GlobalResearch
Center for Research on Globalization

Stifling Growth in Greece: The Austerity Regime Continues

By Dr. Binoy Kampmark
Global Research, June 24, 2015

Region: Europe
Theme: Global Economy, Poverty & Social Inequality

You can't create something from nothing, though the austerity economists would insist you can. The Greek economy has become a punitive theme park, one filled with measures filtered through the troika (European Commission, ECB and IMF) and then implemented by a government that won elections on an anti-austerity platform.

The coalition has so far placed the raising of taxes as central to raising €8 billion over this year and the next. This is already problematic, given that obtaining that revenue has been Greece's perennial nightmare. None of these schemes address the problem of how it is collected. The elusive catching of the fabulously wealthy revenue earner by the tax man continues.

Among the reforms is a one-off 12 percent tax on corporate profits above €500m in 2014, while raising the overall corporate tax to 29 percent from the current rate of 26. Companies happy to shirk their tax obligations may well find another haven to park their activities.

All in all, it is households set for the greatest blows. There is the proposed re-introduction of the unpopular solidarity tax from 2010 for households with incomes of over €30,000 a year.

There are also standout proposals to increase contributions to the government pension scheme by 3.9 percent, while phasing out the early retirement provision after January next year. While the emphasis here is on employee contributions rather than cuts in pensioner incomes, the situation is troubling in a country which has already seen pension cuts of 40 percent.[1]

Finance Minister, Yanis Varoufakis, is still not convinced that the pension system, as it stands, is viable. While he ponders its apparent demise, the stunning reality of having 45 percent of Greece's 2.5 million retirees living below the EU designated poverty line remains.

Broader collective punishment is also promised over a range of value-added tax rates – 6 percent for medicines, books and theatre tickets; 13 percent on food (mostly fresh), hotel accommodation, electrical energy and food services; and a hefty 23 percent on other products and services. The abolition of the special tax status granted to Aegean islands is also being considered.

The austerity high priests are, it seems, far from dead. They have been resurrected, feeding their toxic convictions to Syriza. This is rather different from what was promised by its leader Alexis Tsipras in January, who claimed that his party's ascension to power concluded the "vicious cycle of austerity". "The verdict of the Greek people, your verdict, annuls today in an indisputable fashion the bailout agreements of austerity and disaster."

The focus here is less slashing than constriction, a form of financially authorised asphyxiation. "The cycle so far," observes economist Sean Richards, "involves Greece implementing austerity followed by economic weakness and at times collapse which means that yet more austerity is required and then repeat."[2] The formula has been disastrous: the reduction of real wages by a third, the shrinking of the economy by a quarter.

Central to this is the question of sovereignty, which is denied to debtor states held hostage by the noose of default. The Minister of State, Alexis Flambouraris, is certainly aware of that, making it clear that Greek parliamentarians are to vote, not along party lines firmed up by European diktat, but "by resorting to the people." A "unanimous parliamentary group" was needed to "forge ahead in difficult conditions after the agreement". That is hardly a statement of confidence, given the latest Syriza turn to supposed tough measures.

Everyone dealing with debt restructuring knows that write-offs are feasible, and management schemes possible to keep creditors at bay. Notions of total re-payments, with interest, are dangerous, not merely to the health of an economy but that of society. This is pure creditor dogmatism in action.

For that reason, Panos Kammenos of the Independent Greeks party (Anel) has made debt relief of some form from the creditors a "red line" in negotiators with the troika, and with members of his own coalition. "It is now very clear that it is Greece that is negotiating, not simply a government that is negotiating. We hope that the course of negotiations will be positive for the Greek people."

Not even the troika is speaking with one voice on the latest proposals. The IMF, for instance, has expressed reluctance with the latest stance from Athens that emphasise taxes over spending cuts. As ever, the monetary fund can only see the world through the glasses of reduction, not growth.

With that said, even an IMF Working Paper would claim in 2013 that, "We find forecasters significantly underestimated the increase in unemployment and the decline in private consumption and investment associated with fiscal consolidation." Such austerity measures, in other words, have their own invidious multiplier effects. GDP, instead of growing, will again be reduced.

Any proposal that keeps Greece within the troubled Eurozone will be bitter, less a pill to swallow than a whole package of them. Raising revue is the preferred method in the latest round of proposals, but it entails a traditional slug for the vulnerable. Rumours are now circulating that a proposal will go to the Greek parliament by the weekend for a vote.

Greece is the problem in a minor key. The major one is European and global, a note of desperation and bombast that threatens to burst the entire, financial scheme. Grexit will be the cacophonous sound for many countries who wish to see their terms of unity renegotiated. It may not necessarily be the worst outcome, a cleansing measure that will enable, not merely Greece to reorder itself in the scheme of things, but Europe's own institutions. Syriza, however, have suggested that exit is something to avoid. Failed austerity, however dressed, remains seductive.

Dr. Binoy Kampmark was a Commonwealth Scholar at Selwyn College, Cambridge. He lectures at RMIT University, Melbourne. Email:bkampmark@gmail.com

Notes:

[1] http://rt.com/news/269200-greece-pensioners-protest-austerity/

[2] https://notayesmanseconomics.wordpress.com/2015/06/23/this-new-greece-bailout-proposal-will-crash-the-economy-once-again/

Comment on Global Research Articles on our Facebook page

Become a Member of Global Research

Articles by: Dr. Binoy Kampmark