Greece as recorded by IMF authorities. Six milestones in the fiscal adjustment effort in Greece can be distinguished. These include: 1) provisions of the MoU of May 2010 for the period 2010–2012; 2) the Medium-Term Fiscal Adjustment Strategy (MTFS) of June 2011 for the period 2012–2015; 3) additional, very specific tax laws introduced in September 2011 following a rather difficult negotiation round with the Troika; 4) the "voluntary bond exchange programme" of November 2011; 5) the 2nd MoU of March 2012; and 6) measures discussed by the coalition government in summer 2012 to be implemented as of 2013.

Table 10-3 The scope of fiscal adjustment: measures executed including carry-over impacts

	Deficit (outcome or projection)			Measures (implemented in or identified for a given year)	
	in m. of EUR	% GDP		in m. of EUR	% GDP
2009	36,624.0	15.8	in 2010	19,074.0	8.4
2010	24,125.0	10.6	in 2011	16,680.0	7.7
2011	20,002.0	9.3	in 2012	13,0191.0	6.5
2012	14,779.0	7.3	for 2013	1,584.0	0.8
			in 2013	7,639.0	3.8
2013	9,359.0	4.6	for 2014	3,065.0	1.5
			in 2014	4,016.0	1.9
2014	4,404.0	2.1			
			Cumulative	51,969.0	30.6

Source: Adapted by the author from European Commission (2012a)

(1) The fiscal consolidation measures included in the MoU of May 2010 aimed to increase tax revenue and cut expenditures. The measures designed to increase tax revenue were largely based on the provisions of the Tax Law adopted on April 23, 2010 (Law 3842/2010). This law provided for increases in VAT rates; increases in the excise taxes on fuel, cigarettes and alcohol; the introduction of a luxury goods tax (yachts, pools, and cars); special emergency levies on profitable firms; presumptive taxation (frequently inaccurately referred to as a “tax amnesty”); and steep increases in tax rates on property, followed by the introduction of new tax measures on property (European Commission 2010, 17). According to the government plans, revenues would be increased by the equivalent of approximately 4% of GDP through 2013 (MoU 2010, 8). The cuts in spending were to be achieved through nominal wage cuts in the public sector of approximately 7% of the basic salary (thus leaving other forms of compensation and benefits – notably constituting a lion’s share of remuneration in the public sector – intact); reductions in Easter, summer and Christmas bonuses and allowances; nominal pension cuts of 9% through a reduction in Easter, summer and Christmas bonuses; and a reduction in the largest pensions. Other measures included intermediate consumption cuts (e.g. managing ministry expenses) and a reduction in public investments (MoF 2010a). Overall, the government presented a rather ambitious programme of fiscal consolidation of a rare scale, i.e., 7.8% of GDP in the first year of the process (MoF 2011a, 8). In line with the government’s plans, the reduction in the general government deficit of

5.0 percentage points (p.p.) in 2010 was to be followed by a 3 p.p. reduction in 2011, thus bringing the deficit from 15.4% of GDP in 2009 to 7.4% in 2011. The government declared that “fiscal measures will amount to more than 8 p.p. of GDP, but the nominal deficit drift in 2011 (the increase in interest payments, pension expenditures and other structural expenditures that would take place without the measures) is expected to reach 5 p. p. of GDP” (MoF 2011a, 8).

(2) The Medium-Term Fiscal Strategy 2012–2015 (MTFS) approved by the Greek Parliament in June 2011 provided for additional fiscal consolidation measures valued at €28.3 billion (12% of GDP) for the period 2011–15. The MTFS’ objective was to reduce the general government deficit from 7.5% of GDP in 2011 to 2.6% of GDP in 2014. The MTFS included additional fiscal consolidation measures worth €6.5 billion or 2.9% of GDP in 2011 (23.1% of the total fiscal effort), €6.8 billion or 3.0% of GDP in 2012 (24.0% of the total), €5.2 billion or 2.2% of GDP in 2013 (18.5% of the total), and €5.4 billion or 2.2% of GDP in 2014 (19.3% of the total fiscal effort). The government’s plan was to further reduce the general government deficit to approximately 1% of GDP in 2015, with measures worth €4.3 billion or 1.7% of GDP. Regarding reductions in public expenditures, the MTFS aimed to decrease such expenditures from 51.4% of GDP in 2011 to approximately 44.4% of GDP in 2015 after the implementation of the measures. These reductions would include cuts in social transfers from 24% of GDP in 2011 to 20.0% in 2015; a reduction in the public sector wage bill from 9.6% of GDP in 2011 to 6.6% in 2015; and a reduction in intermediate consumption from 5.2% of GDP in 2011 to 3.0% in 2015 (MoF 2011b, 2–3). Regarding revenue measures, the MTFS foresaw a decrease in public revenues from 40.9% of GDP in 2011 to 37.6% of GDP in 2015 following the lapse of certain one-off measures taken in 2010 and 2011. However, public revenues were also expected to increase to 43.2% of GDP by 2015. “This rise in general government revenues [would] be driven mainly by increases in direct tax revenue (from 7.0% of GDP in 2011 to 8.2% in 2015); in indirect tax revenue (from 12.2% of GDP in 2011 to 13.2% in 2015); and a rise in social contributions from 9.5% of GDP in 2011 to 10.5% in 2015” (MoF 2011b, 3).

(3) In September 2011, on the occasion of a periodic review mission to Greece and in the face of a significant fiscal drift, dramatic negotiations took place in Athens with the Troika’s representatives leaving the negotiating room. As news reports suggested, the subject of the disagreement was the larger than expected budget deficit projected for 2011. According to the Troika, the projected deficit was approximately

8.6%–8.7% of GDP due to omissions and gaps in the government's policy. The government maintained that the deficit would be more than 1.1 p.p. smaller than the IMF's estimates. On this basis, the government did not want to introduce any additional measures to balance out the expenditure drift. There was also a significant disagreement on the issue of privatisation, which in any case was delayed by the socialist government. As a result of the September talks with the Troika, the disbursement of the 6th tranche of the financial assistance to Greece was halted. In addition, the Troika called for additional measures valued at €1.7 billion on the grounds of a revenue-lag of ca. €1.1 billion and increased spending of €600 million related to pension funds. To raise the required €1.7 billion and thus release the disbursement of the 6th tranche of the loan, the PASOK government introduced a new tax on property. This highly controversial tax will be discussed in the next section.

(4) In February 2012, a "voluntary bond exchange programme" brokered by the Institute of International Finance (IIF) was enacted. The value of the bond exchange programme was set at a level of 53.5% (compared to the initially planned 50%). In other words, in line with the agreement, bonds in the hands of private creditors will be exchanged for new ones with nominal values corresponding to 46.5% of the "old" bonds. The actual loss that the creditors will incur amounts to, on average, 74%, largely due to the loss of future interest payments. The new bonds are issued by the Greek government (31% of the total) and the European Financial Stability Fund (EFSF) (15%) under English law (previously, the bulk of Greek bonds had a Greek law clause attached to them). As for the interest rates, depending on the maturity of the bonds, their holders will garner a 2% profit (for bonds maturing over the period February 2012 – February 2015), a 3% profit (for bonds maturing over the period February 2015 – February 2020), and a 4.3% profit for bonds maturing over the period February 2020 – February 2042. Moreover, as of 2015, the creditors participating in the bond exchange scheme will be entitled to a minor increase in interest rates should economic growth in Greece exceed the targets established in the agreement with the EU and the IMF. As a result of the programme, the share of Greek public debt that is held by private creditors will be reduced by 53.5%, which constitutes approximately 2/3 of Greek debt. Since in 2011 the value of Greek debt amounted to ca. €356 billion (ca. 165% of GDP), the bond exchange programme is expected to result in an effective debt reduction of ca. €109 billion. This reduction will allow Greece's debt burden to be reduced by €3.2 billion annually, which – under specific circumstances – could allow the debt level to reach 120.5% of GDP by 2020 (Visvizi 2012d).

(5) On March 15, 2012, the IMF Executive Board approved a four-year €28 billion arrangement under the Extended Fund Facility (EFF) for Greece in support of the authorities' economic adjustment programme. The details of the programme were laid out in the Second Memorandum of Understanding (MoU II) supported by a financial assistance package of a total value of €130 billion co-financed by the IMF and the EU. The IMF's decision to participate in the EU-IMF €130 billion four-year financial assistance programme for Greece completed the chain of events that was set in motion on October 26, 2011. In line with the agreement reached at that time, following a debt-restructuring arrangement, a new rescue package would be offered to Greece. The purpose of this package was to assist the country with meeting its payment obligations and to recapitalize Greek banks that would incur huge losses as a result of the bond exchange scheme. The support from the EU and IMF was conditional on Greece securing private creditors' participation in the "voluntary bond exchange programme" and adopting a series of additional reform and fiscal consolidation measures. The MoU II primarily concerned structural spending reforms, which required additional measures beyond those already approved in the context of the 2011 MTFS and the 2012 budget. The programme required 1.5% of GDP worth of measures in 2012, 1.5% of GDP in tax administration improvements, and a further 5.5% of GDP worth of spending measures in 2013–14 to achieve the primary surplus target of 4.5% of GDP by 2014. As stated in MoU II, "[t]he bulk of adjustment will be achieved through expenditure cuts that aim at permanently reducing the size of the state and improving government efficiency, including by closing entities that no longer provide a cost-effective public service and by targeted reductions in public employment. Many of these cuts will need to fall on social transfers, the category of spending which increased most explosively in the post euro accession period" (IMF 2012, 7). The first tranche (€1.65 billion) of the financial aid was disbursed on Friday, March 16, 2012.

(6) Shortly after the Parliamentary Elections of June 17, 2012, which resulted in the formation of a coalition government (Visvizi 2012a), additional fiscal consolidation measures were discussed. To ensure that the 2012 budget deficit remained manageable, the governing coalition agreed on additional measures generating €3 billion in expenditure savings. These measures would involve reductions in ministry operating costs, the cancellation of some benefits received by the cabinet, as well as further reductions in pension levels and social transfers, among other measures. Moreover, throughout the summer of 2012, discussions were held regarding additional measures worth a total of €11.5 billion to be

introduced over the period 2013–14. These measures (to be approved in September 2012) foresee a significant decrease in the general government expenditures to be achieved, among others, via reduction of employment in the public sector.

4. Expenditure-reducing measures in Greece: their efficiency and appropriateness

In discussing the efficiency and appropriateness of the fiscal consolidation measures implemented in Greece over the period 2010–2012, it is necessary to emphasise that contrary to the initial provisions of the MoU, the burden of fiscal adjustment was shifted towards the private sector. Table 10-2 attests to this shift. Moreover, although – as seen from the perspective of the last two years – Greece's consolidation efforts have been considerable, neither the revenue enhancing measures nor the expenditure reducing efforts were as successful as the government and the Troika had expected. This raises some questions about the appropriateness of the design and of the assumptions underlying the fiscal consolidation programme agreed for Greece. For instance, one of the questions is, why regardless of the obvious signs of a deepening recession in the Greek economy, additional strain was imposed on the private sector via multiple increases in taxation. This issue is particularly relevant given the fact that one of the major weaknesses of the Greek economy is related to the excessive size of the public sector and the abusive role of the state in the economy. It is the private sector that – irrespective of the squeezed liberal space in Greece – used to keep the economy going and provided the means to finance the public sector. Paradoxically however, the fiscal consolidation programme implemented over the period 2009–2012, rather than supporting the "healthier lung" of the Greek economy, in a systematic way led to the exhaustion of the private sector. Clearly, several other questions regarding the empirical pattern of fiscal adjustment in Greece still need to be answered in future research. In the following paragraphs, the largely failed attempts at reducing expenditures will be discussed. In the next section some details explaining the revenue drift will be outlined.

One of the flagship reforms advertised by the PASOK government throughout 2010 concerned the pension system. The objective of the reform was to simplify the fragmented pension system, enhance transparency and fairness, increase and equalise the retirement ages[1] and

[1] For instance, the statutory retirement age for women was to be extended by 5 years to age 65 to match the retirement age for men. Successively, the statutory

decrease the unfounded generosity of retirement benefits available to the public sector employees,[2] while preserving adequate pension levels for the low- and middle-income earners (MoU II, 8). Moreover, to generate further savings, state contributions (in the form of grants) to the supplementary (public) pension funds that exist in Greece were to be decreased by reducing the number of the funds (from 13 to 3 by the end of 2018) and by diminishing the value of transfers to eligible pensioners.[3] None of the above plans was implemented until 2012. Instead, the socialist government introduced three successive cuts to pension levels over the period 2010 – May 2012. However, irrespective of the dramatic cuts in pension levels, the general government expenditures on pensions and grants to social security funds increased substantially over the period 2010–2012 (see Table 10-4 for details). One of the reasons behind this "overshooting" is related to the government deliberately avoiding restructuring the public sector.

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retirement age was to be extended to age 67 for both men and women. In addition, early retirement below the age of 60 was to be curtailed. In line with the provisions of the existing regulations, employees can draw a pension below that age if they have paid contributions for a certain number of years or had children under 18.

[2] In line with the existing regulations, upon their retirement the public sector employees would receive a generous one-off payment/bonus ranging from €30,000 for the lowest-rank employees to ca. €160,000 for the medium-rank civil servants. The retirement bonuses granted to employees of the Bank of Greece would reach the value of €400,000. As the data revealed by the coalition government in August 2012 suggest, these values are disproportionate to the total value of individual contributions and beyond what the retirement funds can afford. In August 2012, Antonis Samaras, head of the coalition government, ordered the bonuses disbursed in 2011 and 2012 to be paid back.

[3] It should be noted that several of the funds had very good financial positions, which was a reflection of prudent financial management by the individuals who established them. Consequently, the complementary pension transfers to fund members that these funds could afford did not constitute any burden whatsoever on the state budget. Of course, contrasting examples exist. The thrust of the reform was to treat all funds – unfairly so – as if all of them were in financial difficulty.

Table 10-4 Expenditures on pensions & contributions to social security funds in millions of EUR

	2010	2011	2012
Pensions	6.25	6.572	6.511
Funds	10.376	11.78	13.119
Sum	16.626	18.352	19.63
% GDP	7.31	8.53	9.71*
*indicates GDP size with a recession estimated at 6%			

Source: MoF (2010b, 2011c, 2012)

The question of the size and efficiency of Greece's public sector has been a recurrent topic in the official discourse on the crisis in Greece. Low productivity, a lack of transparency, a high degree of unionisation, corruption, and causing a burden on the state budget are the most accurate descriptors of the public sector in Greece. "Low and middle-rank civil servants have higher wages than similar private sector employees, although they work on average fewer hours and have greater job security" (OECD 2011a, 11). The public sector in Greece nourishes clientele's connections and generates countless functional spill-overs for the entire economy. In this sense, the Greek public sector resembles bureaucratic communist public sectors. Regarding the size of the Greek public sector, it is not easy to reconcile the official data produced by relevant ministries or published by international institutions such as the OECD or IMF. Specifically, data provided by the Greek Ministry of Administrative Reform indicate that the general government employment was 715,882 in 2009, 683,627 in 2010 and 664,223 in 2011 (European Commission 2012a, 24). These numbers would suggest a rather small public sector, an observation also made by the OECD (2011b, 2). It is important to stress, however, that the official records do not include all of the employees of state-owned enterprises (SOEs); the data do not include countless experts and committee members employed (and remunerated generously) by all of the ministries and other government bodies; the data do not include employees without tenure, referred to in Greece as "*stagiaires.*" Accordingly, the above numbers concerning the size of the Greek public sector should be increased by another 250,000, with the cost of its maintenance "hidden" in extra-budgetary accounts. To obtain a complete picture of the scale of the problem that the public sector generates in Greece, it is worth noting that in late 2009, ca. 100,000 public sector employees opted for early retirement, fearing the consequences of the planned pension reform and

taking advantage of the generous compensation and benefit schemes that the public sector pension regime used to offer.

Overall, the question of the size of the public sector in Greece and the cost that it generates for the state budget has been beset by confusion and conflicting arguments during the last two years, with the socialist government being unwilling to downsize it and the Troika exerting no particular pressure on the government to change the status quo. In 2011, the plan was to place some 30,000 employees on reserve; an alternative solution was to move employees across the public sector according to demand. While the successes of the first measure were insignificant, the alternative solution produced anecdotal outcomes in the form of, for example, public railway company employees being moved to state museums and crowding the museum cafeterias rather than offering assistance to tourists.

Considering the problem of the public sector from the fiscal consolidation perspective, as Table 10-5 demonstrates, the nominal value of expenditures on wages and salaries (however, including only the central government, hospitals and other government bodies and excluding the SOEs[4]) decreased slightly over the period 2010–2012. However, given the economic recession, the percentage change in expenditures relative to GDP has been negligible, thus indicating a sustained need of serious consolidation efforts in the public sector. Until now, as a means of avoiding the political cost related to possible public sector restructuring, the PASOK government deliberately channelled the burden of fiscal adjustment in Greece to the already squeezed private sector. In this way, the public sector, including the civil servants, SOEs and the powerful trade unions, were spared from the dramatic experience of fiscal adjustment that the rest of the Greek society endured over the period 2010–2012.[5] One could argue that as a result of this politically driven selective approach to how to split the burden of fiscal consolidation, the PASOK government aggravated the cleavage that exists between the public and the private sectors in Greece and thus between the relevant groups of the population. It is worth noting that any media discussion of downsizing the public sector stumbles on the argument that public sector employees will be fired.

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[4] In August 2012 it was revealed that the majority of SOEs did not conform to the 2011 law providing for the introduction of a uniform salary scheme for the civil servants and the SOEs, i.e., they maintained the excessively high levels of salaries, compensation and benefits intact.

[5] Note, that wages in the private sector have been substantially reduced in 2011 and 2012, while the minimum salary level for employees under the age of 25 has been set at the level of €571.

In this context, the negative socio-economic consequences thereof are pointed to. At the same time, however, people seem to have reconciled with the 1 million-plus unemployed individuals who lost their jobs in the private sector.[6] The paradox is that these individuals would not have lost their jobs had the socialist government restructured the public sector, hence had it reduced the general government expenditure, and – through liberalization and deregulation – limited the role of the state in the economy. In this way, there would be no need to move to excessive taxation aimed at balancing the expenditure drift.

Table 10-5 Expenditures on wages & salaries 2010–2012, in millions of EUR

		2010	2011	2012
Central government	wages & salaries	12,180	11,340	10,439
	other allowances	312	7	283
	productivity bonus	597	517	36
	ΕΟΠΥΥ	0	0	444
Salaries for hospital personnel and other government bodies		3,318	3,102	2,765
Sum		16,407	14,970	13,967
% GDP		7.22	6.95	6.91*
*based on the assumption of a recession of the size of 6% of GDP; ΕΟΠΥΥ: National Organisation for Healthcare Provision;				

Source: MoF (2010b, 2011c, 2012)

Overall, as depicted in Table 10-6, some progress has been achieved with regard to controlling expenditures in Greece during 2010–2012. However, the failed pension system reform did not yield any outcomes in the form of reduced expenditures. Rather, the three consecutive cuts in pension levels forced many elderly citizens into poverty. Moreover, the local administration reform known as "*Kalikrates*", which the PASOK government argued was a major achievement in terms of savings, led to organisational chaos in municipalities rather than decreasing public expenditures. Notably, although presented as a novelty, the local administration reform was scheduled and planned for years by the socialists, mainly to influence the distribution of political support in the

[6] The tragedy of the situation is that the majority of these unemployed are not eligible for unemployment support/benefits, as is the case with self-employed owners of shops, taverns, small manufacturing entities, etc.

Greek countryside in view of future elections. Finally, the restructuring of the public sector, a reform that would have yielded multiple gains for the Greek economy, has been largely avoided by the PASOK government for reasons of political convenience.

Table 10-6 General government expenditures: major categories of expenditure 2007–2011, excluding extra-budgetary funds

	2007	2008	2009	2010	2011
Compensation of employees, payable					
% GDP	11.4	12	13.4	12.2	12.1
in m. of EUR	25,464.0	27,986.0	31,002.0	27,770.0	26,066.0
Social benefits (other than in kind social transfers)					
% GDP	17.9	19.6	21.1	20.8	21.9
in m. of EUR	39,941.0	45,757.0	48,972.0	47,220.0	47,026.0
Expenditures on local government					
% GDP	2.7	2.9	3.3	2.8	2.9
in m. of EUR	6,013.0	6,675.0	7,651.0	6,465.0	6,306.0
Total general government expenditures					
% GDP	47.6	50.6	53.8	50.2	50.1
in m. of EUR	106,009.0	117,963.0	124,646.0	114,106.0	107,769.0

Source: Eurostat

5. Revenue-enhancing measures in Greece: their efficiency and appropriateness

The government sought to increase revenues by broadening the tax base and introducing new temporary and permanent tax measures. Over the period 2010–2012, several tax increases (affecting both natural and legal persons) were introduced, while tax exemptions and discounts were largely abolished. However, as Table 10-A1 demonstrates, irrespective of increased excise duties, the steep increases in taxation, and regardless of a number of emergency levies imposed on companies, personal income, property, and the so-called luxury goods, a significant revenue-drift has occurred over the period 2010–2012. Rather than being offset by expenditure reducing measures, the revenue-drift was addressed with further increases in taxation. As the tax measures introduced over the

period January 2010 – March 2012 have been incommensurate with the companies' and individuals' ability to pay, the private economy contracted and unemployment exploded to 23.1% in May 2012, compared to 16.8% in May 2011 (ELSTAT 2012b).

According to the results of a study conducted on a sample of 1,200 small and medium-sized enterprises in Greece, 64.7% anticipate that the situation of their businesses will deteriorate in the second half of 2012. The commercial and services sectors will be the most affected by the worsening economic situation in the country. The same study reveals that almost 190,000 enterprises face a high risk of closing. The net loss of businesses during the next 12 months is estimated to be 67,000, which implies a risk of further job losses amounting to 260,000, including employers, the self-employed and employees (IME GSEVEE 2012). Currently, several of the companies that continue to exist either do not remunerate their employees in full or do not do so regularly and on time. Finally, it should be noted that the general government revenues from taxation decreased by ca. 8% in 2010 and by a further ca. 4% in 2011. Further decrease in revenue collection on account of taxation is expected to take place in 2012. In addition, companies' contributions to the public insurance funds decreased dramatically over the period 2010–2012, thus creating an additional strain on the state budget. Specifically, data indicate that by July 2012 these funds consumed 74.2% of resources assigned to them in the 2012 state budget. Taking into account the estimates of an economic recession of at least 6% in 2012, the prospects for the execution of the state budget are grim. It is for this reason that the Troika demanded that the new coalition government imposed an additional €3 billion in expenditure-reducing measures for 2012 alone. As noted earlier, a package of additional measures of the value of €11.5 billion for the years 2013–2014 was scheduled to be approved by the Greek Parliament in September 2012.

With regard to indirect taxation, over the period 2010–2011, VAT rates were raised three times, i.e., in March 2010 (from 4.5% to 5.0%, 9.0% to 10.0%, and 19.0% to 21%), in July 2010 (from 5.0 to 5.5%, 10.0% to 11.0%, and 21% to 23%), and in January 2011 (from 5.5% to 6.5% and 11% to 13%). It should be noted that the range of goods and services covered by the highest VAT rates increased significantly, and the lowest rate is rarely applied. Faced with a demand crisis and negative consumer sentiments, Greek businesses were forced to absorb the successive increases in VAT rates, thus decreasing their already marginal gains, to maintain price levels. In this context, it is important to highlight one of the most contested changes in VAT policy, which concerns the gastronomy

sector, retail food and beverages. As of September 2011, VAT rates increased from 13% to 23%, thus causing an additional pressure on the owners of restaurants, bars, taverns, etc. Clearly, the majority of prices increased in such establishments, thus affecting the already damaged competitiveness of these sectors that are so important for the Greek tourism industry.

Regarding excise duties and other taxes imposed on the petroleum products sector, over the period June 2010–June 2012, the cost of petroleum products increased, mainly due to taxes, by 80%, with the average price for 1 litre of unleaded petrol reaching €1,743 by the end of July 2012.[7] Further increases in price levels are expected due to a rise in distillation costs (POPEK 2012). Considering the declining purchasing power of Greek consumers, in the first half of 2011, consumption levels plummeted to 35% compared to a comparable period in 2008. A 13% decrease in gasoline consumption was recorded in the first quarter of 2011 (compared to the first quarter of 2010) in addition to a 19% decrease in diesel consumption. Accordingly, since 2010, more than 1,200 gasoline stations have been closed, and 1,000 more will close by the end of 2012, thus causing job losses of ca. 5,000.

Another highly contested set of tax measures concerns property taxes. To understand these measures, it is necessary to outline some basic features of the Greek property market. That is, 8 out of 10 Greeks own some form of property, such as an apartment, a house, a plot of land, or a property designed for professional use. In Greece, it is common to inherit property. Thus, owning property is not the same as having income. Nevertheless, confusion and several myths beset the issue of property (taxation) in Greece, with the most common misconception being that property owners should be paying extra taxes simply because they own it. This incorrect view, expressed frequently in the public discourse in Greece, links – wrongly so – ownership of property to the ability to pay increased taxation. Clearly, and it should be emphasized, as long as property is not rented or subject to a sales contract, it generates no profits. Thus, the owners' ability to pay taxes on account of owning either a plot of land, a house/apartment used for living, or an unrented apartment is nil, because no correlation between owning a property and the income level exists.

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[7] According to the 2012 Bloomberg Gas Price Ranking that sorts 60 countries by average price at the pump and by "pain at the pump", locates Greece at the 9th position as regards the "most-expensive-gas", and at the 26th position as regards the "pain at the pump", i.e. well ahead of the UK, France or Germany.

The steep increases in property taxation in Greece have had severe ramifications, e.g., on the rental market, the construction sector and 130 related industries and on general government revenue (see Table 10-A1 for details). With respect to the rental market, as the economy contracts, demand falls, and the tax burden increases, a 50% decrease in rents (for offices, stores, and apartments) has taken place across Greece, with countless stores and offices available for rent even in central locations of Athens. Despite the fact that a 20–30% decrease was observed in rental prices over the period 2010–2012, demand still does not match supply. Accordingly, the number of transactions in the real estate sector decreased from nearly 40,000 in the fourth quarter of 2007 to less than 10,000 in the fourth quarter of 2011, while the value of the transactions plummeted. Regarding the construction sector, it should be noted that following the liquidity crunch in 2009 and 2010, augmented by increases in taxation, the number of building permits decreased from 42,891 (over the period May-April 2010–211) to 35,393 (over the period May-April 2011–2012), constituting a 17.5% decline. However, the decline in building area was even more spectacular, reaching a value of 30.5% over the same time-frame (ELSTAT 2012a, 3).

As a footnote in the discussion of property taxation in Greece, one should mention yet another direct tax levied on it. Imposed temporarily for a period of two years, i.e., 2011 and 2012, this special property tax imposes payments on real estate (€0.50 – €20.00 per square metre) to be collected via electricity bills. The planned revenue increase from this measure was estimated to be €1.7 billion annually. The enforcement of this measure was to be improved by eliminating access to electricity in cases of non-payment. Several problems, contingencies and controversies plague this tax measure. On the one hand, a very important constitutionality question was raised in that it is illegal for the Public Power Corporation (ΔΕΗ) to arbitrarily decide to shut off power for reasons other than electricity consumption. In fact, in March 2012, the Council of the State ruled against power being shut off if the property tax is not paid. On the other hand, several unintended exceptions in the imposition of this tax measure were revealed; similarly, several accounting mistakes were detected. Finally, the primary problem related to this tax measure is that it is detached from the income of the tax payer. Although in March 5, 2012, the Council of Ministers decided to replace the special property tax with a new tax as of 2013, to generate revenues €2.3 billion per year, the fate of this tax measure remains uncertain. The most probable scenario is that it will be incorporated in the ordinary property taxation.

In any discussion on fiscal consolidation and structural reform, the question of privatisation cannot be omitted. In the case of Greece, the privatisation process is particularly important in that rather than producing imminent privatisation receipts,[8] it may trigger a path-dependent restoration of the Greek economic system and thus push Greece onto a growth path. In other words, it has to be noted that privatisation in Greece should not be conceived of as a fire-sale to generate one-off revenues. Rather, privatisation should be regarded as a process that will allow for the deregulation, liberalization and restructuring of the Greek economy, downsizing the public sector, and limiting general government expenditures (Visvizi 2012b). In addition, an added bonus of privatising the SOEs is that it may contribute to breaking the monopoly and the influence that the trade unions exert in Greece. Nevertheless, although privatisation holds a great deal of promise, it seems that Greece's socialist government and the Troika itself adopted a misconceived approach to this process. Although over the period 2004–2009, the then centre-right government of Nea Democratia successfully accomplished privatisations valued at €11 billion, thus suggesting that privatisation in Greece is feasible, the MoU of 2010 contains only the following laconic statement on the matter: "Prepare a privatisation plan for the divestment of state assets and enterprises with the aim to raise at least €1 billion a year during the period 2011–2013" (MoU 2010, 45).

In 2011, the Troika exerted significant pressure on the government to draft a privatisation plan valued at €50 billion; however, without any tangible results. In contrast, the MoU II includes several provisions on privatisation, the most specific of which is that "the government anticipates €50bn in proceeds over the lifetime of the asset sale program, including at least €19bn through 2015" (European Commission 2012a, 108). Although in August 2012 the coalition government opened several tender procedures for the exploitation of property and for the acquisition of shares or licences, the fate of privatizations in Greece remains uncertain. Undeniably, the most difficult of all will be privatization of the SOEs. At this point several unresolved questions remain, for instance: which model of privatisation should be followed? Here, it seems that the experience of the successful privatisation process in Poland in the early 1990s has been neglected by the Greek authorities and the Troika.

[8] The interesting point here is that receipts from any potential future successful privatizations in Greece will not be directed to the state-budget, but to the treasury established especially for this purpose, the Hellenic Republic Asset Development Fund S.A. Accordingly, any proceeds from privatizations will be reserved for servicing Greece's debt.

Moreover, the legal framework for the privatisation process remains a sensitive issue. Therefore another question is whether those responsible for the process will be granted immunity, thereby shielding them from possible unfounded future accusations of political adversaries. As long as the above questions remain open, the odds for privatisation in Greece seem low.

6. The (thorny issue of tax compliance and the) myth of tax evasion

The notions of tax evasion, tax compliance and corruption have been making the headlines since late 2009, depicting Greece – at least at the popular level and undeservedly so – as a nation of corrupt, notorious tax dodgers. As will be argued in this section, to avoid politically costly restructuring of the public sector, the tax evasion argument was employed instrumentally by the Greek socialist government over the last couple of years to manipulate public opinion (at home and abroad) into believing that tax evasion and corruption were the causes of Greece's downturn. Furthermore, as fiscal consolidation in Greece over the period May 2010 – June 2012 did not yield the expected results and an expenditure drift occurred, the same argument of tax evasion was employed by the PASOK government to legitimize additional tax increases. In other words, since late 2009, the socialist government embarked on a strategy of a ceaseless talk of tax evasion, of the necessity to enhance fiscal audit and to "catch" the tax dodgers. Unsurprisingly, in the public discourse tax dodgers were associated mostly with the rich and with the successful members of the society. It can be argued therefore that tax evasion and corruption were employed instrumentally by the socialist government for two correlated reasons. On the one hand, they served the purpose of diverting the society's attention from the real causes of the crisis, i.e. the huge public sector and the abusive role of the state in the economy, in order to create an opportunity structure enabling the government to avoid the politically costly structural reforms. On the other hand, the same arguments were employed to create an image of a committed socialist government engaged with issues of social justice. This in turn was to improve the popularity of the government and the social support for it. Sadly so, the myth of tax evasion and corruption in Greece fell on a fertile ground of naivety, misconceptions and stereotypes about Greece and about the causes of the crisis. Accordingly, to a considerable extent the myth of tax evasion dwarfed the talk of reforms and economic growth in Greece. As the argument of tax evasion and corruption seems to be returning to the public

discourse regarding the crisis in Greece, it is necessary to make some points on it by means of clarification.

According to the Transparency International Corruption Perceptions Index 2011, Greece occupies the daunting 80th position with a score of 3.4 (on a scale up to 10.0) and is comparable to El Salvador, Colombia, Morocco, Peru and Thailand. Amongst its European peers, Greece is followed only by Bulgaria, which receives a score of 3.3. It would seem that the results of the Eurobarometer (2012) survey released in February 2012 confirm these results, in that 98% of Greek respondents perceive corruption to be a major problem in Greece, and 80% of Greek respondents believe that corruption within their country is more widespread than in other EU countries. As revealing as these findings may be, they are based on perceptions aggregated through opinion polls and surveys. Even if Transparency International seeks to have its surveys peer reviewed, the initial dataset remains subjective. It has long been demonstrated that scandals, crises, and allegations of corruption (frequently fuelled by the media and employed instrumentally for domestic politicking) affect people's perceptions of the degree of corruption.

The notions of tax evasion and corruption are frequently (and wrongly) blended into a single concept in the public discourse on Greece and seem to preoccupy some politicians and opinion-makers at home and abroad. Therefore, it is pertinent to elucidate some numbers that are readily available on the OECD portal. The provisional data for 2010 indicate that total tax revenue as a percentage of GDP was 30.9% in Greece, compared to 36.3% in Germany, 28% in Ireland and 48.2% in Denmark. The value of taxes on goods and services in 2009 as a percentage of GDP reached 10.8% in Greece, 11.1% in Germany, 10.1% in Ireland, 11.7% in Poland and 15.4% in Denmark. The major difference in the shares of tax contributions to total GDP is identifiable for taxes on income and profits. In 2009, their share as a percentage of GDP reached a value of 7.6% in Greece, compared to 10.8% in Germany, 10.1% in Ireland and 29.4% in Denmark.

In this context, an OECD report (OECD 2011a, 10) notes that "personal income tax revenues are more than 5% of GDP below the euro-area average, although statutory rates are not especially low." The OECD further suggests – rightly so – that the so-called self-employed, including plumbers, electricians, nurses etc., might be the culprits in this regard. The August 2011 OECD Economic Survey on Greece stated that "[i]f Greece collected its VAT, social security contributions and corporate income tax with the average efficiency of OECD countries, tax revenues could rise by nearly 5% of GDP." Notably, the value of the VAT Revenue Ratio (VRR)

for Greece is 0.41 (OECD 2011c). This finding implies that 59% of potential revenues from VAT are not collected. This number would seem to confirm the argument of tax evasion in Greece, were it not for the observation that the VRR levels for the UK and Spain are the same as that of Greece. Moreover, the VRR value for Germany, 0.55, falls below the 2008 OECD average (unweighted) of 0.58.

Overall, the numbers presented here clearly suggest that, although tax evasion exists in Greece, it is not as severe a problem as the media and some politicians portray it to be. Until 2010, in some cases, Greece fared better than other countries, and in some cases the performance of Greece was comparable to countries that no-one would dare to call countries of tax dodgers. The paradox is that, like in a self-fulfilling prophecy, as a result of excessive taxation that caused an exponential contraction of the private economy, data for 2011 and 2012 may reveal heightened levels of tax evasion as well as growth of the grey sphere of the economy. Whereas neither of these two is a welcome development, both of these phenomena serve as a depiction of how the state has crowded out private agents from the economy to a clear detriment of fiscal consolidation and the reform process. Consequently, the insistence by some politicians in the West, including the Troika, regarding the argument of tax evasion in Greece is worrying in that it overshadows the necessary debate on transforming the Greek economic system. The danger here is that an overemphasis on tax evasion, and the resulting overemphasis on increasing taxation (a new tax law is to be submitted to the Greek Parliament in September 2012), rather than a focus on creating conditions for growth (via a sustained effort at restructuring the public sector, liberalisation, deregulation and privatisation), is counterproductive and thus is likely to capsize genuine efforts at rescuing Greece (Visvizi 2012e).

7. Conclusions

The objective of this paper was to discuss the background and the scope of the fiscal consolidation process implemented in Greece over the period May 2010 – June 2012. A particular focus of the discussion was placed on the efficiency and appropriateness of the fiscal policy measures introduced by the socialist PASOK government as a means of addressing the sovereign debt crisis in Greece. It was argued that contrary to the government's assertions and provisions included in the MoU of May 2010, the government deliberately channelled the burden of fiscal adjustment towards the private sector of the economy to avoid the politically costly necessities of reducing expenditures and restructuring the public sector.

Consequently, as a result of tax-based fiscal adjustment, significant contractionary effects have occurred in the Greek economy, and general government revenues plummeted. Neither exports nor domestic demand could offset these contractionary effects. Therefore, in mid-2012, i.e., more than two years after the launch of the generous EU-IMF €110 billion financial assistance programme for Greece, despite the "voluntary bond exchange programme" followed by a second financial package worth €130 billion, the outcomes of fiscal adjustment in Greece remain at least uncertain. Clearly, the coalition government formed in Greece after the June 17 elections seems committed and able to navigate the stormy waters of fiscal consolidation. Nevertheless, the domestic and external challenges that the coalition government faces are not conducive to success (Visvizi 2012a). Having said that, several practical and theoretical questions emerge that will be addressed in future research. Specifically, on the one hand, it is necessary to investigate the empirical pattern of the IMF intervention in Greece and its variability. On the other hand, it seems that a closer examination of the theoretical aspects of fiscal consolidation in Greece would be needed.

In the rich body of literature on the variability of fiscal consolidation, a number of assumptions and hypotheses regarding the efficiency of fiscal consolidation have been tested. In this strand of research, the major question is which of the two alternative means of fiscal consolidation, i.e., expenditure reduction or revenue enhancement, produces better results. Moreover, additional questions include what can serve as a driver of growth in periods of fiscal consolidation, i.e., domestic demand or exports, and what the role of monetary policy vis-à-vis fiscal consolidation can be. Overall, research suggests that "spending-based adjustments are considerably less contractionary than tax-based adjustments" (Guajardo et al. 2011, 26). In this context, Konstantinou and Tagkalakis (2010, 3) conclude that "cuts in direct taxes generate a positive effect on consumer and business confidence (…). [At the same time], higher government wage bills and government investment reduce confidence, possibly because they entail a permanent increase in the size of the public sector, which would have to be financed by higher future taxes." Addressing the question of the efficiency of fiscal adjustment in the face of a considerable debt-to-GDP ratio, Deák and Lenarčič (2011) observe that "a government spending shock has a positive and a tax receipt shock a negative effect on output over time. However, if the debt-to-GDP ratio is above [a certain] threshold, then fiscal policy has no significant effect on output." Each of these contributions offers important insights likely to benefit the study of

the theoretical and empirical patterns of fiscal consolidation in Greece over the period 2010–2012. Treating these studies as a point of departure, it would be particularly interesting to examine the fiscal consolidation process in Greece from the perspective of the "expansionary fiscal consolidation" hypothesis (Giavazzi and Pagano 1990) in the absence of monetary policy. It should be noted of course that Perotti (2011) questions the hypothesis of expansionary fiscal consolidation and its applicability in the euro zone. He argues that limited policy options are available to euro-zone members, i.e., "a depreciation is not available to EMU members, except possibly vis-à-vis non-euro members. [And] an expansion based on exports is not available to the world as a whole." Therefore, as Perotti suggests, the odds of expansionary fiscal consolidation in the euro zone are low. Yet, because several euro-zone members are currently undergoing fiscal consolidation, it could still be of benefit to test the Greek case against the expansionary fiscal consolidation hypothesis and to draw relevant lessons from it. The questions to be addressed therefore would include whether an alternative – to monetary policy measures – policy-mix exists to effectively address fiscal imbalances in countries that are members of a monetary union. In the specific case of the EMU, would it be consistent with domestic-level solutions, with euro-zone-wide approaches, or with a combination of both of them? The Greek case bears the promise of providing some insights on these questions.

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Appendix

Table 10-A1 The revenue drift: recurring revenue – direct & indirect taxes: 2009-2012 (in millions of EUR)

		2009	2010	2011			2012		
		executed	executed	drift	target	executed	drift	MTFS	target
I.	Direct taxes	22 192	20 265	-7.3%	21 859	20 157	-1,90%	20 554	23 552
1	Income tax		14 317		15 704	12 782		12 656	15 132
	personal income tax		943		10 760	8,16		8 313	11 200
	corporate income tax		3 167		3 044	2,76		2 660	2 320
	other		172		1 900	1 862		1 863	2
2	Property taxes		487		895	1 172		732	2 907
3	Direct Tax Arrears		289		2 430	1 917		2 724	2 185
4	Other direct taxes		2 571		2 830	4 285		4 442	3 298
II.	Indirect taxes	31 097	31 004	-8.3%	33 815	28 587	-5.4%	30 219	26 881
1	Transaction taxes		18 457		20 205	17 744		18 372	16 537
1.1	VAT		17 375		19 015	16 887		17 361	15 687
	fuel		2 653		2 535	2 847		2 587	2 658
	tobacco		779		930	844		785	750
	other		13 943		15 550	13 197		13,16	12 279
1.2	Other transaction taxes (capital transfers & stamp duty)		1 082		1 190	857		1 011	903

Continued on next page

Table 10-A1 The revenue drift: recurring revenue – direct & indirect taxes: 2009-2012 (in millions of EUR)
(continued)

		2009	2010	2011			2012		
		executed	executed	drift	target	executed	drift	MTFS	target
2	Consumption taxes		11 824	-7.8%	12 830	10 131	-6.3%	10 813	9 630
2	on insurance premiums		404		380	379		389	343
2	on vehicles		249		490	100		170	91
2	excise tax on fuels		5 698		5,7	4 653		4 698	4 727
2	other excise taxes (tobacco etc.)		3 382		4 090	3 509		3 629	3 120
3	road duties		1,59		1,4	1 117		1 343	1 011
3	other consumption taxes		501		770	372		584	338
	Indirect tax arrears		339		390	375		608	374
	Other indirect taxes		384		390	337		426	340
	Total tax revenue (I + II)	55 907	51 269	-7.9%	55 674	48 774	-3.9%	50 773	50 403

Source: MoF 2010b, 2011c, 2012: State Budget Execution Bulletin, Ministry of Finance Hellenic Republic, Athens.