

Change!

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The (quickly forgotten?) message of the recent elections in Greece was loud and clear: things cannot go on like this any longer. Greece cannot afford to continue with the sluggishness shown by the PASOK-led administration(s); the costless opposition and self-interested approach of New Democracy; the dismissive populism of SYRIZA and the other ‘anti-memorandum’ parties – and, above all, the impoverishing austerity and the mis-targeted, context-insensitive reforms. Something – everything – has to change.

Instead, what we have been landed with after the elections is very much more of the same (this may sound as yet another ‘anti-memorandum’ critique, but please continue reading). True, a new administration is (slowly being) installed and perhaps more attention is now paid on the consistent implementation of measures that are deemed as necessary to take Greece out of the crisis. But things are still moving slowly and the basic assumptions of policy appear unchanged. We still want to protect public sector jobs, we still want to maintain the ‘special payroll’ for professional public sector occupations (academics, militaries, judges, etc), and we still operate very much with the same legal rules and policy style.

The new government may manage to lower the VAT rates in the hospitality sector (I have strong reservations on this, but this is not for now), they may manage to contain the reduction of the basic/minimum wage, and they may succeed in negotiating the extension of the adjustment period (sometime in September maybe??). But, sadly, this is it.

You don’t need an economist or a political scientist to tell you (but there you go) that these are minor parametric changes. And you don’t need them, to figure out that parametric changes cannot bring about the type of change that the country badly needs. Despite the electoral rhetoric, it is now clear that the new government does not have a robust plan, a radical proposition, for the exit from the crisis.

Instead, it seems on course to continuing with the half-measures that have been (in the past; and are almost by definition) ineffective. The government will accept the reduction of wage floors but not by as much as the troika thinks is necessary to restore the country’s competitiveness. It will proceed with privatisation but not as radically as would be required to change (the composition of) the productive base of the economy. It will reduce (marginally) taxation, but not by as much as – or in the areas where – would be needed for the low-income Greeks to feel there is an end to their impoverishment. And it will continue to fine benefit-fraudsters that have no money to pay these fines (let alone paying back their fraudulent claims).

In all this, what we will not see, what we are not seeing, is a structural change of policy. I am not talking about the (naive at best) calls for a “cancellation of the memorandum”. But I *am* talking about radical measures that will change some of the “givens” in the Greek tragedy: that will address head-on some of its most fundamental ills. Here are two of these (there are more, but we need to start somewhere...).

Acute poverty

One of the main problems in today’s recession is the incidence of acute poverty – people lacking the means even for sheer survival. This is not only an economic problem. It has clear and pressing social implications (suicides, destruction of families, criminality) and some very significant political ones – such as the de-legitimisation of the fiscal consolidation effort (and the memorandum) and the radicalisation of the electorate (including the rise of the far-right, that may prove to be historically a bigger problem than the crisis itself).

But how do you deal with acute poverty in a 'weak' and bankrupt state? I think the answer is "boldly": by introducing, for example, a horizontal **minimum income guarantee**. Such an innovation will certainly not be cheap: with a hypothetical guaranteed minimum of €500 per month (and given the level of undeclared incomes – but see below), the annual cost of this may be upward of €10bn – some 15% of the whole state budget! But assuming the political will is there (and it is not difficult to see how a politician's emphasis on the 'median voter' may in fact weaken the will to focus on pro-poor reforms), it is far from impossible – certainly a thing to go at hammer-and-tongs with the troika. We should not forget that more than 20% of this will return immediately to the government through consumption taxes and much more will return through the instilment of a feeling of social justice across the public.

The well-studied labour economist would of course warn that a minimum income guarantee will reduce *labour supply* and create inactivity traps. But could this happen in Greece in any significant scale? In an economy where demand is severely depressed, not even the more orthodox of the neoclassical economists would argue that the possible 'supply shift' can really matter. Instead, a minimum income will give *dignity* to the people who struggle, it will help (even if marginally) stabilise consumption and possibly even help simplify parts of the administration of social benefits. Above all, it will give an answer to the 'anti-memorandum' populism and allow the government to go on with its other efforts for fiscal consolidation, for the modernisation of the Greek state and the restructuring of the Greek economy.

Tax and benefit fraud

The other major ill unveiled by the crisis is the continuing tax evasion and benefit fraud. Three years plus into the crisis, it feels at times bizarre how people continue to evade their taxes, to under-report their incomes and wealth, to claim benefits they don't qualify for, even to collect their dead parents' pensions. So, when another incident of fraud is uncovered, people feel disgusted and shocked.

Again, you don't need a political scientist to tell you that this weakens public morale and delegitimises the austerity measures ("Why should I pay when 'the others' cheat!?"). Nor do you need an economist to tell you that arresting those who are caught cheating will not generate much extra revenues for the government, as the fraudulent incomes have long been spent (to a large extent in paying the new taxes that have been introduced since 2010!) and will instead bloat further the already slow judicial system.

So, what could be the solution to this? I think the solution is **a general amnesty!** Today, even the most conscientious of evaders and fraudsters cannot change their behaviour: to stop claiming their fraudulent benefits, or to start paying their lawful taxes, they will have to admit their illegal past behaviour (e.g., produce a dead parent's death certificate or the deeds of an undeclared property). The cost of this is the same as that incurred if found out – only with a flagellant 100% certainty. So everybody continues taking the risk – and continues cheating!

A general amnesty will reset the clock and allow the government to introduce harsher (as legislation will not apply 'retrospectively') and probably more effective penalties for the new offenders. Whoever is caught cheating after the amnesty could face hefty fined or even – why not? – have their assets confiscated ("socialised") without feeling penalised today for what "everybody did" in the "old good times" – and without earning the sympathy of society. [Incidentally, the minimum income guarantee will ensure that even these 'new offenders' will have a decent living – albeit in a 'bare survival' mode; and rightly so.]

Is it fair, you will ask, to write off the debts of the 'cheaters'? No it isn't. But is it effective? I very much think so. [Perhaps the amnesty should exclude some of the most serious types of fraud – or the most extravagant of fraudsters. Perhaps the amnesty should be implemented as a pilot scheme first, for example covering only one or two regions in the first instance, so as to assess its efficacy and any unforeseen adverse implications before it is rolled-out nationally. But these are details to be decided by those implementing the policy – if ever.]

I am not claiming, of course, that I have cracked the solution of the Greek crisis. Measures like those put forward above will not solve Greece's problems of administrative capacity, of economic structure, of demand deficiency, and so forth. The above proposals may even prove to be logically flawed if scrutinised more carefully (especially by people who have a more hands-on knowledge of the situation than I do).

Even so, these – or similar – proposals will go a long way in turning the tables, in signalling that the government is taking ownership of (the handling of) the crisis and that it is changing, not some minor parameters, but fundamentally the rules of the game: **no more reactive policies to 'balance the budget' but a forward looking policy model to 'make things right'**. This has then the potential to instil legitimacy to the austerity measures and restore the credibility of the country – to the markets and to its Eurozone partners. If so, this would be a big step towards moving the country to a path of economic recovery and exit from the crisis.

It will not be easy and it may require much more than what is, quite tentatively, proposed here. But the exit from the crisis seems increasingly unlikely if based on small parametric changes (e.g., a limited reduction in VAT rates), half-hearted measures, and an insistence on old (and populist) priorities (e.g., protection of public sector jobs).