

# Greece in focus: a GreeSE Papers special issue

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Fourteen months since the agreement for the first national bailout in EMU history, the

Greek crisis keeps unfolding at a mesmerising pace. In June 2011 things took a dramatic turn, as the poor evaluation of the government's efforts to deliver on the obligations it had undertaken under the Memorandum for the €110bn loan, especially with regard to the programme of privatisations, the tackling of tax evasion, the liberalisation of closed professions and the consolidation of public bodies, triggered a new mini-crisis. The open questioning by the Eurozone and IMF officials of the continuation of funding under the €110bn loan led to an almost-farcical political crisis, with the PM announcing his willingness to step down in exchange for the formation of a coalition government and a few hours later backtracking to form a new partisan cabinet aiming to calm within-party and wider public opposition to the policies pursued by the government.

A fast-track procedure of negotiations with the eurozone partners and the IMF followed, leading to a new re-specified austerity programme which finally went through parliament allowing for the continuation of funding from the EU-ECB-IMF 'troika'. The severity of this mini-crisis seems to have constituted a wake-up call for Greece's eurozone partners who adopted quite swiftly a somewhat more proactive and, to some extent, accommodating approach, taking important initiatives to avert the full collapse of the Greek economy and its eventual default. The eurozone leaders agreed to pursue a deal with private Greek-bond-holders for voluntary participation to a restructuring of the Greek debt. They committed to providing a new loan (a second bailout) for 2012 and, crucially, started looking for ways to combine the austerity-minded fiscal consolidation measures with an injection of funds aiming at stimulating growth – although austerity and fiscal consolidation remain very much the central objectives. Barring a destabilisation of the political situation in Greece, the combination of these initiatives – if indeed followed through – has the potential to halt the continuous deterioration of Greece's debt and GDP figures, putting at last the country on a (slow, but at least now possible) path to recovery.

The events of June 2011, and those that are to follow in the months ahead, have a pace that academic inquiry, due to its own nature, finds it very difficult to follow. Before a full analysis of the consequences of any given policy initiative is performed, new developments and new policies are put in place that make the forthcoming analysis seem dated, if not obsolete. A consequence of that is that as analysis follows the pace of day-to-day commentary, very little space and attention is allocated to a substantive analytical discussion, as opposed to a journalistic debate conducted in blogs and newspaper websites, of the issues at hand.

In response to this, GreeSE Papers – Hellenic Observatory's discussion papers series – publish today a Special Issue with a small collection of papers examining the distributional and developmental effects of the austerity measures and the possible routes to recovery. The papers included in this special issue unavoidably suffer from the first of the caveats identified above. Although the papers were all written in the last few months, some of the issues they examine seem to fast become "yesterday's news". Reflecting however on the second caveat, we feel that the publication of these papers still makes an important contribution and is thus not only necessary but also very timely. What is more, although the papers were written independently, they seem to complement each other in a very constructive way.

The first paper, by Matsaganis and Leventi, examines the logic and distributional consequences of the austerity measures implemented since 2010. Based on a micro-simulation analysis, the authors examine how the rise in direct and indirect taxation and the public sector pay-cuts affect the rates of poverty and the levels of inequality in the country. The paper does not provide a normative set of policy recommendations but, at least implicitly, makes the case for a more careful and socially sensitive design of measures aiming at fiscal consolidation. It is rather unfortunate that the news that came out of last weekend's Eurogroup meeting, about a new austerity package to be negotiated before the end of the summer, do not seem to move to this direction but rather to build on the June 2011

Medium-term Programme which provided for a clearly regressive lowering of the non-taxable income threshold and rise in taxation for basic goods.

The second paper, by Monastiriotis, shifts the focus to the geographical and developmental implications of the austerity measures. Through a compositional analysis the paper alerts the reader to the fact that seemingly horizontal measures can have very heterogeneous effects across space; and that under certain conditions this can generate a pattern of cumulative divergence which can compromise future growth and socio-spatial cohesion in the country. The paper takes a more prescriptive approach and calls for a different design of policy, which will seek to combine the necessary austerity measures for fiscal consolidation with a pro-growth and spatially equitable strategy. Quite naturally, such a strategy will have to rely on an external stimulus, likely to be provided by the European Investment Bank and the EU's Cohesion Fund. The very recent developments at the EU level, with Commission President Mr Barroso pushing exactly for such a strategy (although, quite disappointingly, with the Greek government still not fully appreciating and seizing the opportunity), may be seen as a vindication of this policy proposal.

The third paper, by Christodoulakis, takes a more macro-economic view but remains very much focused on the austerity-recovery discussion. The paper examines, under a much-needed analytical approach, the conditions that led to spiralling debt despite the relative success with stabilisation and fiscal consolidation. It highlights in particular the role played by indecision (and slow action), by both Greece and the EU, and how the particular IMF-EU programme that was put in place led inevitably to a more-than-anticipated decline in national GDP. Although the paper offers an interesting and succinct discussion of the "how we got here" question, we have decided to place it last in the special volume by merit of its careful analysis of alternative policy scenarios for a successful 'path to recovery' and the concrete policy recommendations that stem from it. In them, the importance of a firmly implemented privatisation programme stands out, as does the importance of a carefully designed architecture for the post-Memorandum fiscal stabilisation efforts.

We should note that the publication of these papers does not imply an endorsement – by the Hellenic Observatory or indeed by the authors of the other papers– of the policy proposals stemming from each of the papers. Differences of opinion about the relative importance of progressive taxation, spatial redistribution, or privatisation may exist to one degree or another. Indeed, there is an on-going discussion –among the authors, around the Hellenic Observatory (see, in this regard, the recent launch of the HO Blog) and more broadly– about these and surrounding issues. As with much else regarding the ever-unfolding "Greek crisis", everything is open. Neither the Hellenic Observatory nor the authors of the papers included here claim the possession of 'magic solutions' that can turn the situation around overnight. But we do hope that this publication, with its emphasis on the analytical examination of at least a subset of the issues relating to the Greek crisis, will make a visible contribution to the debate about what could be labelled as Greece's "slide to austerity" and, hopefully, "glide to recovery". Our aim with this special volume is to add to this debate and inform policy-making and the wider audiences of this crisis alike, about the policy options and policy challenges lying ahead. You can read the full papers online at <http://www2.lse.ac.uk/europeanInstitute/research/hellenicObservatory/pubs/GreeSE.aspx>

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