

Introduction

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In the post-war period, Greece experienced two opposite phases of economic growth. Prior to 1974 it achieved: high growth rates ($\approx 7\%$); enviable price stability ($< 2.5\%$), which enhanced the international competitiveness of Greek products and services and maintained the balance of payments under manageable control; remarkable reduction in unemployment ($< 2.5\%$), and improvement and expansion of social services. Moreover, all these admirable results were achieved with very limited public debt ($< 12.5\%$ of GDP in 1974). After 1974, economic growth fell to about one third ($\approx 2.4\%$) and the unemployment rate, which had more than doubled in the period 1980–2000 ($\approx 6\%$), nearly quadrupled in the decade following 2000 ($\approx 9\%$). The explosive deficits in the balance of payments were contained only thanks to massive aid packages from the EU, and the budget deficits pushed public debt to an unsustainable ratio ($\approx 150\%$ of the GDP in 2011). So now Greece is under the supervision and tutelage of its creditors, and policy makers everywhere worry about the wider implications that an open bankruptcy might have on the stability of international financial markets in general, and on the cohesion of the European Union (EU) in particular.

This unprecedented setback has raised numerous questions: should the economic upheaval in Greece be seen as an isolated event or rather as an episode that might be repeated in other countries? If the answer is that it emanated mainly from processes that are inherent in all representative democracies with more or less free market economies, what can we learn that may be of value in preventing equally catastrophic incidents in other similarly organized countries? Did the accession of Greece to full membership of the EU in 1981, and to the common currency in 2002, contribute to its decline? Greek governments are suspected of having manipulated critical fiscal data in order to comply with the criteria of the Treaty of Maastricht and thus gain admittance to the Eurozone. Assuming that these charges are credible and that the Greek economy was in fact unprepared to absorb the shocks of entry, why has the economic crisis spread to Italy, Spain, Portugal and Ireland? If, as it is commonly proclaimed, the financial aid from northern to southern European countries was intended to facilitate the closing of the gap in their material welfare, why has this convergence failed? Last but not least, if Greece or some other weak European country were to become bankrupt, what would this imply for the European unification experiment, which was not initiated in the 1950s for economic purposes alone, but mainly to fulfil the strategic aspirations of European nations?

In contrast to the Greek edition of the book by Bitros, Karayiannis (2013),¹ in which many of these questions are discussed in considerable detail, the task here is less ambitious. More specifically, the focus is on three objectives. The first is to present a definitive account of what happened during the phases of economic expansion and contraction in Greece and explain why things turned upside down. By highlighting the social, political and economic factors that combined, particularly after 1974, to bring about the unbelievable reversal of fortunes that Greeks have to live with today, citizens in other liberty-loving nations can be made aware of the pitfalls associated with contemporary representative democracy and seek to take control before they are pushed, like Greece, over some dreadful fiscal cliff. The second objective is to examine a sample of key data used in the design and monitoring of public policies, for the purpose of delineating between “statistics” compiled according to internationally respected scientific methods, and government-manipulated statistics, which are now sarcastically referred to by the world’s media as “Greek statistics”. Clearly, what is at stake here is the credibility of data from Greece, so clarifying the nature and extent of government influences on those data used for policy applications would go a long way towards limiting the collateral damage from the generalized innuendos about Greek statistics. Lastly, the third objective is to assess Greece’s prospects of returning sometime soon to robust economic growth, which is the only way of confronting the imminent threat of an open bankruptcy and alleviating the dreadful social problems of unemployment and poverty.

To pursue these objectives, I was fortunate to secure the cooperation of a distinguished group of Greek research economists who are well known for breadth of knowledge and experience in their fields of specialization. The papers they have contributed are arranged below in the same order as the three objectives referred to above. In particular, the first paper deals with the forces that predicated the decline of economic growth in Greece. The next three papers focus on the quality of certain key data sets used in the design and implementation of economic policies. The fifth paper sheds light on the problem of the underground economy, which together with corruption, attracts so much attention in the literature. Finally, the sixth paper employs standard econometric techniques to predict the trend rate of economic growth in the next few years. As for the overall conclusions that emerge, these may be summarized as follows.

Prior to 1974, the political and social climate in Greece was friendly to entrepreneurship, domestic and foreign. The public administration was significantly dysfunctional, but because it was organized hierarchically it had limited excuses to delay decision making and to build corrupt relationships with the citizens. Fiscal policies, although oriented towards public consumption, covered the needs for public

¹G. C. Bitros, A. D. Karayiannis, *Creative Crisis in Democracy and Economy*, forthcoming in 2013 from Springer Publishers. The 9th chapter in this edition, which appears with some changes as the first paper in this special issue of JESM, summarizes the last 6 chapters of the edition in Greek, which was published in Athens in 2011 by Papazisis Publishers.

infrastructure adequately. Monetary policies were aimed at price stability, whereas the inefficiencies which stemmed from the highly distortional credit policies were subdued. As a result, at least institutions and macroeconomic policies were friendly towards economic growth, and contributed results which went a long way towards offsetting the adverse effects of the public administration and the distortions of microeconomic and structural policies. However, after 1974 the social sentiment and all institutions and macroeconomic policies, which had previously favoured economic growth, reversed, and the public administration and structural policies, which had hitherto inhibited economic growth, were reinforced by party politics. If, in addition to the above, we reckon that after 1974, and especially after 1981, governments did nothing to prepare the country for survival within the competitive environment of the EU, Greece's decline was all but certain.

With regard to the quality of available statistics in Greece, the evidence points clearly to the following conclusions:

- As a rule, statistics published by government or private agencies are revised frequently, and the revisions are not accepted without reservations among specialists. In Greece, for example, many researchers expressed reservations regarding, say, the revisions of national income accounts in the 1970s and 1980s. Yet their reservations did not extend beyond a technical discussion among economists, statisticians and other specialists, and did not give rise to suspicions or comments about expedient distortions on the part of their publishers.
- Beginning in the 1990s, the revisions of certain statistics such as the rates of economic growth, inflation, unemployment, public deficits and public debt became the subject of contentious debate among the political parties, the acrimony of which increased significantly during the last decade. As a result, experts and policy makers both in Greece and abroad started to question the trustworthiness of the revisions, and to refer to data from Greece as “Greek statistics”, implying data “massaged” to serve the purposes of those who publish them. One of the main objectives here is to drive a wedge between truth and fiction in this regard, and we have succeeded in doing so by finding that, with the exception of a few politically sensitive time series, the biases in all other Greek statistics can be attributed to differences in data compilation methods, so that in fact, for use in academic research and in economic policy, they are of comparable quality to those published in other countries.
- The statistics from Greece became internationally infamous because of the suspicion that Greek governments had “massaged” certain critical time series to appear better than they were in reality, in order to get Greece into the European Union (EU). This suspicion is not baseless. From 1995 onwards, successive Greek governments made efforts to reduce public deficits down to the Maastricht limit. Their efforts paid off in 1998–1999. But these years were very crucial because they were the years of observation, which would predicate the decision of the EU authorities. At that time everything was OK, and no suspicions would

have arisen if the stabilization of public finances had been permanent. However, soon after the years of observation and Greece's entry into the EU, public deficits started to accelerate again. This development implied that, for as long as Greek governments were obliged to introduce measures to gain entrance into the Eurozone, they did so, but once that objective had been achieved, they returned to their old practices whereby they increased public expenditure in order to win re-election. Thus, in the light of the current difficulty in reducing public spending, Eurocrats are justified in suspecting that data had been "massaged" and that stabilization policies had, in reality, never been applied.

- Not unrelated to the doubts about the quality of reported statistics is the problem of the nature and extent of the underground economy in Greece. On this issue, it has been ascertained that the informal sector in Greece is of the same order as that of many other European countries. Hence, whatever the biases in the Greek statistics which derive from this source, they should not be attributed to ulterior political interventions, but to the inherent technical difficulties which vitiate the efforts to capture illicit economic transactions.

Finally, regarding the prospects of Greece returning to a path of robust economic growth in the next few years, the estimates obtained in the last paper are significantly less than inspiring. With a trend growth rate of -1.5% in the next 3–4 critical years, Greece runs the risk of getting trapped on a low growth equilibrium path for many years, if not decades to come. That is why the country desperately needs revolutionary structural reforms which go well beyond those the Greek government has so far agreed to under pressure from its creditors.

In closing, I should like to point out that in my effort to put together this special issue, I incurred heavy debts to many colleagues, associates and friends. To those who were able to contribute, admittedly under very difficult circumstances, as well as to those who committed to contribute and were unable to honour their commitments due to unexpected changes in their priorities, I express my thanks and sincere appreciation. And, of course, the same holds true for the editor of the *Journal of Economic and Social Measurement*, Dr. Charles Renfro, who first had the idea for this undertaking and then the patience to wait throughout its long gestation period.

Athens, Greece,
October 2012.