

Hypocritical to suggest Greece be ejected from eurozone

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From Prof Philip Arestis and Prof Theodore Pelagidis.

Sir, Martin Wolf ([“The Greek tragedy deserves a global audience”](#), January 20) is right to suggest that Greece’s economy faces a severe crisis, regarding both the real economy and the public sector. National debt has ballooned and more recently public borrowing has become a nightmare for the finance ministry. As Mr Wolf remarks in the same contribution, the sky-high public debt and deficits are products not only of a political mess, but also of a rapidly decreasing competitiveness depicted in real exchange rates, mainly as a result of a hard euro policy.

We must add, though, that Greece’s political elite is fully responsible for this unfortunate situation and we support the view that the so-called speculative international factor only takes advantage of domestic weaknesses and distortions.

However, we believe that most of the articles published recently in the international press exaggerate Greece’s economic misfortunes and underestimate its prospects. Data show that direct taxes in Greece as a percentage of gross domestic product are much lower, around 20 per cent, than in the other eurozone countries (26 per cent), according to the European Commission. This low contribution of personal income taxes is largely responsible for the low level of tax revenue in Greece relative to the other European countries. It then follows that the Greek authorities can reach the European number with an annual increase of tax revenues of about €16bn. This is an estimate that does not account for the black economy, which lowers considerably current taxation trends and estimations.

Greeks today seem to pay for tax evasion with high bond spreads, although we do not underestimate not only speculation but also problems of competitiveness stemming from either a rigid product market and/or the euro’s appreciation. Unfortunately, “cooking the data” is the way political fights take place in Greece, as the atavistic political elites confront each other without rules, and so finally bond spreads are set sky-high. Even worse, this publicly exposes a serious malfunction at the heart of Europe. “Cooking the books” was a common practice for most countries, even some core ones, in their effort to meet the original Maastricht convergence criteria.

It is therefore rather hypocritical to say that Greece should not have entered the eurozone because it cheated on some decimal or even percentage points, or that it should leave the eurozone for that reason.

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