

A New Economic Plan for Greece: What future?

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Background

- Greece has been the “poor relation” of the old European Union for many years: bottom rankings in economic performance, business environment, education, tax compliance, public debt, physical environment and others
- Reforms have taken place, in response to the MoUs, but their impact has been very small, except for balancing the budget, which has been reversed by COVID-19.

Can anything be done? Or are we dealing with a “failed state”?

- The potential is huge!
- A country with loads of natural resources, large potential of renewable energy production, gateway to Europe for Asia/Middle East, entrepreneurial spirit, socially liberal population
- Natural beauty and cultural heritage, potential for activities related to culture; film making, conference destination; quality tourism etc

Why the past failures?

- Success needs “ownership” of reforms – not because someone imposed from outside but because the government believes in the benefits
- Greece needs a holistic approach – not piecemeal without coordination
- Tsipras government reformed a lot but never owned the reforms
- Piecemeal approach led to “O-ring” type failures

All encompassing reforms

- Our reforms encompass both pure economic ones but also administrative (e.g., the administration of justice) and social ones (e.g., support for poverty)
- Importantly, they are complementary reforms. For example, to make it easier for women to access the labour market (an economic reform), you need social policy (childcare support)
- So it is of critical importance NOT to ask, if you could do number x reforms, which would it be?

Economic reforms

- Is there a single most important feature of the poor economic performance that drags everything else down?
- I believe yes (within reason): **Low productivity**
- It makes Greek industry uncompetitive
- As a result it exports less. Exports are essential if companies are to grow and reap economies of scale
- Greece is too small to be self-sufficient. Market size is important

A viscous circle

- Uncompetitive Greek industry is stuck in the small domestic market, which is made even smaller by high debt levels, low wages and NPLs
- Because of this, Greek industry fails to attract investment
- Without investment companies miss out on new technology
- So country remains low-productivity and uncompetitive
- This vicious circle has to be broken

Sequencing of reforms

- Don't delay reforms along any dimension but respect their complementarities
- They are more successful if they are applied in sequence, reinforcing each other
- Start with reforms that attack the weakest link in the vicious circle and move up

Which is the weakest economic link?

- The poor investment performance.
- Current investment performance 12%. Lowest in Europe. Comparable countries have 20-25%
- No country can renew capital and innovate at these levels
- Domestic supply of funds low. Banks unable to lend much
- Find ways to attract FDI

Sequencing reforms from investment up

- Once investment environment improves the country will take better advantage of the other reforms:
 - Larger labour supply because the jobs will be created
 - Incentives for better education and training
 - Incentives for innovation
 - Bigger companies, more exports, economies of scale
 - Better social support, the money will be available
- With better education, more labour supply and better technology we get higher productivity, higher wages and more employment

Big picture reforms to break barriers to economic development

- Public sector reforms, simpler bureaucracy, digitalization of services and speedier decisions both from regulators and the courts
- Improve competition by breaking up monopolies and abolishing other rent-seeking opportunities
- Reduce the non-wage costs of salaried employment, mainly by reforming the tax system

Reforms to encourage investment

- Accelerate red tape reduction for companies
- Tax reform to reduce tax wedge and tax burden on salaried work
- Better protection of investors' rights
- Faster reduction of NPLs and incentives for more bank deposits
- Electronic payment systems and tax incentives for digitalization of companies
- Incentives for greening of buildings

Labour market and school reforms

- Labour market and education reforms to increase labour supply and quality of human capital
- Pre-school childcare with learning, paternity leave as well as maternity, stricter application of the anti-discrimination laws
- Improvements in school education through improvement in school infrastructure and evaluation of teacher performance

Higher education and training

- More independence for universities, better incentives for research
- An independent Council for competitive research funding
- Tax incentives for company research: put more emphasis on manufacturing, niche agricultural products, collaborations between industry and universities
- Make it easier for universities and large companies to collaborate with Greeks of the diaspora

The social state

- Alongside labour markets reforms upgrade the social support mechanisms
- Health system: electronic medical records; more independence of hospitals; evaluations of costs and performance; generic medicines, not expensive branded
- Better support for the unemployed, with retraining options
- Special programmes for the integration of immigrants and people with special needs

Governance/administrative and equally important reforms

- Public sector reform: more independent hiring committees, regular evaluations for promotions free of political interference, longer tenure of senior political appointments (currently three years)
- Better training and evaluations for judges, especially in economic and corporate matters. Hiring of more court assistants and junior judges. Extension of out-of-court settlements
- Decentralization of several services, with the central government acting a supervisor, e.g. education and land registry

Final push

- Public investments in digitalization: put all public services online
- Greece is committed to UN Sustainable goals and EU Green Deal
- Environmental protection
- Renewable energy: lots of wind and sun in uninhabited islands
- Recycling and circular economy. Reduce landfill use

Concluding remarks

- Greece needs across the board reforms
- They will not be easy to achieve
- But beginning with reforms that attract investment and the outward expansion of companies will have huge initial impact
- Other reforms can follow more easily