PANEL DISCUSSION REPORTS

GREEK CRISIS: THE HEROES AND VILLAINS

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DECODING THE MYTHOLOGY OF THE "GREEK CRISIS"

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DECODING THE MYTHOLOGY OF THE "GREEK CRISIS"– Understanding the Plot and Identifying the Heroes and Villains

The Report

Dr. Stanley John
Political Aspects of Greece crisis and Effects on EU

Greece is the financially the weakest member of EU and is facing a financial crisis. The financial sector is virtually controlled by its creditors who are insisting that the country should cut down on social security expenditures and welcome more investments. Implementation of austerity measures has caused adverse effects on the economy like the 25% of unemployment. The Government is in no position to increase the public's spending as the Greek currency is printed by ECB, taking away the power of the national Government to issue more currency at will.

Germany, a giant in EU and other creditors have taken the stand that no relief would be provided to Greece if it backs down from austerity measures and that Greece would have to leave the EU on backing away. Opinions and suggestions have been raised from the international community and from within Greece that it is in the country's best interest to leave EU and issue an alternative currency. The Syriza led Government is however apprehensive of these suggestions. The hesitation is due to the fact that the mandate they received from the Greek citizens was for their promises of freeing Greece from the austerity measures while remaining as a part of the EU. If indeed the Government steps out of EU, they will have to face adverse consequences in the form of the reluctance of troika to provide credit and the like.

European diplomats had apprehended that the Greece may leave EU and issue a new a new currency with help from Russia or China. However this is has not yet happened and it does not seem likely that it will happen in the current scenario. Russia is not in a position to afford to back a nation to issue a new currency and China in spite of the financial muscles will not interfere lest it adversely affect their economic ties with the EU.

The numerous bailouts granted to Greece over the years have not helped Greece as the amount so received is being spent on recapitalizing the Banking sector, Service sector etc. and not alleviating the economy as such.

The current situation has invited wide international attention to Greece and there has been a considerable increase in the voices suggesting that Greece should leave the EU, bother from within the country and across the borders. The Greek Government's need to facing the alarming need for such a decision and further its consequences seems to be nearer than ever now.

Rahul V. Kumar
Greek Crisis viewed from the basic framework of Economics and Finance

The Greek Crisis was a financial crisis, a debt crisis and was linked to the financial crisis in the wider world; not isolated to Greece and not a problem with the Greek. It was widely scrutinized in India primarily in terms of management and in terms of how an international left treated the situation.

Several points of contentions were raised in this context: on austerity, conditionality, democracy, finance capital, role of government, capitalism/markets and so on. Dominant debates centered on deficiency of the capitalist system the world over and the market economy in general. Strong stress was given to Keynesian management techniques to avert depressions in trade cycles.

The Left's victory in Greece has been perceived as a "victory over finance capital". The Greek crisis has been seen as "terror tactics of finance", "dictatorship of finance", "bloody mindedness of capitalism" (Patnaik: 2015)

Two important questions were raised by Prof. Patnaik:

- Why should finance capital insist on imposing austerity when the opposite could work better? (Note: the inherent idea of freedom as better for the economy)
- Why fiscal responsibility when aggregate demand is low? (Note: highlights a technical measure to correct which is indicative of control)

On a general level, questions were raised was on institutions: The failure of institutions; e.g. The IMF as an institution extended its mandate to determine fiscal policy of the state (Aiyar, 2010); The European Union as an institution was compared with the federal structure of India. Institutions fail when they curtail freedom

On the same footing how do we understand the role of government or the market as alternative institutions? Who has most likelihood of failing? A tentative hypothesis that arises from the crisis is that the dominance of any institution (created not on a voluntary basis) to decide and prioritize economic behavior of individuals, by altering key indicators is bound to affect the trajectory of the system by sending out false signals (white noises). A corollary is that the Government has achieved paramount significance in deciding economic behavior that we rarely can envisage an alternative to the government

Since market failure was highlighted both the questions raised by Prof. Patnaik should be viewed in the context of where and how markets operate. Any market, in the current context, operates under the domain of the State and the rules of these operations are set by the state and its agencies. Or in other words markets are mostly controlled. This creates white noises and actual signals are concealed. Two major issues under the Greece crisis could be revisited using this knowledge: The idea of trade cycles; and the question of finance under monetary policy regimes.

Key questions in Business Cycle theories as per the Austrian view are: During a depression why do every investor fail? Why do entrepreneurs make similar errors in a cluster, when they were chosen by the market for their skills at forecasting consumer demand? Any alteration of the rates by the central banks under state insistence injects newly created money in the system. This creates artificial rates. Artificial rates mislead the production process. Trade cycles could be the result of these controls.

Economists treat money as a commodity that must be produced by a monopoly-the government or its authorized banks. However money is something that can be produced without government intervention. Then the role of the Central Banks stands to be scrutinized. The history of money is the history of how government insinuated its way into the business of money production.The main question here is “can money be competitively produced?” The problem starts when any type of money enjoys the legal privilege of being the standard money (immunized from competition). Competition is essential for the smooth replacement of one (technically inferior) money by other commodity money.

If government and its institutions contribute much to trade cycles does not their role in controlling the same cycle appear contradictory? If money can emerge in a free market, how exactly can we deal with monetary institutions that control and alter credit in the system? Markets reflect or signal danger only when they are uncontrolled

Whenever the idea of markets is raised, It is generally confronted by two questions:

- Is there a market system that is perfect? (If it is not then what could be the reason)
- The government in the US is the major protector of its markets (true in terms of bailouts)
- What does it say about the market system? (Isn't there cronyism in the US or elsewhere)

Subin Davis
Greece will attain no salvation from within the EU

In today's world scenario, the markets have become more liberal and Government control over the market is limited. It is controlled by the financial capital. Liberal system that let the financial capital dictate the terms of business will inevitably lead to crises such as that of the 2008 recession. The crisis in Greece is one such consequence and is not to be seen as a political crisis. With respective to European countries, this crisis raises serious questions about financial capital driven markets as the countries are facing increasing problems of unemployment, being forced to reduce retirement pensions, welfare funds cut downs etc..

In 1970, the world saw the rising of socialist forces against the existing fascist forces. The same phenomenon can be observed in case of Greece. In the face of the crisis, a socialist communion, Sirisahas sprang up and promised to bring about the end of austerity measures.
It is the propaganda that a Government controlled market is detrimental to the economy that created advocates for liberalization policies. The major drawback of a liberal market system is that the government's hands are practically tied when it comes to decision making. In case the Government decides to implement policies less favourable to the investors / speculators, the financial capital will fall out. Such unprecedented mobility of financial capital results in

stock market crashes, currency depreciation, and increase in import costs etc. which will in turn cause the collapse of the economy. In order to come out of such a situation the Government will have to increase its spending capacity. However, such an option is not available to Greece as the members of the EU are required to maintain the fiscal deficit below 3%.

Greece is not in a situation to attain any salvation within the EU. There is no freedom in fiscal policy, no freedom to take monetary decisions or spend in the market and the Government has become puppets in the hands of the EU. The remedy which can be offered to Greece to survive the crisis is to move out of the EU and put an end to the financial capital driven system of market. It is true that Greece will face severe consequences by ending the austerity measures. The financial capital will move out and the country may face trade embargoes and even military coups. However the path to survival lies in removing austerity measures and putting an end to austerity measures cannot be achieved by negotiating with financial capital; it has to be forcibly removed.

Anil Verma
Capitalisation – the reason behind the crisis

Capitalism has thrived merely because of lies and propaganda. It is the main culprit behind several crises that have occurred around the world aided by speculation and volatility of financial capital. The scenario that has led to the Greek crisis is not different. Capitalism is a system that throws the fate of the market and the people into the hands of the speculators.

The basic nature of capitalism has not changed. The primitive accumulation process is still on. Economies have time and again implemented austerity measures to come out of financial crises. Crisis makers have been helped out of their difficulties by the tax payer’s money. Crises, like the stages of a business cycle are deliberately created by the forces of capitalism, so as to ensure its continued existence and assert its importance. In many countries like USSR, Poland, African Countries, Latin America etc. the crisis was deliberately created. The crisis is Greece has also been so created.

Overthrowing financial capital and capitalism seems to be the only ray of hope for Greece to come out of this crisis.

Basic Understanding on Greek Crisis and Troika Suggested Measures
Prepared by Nithin Ramakrishnan (participated in the discussion not as a panel member, but, as Rapporteur)

Greece is the first developed country to default the payments to IMF in 2015[1], ironically after two bailout packages. In fact, first set of measures to improve the Greek situation came on May 3rd 2010[2]. Though it's not appealing to attribute complete burden of Greek Scenario on external financial agencies, the measures suggested under first and second bailout agreements did not had a great impact. Therefore it becomes pertinent to see what these measures all about were and what impact they had on the Greek Economy.

The Memorandum of Understanding of Economic and Financial Policies for the first bailout programme[3], is a 13 page document of Hellenic Republic, says that all available fiscal, financial, and structural policies will be used[4]. It states further the fiscal strategy is anchored in placing the debt-GDP ratio on a declining path from 2013 onward and reducing the general government deficit to well below 3 percent of GDP by 2014. The one large measureable decision which government decided to undertake here is to *frontload*[5] the fiscal adjustments[6].

Other important measures suggested were 'income and social security' policies where by pension schemes are reformed to means-tested system[7] and also avoids fragmentation of health related schemes[8]. Tax reforms both at incidence and administration levels were to be

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[1] 'Greece fails to make IMF payment as bailout expires', *CTV News*, retrieved 3 July 2015.

[2] 'Europe and IMF Agree €110 Billion Financing Plan with Greece', *IMF Survey online*, 2 May 2010. Retrieved June 28, 2015.

[3] See http://crisisobs.gr/wp-content/uploads/2013/03/Greece+LOI+MEFP+TMU-3__05_20101.pdf

[4] Ibid. at para 7

[5] Front-loaded adjustments are defined as those where more than 50 percent of the total deficit reduction was achieved in the first half of the time period covered by the episode. Otherwise, the adjustment is considered a back-loaded one. Big-bang episodes of adjustment are those in which the average annual improvement in the primary balance achieved during the episode (divided by the primary balance in the year before the episode) is greater than the sample mean. See Emanuele Baldacci, Benedict Clements, Sanjeev Gupta, and Carlos Mulas-Granados 'Front-Loaded or Back-Loaded Fiscal Adjustments: What Works in Emerging Market Economies? ', IMF Working paper WP/04/157.

[6] Supra n.3. para 10

[7] A means test is a determination of whether an individual or family is eligible for government assistance, based upon whether the individual or family possesses the means to do without that help.

[8] Fragmentation refers to the existence of a large number of separate funding mechanisms (e.g. many small insurance schemes) and a wide range of health-care providers paid from different funding pools. Different socioeconomic groups are often covered by different funding pools and served by different providers.

pursued and effectuated. The MoU states that "*The income tax system has become more progressive; exemptions and deductions have been reduced to broaden the tax base; and a number of reforms have been introduced to fight tax evasion, including the tightening of obligations to issue receipts for VAT and to document living expenses, and the introduction of presumptive taxation*."

Financial sector reforms were basically for consolidating a new independent fund, Financial Stability Fund and to bring invigorated debt restructuring legislations both as to individuals and corporates. Further structural adjustments were to modernise public administration, strengthen labour market and improve business environment. They were

1. *Modernizing public administration* - Fragmented employment practices will be reformed by reorganizing recruitment procedures and finalizing the single payment authority for wages. A simplified remuneration system will be introduced, in a cost saving manner that will cover basic wages and all allowances which apply to all public sector employees. Procurement practices will be strengthened to generate efficiency gains and ensure transparency. The health care system, where there have been major expenditure overruns, will be overhauled through reforms in management, accounting and financing systems. A reorganization of sub-central government will be implemented to reduce the number of local administrations and elected/appointed officials. The government will collaborate with the EC to launch an independent external functional review of public administration at the central government level.

2. *Strengthening labor markets and income policies* - In line with the lowering of public sector wages, private sector wages need to become more flexible to allow cost moderation for an extended period of time. Following consultation with social partners and within the frame of EU law, the government will reform the legal framework for wage bargaining in the private sector, including by eliminating asymmetry in arbitration. The government will adopt legislation for minimum entry level wages in order to promote employment creation for groups at risk such as the young and long-term unemployed. In parallel, the government will implement the new control system for undeclared work and modernize labor market institutions. Employment protection legislation will be revised, including provisions to extend probationary periods, recalibrate rules governing collective dismissals, and facilitate greater use of part-time work.

3. *Improving the business environment and bolstering competitive markets* – The government will shortly adopt legislation establishing one-stop shops for starting new enterprises to cut procedures, costs and delays. Legislation will be introduced to cut licensing and other costs for industry. The government will fully implement key steps of the EU Services Directive in 2010, especially in priority areas such as tourism, education and retail. Over the course of next year, restricted professions will be opened by reducing fixed tariffs and other restrictions in the legal, pharmacy, notary, engineering, architect, road haulage, and auditing professions. The role of the Hellenic Competition Commission (HCC) will also be strengthened. Network industries will be progressively liberalized, especially in the transport and energy sector while strengthening regulators in these sectors in line with EU policies.

4. *Managing and divesting state enterprises*- These need to be subject to greater transparency to increase efficiency and reduce losses. As a first step, 2009 financial statements audited by chartered accountants of the ten largest loss makers will be published on the internet. A time table and action plan for improving the financial performance of main loss-makers, most notably in the railway and public transportation companies will be produced. This action plan will include concrete steps to reduce costs, including by streamlining the networks serviced and increasing tariffs. The government will review the role for divesting state assets, including of land owned by public enterprises or the government. The government will further review the scope for improving corporate governance, and enhancing oversight of state-ownership.

However, in 2012 it became very clear that, Greece would require new bail out and the studies critically showed that

1. Greece is in its fifth year of recession, with unemployment reaching unprecedented levels, particularly among youth.
2. External Deficits and Price rigidity issues are not satisfactorily controlled.
3. The deep recession combined with the then recent public debt restructuring has taken a toll on banks' capital. Depositor confidence has to bring up to high levels.

Greece immediately underlined then the issues of the poor economic growth and poor business environment. To improve this situation, the Government undertook that licensing reforms will be fully implemented, export procedures simplified, and the administrative burden of Greece's complex tax system will be simplified.[9] The thrust of structural reforms of second bailout agreement package lies with liberalisation of markets, while the first MOU were on privatisation[10]. Further privatisation is also envisaged in the Second MOU.

The Understanding once again goes hard on labour market to unit labour costs by revising minimum wage system and broadly applying them almost on every possible sector and also they shall try to reduce non-wage labour costs also.[11] Further stress is also applied on reducing social security benefits in order to save 0.2% GDP expenditure. The measures envisaged: (i) replacing various untargeted family benefits and allowances with one means-tested family benefit program; (ii) reducing special and seasonal unemployment benefits for certain professions and geographic areas; and (iii) increasing the age eligibility and income-testing of social solidarity supplements.

A significant detailing is provided in the MOU regarding fiscal institutional reforms, i.e. as to the tax administration. The failure of public sector to pay its bills and tax refunds on time, is recognised as the cause for driving up the procurement costs and damaging corporate sector liquidity[12]. Therefore a significant amount of independence reforms are agreed upon such as

- new Secretary General of the tax administration
- new semi-autonomous tax agency
- establishing specialist debt management units in larger local tax offices and allocating at least 10 percent of local staff to this function by end-2012
- simplifying record keeping, procedures, and tax legislation.
- increase the number of staff devoted to audit by 2,000 by June 2013, by: (i) hiring 200 externally by end-March 2013; and (ii) by admitting staff with audit experience and selecting other qualified staff following interviews, etc.

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[9] Memorandum of Economic and Financial Policies, Hellenic Republic, December 2012 at para 3.2.

[10] Ibid Part B. The MOU further talks about licensing and regulations, judicial reforms targeting to reduce backlog, screening and revising legislations in areas of agriculture, fisheries and public procurement etc.

[11] Ibid para 10.2

[12] Ibid para 34

Above all what is interesting in the MOUs, is that commitment efforts will also be intensified to improve the collection and processing of general government data compiled according to the European System of National and Regional Accounts (ESA) required under the existing EU legal framework, and compile comprehensive data on employment in the general government. Detailed information will be furnished to the European Commission, the ECB and the Fund on the operating accounts and balance sheets of key public enterprises[13].

These measures were primarily on structural adjustments on the fiscal policies and finance sector. Additional focus on economic growth and trade related issues seems to be in place, but unfortunately the measures under MOUs lacked vigour in these areas.

The inherent problem with these measures is that the plans forget per se that Greece is not an independent isolated market in terms of trade. It is a well-integrated market to world markets and there are externalities which can easily nullify the effects of business boosting measures[14]. Global Competitiveness is the rule then unless and until there are specific targeted measures to increase the same there can be much distortion in the intended results of the measures.

There are two main ways in which a country's competitiveness could improve: either by changing relative prices, i.e. squeezing the prices of locally produced commodities with respect to those produced abroad by squeezing wages and salaries, or by improving productivity of locally produced commodities, which may lead to lower cost of production without reducing real wages and salaries or to better quality products, etc. The first one seems interestingly easier than the second method, and the envisaged measures under the MOUs seem fitting in the bracket.

In fact the other way round was not possible for Greece, because of its low productivity, and lack of research and development[15]. This situation of Greece can be attributed to historic reason structural mal-adjustment resulting from its entry in to EU and then Eurozone. Greece's production structures were greatly affected by their opening up and liberalisation of

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[13] See Supra n.13 para 13

[14] Takis Fotopoulos (2010), 'Greece: The implosion of the systemic crisis', *The International Journal of Inclusive Democracy*, Vol. 6, No. 1 (Winter 2010).

[15] In 2006 , the labour productivity was just 77% of the average Eurozone.

markets. The squeezing relative prices therefore cannot bring Greece back on to track unless otherwise there is massive rebuilding of its production structure on the upfront. Perhaps, this could mean the global managers of Greek economy cannot now sit calm and wait for a better response the business markets. There needs to be a simultaneous interest to be shown in the interest of Greek's Production structure and its global competitiveness. Had there been a focus on what is missing in the first two bail-out packages, there would have been such a decision at least in the third bailout agreement. There was great requirement, during the bail-out discussion, a respectable space for issues of trade and productivity and a prominent seat for an expert from trade and competition sector. This was unfortunately to the contrary.

The example of Greece, is very much particular, to show that the rhetoric of the trade and development is never about the debates between developed countries versus developing or low-developed countries. It constitutes serious structural problems and poses questions which are pertinent not only to developing countries but also to developed nations – Greece is an example.