Funding the Future

Greece has lost an estimated US$160 billion in capital ...

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Global Financial Integrity lead economist, Dev Kar, has prepared an analysis on the Greek financial crisis for the blog of the Task Force on Financial Integrity & Economic Development in which he looks at the**role** illicit financial flows- Greece lost an estimated US$160 billion in unrecorded transfers through its balance of payments in the last decade-played leading up to the current financial crisis.

In the piece Mr. Kar writes:

*Even as Greece's debt burden grew ever more onerous, its burgeoning underground economy fueled massive illicit financial flows, or illegal capital flight, out of the country. Based on well-established economic models, Global Financial Integrity (GFI) estimates that over the past decade ending 2009, Greece lost an estimated US$160 billion in unrecorded transfers through its balance of payments***.**

Mr. Kar goes on to note that, paradoxically enough, Greek traders manipulated customs invoices to sneak illicit capital into the country. These inflows, due to their illicit nature, did not contribute to the solvency or growth of the Greek economy. Mr. Kar writes:

Interestingly, according to the study conducted at GFI, there were illicit inflows into Greece which totaled about US$96 billion through the misinvoicing of trade transactions, probably as a result of import duty evasion and smugglingâ€šÃ„¶As illicit inflows are unrecorded, they escape the government's tax net and cannot be used to sustain high-quality economic growthâ€šÃ„¶Even as Greece "enjoyed" illicit inflows every single year from 2000-2009 through trade misinvoicing, the country was being pushed to the verge of bankruptcy!

All such inflows ever accomplished were to further enrich the corrupt and worsen the distribution of income. The crisis should prompt economists to revisit the issue of illicit inflows.

Mr. Kar notes that "statistical obscuration" enabled Greece to fool the world, and even gain acceptance into the European Union. According to Mr. Kar, the IMF should adopt new assessment and monitoring methods to prevent countries being able to present facades which hide internal economic trouble.

It is ironic that an IMF assessment of Greece's statistical system in 2002/03 gave high marks for professional integrity, accuracy, and reliability when in fact we have now learned that the Greek government has been fudging the books for a long time. Only recently, long after the horse bolted from the barn, the Eurostat, the European Union's statistical arm, acknowledged that statistical obscuration is a fact of life in Greece and has probably contributed to the country's acceptance into the European Union. Even as late as last year, Greece upped its fiscal deficit to 13.6% of GDP from the previously stated 12.9%. In my experience, the IMF's statistical assessment methods are in dire need of a thorough revamping, moving away from a method based on tacit official self-assessments and towards more hands-on and independent assessments. A new assessment method must include consistency checks for the entire macroeconomic accounts and feedback from international, not just domestic, users as is currently the practice. In the end, the IMF must be the early bearer of bad news.

In looking ahead Mr. Kar writes:

How do we see the crisis unfolding and how will it end? Judging by the violent street protests in Greece in recent days, it may not be feasible to place the Greek economy on a sustainable path based on fiscal adjustments alone. Some sort of debt restructuring-a kinder, gentler version of outright debt default-may be necessary, even inevitable, to help Greeks bite the bullet. This calls for European leaders and the IMF to exercise the utmost acumen and urgency to contain the crisis through a regimen of adjustment policies that will be painful but one that the Greeks can live with. The alternative is chaos and contagion leading perhaps to an unraveling of the European Union.

The piece in full may be viewed at **www.financialtaskforce.org.**