

**PhD Thesis: The Evolution and the Macroeconomic Impact of the Greek Tax System
Reforms from 1974 until Today. Findings, Prospects and Key Recommendations**

by

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Abstract

The purpose of this Ph.D. Thesis is to study the evolution of the tax system and the macroeconomic impact of tax changes. At first, we provide a legal documentation that is conducted under a thorough review of tax legislation and create a dataset, consisting of 120 Laws that brought significant changes in the vast majority of categories of taxes in Greece from 1974 to 2018. It is noteworthy that a contribution is to provide not only a legal documentation, which is carried out under a thorough review of tax legislation, but also create an exhaustive Tax Law Database consisting of Laws that brought significant changes in the tax system and more importantly covered the vast majority of categories of taxes in Greece from 1974-2018. It is critical to mention that except for a reliable documentation, in addition to Laws, we have also collected material from budgets, public finance reports, national statistics and reports from the OECD, IMF and European Commission to understand the motivation behind the exercise of tax policy changes, provide with critical insights regarding the Greek tax system and shed light on its effects. From empirical point of view, we adopted an empirical approach using VAR models to capture the macroeconomic impact of tax changes for the examined period. Therefore, we apply VAR models to focus on the effects of the total tax rate on real GDP growth not only at the overall level but also the effects of personal income tax and tax on goods and services. It is crucial to emphasize that the personal income tax and the tax on goods and services were the main instruments for generating tax revenues during the economic crisis as it has been shown in our relevant analysis in tax revenue trends section. In addition, we examined the dynamic relationship between tax revenues and other national accounts such as gross fixed capital formation, government consumption expenditure, and household consumption. Given the crucial role of government spending and debt sustainability, we also apply a general VAR model that allows us to estimate the impact of tax and government expenditures policies on economic growth. In a nutshell, our empirical analysis shows that the tax rate negatively affects GDP growth. Moreover, our estimation result suggests that personal income taxes, tax on goods and services, debt, general government consumption expenditure, and household consumption are negatively correlated with GDP growth. Also, property taxes are positively correlated with gross fixed capital formation, debt is positively correlated with personal income tax and government expenditures with tax on goods and services. The analysis of the coefficients suggests that income taxes were the most important factor in debt servicing, which had a negative impact on growth, and taxes on goods and services (transaction taxes) served mainly to address difficulties in government spending. Increased government spending and household consumption have a negative effect on growth and investment, while property taxes are positively correlated with investment in fixed assets. Government spending is negatively correlated with gross fixed capital formation. Moreover, we focus on examining the short-run relationship among real GDP growth, debt, general government consumption expenditure and tax rates. Our estimation result suggests that

debt, government spending and the level of taxation are negatively correlated with GDP. In this context, policymakers should pursue a strategy that promotes the rationalization of government spending and the sustainability of debt, keeping the revenue capacity at a level that does not harm long-term growth. As far as historical mapping is concerned, key historical factors that determined the macroeconomic environment and the economic development policies that were implemented, affected to a great extent the implemented fiscal and tax policy. Based on the above, Greece constitutes a consistent example in which the relationship between economic and fiscal policy can now be studied due to its macroeconomic, political and historical context. The historical mapping and documentation on tax framework that is attempted to be achieved reflects that implemented policies must consider the impact on the fiscal level, debt sustainability, economic growth and the robustness of tax revenues. By synthesizing the research requirements, we arrive at the basic dimensions of the reform process, the prerequisite of which is the historical and legal documentation, the analysis of the framework and historical trends for the exercise of consistent fiscal and macroeconomic policy.