

Chapter 99

The Causes of the Greek Debt Problem

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ABSTRACT

In Greece, special interest groups were the main drivers of pressure to increase public spending and, by extension, to increase public debt to cover the expenditure by blocking any effort of prudent governance. They were so greedy, that when the funds of public vaults were not sufficient to meet their expectations, they exerted pressures or even extorted the state to engage in public borrowing so as to accrue even greater funds, disregarding the short- and long-term cost of such actions for the state and society. As a result, a vicious circle led to Greek public over-indebtedness in order to support public overspending. It is indicative that the Greek state's primary expenditure rate increased between 2000 and 2009 by 135%. In other words, the citizens were obliged to pay taxes that would support two states: the expenses' level the state had until 2000 and the costs of one more state after 2000-2009.

1. INTRODUCTION

A plethora of papers present and critically discuss the origins and the causes of the Greek fiscal crisis and its implications. Some of the causes are considered to be endogenous and to relate to the structure of the Greek economy and the prolonged macroeconomic imbalances that the Greek economy has sustained, as well as to a more general credibility problem of its macroeconomic policy. Other causes are exogenous and relate to the implications of the recent financial turmoil. The Greek public deficit has

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reached in 2019 at a level of 15.6% of the GDP, that is clearly not sustainable, and so is the trade deficit that is at almost 15% of the GDP.

According to Curetas and Vlamis, (2010), Greek governments that have historically functioned within a weak political system, have repetitively mismanaged the domestic economy adding government debt at a rate that is much higher than the rest of the Eurozone even in periods when the Greek public debt was already more than 100% of GDP. Tsebelis (2015) attributes the Greek crisis to the inability of Greek governments to grasp fundamental features of EU Institutions. As such, blame is directed at the “external Other”—America, Germany, and the infamous Troika—and the “Other within”—corrupt politicians, businessmen and women—and broken neoliberal promises (Kirtsoglou and Theodossopoulos 2010; Herzfeld 2011). Knight (2013) confirms that the Greek crisis is indeed associated with poor government, economic mismanagement, corruption, and public rebellion.

Katsimi and Moutos (2010), state that the Greek crisis is the result of relationships between private interests and the formally elected and appointed custodians of public interest, and a captured politicized government bureaucracy. The confluence of these forces resulted in the pilfering of public funds, rampant tax evasion, and deterioration in the quality of publicly provided goods. Courinchas et al. (2017), support that one possible explanation for the severity of Greece’s crisis is the high level of debt—government, private, and external—at the onset of the crisis.

Argyrou & Tsoukalas (2011), support that the likely causes, mechanics and outcomes of the Greek debt crisis were a) the steady deterioration of Greek macroeconomic fundamentals over 2001-2009 and (b) a double shift in markets’ expectations, from a regime of credible commitment to future EMU participation under an implicit EMU/German guarantee of Greek fiscal liabilities, to a regime of non-credible EMU commitment without fiscal guarantees, respectively occurring in November 2009 and February/March 2010. Matsaganis (2013) states that the huge Greece’s fiscal and trade deficits are to blame for the Greek crisis. Sotriropoulos (2013) states however that there is an overestimation of the size and the salaries in the public sector as well as the pensions paid in Greece.

This paper differs from the extant literature in that it presents a cause of the Greek debt problem that has never been presented before by explaining the role of special interest groups in the creation of the public debt.

The rest of the paper is organized as follows. Section 2 explains what healthy public finances are expected to look like to place the Greek situation in context. Section 3 presents the history of Greek insolvencies; while section 4, describes how the surge in public spending leads to over-lending and over-taxation. Section 5 explains the myth of the use a national currency to treat excessive borrowing. In section 6, the role of special interest groups in the creation of public debt is explained, whereas section 7 proposes the creation of a modern state as a way that deals with deficiencies of the past. Section 8 provides our concluding remarks.

2. HEALTHY PUBLIC FINANCES

Public finances deal with the collection and correct management of the funds that are necessary to cover public spending. Good public finances are a prerequisite for a state’s prosperity, while troubled public finances can ruin a state. For example, public finances have a fierce and quick way of getting back to governments that ignore the importance of good public finances, (OECD, 2015).

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