Sisyphus vs. Ulysses
Why Reforms Fail in Greece

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The Sisyphean legacy: Despite Reform intensity, Greece still in trouble

Market Reforms in Greece are impaired by two concurrent processes:

Nexus I  : The prolonged recession
          as a result of the front-loaded fiscal consolidation
          and the asphyxiation of the banking system
          The deterioration of market functioning

Nexus II : The lack of institutional credibility
          Reversibility and discretion in Law-making
          The ever-expanding multitude of pressure groups
Nexus I: Prolonged recession has harmed the functionality of markets (and, above all, the banking sector)

The counter-intuitive result: Despite deep wage cuts and market liberalization measures, market competition and attraction of investment are diminished
Signs of reform failure:

1. New entrants in markets very limited, despite liberalization measures e.g.
   • New Truck/Lorry licenses very few, despite opening in 2010
   • Domestic milk production reduced and relative prices increased, despite liberalization in 2014 (OECD toolkit)

2. Volume of non-oil exports stagnant, despite huge improvements in labour costs

3. New fixed investment has collapsed

4. International ranking in competitiveness **dramatically** deteriorated
After market opening by Law 3370/2010, New licenses very few, much lower than the effect of recession

Similar fall in private-use Lorry licenses

Source: ELSTAT. Vehicle Time-series, 1985-2015
Milk production and relative prices

Milk Reform

... plus that some major milk-industries shut down

Source: ELGO. Greek milk production.
Milk Market Observatory: PRICE SERIES of Cow's RAW MILK in EURO/100 kg
In Greece, improvement in Trade Balance was impressive

Improvement in Trade Balance was mostly the result of slumping demand. Thus, external imbalances *are likely to re-emerge* as soon as aggregate demand recovers...

Source: Bank of Greece Conjectural Indicators
... But the huge reduction of ULC had an almost negligible effect on Non-Oil Exports.

Improvement in Trade Balance was mostly the result of slumping demand. Thus, external imbalances are likely to re-emerge as soon as aggregate demand recovers ...

Source: ULC data from ECB, Exports from Bank of Greece Conjectural Indicators
IMD Relative Competitiveness Index, Worst=100

Source: Data from Int. Management Development. Adjusted by number of countries under assessment
Regulatory quality affected by economic activity

Market quality compromised by recession

Similar downward trends are observed in other southern Euro-Area countries, also hit by austerity and recession.
Downward post-crisis trends are observed for all World Bank indicators.
Due to the slump in demand and the deterioration in market functioning, Greece experienced a much deeper disinvestment than seen elsewhere.
Lack of growth prospects exacerbates resistance to reforms:

1. Vested interests and powerful lobbies appear as champions of the struggle against cuts and the abolition of working/pension rights,

2. The weaker parts of the labour force are hit most by wage cuts

Source: Average wage earnings, AMECO. Minimum salary, Bank of Greece Bulletin, various editions
Nexus II: Institutional dysfunction deteriorates

1. Reversibility and clientilistic discretion in Law-making

Many reforms are cancelled or diluted by midnight amendments, without even a face-saving discussion.

Incessant challenge of laws and reforms in courts

Number of special arrangements and favours are multiplied, creating deep divisions and conflicts in Greek society

e.g. The NPL issue

Isocrates, Aeropagiticus (42-43)
‘... a multitude of case-specific laws ... is a sign that the state is badly governed’
“τά γε πλήθη καὶ τὰς ἀκριβείας τῶν νόμων σημεῖον εἶναι τοῦ κακῶς ὀικεῖσθαι τὴν πόλιν”
Number of “Transitional Arrangements” in Law-making

Source: Sotiropoulos and Christopoulos (2016) “Polynomy, Caconomy and Bureaucracy in Greece”, Dianeosis Athens,
Number of Amendments as percent of Main Articles in Laws

Source: Sotiropoulos and Christopoulos (2016)
“Polynomy, Caconomy and Bureucracy in Greece”, Dianeosis Athens,
2. The ever-expanding multitude of pressure groups and power-points in public life

- Public entities continue to increase

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
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<tr>
<td>2010</td>
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<td>2012</td>
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<td>2013</td>
<td>1502</td>
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<td>2014</td>
<td>1506</td>
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<td>2015</td>
<td>1629</td>
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Source: ELSTAT, provisional data
Public sector increases (cont.) Local government over expanded
The number of municipalities was **reduced** from 1,025 in 2010 to 325 in 2014, But the political personnel involved in the elections **increased**

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<thead>
<tr>
<th>Regions</th>
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<th>candidates</th>
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<td>27</td>
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<td>Ionia</td>
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<td>27</td>
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<td><strong>Total</strong></td>
<td><strong>325</strong></td>
<td><strong>1,321</strong></td>
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<td>Type of Council</td>
<td>Candidates 2014</td>
<td>Elected 2014</td>
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<tr>
<td>Regional councils</td>
<td>7,555</td>
<td>703</td>
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<td>City councils</td>
<td>66,261</td>
<td>9,371</td>
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<td>Local councils</td>
<td>58,101</td>
<td>15,223</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>157,214</strong></td>
<td><strong>25,297</strong></td>
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| Proportion per actual vote | 1 : 39 | 1 : 241 |

**Consequences of political overpopulation:**
Too many representatives and local entities, looking for a role. Even petty issues become too political and difficult to settle. Investment process becomes complicated and dysfunctional.

  e.g. The ELLINIKN Project

Source: Regional and Municipal Elections 2014. EETA, Athens
Enter Ulysses:

Instill economic growth and
Set up constitutional rules for robust economic governance

Axis I: The fiscal front

Complete the 3rd Memorandum in time and avoid the next

Prepare for tapping markets before end-2018

Negotiate a smoother path of fiscal adjustment

National ownership of reforms and coordination of changes

The synchronization of labour market and product market reforms could smooth the adverse effects on real wages and significantly improve external imbalances.

The current scenario of Fiscal Consolidation

EU insists on primary fiscal surpluses at 3.5-4% of GDP per year
Baseline growth rate: **1.8% per year**
Target: Achieve Debt/GDP at 120% in 2030

Effects: Recession milder, but still uncertainty continues
→ Investment gap remains, unemployment not seriously reduced

→ Resistance to reforms likely to continue

**Alternative:** Gradual fiscal adjustment, more investment

Primary surpluses no more than 2% per annum
Allocate the rest of 1.5% of GDP to additional public investment
With a multiplier equal to 1 → Growth is enhanced by 1.5% p,a,

Medium-run growth 3.3% p,a,
→ Unemployment is more significantly reduced
**Snow-ball effect:** Debt to GDP improves more than in the front-loaded case !!!

**Debt strategy:**
1. Optimize debt-repayments and reduce cost of servicing the debt
2. After getting on a steady-growth path, negotiate more debt reduction
Axis II : Rule-based reforms

Constitutional rules for harnessing public debt and deficits (Similar to the new framework of Economic Governance in the Euro Area)

Minimize exceptions and special rulings in law-making

Fewer entities with more responsibilities (including fiscal ones)

Restructure regional decentralization

Critical: Regular Reform Assessment and Accountability before new reforms are enacted !!!
Thank you for your attention