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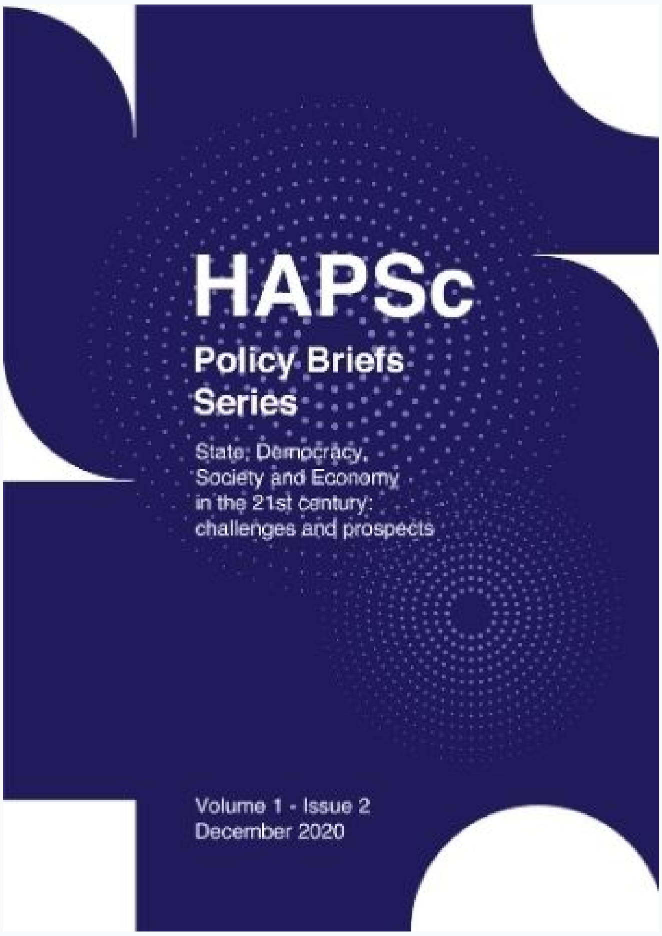

Greek Fiscal Policy in Times of Crisis: A New Proposed Framework

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Abstract

The present article aims to shed light on the critical matter of overcoming the existing Greek sovereign debt crisis, a crisis that brought to the surface the chronic structural problems of the Greek economy and the long-standing state distortions, by highlighting the importance of a sound and efficient fiscal policy administration model. The author identifies the problematic issues in the current fiscal policy procedures and proposes a new framework so as for the Greek economy to overcome the ongoing crisis and return to positive growth rates, while achieving sustainable growth, a perquisite for socioeconomic welfare. The overall target of this paper is to set the required fiscal policy mix so as for Greek economy to overcome current and future crises and hopefully initiate a fruitful discourse on the subject among all the involved parties.

Keywords: Greek sovereign debt crisis; fiscal policy; budget deficits; tax administration; Independent Fiscal Council; debt; crisis.

Introduction

The burst of the financial crisis in 2008 gradually caused a global credit crunch and economic recession, leading to a huge increase in public debt in several advanced economies. Greece was at the center of the sovereign debt crisis in the Eurozone and in urgent need to refinance its public debt, following the exclusion of the Greek economy from international markets in 2010 (Vousinas, 2016). And this crisis brought to the surface the chronic structural problems of the Greek economy and the long-term state distortions.

More specifically, until mid-1970s, Greek governments followed the so-called "golden rule" of fiscal policy, which required balanced state budgets (Vousinas, 2018). After 1974 and until 2009 Greece showed significant growth, but simultaneously public debt started to inflate due to a number of factors. The most significant ones, as highlighted by a large amount of recent research (Kouretas and Vlamis, 2010; Arghyrou and Tsoukalas, 2011; Dellas and Tavlas, 2012; Nikiforos et al., 2015; Tsoulfidis et. al., 2016), are the structural problems of the Greek economy and the large fiscal and external imbalances, as well as the severe effects of the recent global financial turmoil of 2008 and

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both the timing and the type of the measures taken by Europe in response to the Greek problem since 2010 (fiscal adjustment programs).

All the above demonstrate the importance of a sound and efficient fiscal policy administration model to address the existing defficiencies. For this purpose, a new fiscal policy framework is proposed so as for the Greek economy to overcome the ongoing crisis and return to positive growth rates, while achieving sustainable growth, a perquisite for socioeconomic welfare.

Problematic issues in the current Greek fiscal policy framework

In spite of the high growth rates the Greek economy achieved during the previous decade, fiscal imbalances were worsening and never successfully controlled by the authorities. This deficiency can be attributed to many factors, but the most significant weaknesses of the Greek fiscal framework prove to be the inefficient budgeting procedures as well as the poor tax administration system (Kaplanoglou & Rapanos, 2013).

State budget preparation procedures

The main shortcomings of the current state budget preparation framework in Greece can be summarized to the following:

- Lack of transparency.
- Lack of a medium-term budgetary framework.
- A weak top-down budgeting process and a lack of real accountability.
- Lack of budget planning system.
- Organizational weaknesses.

Tax administration system

The main insufficiencies in the design and enforcement of the tax system in Greece, which have played a key role in the exacerbation of fiscal deficits that led to the current sovereign debt crisis, are related to the structure of the Greek economy and the failures of formal institutions, and in particular to the poor functioning of the tax administration, lax tax enforcement, the lack of tax awareness, the tax burden, inefficiency of tax collection, and the lack of effective dispute resolution mechanisms (Vousinas, 2017).

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A new proposed fiscal policy framework

In order to change the country's fiscal governance model and address the above mentioned critical shortcomings, a new fiscal policy framework is proposed, based on the following three main pillars (as described below):

- The procedures for setting up the state budget,
- The tax administration model and
- The functioning of the Independent Fiscal Council.

State budget preparation procedures

The main proposals for addressing the major issue of mismanagement of the state budget in Greece can be summarized as follows:

- Consolidation of budgeting procedures by merging regular and investment budgets and their placement under the auspices of the State General Accounting Office, which should have more autonomy, as well as more and better staffing with highly qualified staff. Moreover, a specific position (Head or better Deputy Minister) should be set up to lead the unit and report to the competent Minister.
- Introduction of a new, modern, and efficient internal control system and the placement of a suitably qualified, permanent, and independent Internal Auditor, which is proposed to refer to the General Inspector of Public Administration.
- Introduction of stronger top - down budgeting procedures in order to be more cost-effective.
- Reduction of bureaucracy in all structures and processes. In order for the budget execution reports to be reliable, a complete computerization of the whole trading circuit is required, while real-time, on-line interconnection of all the units involved is required.
- Establishment of national financial rules, which must provide a comprehensive picture of the entire range of government budgeting activities. This process must be fully transparent, and the rules must be clear, understandable, and accessible to all parties.
- Creation of a medium-term budgetary framework incorporating multiannual estimates (e.g. over a three-year horizon) that will reflect the strategic objectives of the government
- Introduction of an accrual-based accounting system could enhance transparency in the allocation of public resources and the impact of commitments and improve the decision-making process.

Reform of the tax administration model

Based on the international experience and the special characteristics of the Greek reality, the following measures are proposed for restructuring the country's tax administration model and improving its efficiency:

1. Rational reorganization of tax administration units by increasing the autonomy of local offices and creating new ones where it is necessary in order to facilitate the completion of the tasks and the service of taxpayers. In this direction it is considered necessary to extend the powers of the tax administration and to place them under a lead head who is solely responsible for supervising the tax mechanism. For this reason, perhaps a separate Ministry of tax policy should be created in order to better coordinate the efforts and control the functioning of the tax collection mechanism.
2. Simplifying the entire tax system, as it is not possible to address the issue of enhancing the efficiency of tax administration without taking into account the degree of complexity of the structure of the tax system. The tax provisions in force are now scattered across many legislative decrees and legislative acts, complicating the work of tax auditors and also their understanding by taxpayers. It is necessary to properly codify all tax provisions in a single, properly structured and understandable form and to post them on the website of the Ministry of Finance with constant updating of the revisions so that they are accessible to taxpayers and interested parties at all times.
3. In the direction of reducing the degree of complexity of the tax structure and achieving the required efficiency, it is crucial that there is a stable and long-term tax framework that will not change with every government change. That is why tax measures, owing to their importance in the fiscal policy and the scope of their implementation, but also in order to be able to achieve concrete results, must have a long-term horizon.
4. Radical restructuring of the tax audit mechanism by moving from the outdated current system of on-site audits, based on the judgment of the auditors concerned, to a fully centralized system. With the proper use of the existing information infrastructure, it is possible to identify those who are considered to be at high risk for tax evasion, making it easier to combat the phenomenon and avoid similar cases in the future. In this direction, a continuous monitoring of citizens' financial situation and tax declarations can contribute to reducing the phenomenon.
5. Neutrality of the tax system. The tax system should be kept as neutral as possible and should not deviate in favor of certain areas or activities except from totally justified cases (tax

exemptions and other tax incentives should be done sparingly and on the basis of comparative and historical data demonstrating their effectiveness).

6. Transparency and Updating. Tax rules should be made known by all appropriate means, with the utmost simplicity and clarity, so as to make information easier but also to be sufficient for business decisions, especially by small and medium-sized enterprises (the backbone of the Greek economy), which are in any case restricted, due to high cost, from access to highly qualified financial and tax advisers.
7. Alignment of tax auditing practices with those of other OECD member states to address new forms of tax evasion in a modern, globalized environment. The desired reform of the tax administration cannot be achieved through short-term measures and temporary solutions, but requires long-term policies that will address the problem in its roots. In essence, the change in the tax administration model requires, on one hand, a strong political will and understanding by the rulers of the criticality of the issue and, on the other, the building of a mutual circle of trust among the State and taxpayers.

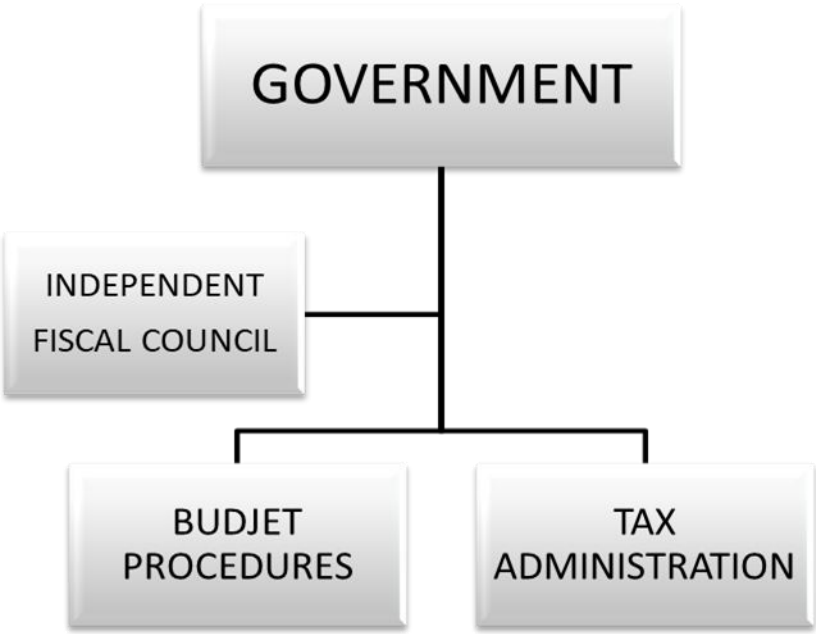
Operation of the Independent Fiscal Council

The third and final pillar on which a new fiscal model for the Greek economy can rely is the proper operation of the Independent Fiscal Council (Hellenic Fiscal Council), as an appropriate instrument for institutional strengthening of the national fiscal framework. The key points that will ensure the success of this council and will contribute the most to its substantial contribution to the change of the Greek fiscal model are listed below:

- Secured and uninterrupted financing on completely transparent terms.
- Hiring highly competent human staff.
- Meritocratic recruitment system.
- At least five years term of office of its members and definitely out of the "electoral cycle".
- Independence of members.
- Unobstructed access by all to the council’s publications.
- Simple and understandable writing language of the analyses in such a way that they can be understood even by non-experts.

The new proposed Greek fiscal policy framework, based on the previous main pillars is graphically depicted in the next figure:

Figure 1: A proposed Greek Fiscal Policy Framework



Conclusions

The serious budgetary imbalances of the Greek economy, as a result of the long-standing state distortions and its structure, along with the recent global financial crisis, suggest that the policies and mechanisms in place to ensure fiscal discipline are facing new, important challenges. Therefore, the crucial question regarding the fiscal governance of Greece is the ways in which the fiscal policy framework can be institutionally strengthened. The present study has highlighted a number of measures, based on three main pillars (state budget procedures, tax administration model and the operation of the Hellenic Fiscal Council) that, if implemented, are capable of enhancing the efficiency of the existing fiscal policy framework.

The benefits of the proposed major reforms are not only limited to simply reducing the budget deficit in numerical terms, but also extend to qualitative elements such as strengthening economic growth by addressing public finance management issues and promoting a fairer distribution of tax burdens in the society, by tackling the phenomenon of tax evasion. The need to implement drastic reforms in the country's public finance management model appears to be a one-way street to get the Greek economy out of the ongoing debt crisis and to return to sustained growth rates. And to achieve this the necessary institutional reforms must be based both on a strong political will and on their wide acceptance and support by the citizens.

The current conjuncture provides a great opportunity, as the commitments made to the country's international creditors, combined with the imposed budgetary surveillance, ensure their implementation over their lifetime, so the bet to be won is their continuation after the end of the commitments. Regarding the issue of public acceptance and support, it is necessary to emphasize the necessity of their implementation, as well as, that the burden of the required fiscal adjustment will be fairly distributed to the citizens, while at the same time will not affect the degree of social cohesion along with the growth prospects of the Greek economy.

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