

1. ENTREPRENEURSHIP ON THE TAXPAYER'S TAB

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Entrepreneurship on the taxpayer's tab

COMMENTARY | BY MANOS MATSAGANIS *

The Greek state has been regularly subsidizing freelancers (as well as farmers and small business owners) in myriad ways for the past two centuries. It allows them to encroach on public spaces (sidewalks, land and beaches); it provides them with them cheap loans (as the 1967-74 military dictatorship did for farmers); and it reduces their social tax and social security contributions (with Law 4670/2020, which the government passed even though it scrapped efforts by the country's lenders to make the terms of insurance fairer across the sectors).

Above all, the state subsidizes self-employment by turning a blind eye to tax evasion.

It's a policy that brings results. According to data from the Organization for Economic Cooperation and Development (OECD), Greece has the highest ratio of self-employed professionals in the European Union (at 30.3% in 2021 against an average of 15.3%), and even surpasses less developed countries like Chile, Costa Rica or Turkey.

Thanks to the generous support of its taxpayers, Greece produces more lawyers and doctors (but also engineers and architects) than it could possibly need.

They go on to acquire an inordinate amount of political influence, to occupy positions of power and to skew public policy in their favor by pushing through legislation that creates artificial revenue streams (like increasing the kind of work lawyers do or preventing out-of-court settlements, for example) and blackmailing governments even in times of emergencies, as was the case during the financial crisis.

The beneficiaries show their gratitude to the Greek state by dodging their tax obligations as a matter of course. The extent of this evasion

was indicated by the recent figures released by the Independent Authority for Public Revenue (AADE), which found that more than half of the country's freelancers (54%) declare zero income, while 31% declare an annual income of under 10,000 euros.

Taxation on self-employed professionals accounts for just 2.1% of the country's total tax revenues, compared with 5.1% in the EU (per Eurostat). In other words, the average freelancer in Greece contributes five times less to the tax burden than their European counterpart if we take into account that we have twice as many self-employed professionals than the bloc average. Their overall share in tax revenues is two and a half times smaller.

Every once in a while, the situation gets completely out of hand, prompting the government in power to take some sort of action. This happened in 1994-1999, when the then finance minister, Alekos Papadopoulos, introduced the so-called "objective criteria," based on assets and consumption patterns, to more accurately reflect professionals' income.

Despite the reactions from the professionals impacted by the decision, ample demagoguery from the opposition and pushback from inside his party, the measure accomplished its aim by restoring some sense of justice, increasing tax revenues, contributing to fiscal reform and helping the government of Kostas Simitis get Greece in the eurozone.

The recent announcement by the Finance Ministry of a new baseline tax for freelancers has stirred a sense of déjà vu among older readers: We have seen it all before, 30 years ago – the pushback from the professionals impacted, the populist reaction from the opposition and reactions from

inside the governing party.

Are objective criteria the answer, then? Not exactly. Not everyone who declares an income below the minimum tax threshold is a tax evader: Some are simply struggling to survive, and lack alternatives. And the new measures will not do much to rein in well-paid lawyers and doctors; in fact, by declaring a monthly income of 1,200 euros and up, they will benefit from the reduction of the fee for practicing their profession.

So what is the answer? In the short term, there's little that can be done. In the United States, where tax evasion sends people to prison, the average freelancer hides more than their Greek counterparts from the tax man.

The big difference lies in the fact that the self-employed account for 6.6% of the American workforce, when in Greece they make up 30.3%.

And this is the crux of the matter. In the medium term, public policy must be geared toward canceling every law, decree and amendment that stands in the way of businesses growing and hiring staff. The state subsidizing self-employment is the biggest of these obstacles.

This is, after all, one of the recommendations put forward by the Pissarides Committee for improving the country's growth model. In the three years that have elapsed since the committee's report was welcomed with so much fanfare, the self-employed have received even more assistance. Restoring the baseline tax is a small, timid step in the opposite direction.

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