



Has Greece Done Enough?

Paolo Mauro and Anders Åslund debate whether the austerity undertaken by Greece has been sufficient to merit more help from Europe.

Transcript of interview recorded January 29, 2015. © Peterson Institute for International Economics.

Steve Weisman: A newly elected government in Greece is demanding relief from the tough austerity measures imposed in the last few years. Has Greece done enough to earn credit? This is Steve Weisman at the Peterson Institute, where there are differing views as there are even in Europe. First, Paolo Mauro, what has Greece done in terms of reducing its fiscal deficit?

Paolo Mauro: Steve, I think that Greece has done an enormous adjustment on the fiscal. If you look at the headline numbers, Greece started out from a terrible situation, in fact, a scandalous deficit in 2009 of 15 percent of GDP and the road has been very difficult particularly for the Greek people. But right now if you look at the headline numbers on the fiscal deficit we are at about 2.5 to 3 percent of GDP. If you look at the primary balance, which a lot of analysts look at, that is a surplus of 1.5 to 2 percent of GDP.

Steve Weisman: Excuse me for interrupting, but define primary balance.

Paolo Mauro: The fiscal primary balance is the fiscal balance subtracting interest payments. Of course, a lot of debt implies that Greece has to pay a lot on its interest bill. I would say that now the priority is to reduce uncertainty and to move toward growth. That's what's really made the situation very difficult, the lack of economic growth.

Steve Weisman: It has reduced its fiscal deficit as a percentage of GDP. Anders Åslund, in your view, it's too little and too late?

Anders Åslund: Indeed, too little and too late. Therefore, the cost has been maximal and the benefit has been minimal. So what should have been done? In 2009, Greece had about a deficit of almost 16 percent of GDP. In 2010, according to IMF, Greece made a fiscal adjustment of only 2 percent of GDP. While Latvia, which was in a similar situation, had a fiscal adjustment of 9 percent of GDP.

When you are in trouble it's important to get ahead of the curve. You need to front-load fiscal adjustment. That's exactly what Latvia, Estonia, and Lithuania did when they were in serious crisis in 2009. That's what Greece has not done. If you're not doing what you have to do early on, the cost becomes higher.

Greece has now seen six years of declining GDP, a total of 24 percent. This is evidence of a very poor economic policy. So what you can say about Greece, half-measures produce very poor results in a fiscal crisis.

Steve Weisman: A new government is demanding relief. What should the Europeans say to Athens?

Anders Åslund: Of course now it's a difficult situation because you have a government that is totally economically mad, wants to increase public expenditure when they don't have financing. Greece's fundamental problem is too-large public expenditures and too-little markets and too-high taxes. This government seems to be going in the direction of aggravating all the problems.

Steve Weisman: Paolo, Greece has done a lot. What should Europe do to achieve further structural reforms, deficit control, but also growth?

Paolo Mauro: Let me come back for a moment of where we're coming from. I disagree with a lot of things that my colleague Anders says.

First, the situation in Greece and Latvia and the Baltics was completely different. In the case of the Baltics there was a lot more consensus given the proximity to Russia to undertake whatever was necessary to be more integrated with Europe with the euro zone. And even more important on the economic side, the openness of the economy of the Baltics made it much easier to have a quick rebound, whereas Greece not having a lot of exports as a share of GDP had the much harder time in recovering.

I think a lot of things were accomplished during these times. When you're referring to the fiscal situation in Greece, I think we're looking at ancient history. A lot of pension reforms have been done and the expenditure as a share of GDP right now in Greece is the same as Germany. In fact, it's lower than in France. Is it perfect? Absolutely not. Should things have been done earlier? Yes, they should have collected more revenues earlier on. They should have been much cleaner in their approach to cutting expenditures, focusing on exactly what had to go, so obviously reducing uncertainty, cutting expenditures sooner would have helped; but we are where we are.

I do want to emphasize that we often, as macro-economists, talk about the deficit in terms of GDP, but let's look at it from the perspective of the man in the street in Greece. If you look at it from that perspective and you look at real government expenditure per person it has collapsed by 30 percent since the beginning of the crisis. Why? Because output collapsed and revenues were, as a consequence, much lower. They had to contain the deficit and actually reduce it. So the result is that for the average citizen the provision of public services has collapsed. I think it's important that Europe in looking at the situation is mindful of the human cost for the typical Greek citizen. Where this is going to go, of course, we can debate and I'm sure we'll debate over the next few weeks, but I think it's important to keep that in mind.

Steve Weisman: We won't be able to resolve it today. But Anders, do you want to make a comment about Paolo's description?

Anders Åslund: Of course. Public expenditure in Greece has persistently been over 50 percent and it peaked at 59 percent of GDP in 2013, according to Eurostat, which is the best statistics that we have. And the Baltic countries have about 35 percent of GDP in public expenditure. It's a world of difference. It's more than 20 percent of GDP difference.

Of course the Greeks have been suffering, but they've been suffering because of the government's bad policy, which were half-measures. If a substantial early front-loaded fiscal consolidation had been undertaken, the Greeks would not have been suffering so much. So it's

not an argument that because we have done half-measures, we have to continue doing half-measures, which is very much what that argument amounts to if we take seriously the argument that because we have done half-measures we need to pursue a destructive economic policy. It was by no means obvious that the Baltic countries would increase their exports. It's happened because of substantial structural reforms.

Greece has just about the worst business environment and the greatest corruption in Europe, while the Baltic countries had very good business environments because they have pursued structural reforms. And if you do an early fiscal adjustment, it's so much easier to do structural reforms and then you get the supply if it's in exports, which as you rightly state, Greece has not got, but it was not because it was impossible. The reason is that it's impossible to invest in Greece. It's impossible to grow companies because there are all kinds of regulatory glass ceilings, its heavy taxation and high corruption. Then you don't get growth. Growth is not a matter of macroeconomics stimulus, it's a matter of letting the market and the business bring you.

Steve Weisman: Just to close, do you agree that the key to growth is more in terms of the structural reforms than in changing fiscal policies?

Paolo Mauro: I think everybody agrees that growth is the key priority. How we get more growth I would say that certainly euro area monetary policy is something that plays a huge role. I think that a lot will have to come from making sure that we don't impose an excessive burden in terms of requiring excessive interest payments, so considering an appropriate amount of debt relief, I think, is the right thing to do. I would certainly make the case to make that contingent on development in economic growth.

I think, that said, these things take time. Structural reform obviously is always a good thing to do, but we have to be mindful that it takes time for the effects to come through.

Steve Weisman: I invite viewers and readers and listeners to pay attention to the Peterson Institute website where we will be rolling out a lot of different views about the outlook in Greece. But thank you both very much for talking today.



