The deficiencies of the Medium Term Fiscal Strategy framework

Christos Staikouras
MP – Fthiotida, Nea Democratia Political Party - Deputy Head, Economic Policy Sector
Associate Professor, Athens University of Economics and Business

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Fiscal strategy frameworks are successfully applied in many countries, however with different policies and methods. The current Medium Term Fiscal Strategy (MTFS) framework provides an overview of the commitments undertaken by the Government for the coming years. It sets the targets for fiscal consolidation and sustainable development.
Can anyone disagree with these targets? We certainly do not.
Can anyone be confident of achieving them? We believe that, by the provided policies, can not.
This is due to the incorrect policy choices and practices of the Government, due to the wrong "treatment" applied to deal with already existent "diseases" of the Greek Economy and due to its implementation. The negative results of these practices are measurable.

More specifically, the current planning of the Government:

1st. Is based on overoptimistic estimates.
For example, the forecast for a slowdown in recession during 2011 and for a positive rate during 2012 seems to be out of place and time.

2nd. Incorporates many contradictions.
Indicatively it abolishes, as well as the Major Opposition Party has proposed, the "*Occupying*" at home measure (the measure of properly documenting the possession of the house property), but introduces special levies on property.

3rd. Confirms the Government's inconsistencies.
Retractions in a series of measures, such as tax refunds based on spending receipts and tax-free limits, betray lack of planning.

4th. Encompasses profoundly deadlocked policy choices.
The new, stricter measures represent a Government obsession with the same, proved wrong prescription. Same means are used in order to achieve targets, despite the increasingly weaker results. Indicatively, public debt, despite the new, large income reductions and the privatization proceeds is estimated in 2015 to be the same as that envisaged by the Memorandum one year ago, without these interventions. As a result, we return now to where we stood a year ago, despite the large and expanding citizens' sacrifices.

5th. Is socially unfair.
It includes horizontal tax raids against those who have already paid to cover the failures of economic policy and the Government's inability to tackle tax evasion. In parallel, the Government is also proceeding in salary reductions, cuts in pensions and increased contributions for all professionals, merchants and farmers. This gives the final blow to the economy.

6th. Is economically inefficient.
Measures amounting for EUR 21 billion are undertaken during 2011 to reduce the deficit by just EUR 7 billion. 2/3 of the sacrifices of the citizens is being wasted. It is a monument of economic inefficiency. Indeed, the Government insists on its tax lust. Although, in line with the Bank of Greece, "*further increasing the tax burden on taxpayers would end already not only to exacerbate the recession but also to reduce rather than increase revenues*". This will ultimately lead to a depletion of the tax-paying ability of households and businesses, increasing tax avoidance and tax evasion.

7th. Is insufficient.
The ratio revenue increase/expenditure cut is about 50/50. Where, in accordance with international experience and literature, viable fiscal adjustment should be based primarily on the effective containment of primary expenditure. But according to the plan, primary expenditure is estimated to decline by only EUR 1 billion over the next five years. It is obvious that the Government is afraid of its “comrades” and usual “customers”.

8th. Is incomplete.
The MTFS framework does not contain realistic proposals in order to address the issue of the huge public debt. Public debt is expected to reach the level of 140% of GDP in 2015 from 143% of GDP in 2010. Thus, it is estimated to decline by only 3 percentage points of GDP in 5 years, despite the unprecedented sacrifices of the Greek people and the privatizations proceeds amounting for EUR 50 billion. Additionally, interest expenditure will peak at EUR 23 billion in 2015. As a result, total interest expenditure will be formed at EUR 110 billion for the period 2010-2015, the same amount as the financial aid to our country by its partners.

9th. Is not growth-friendly/oriented.
The Public Investment Program is being slashed further, for the sixth time since the beginning of 2010, on the altar of covering the revenue “*black hole*”, amidst conditions of unprecedented recession and unemployment.

10th. Is dominated by “cash panic” on the critical issue of privatizations.
Based on the applied policy of the first 20 months, preset targets and timetables cause reasonable questions and concerns about procedures, assessments and the time needed to safeguard the public interests and to ensure transparency.

What is the stance of Nea Democratia?
Nea Democratia has expressed its full support to the success of the adjustment program right from the beginning. Actually, its President, A. Samaras, has been more aggressive for deficit elimination, debt reduction, extensive privatizations, severe cuts in public expenditures and capitalizing on public property. Most of these were policy measures firstly proposed by us.
We fully agree with the primary targets and the main policy instruments of the plan. We have contributed on the plan, on a number of occasions we have pushed for reforms and measures, we have done nothing to obstruct its implementation. But the current policy mix does not work, it is inefficient. And the numbers are fully supportive to that.
Additionally, Nea Democratia and its President have never rallied people against the plan. We have never taken them down the street, like the Socialists did in the very recent past. We are only trying to provide a realistic and feasible alternative to these people. This is why we are asking for amendments and corrections to the plan.
This is why we have voted in favour of many articles of the implementation law (i.e privatisations, cuts in expenditure).

Is there an alternative?
The proposal of Nea Democratia, which provides for economic recovery coupled with the necessary fiscal adjustment, is realistic.
It is based on the restart of economic activity, on deficit reduction towards a balanced budget and on debt impairment through the development of state property.
In particular, the simultaneous implementation of specific policies with measurable results is suggested, such as reducing tax rates, increasing public investment through the temporary redistribution of national funds within the NSRF, enhancing the liquidity of the economy through the repayment of “domestic debt”, activating the automatic stabilizers of the economy through remedial measures fixing injustices, implementing compensating recovery-oriented measures of zero or low budgetary cost.

Through the recovery of the economy, revenues will be enhanced, and by expenditure cuts spending will be reduced.
Expenditure cuts which, in most cases, coincide with those proposed by the Government in the MTFS, such as:

- The rationalization of the wage bill by limiting recruitment in the public sector. Indeed, our proposal includes additional measures like freezing recruitment for 3 years and the implementation of the “labour reserve” measure.
- Reducing operating costs by the abolishment and mergers of public entities, especially when the Government has already created 41 new General and Special Secretariats, legal entities and independent agencies.
- The reorganization of state owned enterprises, the reduction of their operating costs and the elimination of certain unnatural privileges granted to labour unions.
- Streamlining of healthcare costs and improving outcomes in the health sector.
- Enhancing effectiveness of social allowances by streamlining the mechanisms of income redistribution.

Nowadays, the challenge for our country remains, far from narrow selfish inertia and through cooperation with our partners, to find the best exit strategy from the crisis.