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Greek politics: checking the facts

What Greece has actually done to tackle the crisis

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PRELIMINARY REMARKS: PUBLIC OPINION IN GERMANY ABOUT 'THE GREEKS' – HUNCHES, MYTHS AND HALF-TRUTHS

Following the parliamentary elections of October 2009, the newly elected Greek government under Prime Minister George Papandreou put the budget deficit for 2009, in other words the new debt incurred in that year, at more than 12 % of the country's GDP. This 'political capitulation' is regarded – at least in foreign eyes – as the start of the Greek economic and financial crisis.

Whereas up to that point Greece had been regarded by the German public as an idyllic holiday destination, overnight it became a crisis-ridden country full of artful dodgers and creative accountants that attracted torrents of derision, polemics and rancour from German politicians and media. The following article highlights some of these alleged truths about 'the Greeks' that have been loudly proclaimed and are still persistently being peddled today. It then examines them objectively in order to establish how true they actually are.

As vice-chair of the Left and finance spokesman of its parliamentary group in the Bundestag, I established close contacts with Greece following the emergence of SYRIZA – the Coalition of the Radical Left – and particularly with the Greek government under Alexis Tsipras. In this context, I have repeatedly informed our Greek comrades of the widespread views in Germany about 'the Greeks', and I have closely examined any critique of 'conditions in Greece' that did not seem altogether implausible or that appeared to match my own experience. Needless to say, this scrutiny revealed that there is both light and shade in Greece. In so doing, however, I became keenly aware of the missionary zeal with which certain interested circles in German politics, in business and in the media, keep circulating tendentious portrayals, distorting facts and even slanderous statements.

The intention of this paper is to counteract these fake news, without putting a gloss on anything, and to gather facts which must be presented all the more systematically in today's allegedly post-truth era. For much of the information, I have relied on sources close to the Greek government and the Greek authorities. My thanks go to Giorgos Voudouris, Nikos Erinakis, Ilias Kostarakos, Evgenia Beniatoglou, Panagiota Boura, Nikos Briskolas and Marika Fragkaki.

I am glad to say that this paper is not the first attempt to counteract depreciative clichés and preconceptions about Greece. At the end you will find a list of sources and portrayals of 'conditions in Greece' that are certainly worth reading.

Axel Troost, April 2017

ASSERTIONS AND FACTS REGARDING THE ECONOMIC AND FINANCIAL SITUATION IN GREECE

ASSERTION 1: 'Greece is unreformable. All attempts to reform the country have come to naught.'

The widespread view
'In Greece there is a basic lack of willingness to learn from past mistakes, to dismantle clientelist structures, to modernise government and society and make them more effective. Urgent wide-ranging reforms are either not being undertaken at all or are simply being adopted but not implemented or else cancelled following changes of government.'

The facts of the matter
Between 2007 and 2014, Greece implemented more reforms than any other OECD country.[1] Klaus Regling, head of the European Stability Mechanism, even called Greece the 'reform champion'.
In 2016, Greece was one of the developed countries that did most to reform its tax system, as is confirmed by a recent OECD study which praises Greece for its latest round of reforms. In the words of David Bradbury, Head of the OECD Tax Policy and Statistics Division, 'We must congratulate Greece on these tax reforms'. A similar tone was struck by European Commissioner Günther Oettinger of the German CDU, who stated in an interview that Greece had not met all of its obligations but under Tsipras had undertaken more budget, labour-market and pension reforms than ever before.[2]
A blanket condemnation of Greece as being incapable of reforming itself is not only slanderous; it is also easy to refute empirically. The talk of Greek inability to implement reforms shows uncanny similarities with colonial clichés. The image it conveys is one of an 'underdeveloped people' that is ungovernable, suspicious of all major change and hidebound by its archaic traditions. It is a short logical step from there to calling for Greece to be expelled from the Eurozone.
Of course it is true that in Greece, as in other countries, the problems had to become pressing before society gradually became more willing to break some of its familiar habits and to tackle serious problems such as corruption and patronage. It is also in the nature of democracy that party-affiliated politicians generally find it difficult to take on powerful vested interests openly and target their wealth and privileges, because they mostly depend on the support of these groups and want to be re-elected.
It is common knowledge that many of the reforms that Greece has implemented over the last few years were forced on the country by its international creditors and that employees, the welfare state and solidarity have been the clear losers. The Tsipras government, however, did not simply cave in to the dictates of those who imposed austerity, as many critics on the Left claim, but – as indicated above – initiated various laws and measures specifically designed to benefit low-income groups, to distribute burdens and responsibilities more fairly and to take account of the growing diversity of Greek society. In the public debate in Germany, much of this is either entirely suppressed or is branded as an obstacle to the 'main objective' of budgetary consolidation.
Here is a list of the most important larger-scale reform efforts made by the Tsipras government:
– reforming the tax system, including increased taxation of high income earners, and numerous measures to improve tax collection (see also the remarks on assertions 4 and 6 below).
– reshaping the social security system for the benefit of low-paid workers by adjusting the welfare contributions payable by the self-employed; creating a single social insurance agency; and harmonising the pension system (see the remarks on assertions 4, 5 and 6 below).
– reforming primary health care, with a right of access to public health services for people without social insurance.
– introducing a nationwide guaranteed minimum income in order to provide households living in extreme poverty with financial assistance, access to social care and labour-market integration.
– granting equal legal status to homosexuals in civil partnerships in the face of vehement opposition from the orthodox Church and conservative circles.
– amending nationality legislation to enable migrants, for the first time in the country's history, to apply for Greek citizenship.

1 OECD: Going for Growth 2015, https://www.oecd.org/eco/growth/Going-for-Growth-2015-Going-for-Growth-ten-years-after-Taking-a-longer-perspective-on-reform-action.pdf.
2 Cf. http://www.huffingtonpost.de/2017/02/17/oettinger-griechen-Euroaustritt_n_14815842.html (in German).

The fiscal scale of the measures that Greece has initiated since 2010 is huge. Up to 2014, Greece took budgetary measures amounting to EUR 59 billion (at 2010 prices), which is equivalent to 25% of its GDP for 2009.[3] In proportion to Germany's GDP, this would correspond to budgetary restructuring measures worth EUR 120 billion a year over a five-year period. These figures are enough to demonstrate that Greece is anything but a country in which far-reaching political decisions about reforms are impossible. And the regular reviews of the current Troika 'aid programmes' have consistently confirmed that the agreed measures – albeit with occasional delays in certain instances – have been largely implemented.

As a Bruegel study shows,[4] Greece has not only managed the biggest adjustment of public finances of any EU country but is also the only country that has been compelled by rigorous reforms to cut its welfare spending – with drastic social consequences, as everyone knows. Lastly, it is time that due consideration is given to the fact that Greece, unlike Germany and other European countries, implemented its reforms in the midst of an acute crisis rather than during a period of sluggish growth.

Summary

Greece has been top of the OECD reform ranking for many years, and it has implemented numerous fundamental legislative amendments and measures that have had a high fiscal impact. These include deplorable neo-liberal reforms, the result of blackmailing on the part of international donors, but also measures to ease the pain of enforced austerity.

3 Gechert, Sebastian, and Rannenberg, Ansgar, The costs of Greece's fiscal consolidation, IMK Macroeconomic Policy Institute, Policy Brief, March 2015.

4 Darvas, Zsolt, and Tschekassin, Olga, Poor and under Pressure, Bruegel Policy Contribution, 4/2015, p. 9, at: http://bruegel.org/wp-content/uploads/imported/publications/Poor_and_under_pressure.pdf.

ASSERTION 2: 'The Greeks have not yet made sufficient expenditure cuts.'

The widespread view

'The Greek government lacks the will to consolidate the budget. The absence of efforts to make savings is the only possible explanation for the constant need for new financial assistance and the continued rising debt. For this reason, it is important to maintain the high savings targets for the coming years.'

The facts of the matter

Under the first programme of financial aid, which ran from 2010 to 2012, Greece agreed to cut its expenditure by EUR 37.5 billion. Under the second programme, from 2012 to 2015, it agreed to cut another EUR 25.2 billion, and the savings to which it is committed under the third programme, covering 2015 to 2018, amount to EUR 9.8 billion. This corresponds to a total amount in excess of EUR 72 billion or, to put it another way, 43% of Greece's economic output for 2016 or an annual average adjustment of 5% of GDP over the period from 2010 to 2018.

Accordingly, Greek governments have actually made extremely impressive efforts to save money and consolidate the national budget. These efforts, however, have also destroyed the foundations of the national economy, with output plummeting by a full 25% between 2009 and 2016, as a result of which many of the benefits of these savings have been wiped out.

Let us look first at the income side. Public revenue was increased from 39% of GDP in 2009 to 50% of GDP in 2016. This huge rise puts Greece well above the 2016 Eurozone average of 46%. On the expenditure side, the percentage decrease in public spending from 54% to 52% of GDP over the same period appears minimal at first. The figures, however, are percentages of a declining GDP. In fact, expenditure has fallen faster than economic output, which itself has slumped by 25%. This shows how drastically public spending has been cut.

The action taken since the outbreak of the crisis has lowered the budget deficit, in other words the annual amount of newly incurred debt, from 15% to just 2% in 2016, which constitutes a great fiscal achievement but also reflects the brutality of austerity. At the present time, Greece has to spend 3% of its GDP on interest payments, which is one percentage point higher than the Eurozone average. Although the Greek government continues to run an annual deficit, if interest payments are taken out of the equation, a primary fiscal surplus emerges, that is to say a positive balance of income minus expenditure, excluding interest payments, and indeed for 2016 this surplus is estimated at 2% of GDP. The target of a primary surplus of 0.5% of GDP, which was agreed between Greece and its creditors in August 2015, has thus been exceeded.[5]

The recession that the Greek economy is currently experiencing is certainly on a par with the Great Depression of the 1930s. It has drastically lowered most people's living standards, and for many people life has become a daily struggle for survival.[6] The average wage fell by almost a fifth between 2010 and 2016. No fewer than 36% of the population lived in poverty in 2015, compared with a Eurozone average of 23%. At 50%, the poverty rate among young people in the 16–24 age group is especially high. At the same time, income distribution has become more uneven. Greece and Bulgaria are now the EU countries with the highest levels of social inequality. The bleak economic and social landscape is driving hosts of people, particularly young and well-qualified young people, to move abroad, and this is evoking unpleasant memories of the mass emigration that occurred in Greece during the 1960s.

In this situation, insisting on the implementation of even more cuts and maintaining the agreed primary surplus of 3.5% of GDP for 2018 and subsequent years reflects a lack of realism. In the past, very few countries have been able to record a primary fiscal surplus of 3% over a period of five years or more,[7] and that in far more favourable conditions.[8] Here too, a comparison with Germany is apt. In order to achieve the primary surplus of 3.5% that is expected of Greece, Germany would have to trim its public budgets by an additional EUR 56 billion. That is about half of German public expenditure on education, almost the entire amount it spends on long-term care and considerably more than the country's budget for medicinal products.

So anyone suggesting that Greeks should tighten their belts a bit more and demanding more cuts in social spending on education, pensions or health care, for example, should consider the facts objectively and realise

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5 Underlying this surplus are higher VAT receipts and the impact of measures to combat tax evasion and corruption.

6 Cf. http://bruegel.org/wp-ontent/uploads/imported/publications/Poor_and_under_pressure.pdf.

7 Eichengreen, Barry, and Panizza Ugo, A Surplus of Ambition: Can Europe Rely on Large Primary Surpluses to Solve its Debt Problem? Discussion Paper Series No. 10069, Centre for Economic Policy Research, Washington D.C., 2014, at: http://www.cepr.org/pubs/dps/DP10069.php.

8 As is noted in the ESM debt-sustainability analysis for Greece, five factors make it more probable that countries will be able to maintain a primary fiscal surplus over a lengthy period, namely (i) the burden of debt is high, (ii) the economy is in good health, (iii) the political risk level is low, (iv) robust budgetary rules and institutions are available, and (v) the balance of payments is in surplus. The only one of these factors which applies to Greece is the high debt burden – and the pressure that brings. If we examine the major social problems – and the Greek government, not inaccurately, uses the term 'humanitarian disaster' to describe them – for which an input of financial resources is urgently required, there is absolutely no justification for the stringent budgetary stipulations.

that there is scarcely any scope left for savings in these areas (cf. Table 1 on p. 16) without resorting to extreme expedients such as abolishing compulsory schooling or accepting a sharp increase in infant mortality.

Summary

Greek governments have made deep cuts in recent years. This has led, however, to economic collapse which in turn undermined the efforts to consolidate the budget and reduce the national debt and caused a humanitarian disaster. The demands for more cuts that are now being voiced would be equivalent to Germany slashing its national budget by EUR 56 billion. Demanding such cuts in the Greek budget, which has long been stretched close to breaking point, is not only irresponsible from a humanitarian and political perspective but also ignores the experience of historical precedents.

ASSERTION 3: 'Tsipras keeps trying to short-change international donors at the bargaining table. Greece is delaying the promised reforms with every means at its disposal.'

The widespread view

'Greece regularly either fails to honour the agreements it has made with creditors in the aid programmes or meets its obligations late and reluctantly. Part of the Greek negotiating strategy involves delaying the implementation of promised measures until creditors turn off the money supply. Ruthlessness is therefore the only language that Greece understands. The German Finance Minister, Wolfgang Schäuble, is absolutely right when he says that successful completion of the second programme review depends solely and entirely on Greece.'

The facts of the matter

Complex multilateral negotiations normally allow for the possibility of delays. In this case, such delays would only become an acute problem if Greece were no longer able to honour its payment commitments. The next major payments are due in July, when Greece has to come up with eight billion euros to pay off old debts. Until then, Greece is under no obligation to back down in disagreements with its creditors merely for the sake of staying on schedule. Public opinion, however, regards a delay as a sign of bad faith and of a lack of goodwill. The German government, in particular, is too ready to lay all the blame at Greece's door. Finance Minister Wolfgang Schäuble believes that is up to the Greek government to ensure that the second programme review is completed successfully.[9]

However, it is not up to the Greek government alone – at least, not if government is understood to mean a governing institution rather than a subordinate executive agency with a remit to carry out the orders of creditors. The Greek government has already implemented the bulk of the measures imposed on the country for the second stage of the current 'aid programme'. Even in those areas where there are still unresolved issues, the preliminary work is already so advanced that it is practically on the verge of completion. Back in December 2016, it was said that the remaining measures could be implemented within a few days. To a great extent, the fact that this did not happen is due to arguments and differences of opinion among the creditors.

On 25 May 2016, the Eurogroup decided to take some debt-relief measures that could be implemented in the short term after the closure of the first programme review (June 2016).[10] These were measures that could be implemented without the need for new ballots in the parliaments of the creditor countries. However, they were then linked to progress in the second review of the programme and were not adopted by the Eurogroup until December 2016.

Debt relief measures remain a source of considerable tension, because the IMF is demanding significantly tougher measures as a prerequisite for its continuing participation in the programme. It is calling for renegotiation of the terms and conditions of loans from the European lenders – the EFSF and the ESM – and of the bilateral loans issued in the first programme under the Greek Loan Facility (GLF). The IMF argues that its Executive Board cannot take a decision on continued participation in the programme until the sustainability of Greece's debts has been ensured. However, in order to restructure Greek debt, decisions would have to be taken that go significantly beyond the concessions granted by the Eurogroup (such as postponing the maturity of loans until 2070). Yet the Eurogroup refuses to do any such thing. The German federal government, in particular, continues to rule out categorically any debt relief, at least until after the German parliamentary elections in September 2017.

Fierce controversy also surrounds the budgetary stipulations: for 2018 and subsequent years, a primary fiscal surplus, that is to say a budget surplus which emerges when interest payments are factored out, amounting to 3.5 % of Greek GDP, has been agreed (for more details, see assertion 2 above). Unlike the European institutions, the IMF regards this as an unrealistic target. In its report of February 2017,[11] the IMF states that the agreed measures would suffice only for a primary surplus of 1.5 %. For this reason, the IMF is calling for a reduction of the budgetary target to 1.5 % or the adoption of further savings measures in the form of pension cuts and income-tax reforms; it also continues to insist on the need for debt relief.

This conflict is still going on, despite the fact that the Eurogroup met on 20 February 2017. Although some rapprochement was achieved in talks between German Chancellor Angela Merkel and the head of the IMF, Christine Lagarde, IMF spokesperson Gerry Rice recently pointed out that the IMF had not altered its strategy regarding the two legs of the programme (reforms and debt relief). Further, the IMF's participation in the

9 Cf. Reuters news release of 26 January 2017: Schäuble – Zeit für Griechenland-Reformen wird knapper.

10 These included the extension of the average maturity of EFSF loans from 28 to the permissible maximum of 32.5 years and a waiver of the step-up interest-rate margin for a particular loan tranche forming part of Greece's second programme with the EFSF. These were measures covered by the previous agreements, but safety margins created for the benefit of Greece were now reapplied.

11 See, for example Höhler, Gerd, 'Die große Schuldenspirale von Athen', in Handelsblatt, 11 July 2016, at: http://www.handelsblatt.com/politik/international/griechenland-und-die-zahlungsmoral-die-grosse-schuldenspirale-von-athen/13859068.html.

funding measures, he said, would be contingent on the adoption of a credible package of policies and debt relief.[12]

On several points, then, the positions of the IMF are at odds with those of the European institutions and, in particular, of the German government. Only recently, Finance Minister Wolfgang Schäuble stated that the bailout would fall apart without the IMF. Jeroen Dijsselbloem, President of the Eurogroup, took a similar line, declaring that the Fund's participation was non-negotiable. Yet both of them are obstructing the IMF and blaming the delay on the Greek government.

Another woeful example of disagreement among the creditors at the expense of Greece relates to labour-market reforms. For the programme of financial aid for Greece, agreement was reached on reform of Greek legislation governing collective bargaining and mass redundancies; the reforms in question were supposed to be based on best EU practices. A dedicated commission of experts was appointed for this purpose, and, in its concluding report, presented a fairly united front.[13] However, the IMF is totally disregarding the findings of this report as well as existing procedures in other EU states, and, instead, continues to insist on radical free-market reforms. Greece's European partners are shying away completely from confrontation on this issue. In so doing, they are not only leaving Greece in the lurch but are also showing contempt for the achievements of European labour-market legislation.[14]

The outcome, regrettably, comprises efforts by the IMF and Wolfgang Schäuble to bridge the gap between their positions with a worst-case scenario for Greece, in which the IMF would drop its demands for lower primary-surplus targets in return for a tacit agreement to compel Greece to reform its labour market in a way that flagrantly breaches European standards.

Summary

Greece has either already implemented the necessary measures to be covered by the second programme review or has initiated all the groundwork required for their implementation. The international creditors, by contrast, are in disagreement on major issues and are therefore contributing significantly to delays in the execution of the programme. Due to the German parliamentary elections, Federal Minister of Finance, Wolfgang Schäuble, is playing a particularly discreditable role in this power struggle – he is completely unwilling to consent to any measures that the German public might interpret as 'giving in' to 'the Greeks'. Moreover, Wolfgang Schäuble's contradictory approach to the IMF presents a major stumbling block: he curtly dismisses the IMF's demands for debt relief, while seeking to keep it on board due to its disciplinary role.

12 The transcript of Mr Rice's comments is available at: http://www.imf.org/en/News/Articles/2017/02/23/tr02232017-Transcript-Of-IMF-Press-Briefing-Thursday-February-23-2017.
13 Cf. http://www.axel-troost.de/article/9360.empfehlungen-der-sachverstaendigengruppe-fuer-die-ueberprue-fung-der-griechischen-arbeitsmarktinstitutionen.html.
14 Kadritzke, Niels, Die Zeit läuft weg, 12 March 2017, blog in Le Monde Diplomatique, German version, at: https://monde-diplomatique.de/shop_content.php?coID=100092.

ASSERTION 4: 'The wealthy in Greece never seriously paid taxes in the past. This has not changed significantly; not even under the government of Alexis Tsipras.'

The widespread view

'For decades, the wealthy in Greece have not paid any taxes. This phenomenon has not really changed much, even under the government of Alexis Tsipras. The Greek tax authorities either do not dare to tax the rich because they lack the necessary political backing or they avoid such confrontations because they are simply too lethargic. In practice, wealthy people do not submit tax returns at all or they make false or incomplete declarations, while the fiscal authorities do nothing to clamp down on these practices. What is more, the new government is taking scarcely any action to track down expatriated untaxed assets of wealthy Greeks.'

The facts of the matter

Last year, Greece was one of the countries that did most to reform its tax system, as is confirmed by a recent OECD study which praises the Greek government for its latest reforms.[15] Since the SYRIZA government took office in February 2015, numerous long-overdue measures have been taken to tax high earners more heavily. These include changes to the tax rules and fundamental improvements in tax collection. The measures strengthening tax legislation that will have an impact on the wealthy include:

– increasing income tax from 42 % to 45 % on the highest earnings.
– increasing the solidarity contribution paid by high earners, and making it more progressive; formerly, it ranged from 3.5 % to 4 %. The rates are now between 7.5 % and 10 %.
– doubling the levies payable by Greek ship owners on their tonnage and on the foreign currency they bring into Greece.

That the wealthy are actually feeling the pinch of these tax increases is shown by the vehemence of their reaction. They are trying to make use of their connections with international creditor circles to avert the imposition of heavier burdens. It is noticeable that the IMF, along with other institutions, has spoken out against higher tax rates for top earners and has strongly advocated a reduction in the personal allowance, which would hit low earners especially hard.

Far more important than decisions to tax the wealthy more heavily are measures to ensure that they actually pay their taxes. Even in the past, the wealthy were by no means legally exempted from paying taxes, but politicians and public authorities were generally too negligent, and in some cases corruption prevented the recovery of tax debts. Since the SYRIZA government took office two years ago, however, progress has been made in the realm of tax collection too. For example:

– Banks are now required to cooperate with the fiscal authorities and to grant them full access to account records so that they can check on the origin of taxpayers' assets.
– As part of the National Strategic Reference Framework (NSRF) for 2014 to 2020, an electronic database is currently being established for the purpose of full and accurate registration of the property owned by everyone in the country to enable the fiscal authorities to follow changes over the course of time.
– Unlike its predecessors, the Tsipras government has accepted the assistance of other states and international organisations in detecting and trying cases in which Greek citizens have evaded taxation by shifting assets abroad. It has cooperated closely, for example, with the financial authorities of the German federal state of North Rhine-Westphalia, as a result of which the Greek fiscal and justice authorities obtained a list, known as Borjan's list, containing Swiss banking data from which Greek tax evaders can be identified. Previous governments had a similar list, known as the Lagarde list, which the IMF had forwarded to Greece, but they, by contrast, had always kept it under lock and key.
– The more stringent checks that have been conducted on the basis of these lists are proving successful. In 2015, the examination of 90 cases resulted in the discovery of more than EUR 175 million in outstanding tax debts. In 2014, under the government of Antonis Samaras (New Democracy) and Evangelos Venizelos (PASOK), a mere 38 cases were examined, and tax arrears totalling EUR 27 million were assessed. This corresponds to a rise of over 550 % in demands for back payments. Not least because of the more precise checks by tax inspectors, the average amount of assessed back tax per case rose from EUR 665,000 in 2014 to EUR 1,780,000 in 2015. This represents an increase of 168 %. The current government continues to use suitable instruments, such as requests to other countries for legal and administrative assistance, to investigate tax evasion and avoidance, and to prosecute offenders.
– In a parallel move, the Tsipras government has taken action to combat the establishment of shell companies in tax havens.

15 Cf. https://www.welt.de/print/die_welt/wirtschaft/article158326426/OECD-lobt-Griechenland-fuer-seine-Steuerreformen.html.

The following example illustrates how statistics on tax collection in the period since the SYRIZA government took office are being totally misrepresented in German media reports. The German press reported that the number of Greeks who were actually required to make tax payments to the fiscal authorities had fallen again in 2016, as in the preceding years.[16] The Greek authorities were thus presented as being totally unwilling and unable to collect more taxes.
The fact is that the decline relates to income tax, which is payable only by those whose income exceeds a certain threshold. Even though the Greek fiscal authorities are certainly not perfect, the reason for the growing number of Greeks who make no tax payments to the authorities is quite simply the constant increase in poverty in the country. More and more Greeks are now earning less than the personal allowance. They are submitting tax returns, but their tax liability is nil because their earnings are too low.
The creditor side, however, already has a solution. For all the lip service paid to the principle that growth must always be seen in the light of inequality and must benefit the greatest possible number of people within society, the IMF is peremptorily insisting on a reduction in the personal allowance. The effective tax burden would then be sharply increased, impacting low and moderate earners most heavily. The personal allowance is a tax-free subsistence minimum, and anyone who thinks that lowering it is the right way for Greece to increase its tax revenue is only providing a recipe for even more inequality and social exclusion.
Moreover, the IMF founds its argument on spurious baseline data. It asserts that 50 % of households in Greece are exempt from income tax, compared with the Eurozone average of 8 %. In so doing, it has overlooked the fact that the data for Greece are based on individuals, not households.[17] In fact, only 11.7 % of households in Greece pay no income tax. While this figure is still higher than the Eurozone average, it also reflects the rapid rise in poverty.

Summary

Unlike its conservative predecessor, the SYRIZA government has both increased tax rates for the wealthy (top rate, solidarity contribution, levies on ship owners, etc.) and vigorously advanced tax enforcement, with fuller disclosure of banking data, the introduction of an electronic property register, international cooperation to combat tax evasion and greater use of lists of potential tax evaders, resulting in the discovery of five times the level of tax arrears detected by the previous government. Even if there is still a great deal to be done in this respect, media reporting often ignores the progress that has been made or even presents it as regression.

16 See, for example Höhler, Gerd, 'Die große Schuldenspirale von Athen', in Handelsblatt, 11 July 2016, at: http://www.handelsblatt.com/politik/international/griechenland-und-die-zahlungsmoral-die-grosse-schuldenspirale-von-athen/13859068.html.
17 International Monetary Fund, 2016 Article IV Consultation – Staff Report; and Statement by the Executive Director for Greece, Washington D.C., February 2017, p. 89.

ASSERTION 5: 'The self-employed are virtually being crushed by the Tsipras government's new taxes and driven into undeclared work.'

The widespread view

'The Tsipras government has drastically increased the burden on the self-employed. The taxes and insurance contributions of many self-employed individuals now are often well in excess of 70 % of their income, which is driving many to resort to tax evasion and undeclared work.

The facts of the matter

There have indeed been reforms to change the tax liability and social insurance contributions of the self-employed. The Greek government, however, has not only refrained from increasing taxes on the self-employed but has even taken steps to make taxation more rational, more proportionate and fairer.

Self-employed people were previously taxed at a flat rate of 26 % on annual income up to EUR 50,000 without differentiation and hence without regard to the principles of proportionality and social justice. Following the reforms introduced by the Tsipras government, income from self-employment is now taxed at the following rates:

– 22 % on annual income up to EUR 20,000.
– 29 % on annual income from EUR 20,001 to EUR 30,000.
– 37 % on annual income from EUR 30,001 to EUR 40,000.
– 45 % on annual income from EUR 40,001 upwards.

Under the new rules, all self-employed people whose annual earnings do not exceed EUR 32,700 pay less tax than before.

The reform of social insurance for the self-employed was also long overdue. In the previous system, the amount of social insurance contributions payable by the self-employed was not linked to their income but to the duration of their self-employment. Moreover, it was automatically increased every three years. As a result, high earners who had been self-employed for a short time paid low insurance contributions – often far less than 10 % of their income – while others with a long history of self-employment and low income had to pay horrendous amounts. For older self-employed individuals, in particular, this created a veritable mountain of arrears owed to the social insurance funds, because people's incomes tumbled during the crisis instead of steadily increasing over the course of a lengthy working life, as had previously been taken for granted. The old system was arbitrary, disproportionate and unfair.

In contrast to the former system, the new system bases social insurance contributions on actual income. These correspond to the contributions payable by employees and amount to 26.95 % of taxable income – 20 % for the state pension and 6.95 % for health insurance. In order to avoid extremes, a contribution threshold of EUR 168 and a ceiling of EUR 1,500 have been set.

On the basis of the first assessment notices that EFKA (the new single social insurance fund) issued to individuals who were formerly covered by the OAEE (the former insurance agency for the self-employed), the following picture emerges:

– 78 % of insured individuals pay the minimum rate, which is set at EUR 168 compared with EUR 210 under the previous scheme. According to the ESEE (the National Confederation of Hellenic Commerce), the new arrangement is expected to ease the overall burden placed on 77 % of its members.
– For 21 % of insured individuals, the new income-based system will mean higher contributions.
– Only one per cent of contributors have to pay the maximum insurance contribution of EUR 1,500.
– For certain occupational groups whose contributions have changed more significantly, such as young scientists, engineers, doctors, lawyers and farmers, provision has been made for a transitional arrangement covering the period up to 2021.

The impression conveyed by the media in Germany of a universally heavier burden is therefore downright false. In spite of the reductions for the vast majority of self-employed individuals with low incomes, some groups in the middle income bracket will probably have to pay more social insurance contributions than before. The Tsipras government is currently examining whether the reform of tax and social insurance have placed unfairly heavy burdens on certain groups of self-employed people and has not ruled out the possibility of adjusting some details of the new system.

Summary
Under the new government, the majority of self-employed people have seen a reduction in their annual tax burden. There used to be a fixed rate of taxation on the first EUR 50,000 of income from self-employment, but such earnings are now subject to the same progressive tax rates as income from wage employment. Social insurance contributions for the self-employed were formerly based not on income but on the duration of self-employment. Following the reform, they are now income-based and correspond to the contributions payable by employees.

ASSERTION 6: 'Pensions in Greece are still too high and totally out of proportion.'

The widespread view
'Greece enjoys a higher standard of living than it can afford. Pensions in Greece are above the average for the euro area and therefore must be further reduced.'[18]

The facts of the matter
Greece has never implemented a system of social assistance or longer-term subsistence allowances for the unemployed. Accordingly, pensions have always done more than provide an income for the older generation. They serve, in fact, as a form of family assistance by which pensioners support family members who, because of lengthy unemployment or reduced capacity to work, have no income of their own.
During the crisis, this provision function of pensions gained hugely in importance. In a country in which unemployment has rocketed, rising from 8 % in 2008 to 27.5 % in 2013, in which youth unemployment is now permanently in excess of 50 % and in which state unemployment benefit is available for a maximum of only twelve months, pensions are the only reliable source of income in many families. In other words, pensions are a substitute for the welfare benefits with which other Eurozone countries guarantee a minimum subsistence income for needy sections of the population. The absence of decent subsistence support in Greece is to be deplored. There is an urgent need to establish an efficient integrated system of social security for various common contingencies. As long as this does not exist, however, any further pension cuts will only additionally weaken the already fragile social cohesion and plunge thousands of utterly defenceless people into extreme poverty.
Beside its importance as a financial safety net for families, the Greek pension system is also characterised by an especially high degree of fragmentation. Until 2016, the various professions and sectors each had their own pension fund. It would be wrong to gloss over the fact that there were occupational groups which had long been able to secure generous and – in some cases, no doubt – unduly high pension entitlements. Nevertheless, the general assertion that Greece makes extravagant pension payments remains false. This is demonstrated by the mere fact that 43 % of pensioners in Greece are living below the poverty line of EUR 660 a month.
On average, Greek expenditure on pensions, including extra benefits such as the additional state pension EKAS,[19] currently stands at about 70 % of the EU average and 52 % of the German average. Since the start of the crisis in Greece, expenditure on old-age pensions has been the budget item to which – under pressure from the country's creditors – the most frequent cuts have been made. From 2009 to 2015, Greek pensions were reduced twelve times in all by a total of 20 % to 50 %, depending on the pension category. Whereas expenditure on pensions amounted to some EUR 25.5 billion in 2012, it totalled only EUR 23.2 billion in 2014. The Memorandum of Understanding of August 2015 between Greece and its creditors prescribed a further cut in pension expenditures of 1 % of GDP as one of the main conditions for the closure of the first programme review. To meet the creditors' requirement, the Tsipras government departed from previous practice and opted against pension cuts across the board. Instead, the government chose to reduce existing pension entitlements that exceeded EUR 1,300 gross; in this way, it protected people on low pensions. At the same time, however, the number of people eligible to draw EKAS, the non-contributory additional state pension, was reduced by 40 %.
Besides fending off pressure from creditors for further pension cuts, the Tsipras government saw its main task in the restructuring of the fragmented and partly dysfunctional system of public pension funds. In addition, in the face of serious misgivings and heavy criticism, some of which came from within the SYRIZA party itself, the Greek government initiated a fundamental pension reform in 2016. The following were core elements of the reform:
– creation of a single social insurance fund (EFKA).
– establishment of uniform rules for assessing contributions and pension payments.
– the introduction of a minimum state pension.
The aim of these measures was to simplify and harmonise the existing complex regulatory and administrative structures of the public pension system, which had hitherto favoured particular occupational groups and old employees over younger ones. In particular, the reform focused on the needs of people in the lowest income brackets. The fact that this aim was diligently pursued, at least in the reform strategy, is demonstrated not least by the criticism from the conservative Greek opposition. It argued that the reform not only reshaped the administration of revenues but constituted active government interference in the social insurance system with the aim of promoting economic redistribution.

18 See, for example, Schäuble: Müssen Druck auf Griechenland aufrecht halten, dpa press release of 8 February 2017.
19 EKAS, the pensioners' social solidarity benefit, is a non-contributory welfare benefit for recipients of small state pensions. The amount of the benefit and the number of persons eligible have been reduced in several stages in recent years to considerably less than half of their original levels.

Since the Social Insurance Amendment Act entered into force in January 2017, state expenditure on pensions has dropped from 11 % to 9 % of Greece's GDP. This figure is currently generating new demands for pension reform. The IMF, for example, has been comparing this expenditure with a stated average of 2.25 % for the euro area, from which it deduces further savings potential from pension cuts. The comparison made by the IMF, however, is unsound, for substantial state subsidisation of the pension system indicates only that the revenue of the social insurance fund is falling short of its expenditure; it says nothing about the absolute value of pensions. Furthermore, social insurance adopts a particular macroeconomic function during crises in which unemployment rises sharply (as in Greece): it serves as an automatic stabiliser that creates a deficit so as to release state funds into the economy. In turn, this increases purchasing power and therefore boosts economic activity.

Although the IMF can envisage the savings made on the pension system being spent elsewhere, for example on subsistence provision, instead of simply using them to trim the budget,[20] the new calls for pensions reform, in conjunction with the rock-hard austerity policy of the other creditors, are likely to lead once again to cuts in social welfare.

But it is not only in the realm of pensions that Greek governments have had to meet the demands of international creditors in the face of massive popular protests. Other welfare expenditure has also been substantially reduced under pressure from creditors. Between 2010 and 2014, social welfare spending fell by a total of 21.8% (see Table 1 below). The deepest cuts were made to unemployment benefit, which was slashed by almost 46%. Given that this reduction coincided with a trebling of unemployment over the same period, it was a savage blow. The percentage reductions in the field of health care were almost equally drastic. By contrast, pension expenditure fell by 'only' 7.6 % over the same period. Therefore, pensions will remain one of the creditors' prime targets for cuts in expenditure during the foreseeable future.

Table 1: Social security expenditure by protection function, 2010 to 2014 (million EUR)

	Social welfare benefits					
	2010	2011	2012	2013	2014	Change
Health	15,940	13,549	11,650	10,261	8,897	–44.18 %
Disability	3,673	3,615	3,361	2,979	2,937	–20.04 %
Old age	26,996	27,982	28,081	24,743	24,952	–7.57 %
Widowhood	5,407	5,216	5,042	4,558	4,552	–15.81 %
Family	2,311	2,184	1,855	2,028	1,983	–14.19 %
Unemployment	3,582	3,485	2,641	2,352	1,938	–45.90 %
Social exclusion	113	109	124	128	108	–4.42 %
Total	58,022	56,140	52,754	47,049	45,367	–21.81 %

Sources: Greek Statistical Office (ĐLSTAT); European system of integrated social protection statistics (ESSPROS)

Summary

Because Greece, unlike countries such as Germany, has no system of social assistance in the sense of a subsistence benefit, pensions are the only lifeline for many families. Almost half of all pensioners in Greece receive monthly payments of less than EUR 660, which, even there, is scarcely enough to live on. The fact that state subsidisation of pensions is still higher than the EU average does not indicate further scope for cuts but only shows that the revenue of social insurance funds declines in times of crisis when unemployment is high. Even though pension payments in Greece are well below the EU average, it was necessary to carry out root-and-branch reform of the previously fragmented and sometimes unfair Greek pensions system. In spite of the cutbacks that have already been made, the new phalanx of creditors is pressing for even more pension cuts; in view of the many painful blows that pensioners have already suffered and the lack of a subsistence benefit, this is the wrong way to go.

20 Obstfeld, Maurice, and Thomsen, Poul M., The IMF is Not Asking Greece for More Austerity, 12 December 2016, at: https://blog-imfdirect.imf.org/2016/12/12/the-imf-is-not-asking-greece-for-more-austerity.

CLOSING REMARKS: THE NEED FOR A PRO-EUROPEAN DEVELOPMENT STRATEGY

The assertions regarding Greece set out above are aired extensively by the mainstream German media and are repeatedly voiced in political debates. These assertions clearly demonstrate that the crisis of the euro and European monetary union is readily perceived and presented one-sidedly in Germany. Moreover, these crises are viewed as having been caused by the failure of governments in other countries (and, to some extent, by the populations in these countries themselves).

In Germany, it is very rare for someone to consider the structural causes and the underlying flaws of the European economic and monetary model and its institutions. It flatters Germany's individual and collective egos to be able to emphasise the country's relatively good economic situation as evidence that 'we Germans' have 'done everything right', while 'the Greeks' – and the populations of other crisis-ridden countries of southern Europe – are evidently still not as industrious, thrifty, clever, incorruptible or honest as 'us'.

Whoever claims such a moral high ground as 'the Germans' do with their preconceptions and slanders about 'the Greeks', has a very long way to fall. Above all, this attitude fosters a degree of self-satisfaction which blurs any objective and realistic view of Europe. 'We Germans' see only what 'we' want to see, and 'we' can afford to act in this manner because 'our' success has earned 'us' the right to do so. This, too, is a key ingredient of the new post-truth political culture.

Practical experience, however, clearly contradicts this view because European austerity policy and the dictates of neo-liberalism have fallen victim to their own ambitions. Austerity and neo-liberalism have not overcome the grave economic and financial crisis or generated economic growth, let alone improved the lot of the populations of crisis-ridden countries. Deregulated, flexibilised labour markets have benefited the rich and powerful, because these policies have eroded the bargaining power of workers on low and moderate incomes, and have not created more jobs. Instead, a marked acceleration of upward redistribution has occurred, and the failure to invest means that a crumbling public infrastructure has become the norm.[21]

However, this is not the only option. As part of a team of authors, I recently had the opportunity to discuss alternative models of Europe and to set out key elements of what we hope delivers a convincing alternative vision of the European Union. The key message, as we state in our pamphlet, lies in the assumption that the EU and the euro are reformable.[22]

The pamphlet outlines specific practicable components of an alternative economic policy as well as a regime aimed at redressing the extreme external trade imbalances within the EU in the long term in the form of a 'European Clearing Union'. It also discusses the transition to a Europe of solidarity, in which public debts are protected from the vagaries of the financial markets and steps are taken towards a European social union; one such step could be the creation of a common system of unemployment insurance. The fact is that we need two things, and one will not work without the other: decision-making in the EU must become far more democratic, while at the same time European decision-making powers on key issues of economic and social policy must be strengthened, so that Europe will no longer be an arena of competing nation states, dominated by Germany.

Anchoring such a blueprint for Europe in people's hearts and minds is the only possible remedy against the new and old nationalists and chauvinists, and their false assertions.

The purpose of this paper was to make clear just how reformable Greece – a country that is supposedly unreformable – has proved to be, even in particularly difficult circumstances. As such, could this also apply to the European Union, an institution that is said to be facing reform fatigue?

21 On this point, see, for example the joint article I wrote with Giorgos Katrougalos, entitled Die Zukunft Europas – strategische Gedanken anlässlich des 60. Jahrestags der römischen Verträge at: http://www.europa-neu-begruenden.de/wp-content/uploads/2017/03/Giorgos-Katrougalos-und-Axel-Troost.pdf.

22 Busch, Klaus; Troost, Axel; Schwan, Gesine; Bsirske, Frank; Bischoff, Joachim; Schrooten, Mechthild; and Wolf, Harald, A Europe built on solidarity is possible! Pamphlet for another European Union, Hamburg, 2016, at https://www.axel-troost.de/de/article/9296.a-europe-built-on-solidarity-is-possible.html.

ADDITIONAL SOURCES OF CRITIQUE ON ISSUES CONCERNING GREECE

Regular articles by Niels Kadritzke in the German language version of Le Monde Diplomatique, such as:
– Privatisierungsschwindel in Griechenland, March 2016
– Herbstlese I + II, October and November 2016
– Das Riesenrad, das sich nicht dreht, January 2017
http://monde-diplomatique.de/shop_content.php?coID=100070

FaktenCheck Hellas, five editions from April to September 2015, http://faktencheckhellas.org/ausgabe-1/

BILDblog. Critical posts regarding the German media, http://www.bildblog.de/search/griechenland/

Regular publications by the Rosa-Luxemburg-Stiftung, e.g.
– Griechenland-Dossier, https://www.rosalux.de/dossiers/archiv/griechenland/
– 100 Tage SYRIZA, https://www.rosalux.de/dossiers/archiv/100-tage-syriza/
– 'Schummel-Griechen machen unseren Euro kaputt', Beliebte Irrtümer in der Schuldenkrise, by Stephan Kaufmann, March 2012, https://www.rosalux.de/fileadmin/rls_uploads/pdfs/sonst_publikationen/Broschur_Griechen2_dt_1203.pdf
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– 'Solidarische Ökonomie von Griechenland lernen', Standpunkte 19/2015, Judith Dellheim, September 2015, https://www.rosalux.de/publikation/id/8364/solidarische-oekonomie-von-griechenland-lernen/
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– 'Das Kätzchen' Währungsfonds, report on the press conference with Euklides Tsakalotos at the Rosa-Luxemburg-Stiftung on 16 December 2016, https://www.rosalux.de/news/id/9323/das-kaetzchen-waehrungsfonds/