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Greece's Net Debt Is 18% of GDP, Not 175%. What's Germany's?

Before imposing another round of austerity on Greece, Germany should fix its own accounting problem — by calculating Greek debt, and its own, with accepted international standards.

As Greek citizens head for the polls this Sunday, German officials have not missed the chance to remind Greece that it must fulfill its debt obligations. This means adhering to an unprecedented austerity which has depressed the Greek economy.

The trouble is that Germany has been overestimating Greece's debt by failing to follow the International Public Sector Accounting Standards (IPSAS), which measure liabilities and assets over time.

IPSAS standards are similar to those used by leading governments, businesses, banks and investors at all levels, according to Professor Jacob Soll. "In fact, the debt has been calculated to be larger than it actually is, or would be if one used IPSAS," writes Soll in a recent *New York Times* op-ed.

Just how much is Greek debt overestimated?

The answer is to be found in www.freegreece.info, and is astonishing. If you apply IPSAS to calculate Greek debt, the Net Debt is 18%, not 175% of GDP.

What about Germany's Net Debt under IPSAS? 46% of GDP.

That means that Greece's debt situation is better than that of Germany's!

So why doesn't Germany use IPSAS to calculate the Greek debt? For two reasons, according Professor Soll. First, they don't apply IPSAS in their own House. "A little-known fact is that the Germans also do not use IPSAS and have notably opaque public finance standards," he writes.

Second, by steering away from IPSAS, Germany can keep Greece on the leash while conveniently keeping Greek debt off its own books.

"One reason might be that the Germans have refused to price the debt fairly, or properly report its value, which means in the short run that they extract more austerity from the Greeks than they should, and that they also keep this loan off the budget balance sheets because it would come up as a loss under any legitimate accounting standard," writes Soll.

In our opinion, there's a third reason. Overestimating sovereign debt for Southern European countries stirs anxiety in foreign currency markets, depressing the Euro, and firing up Germany's export engine.

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I cover global markets, business and investment strategy.
I'm Professor and Chair of the Department of Economics at LIU Post in New York. I've published several articles in professional journals and magazines, including Barron's, The New York Times, Japan Times, Newsday, Plain Dealer, Edge Singapore, European Management Review, Management International Review, and Journal of Risk and Insurance. I've have also published several books, including Collective Entrepreneurship, The Ten Golden Rules, WOM and Buzz Marketing, Business Strategy in a Semiglobal Economy, China's Challenge: Imitation or Innovation in International Business, and New Emerging Japanese Economy: Opportunity and Strategy for World Business. I've traveled extensively throughout the world giving lectures and seminars for private and government organizations, including Beijing Academy of Social Science, Nagoya University, Tokyo Science University, Keimung University, University of Adelaide, Saint Gallen University, Duisburg University, University of Edinburgh, and Athens University of Economics and Business. Interests: Global markets, business, investment strategy, personal success.