

## **What Greece should avoid and what it should strive for in 2012**

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As Greece enters the third and most difficult year of the crisis, I will focus on only three proposals describing what Greece should avoid in any way possible, and what it should strive for at all cost.

What should Greece avoid at all cost? Exiting the euro. This is the first goal.

Besides the crucial political and national reasons that place Greece at the nucleus of Europe, the economic reasons are equally important.

What would happen if Greece were to leave the euro? First, Greece will not go “back to the drachma” at the old exchange rate of 340.75 drachmas per euro, but to a New Drachma (NDR) with an exchange rate of 1,000 NDR per euro. This means that all imported goods (and many Greek substitutes) will suddenly be almost three times as expensive compared to today. Greeks will suddenly become at least 60% poorer. Second, Greece, unable to borrow from the EU or from the financial markets, will print a large number of new drachmas to be able to pay public sector salaries and pensions. This will result in hyperinflation and long term very serious damage to the Greek economy. Third, and very important, expecting the exit of Greece from the euro, Greeks will withdraw their deposits in euros (what little has been left) from the banks because of the fear of a forcible conversion to new drachmas at a rate they cannot predict. The resulting ruin of the Greek banks (before the circulation of the new drachma) will be disastrous for Greece. For these reasons, leaving the euro will be a catastrophe for Greece. On the contrary, in the Eurozone, Greece is able to borrow at very beneficial terms and is given time to recover.

Even if things go really wrong and Greece is forced to declare an uncontrolled bankruptcy, it should still not leave the euro. In case of an uncontrolled bankruptcy, Greece will be totally cut off from the international financial and banking system, and will have to create a surplus in the public sector. To do that, it would need painful restrictions in public spending. Even in that case, it is much better for Greece to remain in the euro and reduce its public sector by 20-30% rather than leave the euro resulting in the chaotic ruin of the banks, the drastic reduction of the purchasing power of all Greeks by 60% or more, and hyperinflation.

What should Greece try to achieve in 2012 at all costs? The eradication of tax evasion. This is the second target.

Greece needs a public sector surplus to be able to recover, so as to allow for necessary public investment, among other reasons. Surpluses cannot be achieved with the present tax evasion. For

Greece to survive, it needs a reduction of tax evasion by 50%. New institutions are needed to achieve that goal. Greece needs a new, modern tax collection mechanism, manned with truly incorruptible individuals, and tax courts with swift dispute resolution that are beyond the control of the politicians. Besides the immorality of fraud, tax evasion is deeply undemocratic. The ones in power do not pay taxes and their tax evasion is facilitated by the politicians who have in advance declared themselves innocent by passing laws that give them immunity.

The third target is the drastic reduction of the general corruption in the public sector. There is widespread corruption in the public sector, besides the corruption of the tax evasion. Not only there are hundreds of thousands unneeded civil servants, but additionally the extent of corruption in the public sector is so high that it increases spending for procurement by 30-50%. It is telling that after two years of crisis, and supposed shrinking of the public sector, the non-wage spending by ministries is larger than in 2009! Another feature of extreme corruption is that political parties, newspapers, and TV stations owe billions of euros to the almost bankrupt Greek banks, and the banks do not demand the money back under pressure from the politicians. Leaving aside tax evasion, corruption in procurement increases public sector expenditure by 6-10% of GDP. The eradication of public sector corruption alone would balance the public sector budget and create surpluses for investments needed to grow the economy.

Greece has passed the point of being at the edge of the cliff. It has already fallen off the cliff, and is desperately holding on a small tree that grew on the rocks of the slope. If all three proposals outlined above are not accomplished, the future will be very gloomy not only for the present but also for the next two generations of Greeks. The politicians and other Greek “leaders” should seriously consider how many generations of Greeks will have to suffer from their unscrupulous and opportunistic behavior.