Karl Brenke is a Research Associate to DIW Berlin's Executive Board.

SIX QUESTIONS TO KARL BRENKE

»There Is Virtually No Export Base«

1. Mr. Brenke, Greece has debts amounting to 145 percent of its gross domestic product. Other states have similar or, in some cases, even higher debts but are still solvent. Why are the problems in Greece more serious? First of all, the amount of debt doesn't tell us anything at all. What matters is that potential creditors have the feeling that they will get their money back. In the case of Greece, this belief is gone. It also has to do with the fact that Greece has been using trickery and deception. But, above all, it has to do with the fact that Greece only has a weak economic base and there is no prospect of the debts being paid back on schedule, and if you don't have much confidence in a debtor, you don't lend them any more money.

2. What is the effect of more efficient collection of taxes, in other words, an increase in public revenue and also the austerity measures that are being demanded? Greece has made a bit of a mess of things in the past as far as collecting taxes goes. They had no effective system in place, and this also applies to other areas of public administration. Here, structures must undergo fundamental reforms and, in some cases, be established first. The state needs to have a solid foundation, as is to be expected of any country in the European Union. If more taxes are collected now, it will no doubt be possible to increase the country's revenue. All this will, however, just alleviate matters because the problem in Greece is not only that it defaults on tax payments, but the fact that, measured in terms of economic performance, people have been living well beyond their means.

3. How would you assess Greece's economic capacity? Greece's economic capacity is low. The main problem is that there is virtually no export base. This contributes to the fact that virtually no revenue is being generated through trade and commerce with other countries. Moreover, the Greek economy has a strong domestic market bias. One strong pillar is still tourism, but this will not be able to carry the entire country. The manufacturing industry is extremely weak. Furthermore, the Greek economy is organized on a very small scale. There is one self-employed worker for every two salaried employees. This is a structure more typical of emerging markets.

4. How could Greece's economic base be permanently strengthened? Greece lacks some of the prerequisites for strong economic reconstruction, also because it is tied to the euro. There is no room for maneuver, it is not possible to determine the exchange rates or conduct its own trade policy. This makes things very difficult. What Greece needs is a strong growth policy and much less a redistribution policy, as very actively pursued in Greece over the last few decades.

5. Would Greece be better off without the euro? As far as the development of individual sectors is concerned, definitely, yes.

6. Greece has lived beyond its means for years, but even in the current crisis, it is still accumulating more foreign debt. Is that not adding fuel to the fire? Greece must cut its spending and, first and foremost, it has to reduce private and public consumption. In an economy with a strong domestic market bias, this of course has negative repercussions, such as a decline in economic production. This means that tax revenue falls and the government has to spend more money on social measures such as unemployment benefits. That's a very difficult situation.

Interview by Erich Wittenberg.

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Volume 2, No 3
2 March, 2012
ISSN 2192-7219

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Sales and distribution
DIW Berlin

Printed on 100% recycled paper.