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The Economic Crisis (2008) and Effects on Income. The Case of Greece

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Abstract

This paper investigates the impact on income from the economic crisis of 2008, especially in the case of Greece. We outline literature results relating to income effects of economic crises in various parts of the world in general and the recent economic crisis in particular. What if revealed is that crises always affect the distribution of income and aggravate the problem of poverty, since the weight tends to be unevenly distributed. During the recent economic crisis, risk of poverty has increased, employment prospects are deteriorating and fiscal consolidation measures tend to reinforce inequality. Based on the results of an empirical investigation of secondary data on the income tax and its share on professional and income groups, we study the effects of the economic crisis and the measures implemented to deal with it in Greece. During the recent crisis in Greece, despite the reduction in income, total tax burden was increased due to the increased share of indirect taxes in total tax revenue. Furthermore the share of wages on GDP declined dramatically. It is the lower income groups that shouldered the brunt of fiscal adjustment. After the applied measures, a redistribution of income from the middle and mainly from low to high and very high income groups is recorded, despite the fact that wages and salaries, much less than corporate profits, contribute to overall inequality mainly due to tax evasion. The main mechanism responsible for unequal income distribution involves anti-development and anti-social austerity measures (fiscal and institutional arrangements to enhance labour market flexibility, etc.) implemented under the Memorandum, which led to an increase in the tax burden, mostly of lower incomes, a reduction on available income of households and a deterioration in indicators of economic and social welfare, income inequality and absolute poverty. The economic crisis and the measures implemented to deal with it in Greece, as in other regions of the world in the past and today, is utilized for a high-intensity (in size) and area (in the range of social groups affected) redistribution of wealth, through which the poor become poorer and the rich richer. The European strategy to address the crisis in the Eurozone and especially in Greece reinforced the inequalities and therefore operates as an obstacle to economic recovery and the equitable sharing of its results.

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Keywords: economic crisis; income effects; Greece

1. Introduction

Which are the consequences of economic crises on income distribution? Do income inequalities increase or not during a crisis period? Which are the consequences on income of the recent economic crisis and the subsequent measures applied in the case of Greece? How is the burden of addressing the crisis amortized between different professional - income groups? These are some of the questions attempted to be addressed in this paper. For this purpose, relevant literature is utilized and empirical date are analyzed, regarding incomes, taxation and the share on them among different professional – income groups in Greece.

2. Economic crises and inequalities, a literature review

In order to assess the Kuznets hypothesis, especially to the degree that this hypothesis was stated as a relationship regarding mainly national income with wages inequalities, differences between countries and annual trends were explored regarding inequality. Relevant data justifies a basic precondition of the Kuznets hypothesis that inequality tends to decline with economic progress during successful industrialization. Data show that changes in the global economic environment, regardless national policies, create a general inequality climate almost everywhere for developing and developed countries that seems to happen due to global change and variability of global macroeconomic conditions (James K. Galbraith, Hyunsub Kum, 2003, p. 527–556).

Research on the impact of deregulation and globalization on income inequalities within countries shows that today's levels of globalization have a series of common characteristics to the 1870-1914 period, but at the same time is substantially different. Today, just like those days, many developing and transitional countries failed to be included in global economy, despite their significant deregulation and opening of their economies. Weak domestic conditions in sectors like infrastructure, human capital and institutions and others are important factors that explain why some regions fail to mount in global economy, despite broad political reforms (Giovanni Andrea Cornia, 2003, p. 581–616).

Research in income inequality (wages, capital) in the U.S.A. during the 1913-1998 period, shows that the shock that capital owners suffered after the Big Crisis and the Second World War seems to have had a permanent result, since the top of capital incomes are still lower in the end of 1990 than before the Second World War, due to progressive taxation. International comparisons show a decrease of inequality during the first half of the 20th century. This reduction on inequalities mainly happened due to random factors (crises, inflation and wars) and was boosted by political factors (progressive taxation). Decadence of progressive taxations that is observed since the beginning of 1980 (especially in the U.S.A. and the United Kingdom) could be a motivation to revitalize high wealth concentration (Thomas Piketty, Emmanuel Saez, 2001, p. 32-33).

A research paper that analyses social consequences of crises on mostly affected Asian countries, ascertains that millions of people have lost their jobs while problems related to poverty and income inequalities have been rapidly deteriorated. An analysis on the effects of IMF programs on unemployment, poverty and income inequality, based on a set of data comprised of all countries that have taken financial support from the IMF from 1973 to 1994, shows that a crisis deteriorates the poverty problems for extended time periods, even if it does not have a significant effect on total income distribution. This happens because the burden of the crises tends to distribute in an unequal manner. Poor, less educated, less experienced, and young and women workers are the ones mostly hurt (Jong-Wha Lee and Changyong Rhee, 1998, UNDP Working paper 33).

A research paper dealing with changes on the perception of the limits of poverty during the Russian crisis (1993-1996), shows that the real per capita income was reduced by 15% to 20%. At the same time income inequality was significantly increased. On the public perception regarding the minimum income needed to cope in these exceptional