SOVEREIGN DEBT DEFAULT: FISCAL POLICY'S ROLE AND FUTURE IN GREECE'S 21ST CENTURY CRISIS

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Abstract

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The 2009 Greek sovereign debt crisis represented one of the first major tests of the economic and political stability of the European Union. While a significant body of research has been published regarding the immediate causes of the crisis, there are few papers which include an analysis of Greece's fiscal actions in the decades preceding the crisis. This paper identifies Greece's reform efforts aimed at securing entry into the European and Monetary Union (EMU) during the 1990s as instrumental to understanding the role of fiscal policy in the country's sovereign debt crisis. A central finding of this paper is that in order to decrease its budget deficit and debt balance, Greece focused on revenue increases over more politically challenging expenditure cuts. Additionally, challenges related to tax evasion, reporting accuracy, and corruption affected Greece's ability to balance its budget leading up to the 2009 crisis. In light of these findings, this paper assesses the long-term sustainability of Greece's fiscal policy with respect to its budget. While Greece has demonstrated progress related to expenditures, taxes, and transparency, progress has been slow in reducing enduring expenditures such as government wages and pensions as well as structural changes to Greece's budgetary infrastructure. In order to ensure the sustainability of its budget deficit and debt beyond 2021, Greece must effectively address these challenges.

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Introduction

On October 4, 2009, George Papandreou, the leader of the socialist Pasok party, was elected Prime Minister of Greece. For the five years prior, the center-right New Democracy party had governed Greece and balanced modest austerity measures with pro-business interests. In direct opposition to its predecessor, the Pasok campaign's rhetoric centered on revitalizing the Greek welfare state through promises of increases to government wages, pension payments, and public spending. The rising popularity of the anti-austerity movement, which involved protests across Greece against policies aimed at reigning in the budget such as cuts to wages and pensions, fueled the Pasok party to victory.

The causes of the rise of anti-austerity politics in Greece has many debated origins. Nevertheless, the Great Recession provides important context for both the political and economic circumstances facing Greece in 2009. In conjunction with the other major economies across the globe, Greece was thrusted into a deep recession in 2008 in the wake of the bankruptcy of major financial institutions such as Lehman Brothers which brought the true state of unsustainable, fraudulent lending in Residential Mortgage-Backed Securities and Collateralized Debt Obligations to light.[1] By 2009, Greece's unemployment rate rose to over 10%[2] and rumors of the country's unsustainable debt balances began to bubble. In the fall of 2019, the New Democracy government, led by Kostas Karamanlis, implemented a series of urgent budgetary cuts. As Greek citizens felt the effects of both a recession and austerity policies, the Pasok government provided an alternative to the status quo.

Despite the promises made by Papandreou during his campaign and the initial weeks of serving as prime ministry, by November 2009, the revelation of Greece's rapidly climbing budget

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[1] Griffin, "Ten Years of Evidence: Was Fraud a Force in the Financial Crisis?," 6.
[2] OECD, Unemployment Rate (Indicator).

deficit and government debt forced the country's hand. In a public disclosure to the European Union, Greece's general budget deficit was revised from 3.7% to 12.5% of GDP and general government debt was estimated to exceed 100% of GDP.[3] Due to the inevitability of violating the covenants on its debt and inability to pay creditors, Greece faced an impending sovereign default by the end of 2009. As the first country in the European Union to experience default, the events of 2009 were viewed as the most significant test to date for the European Union's ability to grapple with the challenge of balancing the conflicting interests of its members while preserving the stability of the partnership. To support Greece, the European Union, International Monetary Fund, and European Central Bank, labeled the "Troika" in the context of Greek bailout measures, provided Greece with three different bailout packages, or economic adjustment programs, each with different required policy stipulations aimed at reducing Greece's deficit and debt balance.

Since Greece's 2009 sovereign debt crisis, research on the immediate causes of Greece's liquidity crisis have been published. However, few studies have considered the context of Greece's various fiscal consolidation measures preceding the country's entry into the European and Monetary Union (EMU) in 2001. Additionally, while there exists a significant body of research conducted by both international organizations such as the Organisation for Economic Co-operation and Development (OECD) and unaffiliated researchers on Greece's compliance with the three economic adjustment programs, fewer investigations have been completing regarding the entirety and sustainability of Greece's fiscal response to the 2009 sovereign debt crisis.

In acknowledgement of the existing body of research on Greece's 2009 crisis, the boundary of my inquiry extends beyond the events directly preceding 2009, and instead begins in the decade prior the country's entry into the EMU. Furthermore, rather than focus on the effects of the

[3] Barber, "Greece Condemned for Falsifying Data."

economic adjustment programs on the Greek economy, this paper considers Greece's compliance with the Troika's requirements, but also views Greece's independent reforms post-2009 as equally important to a discussion on the fiscal status of Greece in the 21st century.

To fully understand the effect of fiscal policies in the 1990s and 2000s on the Greek sovereign debt crisis, it is important to consider Greece's actions both before and after the country's entrance into the EMU. A comprehensive review of Greece's pre-2001 fiscal strategy proves that while the country reduced its deficit and government debt to comply with the stipulations of the Maastricht treaty, the quality of its fiscal consolidation was unsustainable. As a result, once Greece entered the EMU, many of the consolidation efforts implemented before 2001 were reversed. Additionally, Greece's overreliance on revenue increases and under reliance on expenditure cuts created unsustainable budgetary practices as Greece entered the 2008 Great Recession. Lastly, persistent challenges related to the accuracy of financial reporting and auditing both in the budgetary process but also in the implementation of the budget, such as tax collection, contributed to Greece's fiscal challenges.

In light of an analysis of Greece's pre-crisis fiscal reforms, this paper also analyzes how Greece's fiscal response to the 2009 sovereign debt crisis has financially positioned the country in the long-term. Broadly, Greece's compliance with the Troika's three economic adjustment programs has been highly incremental, with many labor market and tax policies only partially implemented over a decade after they were proposed. Additionally, similar to the country's pre-2009 fiscal strategy, politically inconvenient actions such as labor market reform have been slow and non-structural. Instead, reliance on indirect taxation methods, which are subject to high rates of tax evasion, a problem left largely unaddressed by the Greek government, has been the hallmark of Greece's response to its budget deficit. Consequently, while the Greek government has

improved its fiscal management in some areas, such as reforms to its PAYG pension system and increased oversight in budget reporting and auditing, incrementalism and politically convenient budgetary concessions are enduring issues the Greek government must face as they continue to craft policy in the post-bailout era.

Part One: Greece's Fiscal Policies Preceding the 2009 Greek Sovereign Debt Crisis

To properly assess the role Greece's fiscal policies played in the 2009 sovereign debt crisis, this paper will analyze Greece's various cycles of both consolidation and spending from the late 1990s to the early 2000s. Within this time period, Greece's decision to apply to, and ultimately be accepted into, the European and Monetary Union is central to understanding the government's various fiscal policy regimes. The threat of exclusion from the European and Monetary Union (EMU) created significant constraints on Greece's budget leading to their acceptance on January 1, 2001.[4] In contrast, the Stability and Growth Pact, the central institutional constraint placed on Greece after the country's acceptance into the EMU, was marked by "soft-conditionality," meaning that Greece could violate the Pact in various ways without serious repercussions.[5] Furthermore, despite unprecedented rises in the government budget deficit as well as interest payments in the 1994 to 2000 period, the unsustainability of Greece's consolidation efforts has been cited as a central primer for the degradation of Greece's economic situation in the mid-2000s.[6]

Thus, given the importance of Greece's acceptance into the EMU, I will analyze Greece's fiscal policies preceding the 2009 sovereign debt crisis within two different sub-periods: 1994 to 2000 and 2001 to 2009. Using the aforementioned empirical analysis, I will compare the fiscal consolidation efforts implemented from 1994 to 1999 with the expenditure cuts implemented from 2005 to 2007 in an effort to build upon existing research which has analyzed each consolidation wave in isolation rather than as a continuation or shift in policy. Lastly, I will analyze the persistent

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[4] Katsimi and Moutos, "EMU and the Greek Crisis: The Political-Economy Perspective," 569.
[5] Katsimi and Moutos, "EMU and the Greek Crisis: The Political-Economy Perspective," 569.
[6] Dellas and Tavlas, "The Road to Ithaca: The Gold Standard, the Euro and the Origins of the Greek Sovereign Debt Crisis," 5-7; Katsimi and Moutos, "EMU and the Greek Crisis: The Political-Economy Perspective," 569; Kaplanoglou and Rapanos, "The Greek Fiscal Crisis and the Role of Fiscal Governance, " 6-8; Mannessoitis, "The Root-Causes of the Greek Sovereign Debt Crisis," 7-10.

challenges facing Greece in the late 1990s and early 2000s that were unaddressed by incremental reforms in order to identify which issues are most significant for Greece to resolve post-2009 crisis.

1994-2000: Fiscal Policies to Secure EMU Membership

A Brief History of Greece's Economy in the Mid-20th Century

In the three decades preceding the mid-1990s, Greece experienced sustained levels of low economic growth and persistent levels of high inflation. From 1973 to 1995, real GDP grew at a rate of 1.5% annually.[7] Large budget deficits and monetary policy associated with the democratization of Greece contributed to the acceleration in inflation seen since 1973.[8] Additionally, the early 1990s were marked by rapid debt accumulation. National debt reached 110.1% of GDP in 1993, up from 69% in 1989.[9] These economic changes are attributed to various factors including, but not limited to, rising government welfare expenditures and broader spending, global economic slowdown, and high interest rates.[10] While some authors have attributed the dismal state of the Greek economy to political and economic tensions which arose during the democratic regime change in the 1970s such as ineffective labor market reform, decreased domestic private investment, and declining productivity[11], others blame the country's legacy of bureaucratic corruption.[12] Nevertheless, as Greece attempted to secure EMU membership beginning in 1994, it is evident that the country was faced with the difficult challenge of addressing a low growth, high inflation, and indebted economy.

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[7] Bosworth and Kollintzas, "Economic Growth in Greece: Past Performance and Future Prospects," 2.
[8] Bosworth and Kollintzas, "Economic Growth in Greece: Past Performance and Future Prospects," 2.
[9] Mannessoitis, "The Root-Causes of the Greek Sovereign Debt Crisis," 3.
[10] Nikiforos et al., "The Greek Public Debt Crisis."
[11] Alogoskoufis, "The Two Faces of Janus: Institutions, Policy Regimes and Macroeconomic Performance in Greece," 183.
[12] Katsimi and Moutos, "EMU and the Greek Crisis: The Political-Economy Perspective," 569.

Fiscal Consolidation to Gain Entry into the EMU

Article 121(1) of the Maastricht Treaty, signed in 1992, sets four requirements for European countries to become member states of the EMU. First, member states must achieve a high level of price stability which is measured by inflation not exceeding 1.5% above the three best performing member states during the year of examination.[13] Second, the annual government deficit may not exceed 3% of the country's GDP and gross government debt may not exceed 60% of GDP.[14] Third, countries must have normal exchange-rate fluctuation margins for two years preceding examination without devaluing against any member states' currency. Lastly, the nominal long-term interest rate may not exceed the long-term rates of the three best performing member states by more than 2%.[15] As demonstrated in the brief overview of Greece's economy, Greece was not compliant with any of the four criteria as of 1994. The Greek government faced the prospect of exclusion from the economic benefits of joining a union that would further open their economy to the rest of Europe, and, in turn, help the country's stagnating economic growth. Thus, Greece implemented a series of fiscal consolidation measures from 1994 to 1999 including: tightened spending measures, tax rate revisions, and declines in interest payments.

1. Spending Measures

With the consequences of EMU exclusion in mind, the Mitsotakis government, which was backed by the New Democracy party and led Greece in the early 1990s, was optimistic about the country's ability to reduce government expenditures by 2000.[16] And, in comparison to the decades prior, the 1990s were far more successful in terms of economic management. However, Mitsotakis' optimism was quickly met with intense political strife over budgetary discipline. The

[13] "Treaty establishing the European Community," Article 121(1).
[14] "Treaty establishing the European Community," Article 121(1).
[15] "Treaty establishing the European Community," Article 121(1).
[16] Featherstone, "Greece and EMU: Between External Empowerment and Domestic Vulnerability," 928.

Pasok government which took power in the mid-1990s was faced with internal pressures against expenditure cuts, especially from labor unions.[17] Government wage bills were an exceptionally difficult expenditure to cut for Greece as public-sector workers became increasingly powerful and fragmented along political party lines.[18] Thus, the Pasok government implemented a series of gradual reforms in an attempt to appease domestic interests, revising the large expenditure cuts promised by the Mitsotakis regime.[19] The Pasok strategy focused on raising tax revenues, rather than instituting political unfavorable cuts to government wage bills. Not only did the number of government jobs increase from the mid to late 1990s, but, in comparison to private-sector wages, public-sector wages increased dramatically.[20] Consequently, Greece experienced a 70.7% increase in central government wage bills from 1995 to 1998.[21]

2. Tax Rate Revisions

Broad consensus concludes that the Greek government focused on raising revenues, rather than cutting expenditures to close the budget deficit in the 1990s.[22] As a result, tax reform became a central budgetary tool. Direct taxes, including social security taxes, contributed to a large portion of the increase in tax revenues during the period 1990 to 2000. In 1994, Greece raised the income tax rate for top earners from 40 to 45%.[23] The corporate tax rate was also raised from 35% to 40%.[24] In contrast, indirect tax rates remained largely untouched or reduced. The abolition of various indirect taxes mandated by the Tinbergen Committee, an expert committee commission

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[17] Featherstone, "Greece and EMU: Between External Empowerment and Domestic Vulnerability," 928.
[18] Katsimi and Moutos, "EMU and the Greek Crisis: The Political-Economy Perspective," 569.
[19] Featherstone, "Greece and EMU: Between External Empowerment and Domestic Vulnerability," 929.
[20] Moutos and Tsitsikas, "Whither Public Interest: The Case of Greece's Public Finances," 188-189.
[21] Mannessoitis, "The Root-Causes of the Greek Sovereign Debt Crisis," 7.
[22] Bosworth and Kollintzas, "Economic Growth in Greece: Past Performance and Future Prospects," 36; Featherstone, "Greece and EMU: Between External Empowerment and Domestic Vulnerability," 929; Mannessoitis, "The Root-Causes of the Greek Sovereign Debt Crisis," 7.
[23] U.S. Congress, *Greece: Economic Policy and Trade Practices, 1995*.
[24] U.S. Congress, *Greece: Economic Policy and Trade Practices, 1995*.

by the EU to ensure the creation of the Single European Market in 1993, may explain why Greece raised direct taxes, rather than indirect taxes to close their budget deficit.[25] Greece continued to use the Value-Added Tax, which was implemented in 1987 at the recommendation of the European Committee in replacement of various commodity taxes; [26] however, the Value-Added Tax rate was not revised in the 1994 amidst Greece's major direct tax rate reforms.[27]

The effects of the aforementioned tax policy changes during the 1990s is illustrated by the rapid increase in Greece's tax revenue as a percentage of Gross Domestic Product.

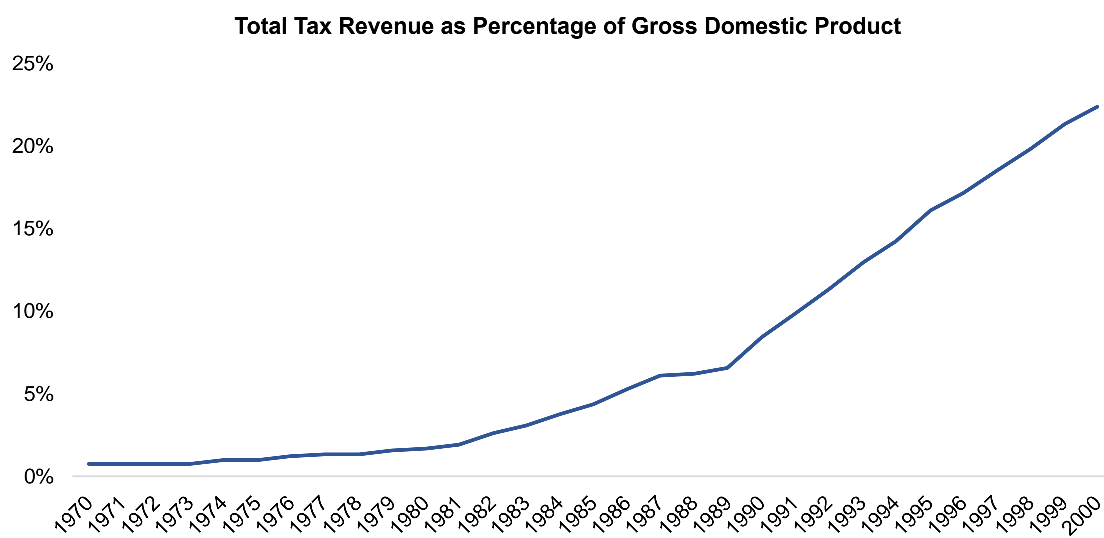

Figure 1. Greece Tax Revenue as a Percentage of Gross Domestic Product (1980-2000)[28]

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[25] Moutos and Tsitsikas, "Whither Public Interest: The Case of Greece's Public Finances," 191; Keuschnigg et al. "Tax Competition and Tax Coordination in the European Union: A Survey," 4-5.

[26] Keuschnigg et al., "Tax Competition and Tax Coordination in the European Union: A Survey," 6.

[27] U.S. Congress, *Greece: Economic Policy and Trade Practices, 1995*.

[28] OECD (2021), Gross Domestic Product (GDP); OECD (2021), Details of Tax Revenue- Greece.
Note on Gross Domestic Product: Estimates represent nominal GDP. Estimates are subject to revisions by the Hellenic Statistical Authority subject to OECD guidelines and oversight. Measured in US Dollars.
Note on Tax Revenue: Tax Revenue estimates include both indirect and direct taxes. Estimates are subject to revisions by the Hellenic Statistical Authority subject to OECD guidelines and oversight. Measured in US Dollars.

Beyond formal tax policy, the pervasive consequences of tax evasion on Greece's ability to raise revenue must be underscored. While official estimates of income under-reporting and other tax avoidance activities during the time period 1970 to 2000 are not published, estimates Greece's shadow economy relative to other countries in Europe demonstrate the magnitude of Greece's tax evasion problem. In the 1990s, Greece had the largest shadow economy in Europe, representing 27.2% of GDP.[29] It is important to note that the shadow economy comprises of both trade in and barter of illegal activities, such as drug dealing and prostitution, as well as tax evasion and avoidance.[30] Thus, given the absent of reliable, published estimates of tax evasion in Greece during the 1990s, it is difficult to decompose estimates of Greece's shadow economy. However, recent research indicates that nearly two thirds of Greece's shadow economy is attributable to underreported employment, where businesses fail to declare all of their employees in order to either conceal illegal activities or avoid tax liability.[31] Furthermore, a review of the literature on Greece's tax governance indicates that small businesses and self-employed persons comprise a significant portion of underreported employment in Greece.[32]

Despite the prevalence of tax evasion in Greece, policies aimed at increasing collection were not prioritized in the period leading up to entry into the EMU. Greece's tax policy instead principally focused on harmonization with European Union tax rules and increases to direct income tax rates. Between 1993 and 2000, there were no official policies targeting tax evasion passed. Additionally, research on the political rhetoric of the New Democracy and Pasok

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[29] Enste and Schneider, "Increasing Shadow Economies All Over the World Fiction or Reality?" 16.
[30] Enste and Schneider, "Increasing Shadow Economies All Over the World Fiction or Reality?" 16.
[31] Georgakopolous, "Tax Evasion in Greece – A Study."
[32] Georgakopolous, "Tax Evasion in Greece – A Study."; Moutos and Tsitsikas, "Whither Public Interest: The Case of Greece's Public Finances," 193; European Commission,"Factsheet on Undeclared Work – GREECE."

leadership indicate that tax evasion was largely excluded from discussions regarding government revenues.

3. State-Owned Enterprises

While tax rate increases constituted a central strategy for Greece to close its budget deficit, Greece also considered various plans to privatize its state-owned enterprises. Beginning in the two decades after World Word II, Greece established public enterprises in the telecommunications, electricity, tourism, and manufacturing sectors.[33] The rise of state-owned enterprises continued in the late twentieth century with Greece nationalizing financial institutions, airlines, and additional industrial firms. Greece's rationale to nationalize certain businesses relied on either the desire to capitalize on national interests or to save large, financially insolvent firms which supplied domestic jobs.[34] By the early 1990s, Greece supported large, politically important enterprises and as a result subsidies and loan-guarantees to these state-owned enterprises constituted a significant portion of the state budget.[35]

Privatization was first prioritized as a policy objective when Mitsotakis took power in 1989. In 1991, the first sale of a state-owned enterprise, a shipping company, closed.[36] Despite the billions in revenue raised during the early 1990s, political opposition by the newly elected Pasok government significantly slowed the progress of privatizing state-owned enterprises after 1993. The Pasok government prioritized corporate restructuring over privatization, completing only existing liquidation processes.[37] While the pressure to qualify for EMU entry re-ignited discussions over privatization beginning in 1996, Greece's privatization of state-owned enterprises in the late

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[33] Pagoulatos, George. "The Politics of Privatisation: Redrawing the Public–Private Boundary," 359.
[34] Pagoulatos, George. "The Politics of Privatisation: Redrawing the Public–Private Boundary," 359.
[35] Pagoulatos, George. "The Politics of Privatisation: Redrawing the Public–Private Boundary," 360.
[36] Kallianiotis. "Privatization in Greece and Its Negative Effects on the Nation's Social Welfare (Expropriation of the National Wealth)," 2.
[37] Pagoulatos, George. "The Politics of Privatisation: Redrawing the Public–Private Boundary," 364.

1990s was highly incremental with only the most unprofitable firms sold or liquidated.[38] Furthermore, privatization became less founded in concrete public policy objectives and more ideological in nature.[39] Thus, upon entry into the EMU, Greece still funded numerous, large state-owned enterprises and the country's broader position on how to approach privatization was unresolved.

4. Interest Payments

The last group of policies undertaken by the Greece government in accordance with their convergence plan relates to the government's interest payments on outstanding debt. The decline in interest rates beginning in 1994 largely explains Greece's ability to gain control over interest payments.[40] In January 1993, yields on Greece's 10-year bonds were nearly 24%, but by 2000 yields dropped below 7%.[41]

The central catalyst behind Greece's declining interest on its debt was the gradual reduction of risk associated with Greece failing to join the European Union which tracked Greece's general economic improvement during the late 1990s.[42] Before Greece met the criteria necessary to join the EMU, there was uncertainty regarding which currency Greece's creditors would be paid in. Additionally, as Greece was one of the later countries to join the EMU, there were legitimate concerns related to the economic consequences, such as forgoing favorable trade and financing negotiations, of being excluded from economic convergence.

Consequently, as the likelihood of Greece being accepted into the EMU increased through the late 1990s, Greece's risk premium declined significantly. Beyond Greece's avoidance of the

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[38] Pagoulatos, George. "The Politics of Privatisation: Redrawing the Public–Private Boundary," 364.
[39] Pagoulatos, "The Enemy Within: Intragovernmental Politics and Organizational Failure in Greek Privatization," 130.
[40] Nikiforos et al., "'Twin Deficits' in Greece: In Search of Causality," 311-312.
[41] European Central Bank. "Long-term Interest Rate for Convergence Purposes - 10 years Maturity, Denominated in Euro – Greece."
[42] Alogoskoufis. "Greece and the Euro: A Mundellian Tragedy," 3.

consequences of failing to join the EMU, the European Central Bank's ability to constrain Greece's monetary policy was another influential consequence of Greece's convergence in the late 1990s. There is evidence that reductions in currency risk premium occurred for other countries entering the EMU during the same period as Greece.[43] For countries entering the EMU from 1992 to 1998, convergence to the currency risk premium of the German mark was demonstrated, resulting in a significant decline in the currency risk premium of numerous pre-EMU countries.[44]

Despite the fact that there were demonstrable downward pressures on Greece's interest rates, it is important to acknowledge that Greece's entered a disinflationary period beginning in 1991. The adoption of a nominal exchange rate anchor by the Bank of Greece was a principal tool to control inflation.[45] The combination of monetary and fiscal tightening resulted in dramatic declines in inflation from around 20% at the beginning of the decade to 2% in 1999.[46] While Greece's falling inflation exerted upward pressures on the country's real interest payments, the significant declines in Greece's interest payments from 1990 to 2000 prove that the effect of Greece's declining risk premium had a more outsized impact.[47]

	1990	1997	1998	1999	2000
Interest Payments (% of Revenue)	35.1%	22.6%	20.1%	19.6%	16.6%

Figure 2. Greece Interest Payments (% of Revenue)[48]

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[43] González and Launonen, "Towards European Monetary Integration: The Evolution of Currency Risk Premium as a Measure for Monetary Convergence Prior to the Implementation of Currency Unions." European Central Bank Working Paper Series."

[44] González and Launonen, "Towards European Monetary Integration: The Evolution of Currency Risk Premium as a Measure for Monetary Convergence Prior to the Implementation of Currency Unions." European Central Bank Working Paper Series," 19-20.

[45] Hondroyiannis and Lazaretou, "Inflation Persistence During Periods of Structural Change: An Assessment Using Greek Data," 12.

[46] Hondroyiannis and Lazaretou, "Inflation Persistence During Periods of Structural Change: An Assessment Using Greek Data," 12.

[47] World Bank (2020). Interest payments (% of Revenue) – Greece.

[48] World Bank (2020). Interest payments (% of Revenue) – Greece.

Annual data on Greece's interest payments during the 1990s is unavailable through intergovernmental economic organizations and the Greek government; however, a comparison of Greece's interest payments as a percentage of revenues in 1990 and after 1997 demonstrates the dramatic reduction in Greece's interest burden (Figure 2).

Presentation of Financial Condition to the European and Monetary Union

In 2000 when Greece's formal evaluation to enter the EMU was conducted, macroeconomic improvement was evident across nearly all stipulations of the Maastricht Treaty. Greece presented the general government deficit at 1.8% for 1999.[49] Inflation and exchange-rates had seemingly stabilized. The long-term interest rate differential compared to the best performing member states declined from 7% in 1996 to 1.3% in 1999. However, the one area where sufficient improvement was not demonstrated was Greece's debt-to-GDP ratio. Exceeding the required 60% ratio by a large margin, Greece's debt-to-GDP was still over 100%, despite a decade of marginal improvements.[50] Despite this clear violation of Article 121(1), Greece committed itself to the principles of the Stability and Growth Pact and was accepted into the EMU on January 1, 2001.

Greece's True Financial Condition Upon European and Monetary Union Entry

While the previous section of this paper overviews the data presented to the EMU in 2000, it is important to identify that many of these data points were subject to revisions in the decade that followed. Furthermore, although the numerical targets of the Maastricht Treaty were largely met, this does not indicate that Greece's financial position entering the 2000s was as strong as other EMU member states or sustainable.

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[49] Mannessoitis, "The Root-Causes of the Greek Sovereign Debt Crisis," 7; Bosworth and Kollintzas, "Economic Growth in Greece: Past Performance and Future Prospects," 16.
[50] Mannessoitis, "The Root-Causes of the Greek Sovereign Debt Crisis," 7.

In a dramatic blow to Hellenic Statistical Authority, Commission of the European Communities Report on Greece found significant structural and systemic problems related to the measurement and recording of Greek government accounts during the period 1997 to 2005.[51] Additional research has revised Greece's government deficit upon EMU entry from 1.8% to 3.3% in the past decade, placing the country above the Article 121(1) requirement.[52] The reliability of data regarding the debt-to-GDP ratio, which was already presented as exceeding 100%, has also been called into the question.[53]

Based on an assessment of research on Greece during 1994 to 2000, I identify three central challenges that faced Greece upon entry into the EMU.[54] First, despite the EMU's leniency, Greece had an unsustainable, increasing debt balance. To maintain their newfound membership in the EMU, Greece would need to act in accordance with the Stability and Growth Pact and minimize their debt balance. However, because fiscal consolidation had primarily relied on revenue increases, rather than expenditure cuts, there was not a clear path for Greece to reach the 60% debt-to-GDP target. Wage cuts were an extraordinarily rigid aspect of the budget that had been largely ignored for the sake of political convenience. Entering the 2000s with little precedent in negotiations with powerful labor unions further justified the unsustainability of Greece's spending patterns. Furthermore, pension reform remained largely untouched in the 1990s, placing another increasingly large, politically unfavorable burden on the government.[55] Thus, not only was

[51] Commission of The European Communities, *Report from the Commission: Greece*, 9.
[52] Mannessoitis, "The Root-Causes of the Greek Sovereign Debt Crisis," 7.
[53] Commission of The European Communities, *Report from the Commission: Greece*, 9.
[54] Georganta, "Greek Fiscal and Financial Data: More than Meets the Eye," 216; Kaplangalou, "The Greek Fiscal Crisis and the Role of Fiscal Governance," 8.; Katsimi and Moutos, "EMU and the Greek Crisis: The Political-Economy Perspective," 571; Mannessoitis, "The Root-Causes of the Greek Sovereign Debt Crisis," 8; Nikiforos et al., "The Greek Public Debt Crisis."
[55] Tinios, "Pension Reform in Greece: 'Reform by Instalments' – A Blocked Process?," 414.

Greece's debt position too large upon EMU entry, but the actions necessary to reign in their debt-to-GDP ratio were too economically and politically challenging.

Second, unemployment and weak economic growth harmed Greece's ability to maintain budgetary conservativism. In 1999, Greece had the second highest unemployment rate in the European Union.[56] Some researchers identify Greece's heavy reliance on revenue increases over expenditure cuts during fiscal consolidation as the principal source of the country's challenges as they headed into the EMU.[57] However, Featherstone's emphasis on Greece's structural weaknesses in the 1990s, which are principally the Greek government's inability to commit to an enduring economic reform strategy and tendency to concede to domestic social and political interests, should not be overlooked.[58] Considering Featherstone's argument in light of the fact that Greece was experiencing rising unemployment in the 1990s demonstrates how macroeconomic weakness may have amplified the challenges associated with negotiating and committing to wage and pension reform. Thus, while the quality of Greece's fiscal consolidation was evidently frail, endogenous economic factors worsened the situation facing Greece in the 2000s.

Lastly, Greece's lack of reliable and accurate budgetary infrastructure was a pervasive, unaddressed problem. The most obvious of these flaws include Greece's poor budgetary design, ineffective monitoring systems, and lack of independent statistical reporting. The annual budget presented by Parliament each year from the mid-1990s to late-2000s had large gaps of information on government, public hospitals and social security funds finances, rendering the budget inaccurate and incomplete.[59] Additionally, monitoring of the budget post-implementation was nearly

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[56] Featherstone, "Greece and EMU: Between External Empowerment and Domestic Vulnerability," 929-930.
[57] Katsimi and Moutos, "EMU and the Greek Crisis: The Political-Economy Perspective"; Mannessoitis, "The Root-Causes of the Greek Sovereign Debt Crisis."
[58] Featherstone, "Greece and EMU: Between External Empowerment and Domestic Vulnerability," 929-930.
[59] Kaplangalou, "The Greek Fiscal Crisis and the Role of Fiscal Governance," 9.

impossible as there was not infrastructure in place that would enable corrective action, even if the budget was certain to miss its targets.[60] And, the lack of independent statistical reporting affects both the creation and execution of the budget. The lack of political independence of the Hellenic Statistical Authority is one potential source of persistent data inaccuracy.[61]

Greece's large, informal economy further contributed to Greece's weak budgetary infrastructure. As aforementioned, small businesses and self-employed persons constituted a large percentage of underreported workers in Greece during the 1990s. Thus, even in the presence of effective policies, measuring a large, informal economy is much more challenging than measuring formally recorded economic activities.

Lastly, viewing Greece's weak budgetary infrastructure from a historical perspective, the fact that there is no accurate economic data from modern times to compare the various regimes, and policies implemented under these regimes, indicates that Greece's budgetary weakness entering the EMU was more complicated than merely bad policy. Research indicates that even data stemming from before the 1960s has serious flaws that have yet to be corrected.[62] Thus, as Greece entered a new period in its economic history, it not only had to grapple with challenges relating to rising expenditures and macroeconomic weakness, but it also had to face these problems with little institutional recourse.

2001-2009: Fiscal Policies Succeeding EMU Membership

1. Tax Rate Revisions and Tax Evasion Revisited

In the four years after Greece gained entry into the EMU, rather than continue the country's focus on increasing tax revenue to narrow the deficit, Greece reversed course. Despite the growing

[60] Kaplangalou, "The Greek Fiscal Crisis and the Role of Fiscal Governance," 9.
[61] Georganta, "Greek Fiscal and Financial Data: More than Meets the Eye," 216.
[62] Bosworth and Kollintzas, "Economic Growth in Greece: Past Performance and Future Prospects," 8.

deficit, cuts to both personal income and corporate tax rates were implemented in 2004.[63] While the Value-Added Tax rate was revised upward after Greece's deficit exceeded the Stability and Growth Pact's 3% requirement in 2005, the incremental increase was not large enough to compensate for the cuts implemented the year prior.[64]

In contrast to the decade prior, however, Greece began to take more serious action toward tax evasion. In 2004, Greece implemented its most significant tax reform measures in three decades. The goals of the 2004 tax reforms were to simplify the complex and costly process of filling for both individuals and corporations. By minimizing filling errors, the Greek government presumed the administrative process of reviewing taxes would be simplified and subject to less errors.[65] Additionally, corruption and income visibility were also sources of reform.[66]

Despite the intentions of the 2004 tax reform, tax evasion continued to limit revenues. A principal reason for this is the fact that the Greek government attempted to raise indirect tax revenues by increasing the Value-Added Tax rate, rather than direct forms of revenue such as the personal income or corporate rate. Greece has historically had one of the highest tax evasion ratios for the Value-Added Tax of any country in Europe.[67] Furthermore, structurally, the Value-Added Tax requires the most accurate record-keeping among small businesses and the highest costs of collection.[68] Given Greece's overly-complex filling procedures coupled with a reliance on costly bureaucratic oversight, the Value-Added Tax was arguably one of the most inefficient ways to collect revenue. In the years that followed the Value-Added Tax rate hikes in 2005, Greece's deficit progressively worsened to over 3.7% of GDP in 2009.[69]

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[63] Katsios. "The Shadow Economy and Corruption in Greece," 72.
[64] Katsios. "The Shadow Economy and Corruption in Greece," 72.
[65] Katsios. "The Shadow Economy and Corruption in Greece," 72.
[66] Katsios. "The Shadow Economy and Corruption in Greece," 72.
[67] Fathi and Esmaeilian, "Evaluation of Value Added Tax (VAT) and Tax Evasion," 4.
[68] Fathi and Esmaeilian, "Evaluation of Value Added Tax (VAT) and Tax Evasion," 4.
[69] Mannessoitis, "The Root-Causes of the Greek Sovereign Debt Crisis," 21.

2. Government Spending

Amidst revenue declines, the Greek government also loosened government spending during the 2000s. Public expenditures as a percentage of GDP rose 9% from 2006 to 2009, primarily due to rising administrative costs, wage bills, and loss-making state-owned enterprises, which were still only incrementally privatized.[70] Rising administrative costs and wage bills are tied to the increasing control of Greece's bureaucracy as well as powerful labor unions, which only gained prominence from the 1990s. State-owned enterprises were a continued drag on the budget due to Greece relying on these firms for public service and compensating them at rates higher than those present in any other European country.[71]

Greece's pension system was an additional source of uncontrollable spending. Greece's pension system, which operates using a government-funded, Pay-As-You-Go (PAYG) system, was increasingly fragmented and complex in the 2000s. As of 2000, there were over 300 pension funds with different pension rights per fund.[72] Due to the complexity of eligibility requirements across funds, contribution evasion and other abuses were common.[73] In conjunction with weak infrastructure, generous eligibility requirements, illustrated by replacement rates of over 100%, incentivized the working population to contribute less to the pension system.[74]

Despite intentions to reform the system once inducted into the EMU, Greece withdrew its 2001 pension reform proposals and instead implemented a less ambitious proposal in 2002.[75] By

[70] OECD, "Greece at a Glance Policies for a Sustainable Recovery," 3.
[71] OECD, "Greece at a Glance Policies for a Sustainable Recovery," 7.
[72] Nektarios and Tinios. "The Greek Pension Reforms: Crises and NDC Attempts Awaiting Completion," 8; Mylonas and de la Maisonneuve. "The Problems and Prospects Faced by Pay-As-You-Go Pension Systems: A Case Study of Greece," 5.
[73]Mylonas and de la Maisonneuve. "The Problems and Prospects Faced by Pay-As-You-Go Pension Systems: A Case Study of Greece," 7; Tinios, Platon. "Pension Reform in Greece: 'Reform by Instalments' – A Blocked Process," 409.
[74] Mylonas and de la Maisonneuve. "The Problems and Prospects Faced by Pay-As-You-Go Pension Systems: A Case Study of Greece," 7.
[75] Tinios, "Pension Reform in Greece: 'Reform by Instalments' – A Blocked Process?," 414.

2004, even the gradual reforms of 2002 were revoked, as most politicians campaigned on raising pension levels, despite the growing inability to finance these promises.[76] With an ageing population, generous entitlements, and early retirement incentives, by 2005, Greece's pension expenditures were 11.5% of GDP.[77] This unsustainable ratio continued to rise leading up to 2009.

The privatization of state-owned enterprises is an additional subset of fiscal reforms which were delayed once Greece was admitted into the EMU. Despite the implementation of policies aimed at liberalizing various industries, such as telecommunications and energy, Greece's privatization efforts in the 2000s were gradual.[78] As 2009 neared, Greece witnessed growing fiscal imbalances related to loss-making state-owned enterprises.[79] Additionally, even enterprises that were successfully sold to public and private investors continued to be subject to government interference. The Greek government continued to exert influence over previously state-owned enterprises' corporate affairs, such as appointing board seats and dictating internal restructuring, even after the government relinquished its equity stake in the business.[80] More generally, Greece's privatization policies are characterized as having a very marginal effect on the independence of state-owned enterprises and the behavior of the Greek government.[81]

Lastly, the 2004 Athens Olympics was another source of excessive spending. Infrastructure projects such as construction of stadiums, hotels, and entertainment projects required Greece to borrow significant amounts of foreign capital.[82] While this project was expected to bring in large

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[76] Tinios, "Pension Reform in Greece: 'Reform by Instalments' – A Blocked Process?," 415.
[77] OECD, "Greece at a Glance Policies for a Sustainable Recovery," 5.
[78] Lampropoulou. "State-Owned Enterprises in Greece: The Evolution of a Paradigm 1996-2006," 493.
[79] Lampropoulou. "State-Owned Enterprises in Greece: The Evolution of a Paradigm 1996-2006," 494.
[80] Featherstone, "Greece and EMU: Between External Empowerment and Domestic Vulnerability," 933.
[81] Featherstone, "Greece and EMU: Between External Empowerment and Domestic Vulnerability," 933.
[82] Korol and Cherkas, "The Economic Impact of Foreign Debt in Greece."

sources of revenue for Greece, there were numerous slippages, namely cost overruns of nearly 100%, related to the 2004 Athens Olympics that only worsened Greece's budgetary situation.[83]

Second Wave of Fiscal Consolidation

In 2005, as a consequence of the climbing deficit in the wake of the aforementioned fiscal policy changes, Greece was placed under the Excessive Deficit Procedure (EDP). The Commission of the European Communities communicated to Greece the need to reduce their 2004 deficit of 7.9% below the 3% requirement.[84] Greece subsequently embarked on a second series of fiscal consolidation measures in an attempt to minimize the risk of being expelled from the EMU. Increased tax revenues were once again a heavily-weighted source of Greece's deficit response with the Value-Added Tax being revised for a second time.[85] Additionally, short-term expenditure items were cut, but more sticky components of the budget such as government wage bills and pension payments remained untouched.[86] These short term consolidation efforts resulted in the abrogation of the EDP in 2007. However, Greece's control over the government deficit was short lived, and by 2008 it became clear that the consolidation efforts implemented were not viable long-term solutions.

Declining GDP Growth in Wake of the 2008 Global Financial Crisis

While this paper has largely focused on the specific fiscal actions imposed by the Greek government, it is also important to briefly consider exogenous factors such as the 2008 Global Financial Crisis. Greece's fiscal situation was already dire; however, the events of 2008 hastened the decline of two important financial indicators of the sustainability of government finance: general government debt-to-GDP and the general government deficit-to-GDP.

[83] Mannessoitis, "The Root-Causes of the Greek Sovereign Debt Crisis," 15.
[84] Commission of The European Communities, *Report from the Commission: Greece*, 9.
[85] Mannessoitis, "The Root-Causes of the Greek Sovereign Debt Crisis," 15.
[86] Mannessoitis, "The Root-Causes of the Greek Sovereign Debt Crisis," 15.

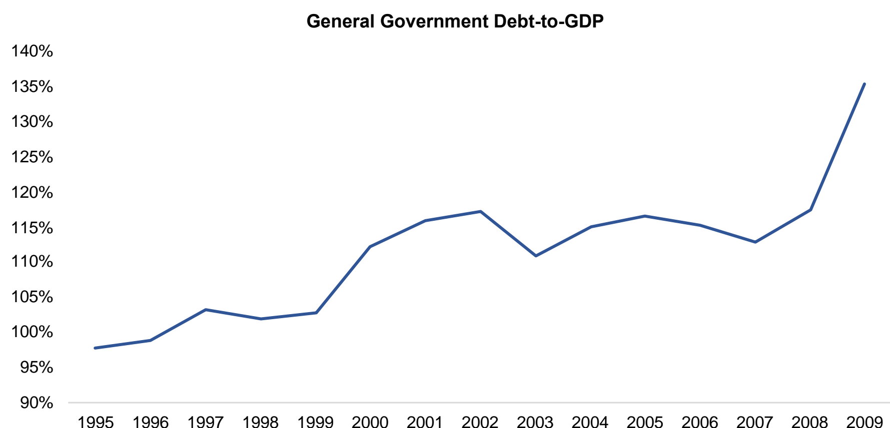

Figure 3. Greece General Government Debt-to-GDP (1995-2009)[87]

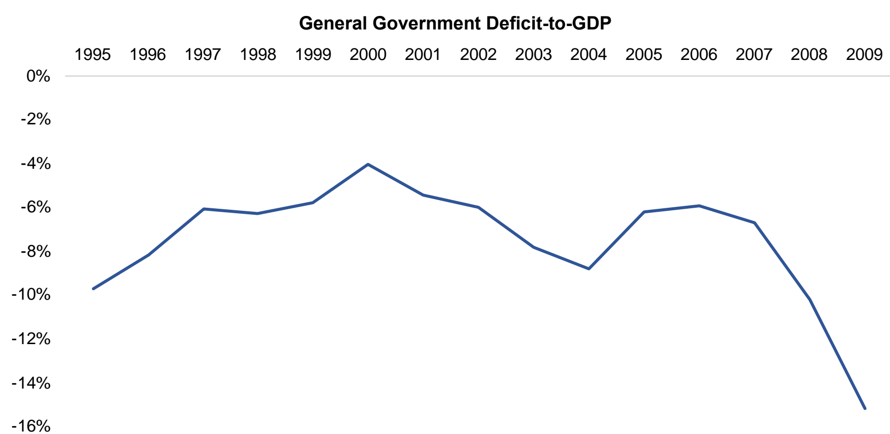

Figure 4. Greece General Government Deficit-to-GDP[88]

[87] OECD (2021), General Government Debt (indicator).
Note on General Government Debt: Debt is calculated as the sum of currency and deposits, debt securities, loans, insurance, pensions and standardized guarantee schemes, and other accounts payable. Estimates are subject to revisions by the Hellenic Statistical Authority subject to OECD guidelines and oversight.

[88] OECD (2021), General government deficit (indicator).
Note on General Government Deficit-to-GDP: Government deficit represents the balance of income and expenditure of government, including capital income and capital expenditures. "Net borrowing" indicates that the

By 2008, the deficit rose to over 15% of GDP and debt-to-GDP exceeded 100%, despite the incremental improvements to these ratios seen earlier in the decade.[89]

2009 Budget Implementation

Greece's financial condition had been a concern of EMU member states since the country was subjected to EDP in 2004, but the budget shortfalls discovered in 2009 created an international spectacle and ultimately led to the impending sovereign debt default announced by the Greek government in April 2010. The dramatic revision of Greece's deficit to 12.8% of GDP, which was later revised again to 13.6%, combined with ballooning debt, made the Commission re-subject Greece to the EDP.[90] The final fiscal decision taken before Greece's 2010 default was the choice to not prepare an official EDP package, likely due to the impossibility of the Commission's demands which sought deficit reduction in a matter of months. In April 2010, it became apparent that Greece would default.

Analysis of Persistent Fiscal Consolidation Challenges

Greece's two periods of fiscal consolidation, the first being from 1994 to 1999 and the second from 2005 to 2007, were unsuccessful in creating permanent budgetary reform. The most important similarity between these two periods is the Greek government's decision to focus on revenue increases rather than expenditure cuts. While political appeasement in part explains the difficulties associated with changing pension and wage laws during the period 1994 to 2009, a broader look at Greece's rigid employment laws and corruption is helpful in examining Greece's

government is operating at a deficit. Estimates are subject to revisions by the Hellenic Statistical Authority subject to OECD guidelines and oversight.

[89] Bank of Greece. *The Chronicles of the Great Crisis: The Bank of Greece 2008-2013*, 39.

[90] Featherstone, "The JCMS Annual Lecture: The Greek Sovereign Debt Crisis and EMU: A Failing State in a Skewed Regime," 199.

persistent, intra-decade challenges with expenditure cuts. Collective agreements and strict labor protection laws were so pervasive in Greece that many workers who did not participate in unions are still *de facto* protected by statutes.[91]

The strength of the Greece's employment laws, despite the fact that a declining number of workers participated in unions starting in the 1990s, can be attributed to the over-representation of state and public sector workers in the two major union federations, the General Confederation of Greek Workers and Higher Command of Unions for Public Sector Employees.[92] Unions have nearly 100% coverage of the public sector in Greece.[93] The explanation that it was politically unfavorable to cut public expenditures likely has force, but so does evidence that many politicians and public officials benefited from rigid labor laws. In fact, research indicates that Greek unions had significant influence over political parties in the 1990s and 2000s and exerted significant influence over wage policies.[94] Salient data worth noting is the fact that Greece had a significantly higher than average public wage premium of over 21% compared to other countries in the European Union at the time of default in 2009.[95] Furthermore, it is evident that this Greece's public wage problem worsened, rather than improved once they gained entry into the EMU, as real public wages nearly doubled from 2000 to 2009.[96]

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[91]Kornelakis and Voskeritsian, "The Transformation of Employment Regulation in Greece: Towards a Dysfunctional Liberal Market Economy?," 348.

[92] Featherstone, "The JCMS Annual Lecture: The Greek Sovereign Debt Crisis and EMU: A Failing State in a Skewed Regime," 197.

[93] Monastiriotis, "The Greek Public Sector Wage Premium Before the Crisis: Size, Selection and Labour Market Fairness," 5.

[94] Monastiriotis, "The Greek Public Sector Wage Premium Before the Crisis: Size, Selection and Labour Market Fairness," 5.

[95] World Bank (2020). Worldwide Bureaucracy Indicators version 1.1; de Castro et al., "The Gap Between Public and Private Wages: New Evidence for the EU," 17.

[96] Papadopoulos et al., *Reflections on the Greek Sovereign Debt Crisis: The EU Institutional Framework, Economic Adjustment in an Extensive Shadow Economy*, 347.

Another source of politically difficult, growing expenditures was Greece's pension system. While Greece's pension system had been a source of political discussion for decades, reforms were highly incremental and only partially implemented. In 1993, Greece successfully increased contributions, but failed to scale back entitlements.[97] Resembling the reforms witnessed in 1993, the Pasok government walked back on its statements made in 2000 to cut the pension system, and instead published a report justifying its large expenditures.[98] Consequently, by 2009, Greece's PAYG pension system had not only structurally remained intact, but grown in size.

When analyzing the myriad reforms Greece implemented in the wake of the 2009 crisis, there are three central issues that must be corrected in order to ensure the enduring manageability of Greece's PAYG system. First, in contrast to reforms in the 1990s and early 2000s which focused only on contribution rates and failed to convey budget constraints to pensioners,[99] successful reform must also address Greece's entitlement system. Structurally, increases in contribution rates failed to address the ease of contribution evasion[100] and early retirement.[101] The failure of contribution-focused reform is demonstrated by the 8.3% increase in pension expenditure witnessed over the period 1991 to 2009 and subsequent growth in underfunded pension liabilities.[102]

Second, post-crisis incrementalistic reforms should be viewed with skepticism. Incrementalism in the 1990s and early 2000s enabled both the New Democracy and Pasok

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[97] Nektarios and Tinios. "The Greek Pension Reforms: Crises and NDC Attempts Awaiting Completion," 9.
[98] Tinios, "Pension Reform in Greece: 'Reform by Instalments' – A Blocked Process?," 414.
[99] Tinios, "Pension Reform in Greece: 'Reform by Instalments' – A Blocked Process?," 405; Nektarios and Tinios. "The Greek Pension Reforms: Crises and NDC Attempts Awaiting Completion," 9.
[100] Mylonas and de la Maisonneuve. "The Problems and Prospects Faced by Pay-As-You-Go Pension Systems: A Case Study of Greece," 7.
[101] Monokroussos, "Expenditure on Social Protection and Pensions: How Generous it is by International Standards and Relative to the Rest of the EU?," 6.
[102] Monokroussos, "Expenditure on Social Protection and Pensions: How Generous it is by International Standards and Relative to the Rest of the EU?," 5-9.

governments to partially implement reforms, leaving the more painful tasks, such as cuts to entitlements, to future regimes. The consequences of decades of incrementalism were steep. For one, partial reform left the Greek pension system fiscally unsustainable yet increasingly complex. When new governments were elected and tasked with the challenge of addressing the pension system, they had to address the decade-long, cumulative effects of unchecked spending, contribution evasion, and other structural issues, making effective solutions more fiscally and politically challenging with each new government. Additionally, the Greek government lost the ability to implement gradual reform in the aftermath of 2009 the European Union and International Monetary Fund mandated pension reform. This resulted in intense political reverberations such as years-long demonstrations by pensioners' unions and the presentation of new, pro-pension demands by various parties and organizations on the Left.[103]

Lastly, to ensure that pension reform is persistent and adequately addresses the problems identified in this paper, the transparency of Greece's pension system to pensioners must be significantly increased and the complexity and fragmentation of the system must be minimized. Underfunded pensions were viewed as a macro-level problem in Greece by individuals, but the individual-level consequences of a failing pension system were not as well recognized in the decade prior to 2009.[104] There appear to be two causes of this. First, the Greek government failed to convey the seriousness of budget constraints to its constituents. Despite the major reforms proposed in the 1990s and the fact that Greece was the most underfunded pension in Europe, data from 1999 indicates that Greeks were the least pessimistic about pension entitlements[105] and the

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[103] Psimits, Michallis. "The Protest Cycle of Spring 2010 in Greece," 194.
[104] Tinios, "Pension Reform in Greece: 'Reform by Instalments' – A Blocked Process?," 406.
[105] O'Donnell, Owen and Platon Tinios. "The Politics of Pension Reform: Lessons from Public Attitudes in Greece," 274.

future retirement age[106] out of all of the countries in Europe. Second, as aforementioned, the complexity and fragmentation of Greece's pension system enabled individuals to easily gain access to seemingly unlimited benefits due to the exploitability of loopholes. National discussions on budget constraints likely contradicted the individual experiences of pensioners who witnessed declines in the average retirement age and growing entitlements. Thus, the transparency and complexity of Greece's pension system must be corrected.

Corruption also played a significant role in the unsustainability of both waves of Greece's fiscal consolidation measures. The infiltration of private interests, sometimes through the covert formation of mutually-beneficial relationships, into the state bureaucracy influenced the fiscal policies of the 1990s and 2000s.[107] Additionally, the unwillingness to crackdown on tax evasion has been tied to the intertwined relationship of public and private enterprise in Greece.[108] Consequently, tax evasion climbed from the 1990s and 2000s, peaking after changes to the Value-Added Tax were implemented in 2005. Greece's increasing reliance on revenue increases from taxes was met with the challenge of climbing corruption and evasion. Without larger, structural reform, the country's deficit gap likely cannot be closed by tax rate changes. Thus, an analysis of Greece during the period post-2009 should focus on reforms aimed at addressing corruption, increasing income availability, and decreasing Greece's shadow economy.

Beyond challenges implementing expenditure cuts, the two waves of fiscal consolidation implemented by Greece from 1994 to 2009 did not address the existence of fundamental productivity weakness in Greece's macroeconomic environment. Despite having the second lowest labor productivity rate in the European Union and one of the highest structural

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[106] Tinios, "Pension Reform in Greece: 'Reform by Instalments' – A Blocked Process?," 406.
[107] Katsimi and Moutos, "EMU and the Greek Crisis: The Political-Economy Perspective," 570.
[108] Katsimi and Moutos, "EMU and the Greek Crisis: The Political-Economy Perspective," 570; Featherstone, "The JCMS Annual Lecture: The Greek Sovereign Debt Crisis and EMU: A Failing State in a Skewed Regime," 207.

unemployment rates, Greece had implemented few measures aimed at stimulating productivity before 2009.[109] High levels of youth unemployment has been especially persistent and unaddressed.[110] The lack of productivity gains in the 1990s and 2000s can also help explain how despite Greece's introduction to the EMU, increased levels of trade did not help Greece balance its budget. The Greek economy has been traditionally focused on low-value added goods and services, and is largely inward-oriented.[111] Consequently, exports contribute little to GDP. An analysis of Greece's fiscal reform in wake of the 2009 crisis should pay careful attention to improvements in Greece's productivity and structural unemployment.

Lastly, the data inaccuracies presented by the Greek government from 1994 to 1999 only worsened during the second wave of fiscal consolidation. Leading up until the 2009 crisis, independent audits were conducted multiple times a year, with large data revisions being published after nearly every audit. The Commission as well as Eurostat publicly chastised the Greek government and oversaw audits for contiguous years. In 2021, Eurostat and independent researchers continue to revise Greece's economic data from the early 2000s. Therefore, it is evident the Greek government lacked decades of reliable data regarding tax revenue, state-owned enterprises, government expenditures, interest payment renegotiations, and other important budgetary information. As a result, the country's budgeting process was anchored to inaccurate and incomplete data. This affected Greece's ability to assess the country's financial situation, diminishing the urgency of responding to the country's climbing budget deficit and debt balance

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[109] OECD, "Greece at a Glance Policies for a Sustainable Recovery," 1.
[110] Kornelakis and Voskeritsian, "The Transformation of Employment Regulation in Greece: Towards a Dysfunctional Liberal Market Economy?," 359.
[111] Kornelakis and Voskeritsian, "The Transformation of Employment Regulation in Greece: Towards a Dysfunctional Liberal Market Economy?," 359.

beginning in the 1990s. Additionally, inaccurate and incomplete budgetary data would also affect Greece's post-implementation assessment of its consolidation measures.

The effects of declining confidence in Greece's reporting were especially evident in 2009 when Greece entered a critical period to reverse course on government spending. The Greek government's response to the country's impending default was delayed because there were uncertainties regarding the accurate level of the general government deficit and debt.[112] In order to ensure that future budgetary reform is successful, data reliability and independence is a central challenge. An analysis of Greece's reforms after 2009 should pay careful attention to the accuracy of presented data, as well as if more structural reforms regarding the independence of reporting agencies has been implemented.

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[112] Bank of Greece. *The Chronicles of the Great Crisis: The Bank of Greece 2008-2013*, 39.

Part Two: Greece's Fiscal Response to the Greek Sovereign Debt Crisis

When George Papandreou, the Pasok leader and newly elected Prime Minister of Greece, revealed significant revisions to Greece's government deficit and climbing debt at the end of 2009, default became recognized as an inevitable problem the country would be forced to reckon with. Consequently, discussions on austerity and bailout measures between Greece, the International Monetary Fund, and the European Union rapidly escalated. Concurrently, investors' pessimistic outlook on Greece's economic health and credibility began to grow, causing credit rating agencies such as Moody's to downgrade the Greek government's bond ratings multiple times in 2010.[113]

Greece, pressured to reach an agreement to avoid default, committed to the European Union and International Monetary Fund's First Economic Adjustment Program in May 2010. In the decade that followed, Greece would agree to a total of three bailout packages from the European Union and International Monetary Fund, with the third and final package negotiated in 2015. In addition to providing financing for the bailout packages offered by the European Union and International Monetary Fund, the European Central Bank provided significant support to Greece beginning in 2010 through bond-buying programs.

While this paper does not seek to evaluate the bailout measures or monetary policy actions taken by the European Union and International Monetary Fund, it is significant to note that Greece's domestic fiscal actions in the 2010s were inextricably tied to attempts to meet certain criteria outlined by the European Union and International Monetary Fund. Thus, I will provide a brief overview of the fiscal recommendations and mandates in the three agreed upon Economic

[113] "Rating Action: Moody's Downgrades Greece to Ba1 from A3, Stable Outlook." Moody's Investor Service. June 14, 2010.

Adjustment Programs. In light of the context of Greece's bailout packages, I will then analyze the fiscal policies implemented by Greece in the decade succeeding the country's 2010 default.

My analysis will focus on the sustainability of Greece's fiscal response in light of my findings on Greece's fiscal mismanagement leading up to its sovereign debt crisis. Namely, I will consider Greece's ability to implement enduring expenditure cuts which adequately address the rigid nature of its labor market, pass effective anti-corruption measures, improve macroeconomic weakness in productivity, and reform data reporting agencies in order to improve data reliability and independence.

Overview of Economic Adjustment Programs

Greece agreed to the European Union and International Monetary Fund's First Economic Adjustment Program, which included a €110 billion financing package and supporting economic policies, in May 2010.[114] Beyond securing short term liquidity for Greece, the program also outlined medium and long-term policies and objectives aimed at reducing Greece's government debt and deficit. The first category of actions recommended by the program was fiscal policy, which mandated expenditure cuts, primarily through the form of cuts to public wages and pension payments, to amount to 7% of GDP.[115] Additionally, structural reforms, such as the privatization of state-owned enterprises, pension reform, and anti-corruption measures, were also recommended. Third, growth-enhancing structural policies focused on labor and product market reforms targeted at decreasing undeclared workers and improving productivity were recommended.[116] Lastly, the program delineated financial sector policies.[117]

[114] European Commission, "The Economic Adjustment Program for Greece."
[115] European Commission, "The Economic Adjustment Program for Greece," 19-21.
[116] European Commission, "The Economic Adjustment Program for Greece." 25-27.
[117] European Commission, "The Economic Adjustment Program for Greece." 51.

Despite improvements in Greece's general government deficit, which was reduced from over 15% in 2009 to 9.25% in 2011, the country continued to struggle to manage its debt amidst a recession which extended longer and more acutely than originally expected by Greek, European Union, and International Monetary Fund officials.[118] In 2012, the European Commission assessed Greece's compliance with the fiscal and structural reforms of the first program.

	Overall Assessment
Fiscal Policy	Partially Observed
Privatization and Structural Fiscal Reforms	Partially Observed
Financial Sector Policy	Largely Observed
Growth-enhancing Structural Reforms	Partially Observed

Figure 5. Summary of Greece's Compliance with the First Economic Adjustment Program[119]

In terms of fiscal policy, despite Greece's success in achieving the First Economic Adjustment Program's requirements for primary expenditure cuts, growing government wage bills and pension spending continued to present problems for Greece's ability to close its deficit permanently.[120] In terms of structural reforms, from the period 2010 to 2012, few state-owned enterprises had been privatized and tax reform had been delayed.[121] Financial sector policy, which consisted of changes in bank governance practices, was largely met.[122] Progress in labor market

[118] European Commission. "The Second Economic Adjustment Program from Greece," 1.
[119] European Commission. "The Second Economic Adjustment Program from Greece," 21.
[120] European Commission. "The Second Economic Adjustment Program from Greece," 25.
[121] European Commission. "The Second Economic Adjustment Program from Greece," 31-34.
[122] European Commission. "The Second Economic Adjustment Program from Greece," 21.

and pension reform was slow, which was reflected in low competitiveness and productivity measures.[123]

In light of Greece's disappointing performance from 2010 to 2012, the Second Economic Adjustment Program stipulated new conditional policies, primarily focused on wage bills, pension reform, and budgetary monitoring. Additionally, the program provided an additional €130 billion in financing to the Greek government.

In June 2015, Greece failed to provide its €1.6 billion payment to the International Monetary Fund, effectively defaulting to the fund. Despite improvements in the government's deficit, its debt remained exceptionally high.

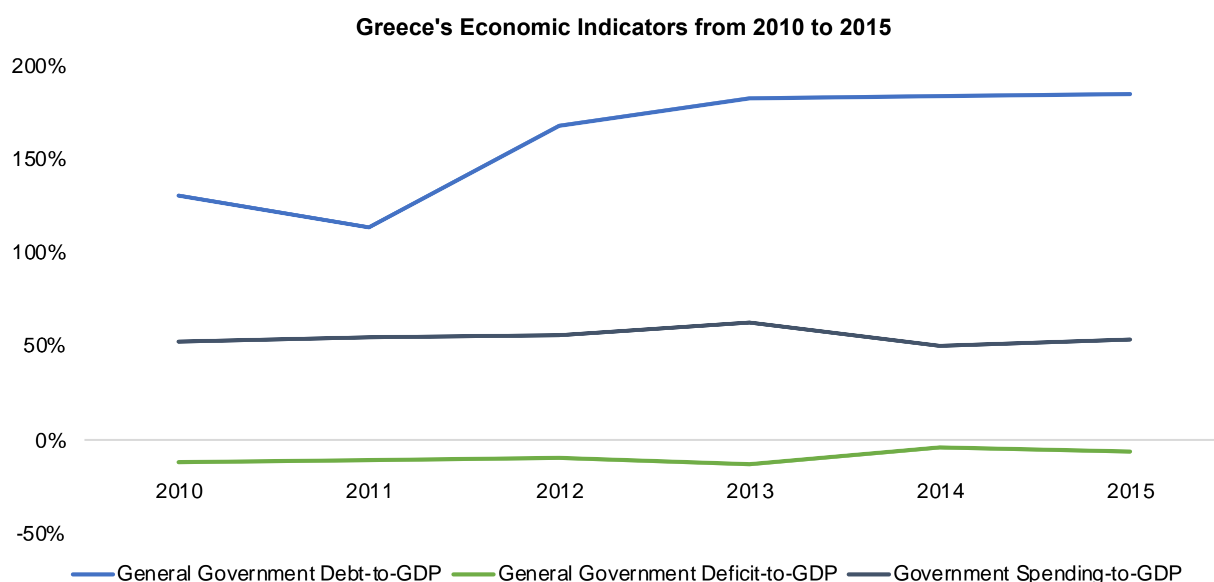

Figure 6. Greece's Economic Indicators from 2010 to 2015[124]

[123] European Commission. "The Second Economic Adjustment Program from Greece," 38.
[124] OECD (2021), General government debt (indicator); OECD (2021), General government deficit (Indicator); OECD (2021), General government spending (Indicator).
Note on general government spending: Government spending provides an indication of the size of government across countries and is measured in terms of thousand USD per capita, and as percentage of GDP. All OECD countries compile their data according to the 2008 System of National Accounts (SNA).
See footnote 75, 76 for notes on general government debt and general government deficit.

After numerous rounds of failed negotiations, a third and final bailout package was prepared for €86 billion. Reforms across wage bills, tax codification and collection, and pension qualifications were considered the highest priority in the third bailout package.

In 2018, Greece exited its final bailout program. While Greece has demonstrated improvements in the budget deficit and debt balance, the country continues to struggle with fiscal governance related to tax administration and budgeting, high unemployment, and low productivity. In order to continue to receive aid from the European Union and International Monetary Fund, Greece has committed itself to austerity measures which extend past 2060.

Greece's Fiscal Policy Implementation from 2010 to 2018

After declaring its impending default in 2009, Greece felt a multitude of pressures to reform its fiscal policies. For one, the aforementioned stipulations in the three bailout packages required Greece to meet objectives which necessitated sweeping changes to the country's economy. And, if Greece failed to avoid default, all countries in the European Union would be implicated, as the union's ability to respond to the financial weakness of its members would be called into question. However, the short-term, domestic consequences of practicing fiscal austerity would be severe, pushing the Greek economy deeper into a recession as the demand for domestic goods and services fell.[125] The economic struggles felt in the wake of 2010 would generate additional political pressure, primarily through the rise of anti-austerity political movements, for the Greek government.[126]

The political pressures facing Greece in 2010 constrained the actions the country could practically implement. In order to properly evaluate the sustainability of Greece's fiscal policies

[125] Kouretas and Prodromos, "The Greek Crisis: Causes and Implications," 398.
[126] Armingeon and Baccaro. "Political Economy of the Sovereign Debt Crisis: The Limits of Internal Devaluation," 266.

from 2010 to 2018, it is important to understand these constraints but not devolve to essentialist explanations for Greece's economic outcomes.

1. Public Spending Cuts and Labor Market Reform

A central feature of Greece's poor fiscal governance leading to the 2009 crisis was myopic, revenue focused consolidation efforts. The country's large government deficit was evidence of the failure of its various consolidation waves. In contrast to the decade prior, Greece implemented a variety of fiscal reforms aimed at addressing its large, growing government wage bill, unprofitable state-owned enterprises, and costly pension system.

a) Cuts to Government Wage Bills

In 2010, Greece began implementing a series of cuts to its public employment. While significant cuts to wages and payroll required more time to implement, public sector recruitment and project contracts were immediately scaled back after the crisis.[127] Reductions in public sector recruitment was an objective particularly emphasized by the Greek government. In four out of five of the major public expenditure proposals outlined after the first economic adjustment program in 2010, decreases in public sector recruitment targets were a central part of the legislation's objectives.[128] Additionally, between 2010 and 2015 the number public sector workers was decreased, wage cuts were imposed, public sector wage increases across all public service professions were paused, and reserve pay was instituted for various classes of workers.[129] Since 2010, these spending cuts, in conjunction with broader wage reforms such as reducing the national minimum wage, were slowly able to reduce Greece's government wage bill from slightly over 13% of Gross Domestic Product in 2010 to 12.3% in 2015.[130] In absolute terms, this

[127] Georgiadou, "Greece: Reducing the number of public servants – latest developments."
[128] Georgiadou, "Greece: Reducing the number of public servants – latest developments."
[129] Georgiadou, "Greece: Reducing the number of public servants – latest developments."
[130] World Bank (2020). Worldwide Bureaucracy Indicators version 1.1

reduction amounted to approximately 10 billion euros. Thus, while the country's contracting GDP may contribute to the perception that reforms were unsuccessful, Greece's wage cuts were a significant step in ending Greece's historically revenue-focused strategy to balance its budget.

Despite reductions in Greece's wage bill, the public sector's wage premium compared to the private sector continues to significantly exceed the average among countries in the European Union (Figure 7). Furthermore, since wage reform commenced in 2010, Greece's public sector wage premium has increased while the average public sector wage premium among European Union countries has declined (Figure 7).

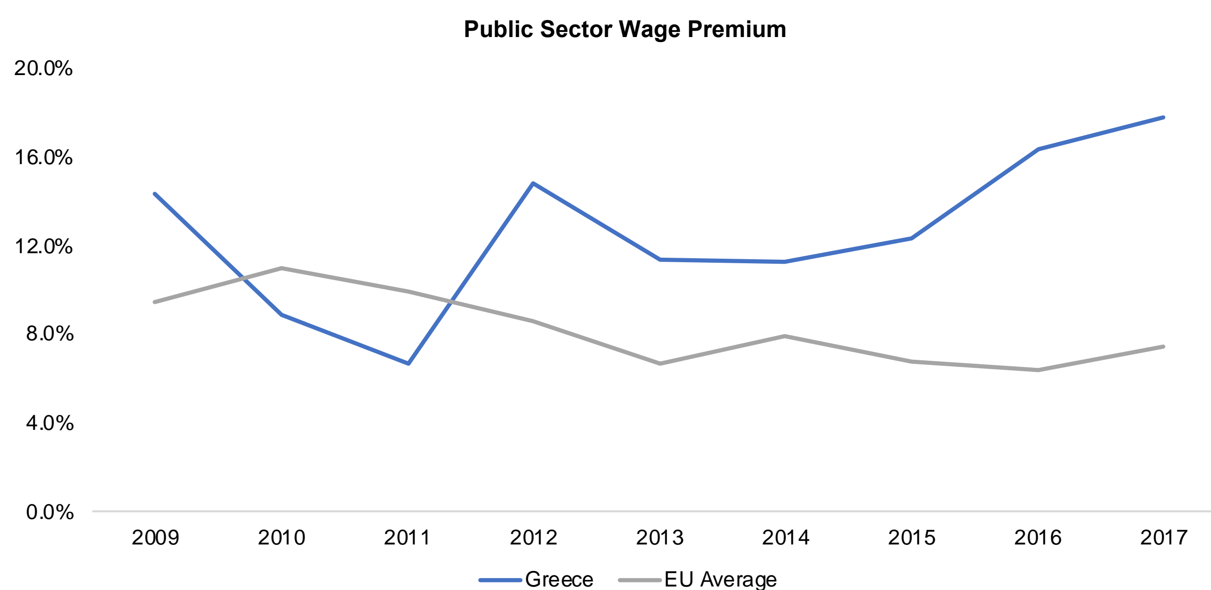

Figure 7. Greece's Public Sector Wage Premium Data (2009 – 2018)[131]

[131] World Bank (2020). Worldwide Bureaucracy Indicators version 1.1
Note: Public sector wage premium average includes data from all countries in the European Union except Slovenia due to lack of publicly available data.

Additionally, public employment is still a very large percentage of total labor in Greece, which is likely attributable to Greece's complex bureaucratic system and state-owned enterprises which will be evaluated in the next section of this paper.

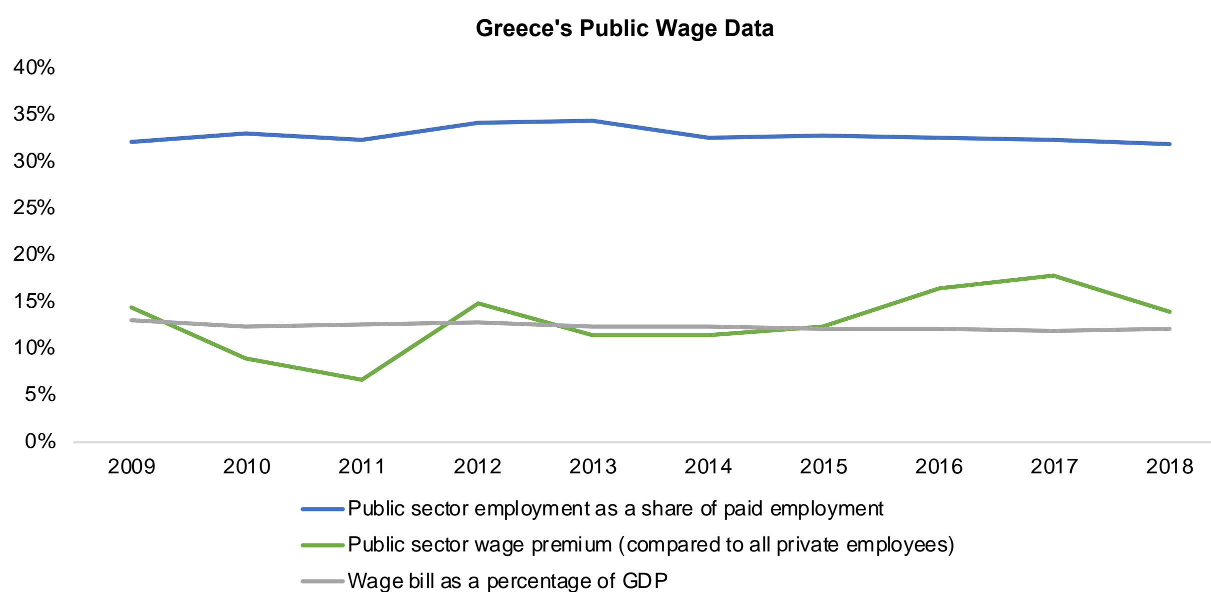

Figure 8. Greece's Public Sector Wage Data (2009 – 2018)[132]

While the size of Greece's public sector and the presence of a large wage premium are not necessarily indicative of reform failure, justification must be provided for Greece's enduring reliance on high-paid public servants, especially given the pervasive issue of overstaffing in Greece's public bureaucracy leading up to the crisis. Furthermore, the efficiency of the public sector has not seen remarkable improvements over the past decade. In fact, over the period 2010 to 2015, the private sector saw drastic improvements to valuations of worker and job characteristics, meaning that skills and education are being more adequately compensated than

[132] World Bank (2020). Worldwide Bureaucracy Indicators version 1.1

before the crisis.[133] In contrast, Greece's public sector did not experience such improvements and continues to compensate unskilled workers at more generous rates than skilled workers.[134] While cuts to government wages were necessary to reduce Greece's budget deficit, continued reliance on an inefficient public sector is not a sustainable fiscal strategy.

The continued influence of Greece's public sector over the country's economy can be attributed to the sustained power of unions in public service. Excluding Nordic countries, data from as recent as 2015 indicates that Greece has a higher than average proportion of employees in unions compared to the rest of the Eurozone.[135] However, it is important to note that broadly, unions have seen declines in membership since Greece's labor market reforms. In 2016, the date at which the latest data is available, trade union density sat at 20.24%, down from 22.23% in 2010.[136] Declines in membership are attributable to a few factors. First, declines in union membership significantly outpaced rises in unemployment, so economic downturn cannot fully explain the changing union dynamics in Greece.[137] However, the decentralization of collective bargaining agreements has had serious consequences for union membership. Before the crisis, businesses of all sizes could gain access to collective bargaining representation rights. After Greece passed reforms to the collective bargaining system from 2010 and 2012, beginning with Law 1876/1990, sectoral and occupational collective bargaining rights were limited and restrictions such as on the size of employer were implemented.[138] By the end of 2012, trade unions, and their abilities to bargain with the government and other employers, were increasingly

[133] Christopoulou and Monastiriotis, "Two Tales of Wage Adjustment."
[134] Christopoulou and Monastiriotis, "Two Tales of Wage Adjustment."
[135] European Trade Union Institute (2015). "Trade Unions."
[136] Zisimopoulos, Ionnis. "Industrial Relations in Greece: Before, During, and Beyond the Economic Crisis." 94.
[137] Zisimopoulos, Ionnis. "Industrial Relations in Greece: Before, During, and Beyond the Economic Crisis." 99.
[138] Zisimopoulos, Ionnis. "Industrial Relations in Greece: Before, During, and Beyond the Economic Crisis." 92.

decentralized.[139] Consequently, the decentralization of collective bargaining power has significantly devalued trade unions and limited the gains that they can obtain for workers, reducing a major incentive for union membership.[140] The second cause for declining union membership is the privatization of state-owned enterprises, which will be discussed at length in the next section of this paper. The private sector has historically had very low union membership for a variety of reasons including stricter labor laws.[141] and concentration of leadership and political power in public sector unions.[142] As more workers transitioned from working for previously state-owned enterprises to private businesses, their incentives for maintaining union membership likely declined.

While weakening union membership may appear contradictory to the claim that unions continue to exert political power over Greece's labor reform, it is important to consider that unions' power in Greece rests in the public sector and is exceptionally hierarchical.[143] The private sector was the primary target of pension reforms, demonstrated by the fact that in 2008 there were 161 collective bargaining agreements in the private sector but in 2014 only eleven remained.[144] Before the crisis, collective bargaining coverage for private sector workers was estimated to fall between 65% to 70%, but as of 2016, coverage is estimated to be as low as 10%.[145] In contrast, public sector unions were largely unaffected by collective bargaining reforms, as pay is determined by the

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[139] Reuben-Shemia, "Trade Unions in Greece between Crisis and Revitalization: Rebuilding Workers' Power from Below?," 19.
[140] Reuben-Shemia, "Trade Unions in Greece between Crisis and Revitalization: Rebuilding Workers' Power from Below?," 19.
[141] Krestos and Vogiatzoglou. "Lost in the Ocean of Deregulation? The Greek Labour Movement in a Time of Crisis," 224.
[142] Krestos and Vogiatzoglou. "Lost in the Ocean of Deregulation? The Greek Labour Movement in a Time of Crisis," 223.
[143] Reuben-Shemia, "Trade Unions in Greece between Crisis and Revitalization: Rebuilding Workers' Power from Below?," 46.
[144] Reuben-Shemia, "Trade Unions in Greece between Crisis and Revitalization: Rebuilding Workers' Power from Below?," vi.
[145] European Trade Union Institute (2019), "Collective Bargaining."

government rather than collective bargaining.[146] In terms of other union rights, such as the right to strike, excluding proposals presented in 2019 which caused nation-wide strikes, the public sector has been largely de-prioritized from Greece's reform agenda in comparison to the private sector.

Finally, it is significant to note that high union density alone does not necessarily pose budgetary challenges. Among European countries, Finland, Sweden, and Denmark consistently report that over 65% of all employees participate in unions, a figure significantly higher than Greece's union density.[147] However, all three of these countries all have budget deficits and levels of government debt markedly lower than Greece. As a result, Finland, Sweden, and Denmark have not proposed significant cuts to union rights and wages in recent years. Greece, in contrast, has both high union density but also the necessity to cut government wage bills.

The consequences of high union density in an austerity environment are evident in the strikes witnessed across Greece beginning in 2019. since 2019, there have been numerous policies proposed by the Mitsotakis government aimed at reducing overtime pay, bonuses, worker protections, and labor dispute rights in the public sector. In response to the Mitsotakis government's attempts to diminish union rights, Greece's public sector unions, including ADEDY, the union covering nearly every civil servant in Greece, have led nation-wide strikes which have successfully slowed the implementation of reforms.[148] Thus, it is evident that the size and persistent power of Greece's public sector unions has reduced the Greek government's ability to

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[146] European Trade Union Institute (2019), "Collective Bargaining.".

[147] European Trade Union Institute (2015), "Trade Unions."

[148] Chrystopoulous, "Public Sector Strike Slows Down Greece Amidst Lockdown."; Psaropoulos, "Striking Greek Unions Accuse Government of Leaving Them Powerless."; Ekathimerini (2020), "Greek Health Workers to Join Public Sector Strike on Thursday."

cut major expenditures such as government wage bills. As a result, public sector unions continue to be a challenge for the Greek government to reduce its budget deficit.

b) State-Owned Enterprises

The prominence of state-owned enterprises and their significance to Greece's climbing budget deficit created contentious political debate in the early 2000s. Privatization, which was supported in the 1990s by the Mitsotakis government, saw a brief re-emergence. However, the broader direction of policy objectives targeting state-owned enterprises was unclear as Greece faced impending default in 2009.

When the Greek government agreed to the first economic adjustment program in 2010, formal stipulations regarding privatization were outlined, causing Greece to take a firmer stance on state-owned enterprises. Within the first economic adjustment program, the ten state-owned enterprises operating at the largest losses were publicized, and the Greek government was directed to begin divesting their assets. More specifically, by December 2010, Greece was required to raise at least 1 billion euros through state asset sales.[149]

In 2014, when the second economic adjustment program was negotiated, a review of Greece's compliance with the first program's privatization requirements was published. Overall, during the period between the first and second economic adjustment programs, Greece's privatization program was successful. Greece raised 1.6 billion euros through state asset sales and successfully initiated the privatization of major enterprises including OPAP and State Lotteries.[150] The privatization of certain real estate assets was the only part of the program labeled as delayed, and Greece agreed to continue to privatize such assets through 2020, including major ports.[151]

[149] European Commission, "The Economic Adjustment Program for Greece," 57.
[150] European Commission, "The Second Economic Adjustment Program from Greece," 26.
[151] European Commission, "The Second Economic Adjustment Program from Greece," 27.

Until 2015, Greece's privatization plan, despite reasonable delays, appeared to be on course according to the standards of the European Union and International Monetary Fund. However, the election of the Syriza government, a coalition of the left-wing and radical left parties, in 2015 significantly altered Greece's privatization progress. Syriza touted anti-austerity measures during its campaign and immediately announced major roll backs to privatization efforts, such as the sale of the Public Power Corporation of Greece, once they were elected in January 2015.[152] Under the pressure of creditors, Syriza agreed to its first privatization campaign in August, which involved the sale of a group of regional airports.[153] Over the Syriza government's tenure, Greece continued to make concessions on the privatization of state-owned enterprises. The privatization program outlined in the second economic adjustment program was delayed; however, by 2018, sales of major state-owned enterprises in the telecommunications, energy, and industrial sectors were commenced.[154] Despite marginal progress, as of 2020, Greece's energy sector, an enduringly unproductive part of the economy, continues to experience privatization delays.[155] The privatization of port authorities and enterprises across the utilities and mining sectors are additional sectors currently being targeted by the Mitsotakis government.

Similar to Greece's public spending cuts, efforts to relinquish loss-making state-owned enterprises have been partially successful and are largely still in progress. The second economic adjustment program estimated proceeds from privatization efforts to reach 2.9 billion euros in 2017.[156] In contrast, receipts from privatized enterprises in 2017 only amounted to 1.4 billion euros.[157] While data for 2018, 2019, and 2020 remains unpublished, the OECD's evaluation of

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[152] BBC, "Greek Compromise: How Syriza Has Had to Change its Plans."
[153] Euractiv (2015), "Greece Approves First Privatisation Deal under Syriza."
[154] European Commission. "Compliance Report ESM Stability Support Programme for Greece," 32-35.
[155] OECD. "Greece," 56.
[156] European Commission, "The Second Economic Adjustment Program from Greece," 28.
[157] European Commission. "Compliance Report ESM Stability Support Programme for Greece," 35.

Greece's privatization program in its 2020 review indicates that it continues to lag behind expectations.[158]

Central to Greece's inability to maintain its commitment to the sale of loss-making state-owned enterprises is the over-politicization of its privatization efforts. Beginning in 2010, to privatize a state-owned enterprise, the Greek government must first transfer the business's assets to the Hellenic Republic Asset Development Fund (HRADF). After an enterprise's assets are transferred to the HRADF, the fund possesses the power to take action toward the company's board of directors and management, including facilitating its sale.[159] Despite significant international interest in the privatization of Greece's large, loss-making ventures, the HRADF has a single shareholder as of 2016: the Hellenic Corporation of Assets and Participation (HCAP), Greece's government-operated sovereign wealth fund. Law 4389/2016 established HCAP's control of HRADF in order to increase the pace of privatization witnessed from 2010 to 2016. Because of HCAP's compliance and reporting requirements, the new ownership structure was established to meet the OECD's second economic adjustment program recommendations.[160] This measure along with additional reforms implemented in 2015 established various important institutional safeguards to prevent over-exertion of state interests into newly privatized enterprises. One influential safeguard was the functional prohibition of golden shares, which granted special privileges, such as the ability to veto corporate decisions and appoint board members, to the Greek government even post-privatization of state-owned enterprises, through the 100% privatization requirement passed by the Greek parliament.[161]

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[158] OECD. "Greece," 56.
[159] European Commission. "Compliance Report ESM Stability Support Programme for Greece," 31.
[160] Papadopoulos. "Privatizations of State-owned enterprises in Greece after the Third Economic Adjustment Programme," 207.
[161] Papadopoulos. "Privatizations of State-owned enterprises in Greece after the Third Economic Adjustment Programme," 209.

However, despite efforts to increase the transparency and independence of Greece's privatization actions, considerable governmental control over previously state-owned enterprises has persisted since 2016. Legally, Greece maintains the ability to intervene in enterprises which are vital to state-interests and retain minority shareholdings.[162] Consequently, few previously state-owned enterprises are fully privatized and instead many have mixed ownership structures with low independence between their management teams and the government.[163] The proximity of newly privatized state-owned enterprises and the Greek government manifests itself through actions such as government directed appointments of board of directors and the preferential application of regulations.[164] Greece's tumultuous electoral process and intense political climate amplifies the consequences of the government's proximity to previously state-owned enterprises. For example, the Syriza government during the 2019 campaign season capitulated on its plans to privatize historical monuments by only partially completing sales in order to appease protestors.[165] The Greek government's influence over partially privatized institutions, such as the various cultural institutions aforementioned, enables the party in power to revise privatization plans to meet its political objectives.

Despite the appearance of grand, structural reforms to Greece's privatization campaign, the current status of state-owned enterprises in Greece closely resembles the 1990s. The proximity between the Greek government and state-owned enterprises, and the effects of this nearness on the pace and scale of privatization, was identified in Featherstone's 2003 paper as a central issue for Greece's privatization efforts in the 1990s.[166] Despite addressing overt avenues to exert

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[162] Papadopoulos. "Privatizations of State-owned enterprises in Greece after the Third Economic Adjustment Programme," 211.
[163] Lampropoulou. "State-Owned Enterprises in Greece: The Evolution of a Paradigm 1996-2006," 503.
[164] Lampropoulou. "State-Owned Enterprises in Greece: The Evolution of a Paradigm 1996-2006," 503.
[165] The National Herald. "After Protests, SYRIZA Exempts Museums, Historic Sites from Privatization."
[166] Featherstone, "Greece and EMU: Between External Empowerment and Domestic Vulnerability," 933.

governmental influence on state-owned enterprises, such as the prohibition of golden shares, Greece continues to intervene in previously state-owned enterprises. The inability of Greece to correct the lack of independence of state-owned enterprises consequently enables businesses to continue to drain the budget, even if Greece only has partial ownership, and operate inefficiently. In order to combat the continual burden on the budget imposed by loss-making, state-owned enterprises, Greece must commit itself to not only generating revenue from selling such businesses, but also must institute institutional safeguards to protect the managerial independence of newly privatized businesses.

c) Reform of the PAYG Pension System

A significant barrier to sustainable fiscal policy leading up to the 2009 crisis was Greece's large, politically challenging pension system. The three issues identified in the previous section of this paper with pension reform in the 1990s and 2000s were Greece's inability to cut entitlements, the incrementalistic nature of the few reforms that were passed, and the overall opaqueness of the state of Greece's pension system. Due to the complexity and quantity of pension reforms implemented in the wake of the 2009 crisis, I will only evaluate the effectiveness of reforms which either directly or indirectly address the following three aforementioned criteria.

First, in terms of changes to entitlements, Greece implemented a variety of changes to the PAYG pension system beginning in 2010 in an attempt to reduce total pension expenditures. While many of these were mandated by the three bailout packages that Greece accepted, others appear to be genuine attempts at structural reform. One of the first actions taken in 2010 to respond to the pressures of Greece's ageing demographics was to raise the retirement age required to gain access to full pension rights. By the second economic adjustment program, the minimum retirement age

was raised to 65, up from 58 in 2009.[167] Additionally, the minimum contribution period was increased numerous times as well.[168] In stark contrast to the decade prior, numerous, large cuts to entitlements were proposed as well, with the latest implemented in 2019.[169] While contribution rules were altered as well, such as increasing the contribution rate for the self-employed[170], the vast majority of reforms were entitlement focused, representing a significant shift in paradigm from the prior decade. The consequences of this paradigm shift are evidenced by the dramatic improvement in Greece's projected pension expenditure, which was slated to be the greater than 300 basis points greater than the next closest country's expenditure in 2011.[171]

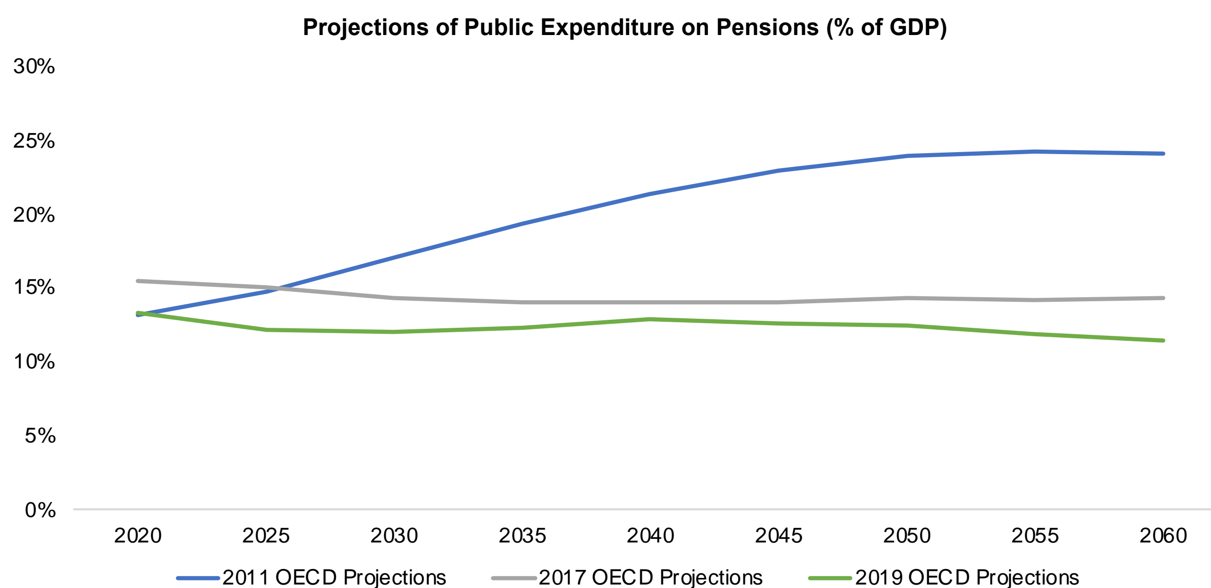

Figure 7. 2011, 2017, 2019 OECD Projections of Public Expenditure on Pensions[172]

[167] European Commission (2020). "Study on the pension reforms in Greece during the economic adjustment programs: 2010 – 2018," 105-106.
[168] European Commission (2020). "Study on the pension reforms in Greece during the economic adjustment programs: 2010 – 2018," 105-106.
[169] Nektarios and Tinios. "The Greek Pension Reforms: Crises and NDC Attempts Awaiting Completion," 28.
[170] European Commission (2020). "Study on the pension reforms in Greece during the economic adjustment programs: 2010 – 2018," 68.
[171] OECD (2011). "Pensions at a Glance 2011: Retirement-income Systems in OECD and G20 Countries,"154.
[172] OECD (2017). "Pensions at a Glance 2017: OECD and G20 Indicators," 147; OECD (2019). "Pensions at a Glance 2019: OECD and G20 Indicators," 203.

While Greece was able to reduce projected expenditure and improve the sustainability of its pension system remarkably, it is significant to note that Greece's pension expenditure as a percentage of GDP still remains above the average of countries in the European Union as of 2019.[173] Demographically, Greece faces a very challenging future. Greece's dependency ratio, which represents the ratio of people over 65 compared to the number of people of working age, has consistently been greater than the average in Europe.[174] However, there are also structural aspects of Greece's pension system which continue to go unaddressed and pose serious problems for the country.

The enduring issues with Greece's pension system have not been ignored in the wake of the three bailout measures, but rather just partially addressed. In 2010, Greece proposed radical reforms to its pension system in an attempt to quickly control its rising deficit. By the second and third economic adjustment program, many of these reforms were still in progress. Changes to supplementary pension schemes, which provide additional benefits to certain professions and groups of pensioners, continues to be a work in progress. After the second economic adjustment program, cuts to supplementary pensions, which were a sustained cause of expenditure overruns, were prioritized.[175] Despite compliance with cuts to supplementary pensions by the third economic adjustment program, increases in supplementary pension payouts have increased in the last two years and the future of lump sum pension payments is more uncertain.[176]

Slow, incremental reforms have occurred in other areas of Greece's pension policies as well. As aforementioned, one of the first actions Greece took in 2010 was raising the retirement

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OECD (2011). "Pensions at a Glance 2011: Retirement-income Systems in OECD and G20 Countries,"159.
[173] OECD (2019). "Pensions at a Glance 2019: OECD and G20 Indicators," 203.
[174] Monokroussos, "Expenditure on Social Protection and Pensions: How Generous it is by International Standards and Relative to the Rest of the EU?," 5.
[175] European Commission, "The Second Economic Adjustment Program from Greece," 37.
[176] Naftemporiki, "Minister abruptly announced hike in one-third of supplementary pensions, in wake of high court ruling.".

age required to receive full pension benefits. While this action aimed to cut expenditures, the reforms incentivized early retirement among individuals within the grandfathering age or contribution period limits.[177] Contrary to the government's goals, early retirement from 2010 to 2015 limited the ability for Greece to diminish its pension deficit. Only in 2015 when the retirement age was finally projected to officially converge to 67 by 2022 was there a clear path for a unilateral retirement age in Greece.[178] By the time that Greece was able to close retirement age loopholes, the consequences were already reflected in the budget as individuals expedited their retirement to gain access to benefits.

This reform process demonstrates that even amidst progress in addressing its pension deficit, Greece still struggled in the wake of the 2009 crisis to expediently implement reforms necessary to improve its pension system. While the consequences of incremental reforms may be difficult to identify when pension expenditures have significantly declined since 2010, the future challenges incrementalistic reform could pose to Greece's fiscal sustainability must be underscored. While pension reform was closely monitored by the International Monetary Fund and European Union, future reforms will likely possess less oversight as Greece has exited its third economic adjustment program. Without the watchful eye of its creditors, Greece's multi-stage, slow pension reform approach may devolve to its same pre-crisis form where political parties would implement only the most politically favor parts of policies, leaving unfavorable structural changes to future leaders. Greece's approach toward supplementary pensions may offer a preview

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[177] Monokroussos, "Expenditure on Social Protection and Pensions: How Generous it is by International Standards and Relative to the Rest of the EU?," 9.
[178] Monokroussos, "Expenditure on Social Protection and Pensions: How Generous it is by International Standards and Relative to the Rest of the EU?," 39.

of the future consequences of incremental reform as union pressure has led Greece to increase its supplementary pension payments.[179]

In terms of the fragmentation of Greece's pension system, the success of its post-crisis reforms is varied. Greece was able to quickly implement a unified benefit formula for pension funds in the wake of 2010.[180] Additionally, all data on pensioners and payments processes were transferred into a single pension fund, the EFKA.[181] Nevertheless, even after Greece's 2016 reforms, which were the most bold and concentrated on the issue of fragmentation, the country's pension system remains one of the most fragmented in Europe, with pension funds separated by various characteristics such as occupation and auxiliary groups.[182] Even more fundamentally, Greece's attachment to its Pay-As-You-Go system is enduringly opaque and complex. Potential participants are unable to evaluate their potential future income due to increases in contributions being moved directly into current entitlements, disincentivizing participation.

Beyond problems related to entitlement cuts, incremental reform style, and complexity, Greece's reforms in its post-crisis era have demonstrated new, unaddressed issues with its pension system. During the 7 years after Greece began implementing pension reform, poverty among the elderly increased.[183] While this seems to track cuts to pensions, the primary source of income for a large portion of the elderly in Greece, Greece still maintained very high pension expenditures relative to other European countries. As the central tool of its social safety net, Greece's inefficient, fragmented pension system failed to protect its vulnerable citizens. This demonstrates that

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[179] Salourou. "Pension hikes to come in June."
[180] Monokroussos, "Expenditure on Social Protection and Pensions: How Generous it is by International Standards and Relative to the Rest of the EU?," 17.
[181] European Commission. "Compliance Report ESM Stability Support Programme for Greece," 10.
[182] Monokroussos, "Expenditure on Social Protection and Pensions: How Generous it is by International Standards and Relative to the Rest of the EU?," 19.
[183] Andriopoulou et al. "Inequality and Poverty in Greece: Changes in Times of Crisis," 10.

Greece's focus on its pension system may have crowded out its ability to implement other social reforms which could complement its reliance on publicly funded pensions.

The consequences of the 2009 crisis for younger Greeks and their future participation in Greece's pension system is further evidence that Greece mistakenly ignored necessary changes to social policy. While poverty among the elderly increased, the young and family with children have seen the most dramatic poverty rate increases.[184] Research indicates that this demonstrates the intergenerational inequalities of Greece's reliance on its pension system as a central safety net.[185] While pensions have been a source of security for Greece's ageing population, during the sustained economic downturn of the 2010s, the pension system did not adequately provide support for younger people, a previously invulnerable group. Despite promises made in 2010 regarding workers' ability to access secure pension income in the future, which helped justify contribution rate hikes, Greece abruptly cut pension entitlements for the entire population without justification numerous times from 2010 to 2018. For young workers, this reinforced skepticism toward Greece's pension system and provided a disincentive to participate, as Greece's pension system has become increasingly perceived like a tax rather than a reciprocal, *quid pro quo* system.[186] Evidence of this disincentive is reflected in the increased emigration of young people from Greece witnessed since 2010.[187] Additionally, exploitation of early retirement loopholes continues to challenge Greece's ability to maintain a sustainable pension system.[188] Consequently, it is clear that Greece's increases to contribution rates and cuts to benefits, especially for younger workers,

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[184] OECD (2020). "OECD Economic Surveys: Greece 2020."
[185] OECD (2020). "OECD Economic Surveys: Greece 2020."
[186] Meghir et al. *Beyond Austerity: Reforming the Greek Economy*, 478.
[187] Nektarios, Tinios, Simeonidis. "A Pension System for Younger Workers in Greece: A Proposal for Growth," 1.
[188] Meghir et al. *Beyond Austerity: Reforming the Greek Economy*, 478.

have created challenges to encouraging young workers to participate in its pension system, which has historically been central to Greece's social welfare strategy.

d) Tax Rate Revisions and Measures Against Tax Evasion

While spending cuts were central to the Troika's mandates outlined in the three economic adjustment programs negotiated from 2010 to 2016, efforts to increase tax rates and effectiveness of tax collection procedures in Greece was also a priority. As aforementioned in the first section of this paper, increases to tax rates had been a favorable policy choice for Greece in the late 1990s and 2000s as it was easier to target revenue increases rather than expenditure cuts. However, very few effective reforms had been pursued regarding tax evasion, a long-standing, pervasive issue affecting Greece's ability to close its deficit.

In the first economic adjustment program, expenditure cuts were emphasized as being a stronger focus than revenue increases through changes such as increases to direct tax rates. Nevertheless, the first bailout package stipulated that tax measures amount to 4% of GDP.[189] Replicating its actions from the decades prior, Greece did not hesitate to raise both the statutory tax rate and Value-Added Tax Rate. In fact, by the time the second economic adjustment program was negotiated in 2014, the Troika recommended Greece to lower its statutory tax rate in order to stimulate growth due to the fact that Greece had significantly higher than average tax rates of member states in the European Union and was experiencing slowed economic growth and productivity numbers.[190]

While Greece's ability to rapidly raise tax revenues after 2009 may appear to be a positive step away from the incremental nature of its other reforms, namely its expenditure cuts, research indicates that Greece continued to over rely on revenue increases as the country did in the late

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[189] European Commission, "The First Economic Adjustment Program from Greece," 14.
[190] European Commission, "The Second Economic Adjustment Program from Greece," 146.

1990s and early 2000s. The dramatic increase in both statutory and indirect tax rates in the years following 2009 resulted in dramatic consequences for Greece's output. Estimates indicate that Greece's middle class experienced in excess of a thirty percent increase in net tax burden due to post-crisis tax reforms.[191] Even in comparison to other countries which have relied primarily on increases to tax revenues as a response to the Great Recession, such as Italy, Spain, and Portugal, to close budget deficits, Greece has experienced the largest losses in welfare, productivity, and growth since 2010.[192] In conjunction with the inadequate labor reforms aforementioned, the Greek government imposed increasingly large tax burdens on workers while simultaneously lowering wages, removing protections, and failing to invest in training and other programs intended to increase the productivity of the middle class.

While the magnitude of tax rate hikes was clearly a drag on Greece's ability to sustain revenue increases as a strategy to close the budget deficit, the inability of the Greek government to control tax evasion persisted in the wake of the 2009 sovereign debt crisis. While the statutory tax rate was marginally increased to meet the conditions of the economic adjustment programs offered by the Troika, the Value-Added Tax continued to be the central feature of Greece's fiscal reform strategy. Greece gradually raised the Value-Added Tax rate from 19% to 23% in a series of tax reforms implemented in 2010.[193] Since 2010, Greece's Value-Added Tax rate has consistently remained above 23%, a rate significantly higher than any other country in the Eurozone excluding the Nordic countries.[194]

[191] Kaplanoglou and Rapanos, "Evolutions in Consumption Inequality and Poverty in Greece: The Impact of the Crisis and Austerity Policies," 25.
[192] Pappa and Vella. "Fiscal Consolidation with Tax Evasion and Corruption," 39.
[193] Francesco and Zylberberg. "Austerity Plans and Tax Evasion: Theory and Evidence from Greece," 10.
[194] OECD (2020). "Consumption Tax Trends* - Greece."

Despite the implementation of new reporting procedures and a centralized collection system, Greece continues to struggle with tax evasion attributed to indirect taxes. The Value-Added Tax rate revision Greece implemented in 2010 was met with significantly lower revenues than expected. More specifically, collection efficiency decreased by nearly 10% in the year post-implementation.[195] While the decline in collection efficiency can be partially attributed to reductions in business activity, there is strong evidence that the primary reason that revenue increases failed to meet the Greek government's expectations due to businesses concealing production.[196] While it is broadly acknowledged in research on tax evasion that indirect taxation methods often enable higher incidence of tax evasion, I believe that the supposedly "self-enforcing" characteristic of the Value-Added Tax largely explains the large compliance gap in Greece. Because businesses have an incentive to ensure that each member of the supply chain comply with the Value-Added Tax to guarantee that they pay the correct rate on their production, the Value-Added Tax is often labeled as "self-enforcing."[197] However, in a country where systematic underreporting is common, especially among small and medium size businesses, the "self-enforcement" features of the Value-Added Tax appear less successful. In order to be effective, identification and registration of businesses throughout supply chains must be prioritized when the Value-Added Tax is implemented.[198] Otherwise, parties throughout the production process will be excluded from the tax system and consequently those parties who do report will pay incorrect rates. Given that Greece did not implement policies in 2010 and beyond to accompany the increases in the Value-Added Tax rate, it is clear that the identification and

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[195] Francesco and Zylberberg. "Austerity Plans and Tax Evasion: Theory and Evidence from Greece," 3.
[196] Francesco and Zylberberg. "Austerity Plans and Tax Evasion: Theory and Evidence from Greece," 3.
[197] Keen and Smith. "VAT Fraud and Evasion: What Do We Know and What Can Be Done?," 865.
[198] Keen and Smith. "VAT Fraud and Evasion: What Do We Know and What Can Be Done?," 879.

registration of businesses who had historically evaded paying taxes was not a central priority of the government.

The effects of overreliance on indirect taxation are apparent in Greece. Research on Greece's tax policies since 2010 indicate that there is a persistent 20 to 30% compliance gap in Greece's Value-Added Tax.[199] Furthermore, estimates place tax evasion of the Value-Added Tax at about 3.5% of GDP, which is the largest source of tax evasion.[200] As of 2018, compared to the other countries in the Eurozone, Greece's Value-Added Tax Revenue Ratio, an indicator of the revenue raising performance of tax systems, is significantly lower than the rest of the Eurozone, indicating poor compliance.[201]

Thus, the Greek government's continual reliance on a tax method which has historically been the easiest to evade has limited the effectiveness of tax reform. While Greece should continue to unify and simplify its tax code, the country's overall reliance on the Value-Added Tax as a primary source of revenue should be re-evaluated.

e) Budget Transparency and Reliability

In wake of the discovery of Greece's under-reported deficit and government debt for 2008 and 2009, the first economic adjustment program negotiated in 2010 targeted Greece's budget reporting process. More specifically, in order to ensure the reliability of data on Greece's compliance with the stipulations of the Troika's bailout package, the first economic adjustment program outlined procedures for Greece to work closely with Eurostat in accordance with the European System of National and Regional Accounts (ESA), the formal data reporting procedures

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[199] Kaplanoglou and Rapanos, "Evolutions in Consumption Inequality and Poverty in Greece: The Impact of the Crisis and Austerity Policies," 7.
[200] Georgakopolous, "Tax Evasion in Greece – A Study."
[201] OECD (2020). "Consumption Tax Trends* - Greece."

delineated by European Union legal framework.[202] In order to ensure ESA compliance and coordination with outside authorities, the General Accounting Office (GAO) was granted jurisdiction to publish and audit data related to borrowing.[203] Additionally, in 2010, the Hellenic Statistical Authority was established as Greece's independent authority on statistical services.[204] The last piece of major reforms implemented by Greece in the wake of its 2010 crisis was the creation of the Medium-Term Fiscal Framework (MFTS), which outlines both the broader strategy of the Greek budget and serves as a three-year rolling reference point for annual budgets.[205]

While the second economic adjustment program published in 2014 excluded a direct evaluation of measures related to Greece's budget reporting and auditing process, anti-corruption measures targeting government officials, including those involved in the budget reporting process, was deemed inadequate.[206] By the third economic adjustment program in 2018, progress in ensuring budget transparency was deemed satisfactory, especially in terms of the coordination between the GAO, other ministries of the Greek government, and external authorities.[207] However, despite evident progress, Greece's budget transparency is still labeled as low relative to other countries in the European Union by the OECD.[208] Lack of parliamentary and citizen engagement in the budget process has been labeled as a barrier to Greece operating a fully transparent budget process.[209] This is due to the fact that while the institutionalization of the GAO as the primary Greek budget authority has improved coordination with international authorities, it has also

[202] European Commission, "The First Economic Adjustment Program from Greece," 45-46.
[203] European Commission, "The First Economic Adjustment Program from Greece," 25.
[204] Spano, "Competing Frames, Domestic Discretion and Uneven Outcomes: Administrative Reform in Greece under the Crisis," 5.
[205] Spano, "Competing Frames, Domestic Discretion and Uneven Outcomes: Administrative Reform in Greece under the Crisis," 5.
[206] European Commission, "The Second Economic Adjustment Program from Greece," 4.
[207] European Commission. "Compliance Report ESM Stability Support Programme for Greece," 11.
[208] OECD (2019). "Budgeting and Public Expenditures in OECD Countries."
[209] OECD (2019). "Budgeting and Public Expenditures in OECD Countries."

contributed to the creation of a system which requires very little parliamentary and citizen participation.

Nevertheless, institutional reform to Greece's data collection and reporting procedures combined with the country's coordination with external authorities such as Eurostat has resulted in meaningful progress in the overall transparency of Greece's budget process. Implementation of reforms to Greece's budget reporting process have been continuous and fairly complete, demonstrated by the enduring authority of the GAO and compliance with the ESA.[210] This success stands in contrast to other areas of post-crisis reform in Greece, such as the piecemeal labor market reforms which have been only partially implemented and regularly undone.

Evaluation of Persistent Challenges Facing Greece Beyond 2021

Analyzing Greece's fiscal response to its sovereign debt crisis in the context of the country's unsuccessful fiscal reforms in the two decades prior to 2009 reveals modern vulnerabilities in the Greek economy. While the specific findings on Greece's public spending, pensions, and tax reforms outlined in this paper provide direction for the Greek government to correct persistent flaws in the creation and implementation of fiscal policy, there are also broader lessons that can be extracted from the paper. Fundamentally, the statist nature of the Greek economy has created an enduring, dangerous relationship between the public and private sector. One clear consequence of government encroachment into the private Greek economy is that politically unfavorable reforms are slow to be implemented and highly dependent on the party elected to power. Furthermore, even when policies are designed to decentralize and liberalize the Greek economy, they are either only partially implemented or manufactured for easy retreat.

[210] Spano, "Competing Frames, Domestic Discretion and Uneven Outcomes: Administrative Reform in Greece under the Crisis," 6.

Structurally, Greece has serious obstacles yet to overcome in order to create truly independence governance.

From the perspective of international bodies such as the European Union which are severely implicated by any crisis experienced by Greece, this paper also provides insight on how to adjust future policies toward member states undergoing financial crises. While the stipulations outlined in the 2010 to 2015 bailout packages imposed an important sense of urgency on the Greek government, the Greek government was able to delay its progress, sometimes by a matter of years, on nearly every area of mandated fiscal reform. Not only should the substance of Greece's fiscal policy be closely monitored, but also the proposed timing or phasing of policy implementation must be evaluated. As this paper demonstrates, the incremental nature of Greece's fiscal reform strategy enabled cumulative effects on the stability of the budget. If accountability for the timing of Greece's reforms is not mandated or at least more closely observed, the successes of Greece's post-2009 fiscal regime could be undone.

Finally, Greece continues to unsuccessfully manage domestic social demands. The country's continuous lack of transparency, whether it take the form of unreliable data or overly complex reforms and inability to communicate policy changes to the public magnify this challenge. As Greece exits its final bailout package, it must reckon with an increasingly polarized constituency. The prominence of anti-austerity politics did not cease as Greece's economy slowly recovered after 2009. As this thesis demonstrates, demands by domestic groups such as government workers continue to place serious constraints on Greece's ability to reform its pension system and labor market. In order to effectively balance the need to secure a fiscally sustainable future while also maintain power, is a central challenge which faces any future party in power in Greece. By improving the transparency and communication of its fiscal reform efforts, the Greek

government can make first steps toward improving trust and cooperation between conflicting domestic interest groups. While these reform suggestions are far less material than the specific recommendations outlined in the second section of this paper, the recurrence of these themes across different policy areas suggests their centrality to a sustainable fiscal future for Greece.

Conclusion

The fiscal consolidation efforts implemented, and then reversed, by Greece in the 1990s and early 2000s demonstrate that the country faced significant barriers to cutting expenditures related to government wages, pensions, and state-owned enterprises as it entered the 2009 sovereign-debt crisis. While Greece had been required to reduce its budget deficit and government debt in order to enter the European and Monetary Union, the budget was balanced primarily through revenue increases, leaving expenditures, a more politically challenging policy area, largely untouched. Once Greece gained entry into the EMU, tax rate hikes were undone, and expenditures continued to climb.

Greece's response to the 2009 sovereign-debt crisis has many parallels to its pre-EMU consolidation strategy in the 1990s. Especially in regard to government wages and state-owned enterprises, the Greek economy can should still be characterized as statist and the Greek government has maintained its incremental reform strategy. Consequently, many post-crisis reform proposals remain only partially implemented. And, while improvements in Greece's pension system and budget transparency have been demonstrated, challenges to cutting government wages, privatizing state-owned enterprises, and reducing tax evasion persist.

Overall, the progress completed by the Greek government since the 2009 financial crisis has been significant, especially in regard to its pension system and budget transparency. However, in light of an understanding of Greece's pre-crisis history and propensity to reverse politically

inconvenient policy, more must be done to structurally ensure Greece does not need to reckon with future sovereign debt crises.

Future Inquiry Suggestions

This paper provides both specific policy recommendations for Greece as well as broader commentary on the enduring structural challenges facing the Greek government. In reaching the conclusions aforementioned, this paper relied on current data on Greece's budget and financial indicators. Many of these data points have been retroactively revised numerous times since the 2009 sovereign debt crisis and it is reasonable to assume that future revisions are not implausible. Consequently, the outlined findings should be re-evaluated if data revisions call into question this paper's evaluation of the outcomes of reform efforts. Furthermore, the cumulative effect of these revisions on the Greek government's ability to effectively craft, implement, and communicate policy must be further investigated in order to gain a better understanding of the true magnitude of decades of inaccurate budgetary data.

An additional area of future inquiry should consider the effects of policies implemented, or halted, in response to the COVID-19 pandemic which began in March 2020. Many of the fiscal policies proposed by Greece in response to COVID-19 pandemic have yet to be fully implemented at the time that this paper was written. Thus, the effects of these policy efforts have not been evaluated in this paper due to the unavailability of data. Research on fiscal policies directly tied to the COVID-19 pandemic would contribute to the discussion on the future sustainability of Greece's fiscal management. Furthermore, an analysis of Greece's pandemic response on the budget would contribute to an analysis on Greece's ability to grapple with major, global crises, whether financial or biological in nature, which are likely to continue to pose threats to not only Greece but other countries across the globe.

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