

The Content of Growth

by

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What growth?

Nature of growth must change:

1. During boom: consumption (financed by government) leads to import boom, show rooms, restaurants, etc.
2. After boom: need exports to grow. Goods exports start from low base, so services, tourism must be key.
3. Unfortunately little sign of this happening.

General growth prospects?

Key inputs:

1. Investment until recent high
 2. Human capital (quantity OK, quality bad, demographics worsening)
 3. Quality of Governance (bad and worsening)
- => Greece needs better institutions (including better schools) not more financial support.

What growth?

From boom to bust:

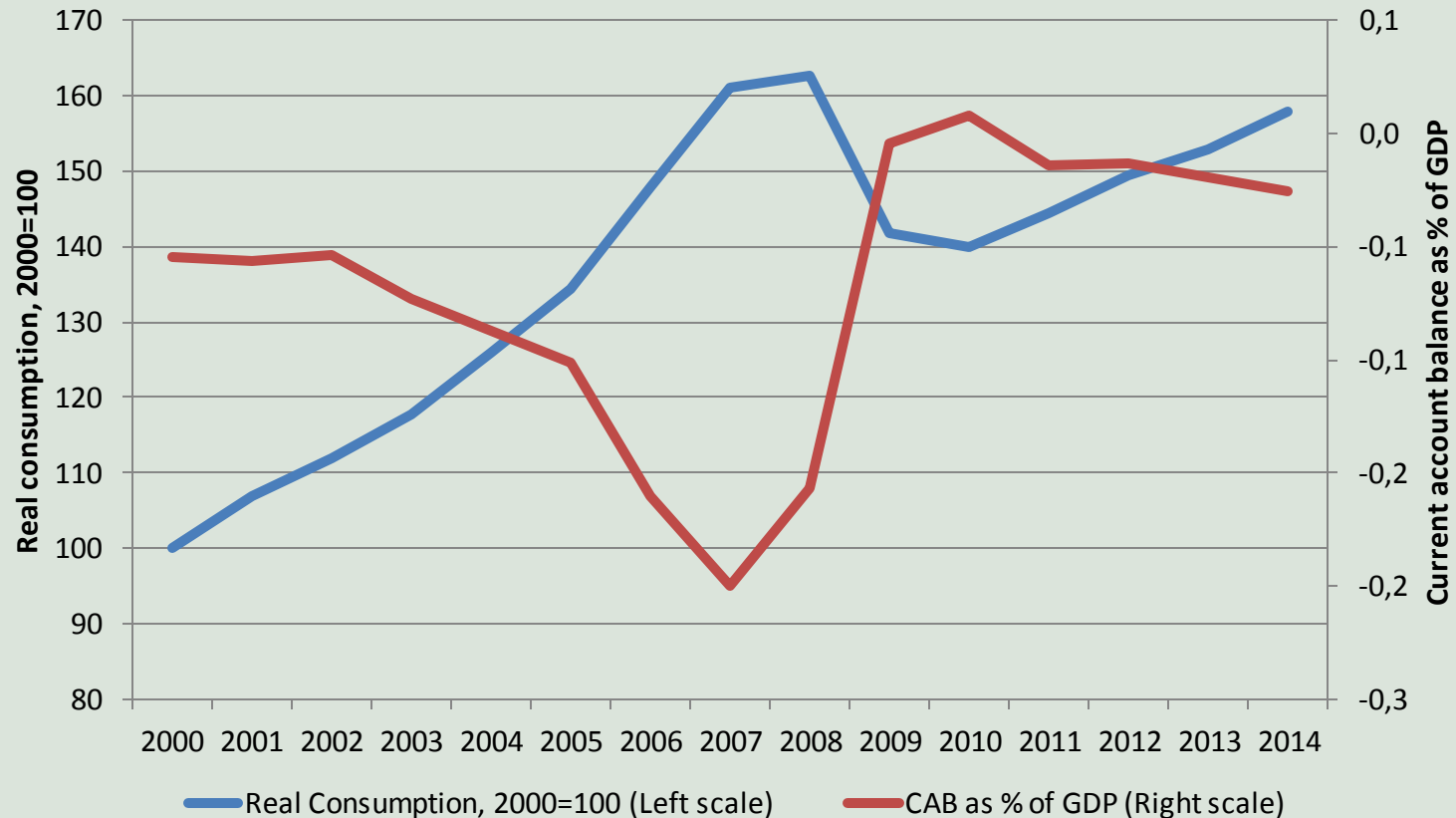
Boom: Consumption up, (external) current account deficit up.

Bust: everything in reverse.

What is better 'short and sharp' or 'slow and never ending'?

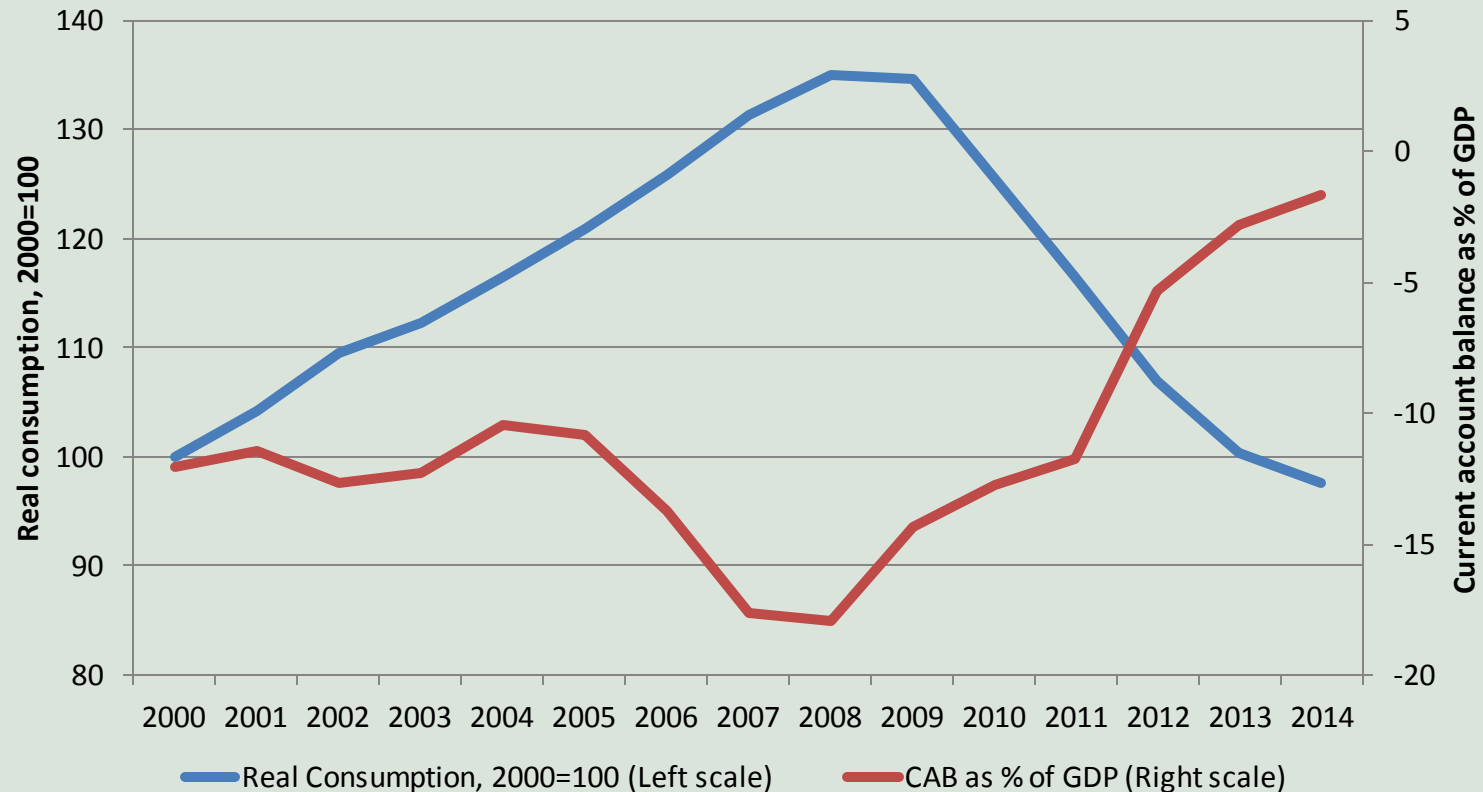
External adjustment through consumption depression (1)

BELL adjustment

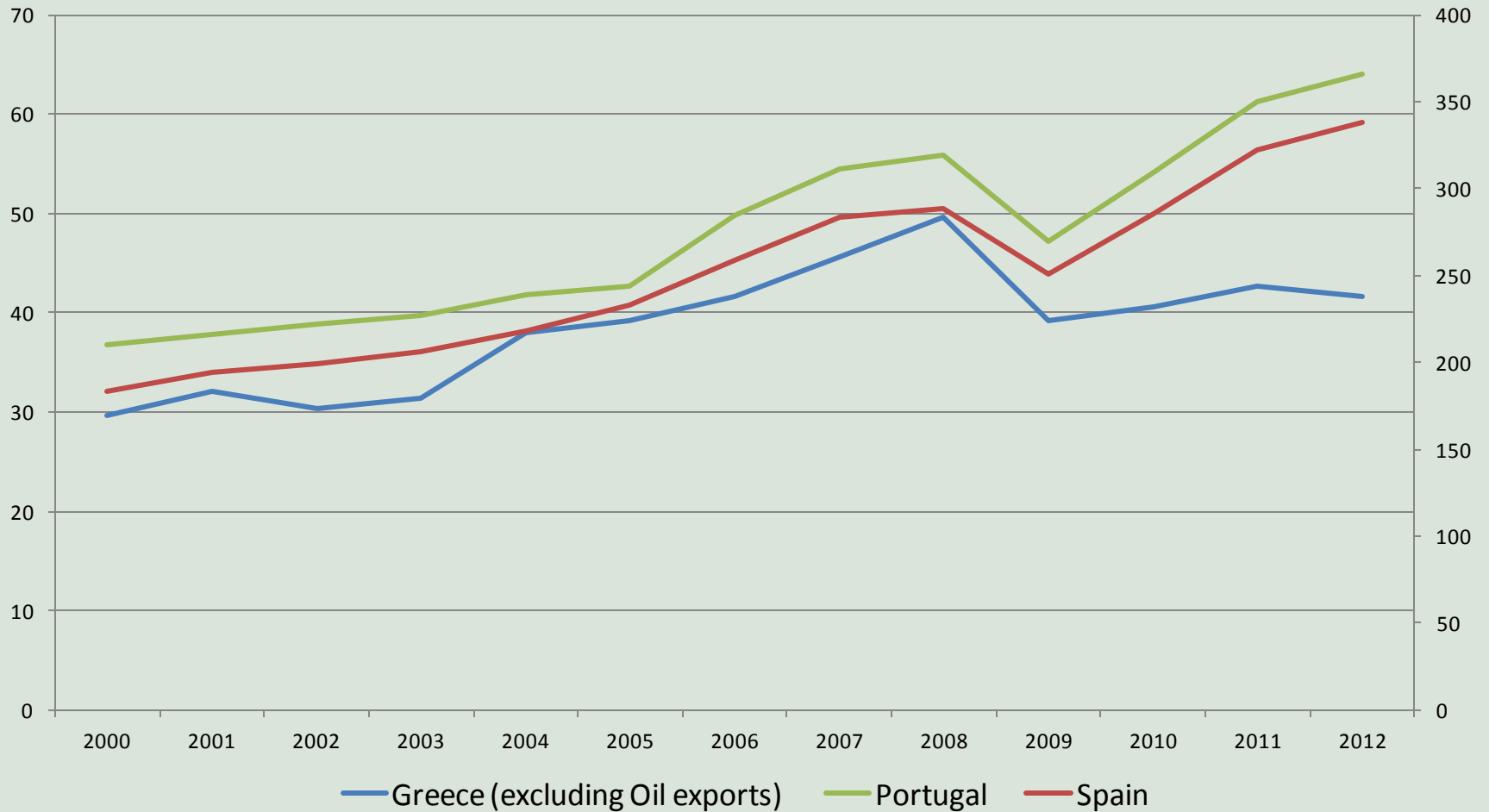


External adjustment through consumption depression (2)

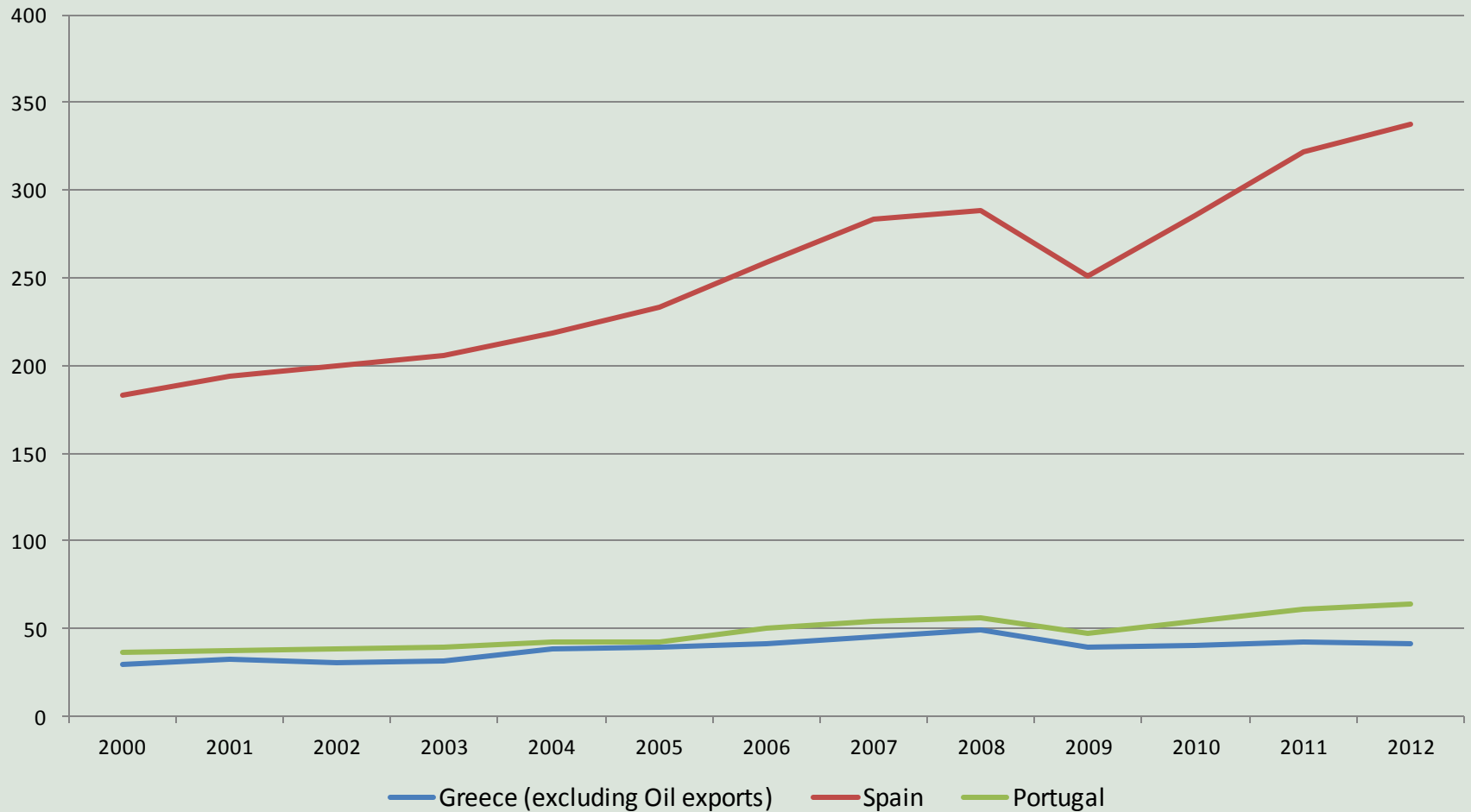
Greek adjustment



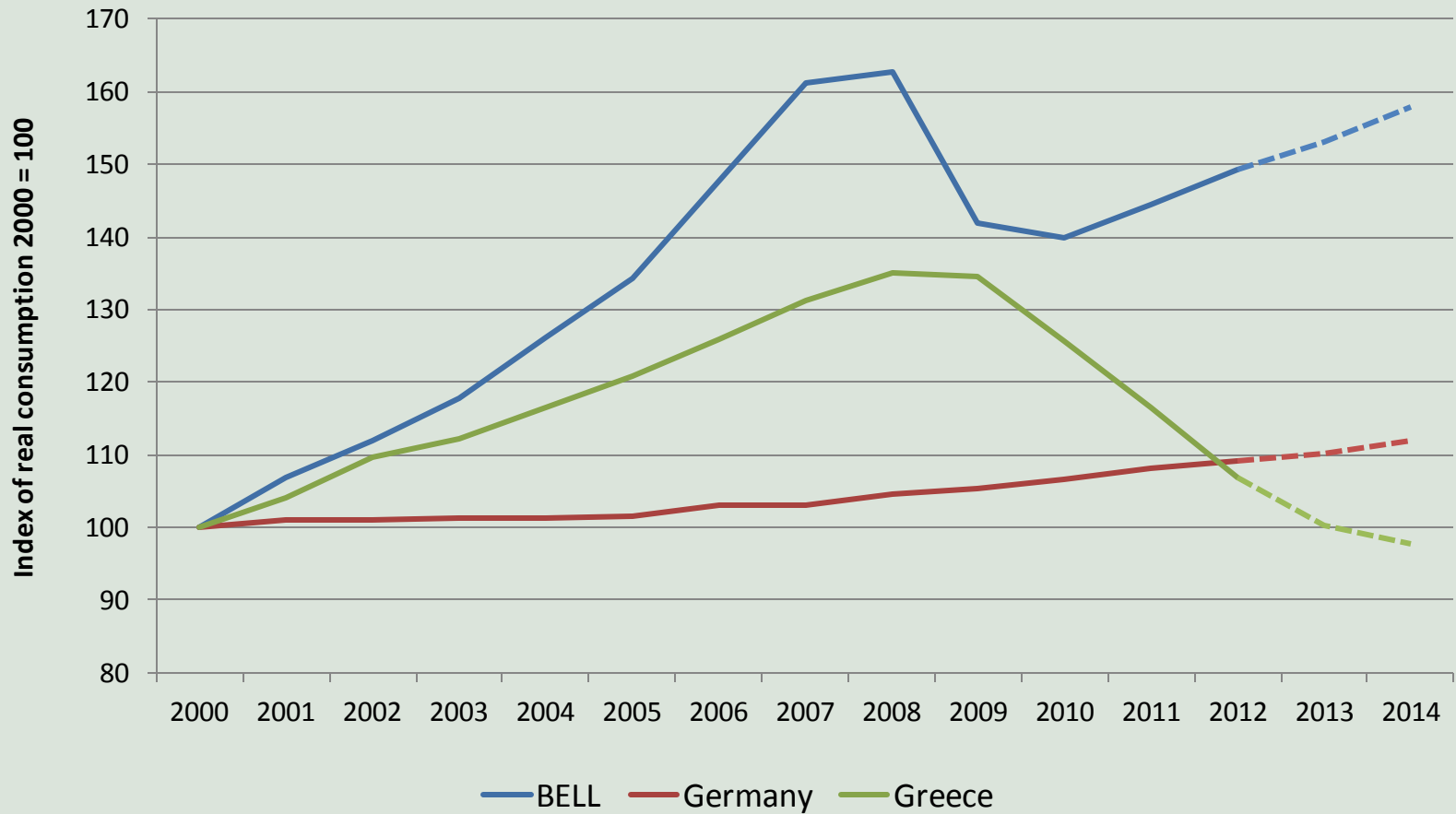
Exports of Goods and Services, in bn Euro



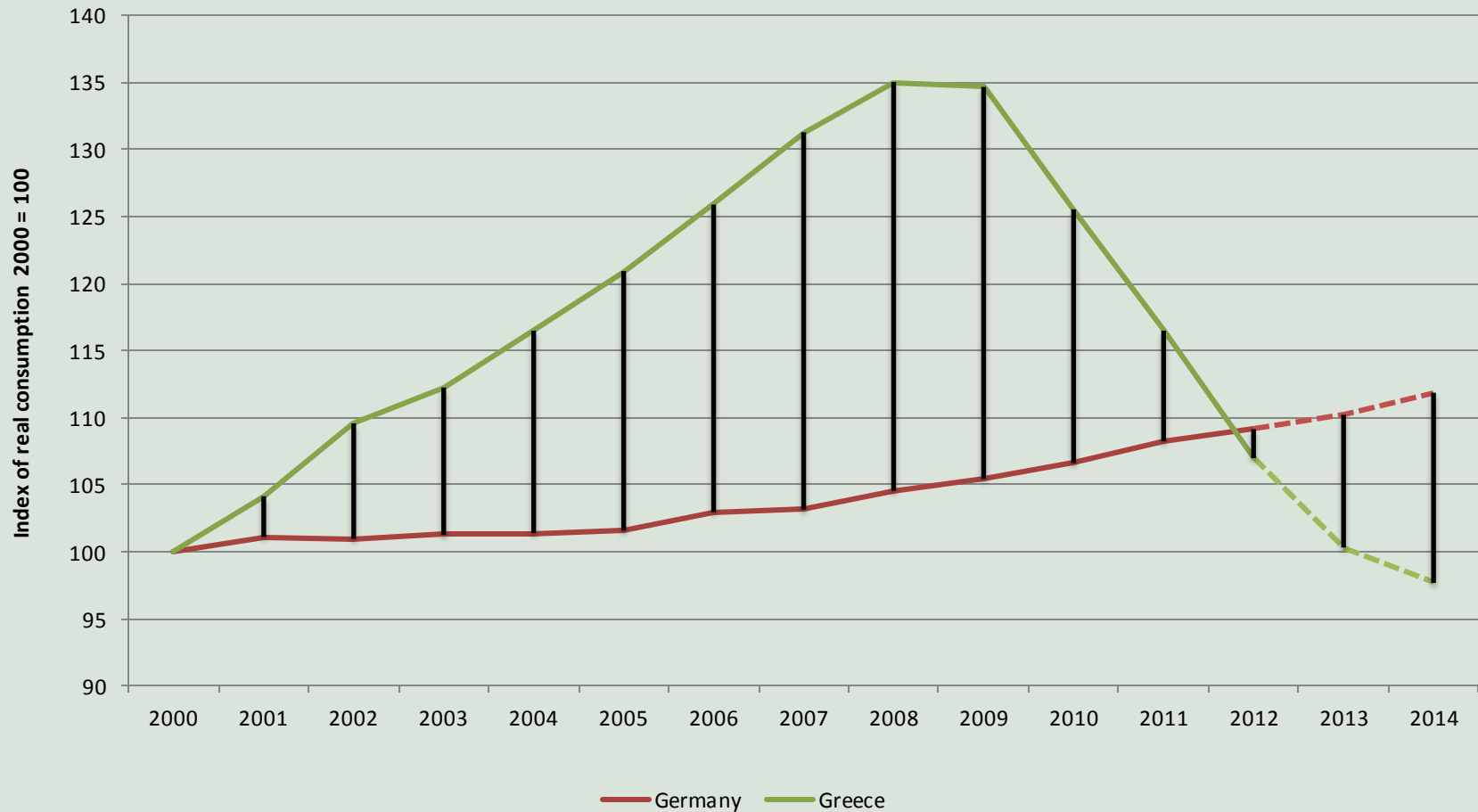
Exports of Goods and Services, in bn Euro



Real consumption relative to 2000

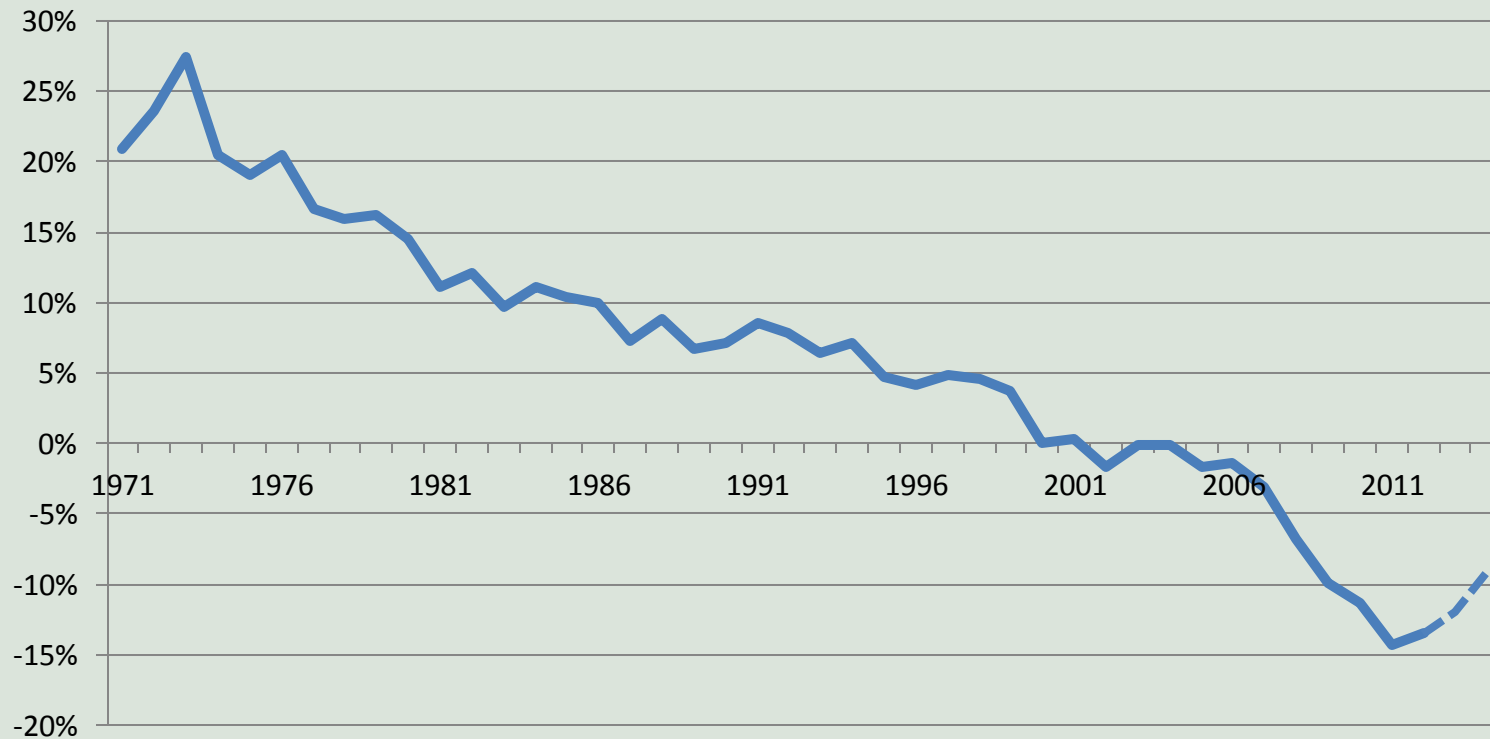


Real consumption gap between Germany and Greece



Greece: long-term evolution of Net National Saving

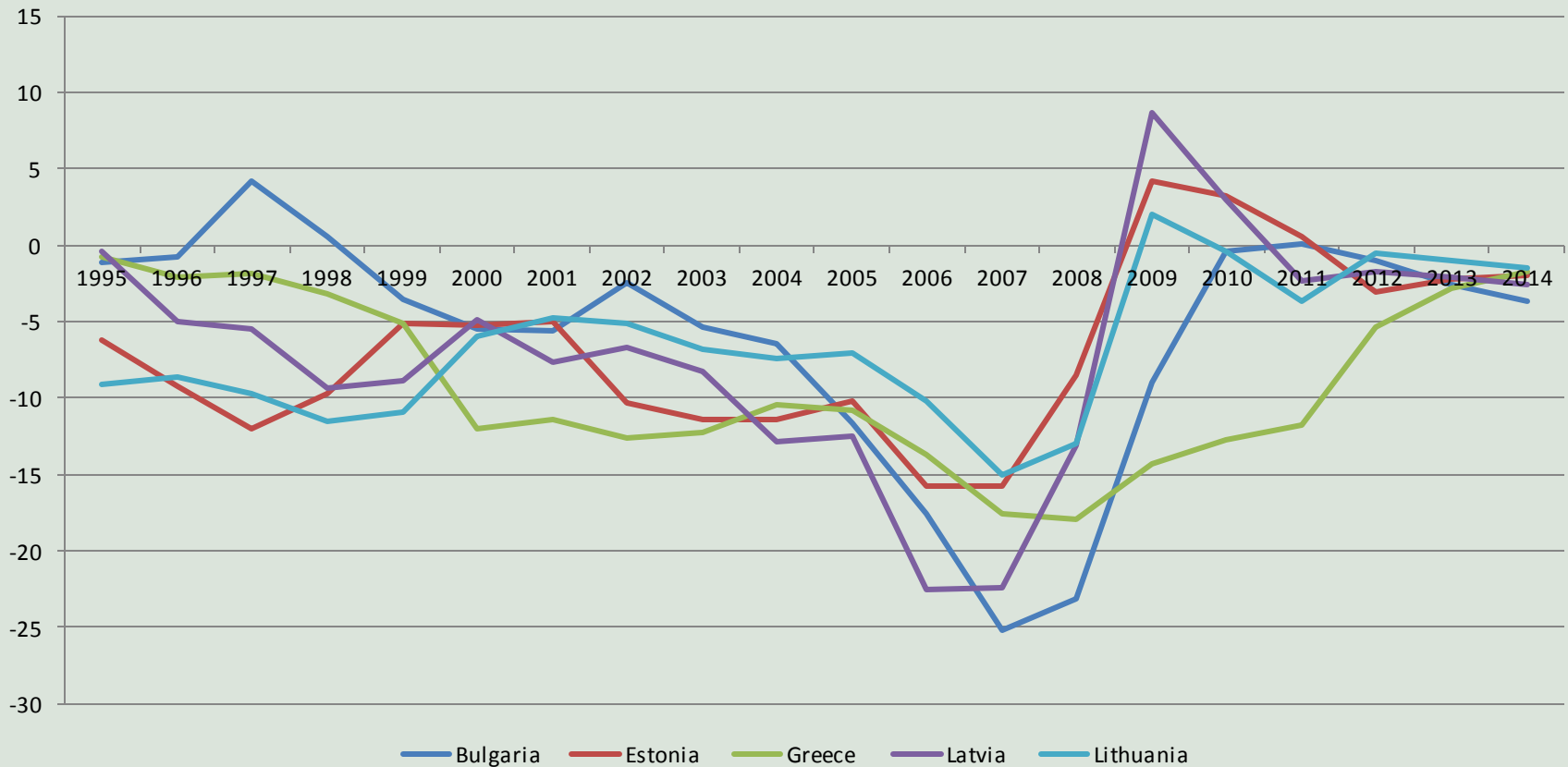
NNS as % of GDP



Source: European Commission Services and own computations

Greece: Slower external adjustment

Current account balance as % of GDP



Gross External Debt ratios 2012

	Greece	Portugal	Spain	Argentina (1999)
Total Gross External Debt as % GDP	241	289	213	52
Total Gross External debt as % of Exports	891	747	662	529
Government & MA gross external debt % of tax revenue	417	301	176	na*

Source: National central banks, European Commission services (AMECO), IFS (for Argentina), JHED (for Hungary external debt) and authors' calculations

Net External Debt ratios 2012

	Greece	Portugal	Spain	BELL	Argentina (1999)
Net External debt (=cumulated CA 1995- 2010) as % of GDP	178	131	62	79	64
Net External debt (=cumulated CA 1995- 2010) % of Exports	660	340	192	106	79

Growth prospects: classic factors of production

I) Physical capital:

Investment rate OK (until recently higher than EU), but accumulation of foreign debt means that foreigners have a claim on large part of the additional output.

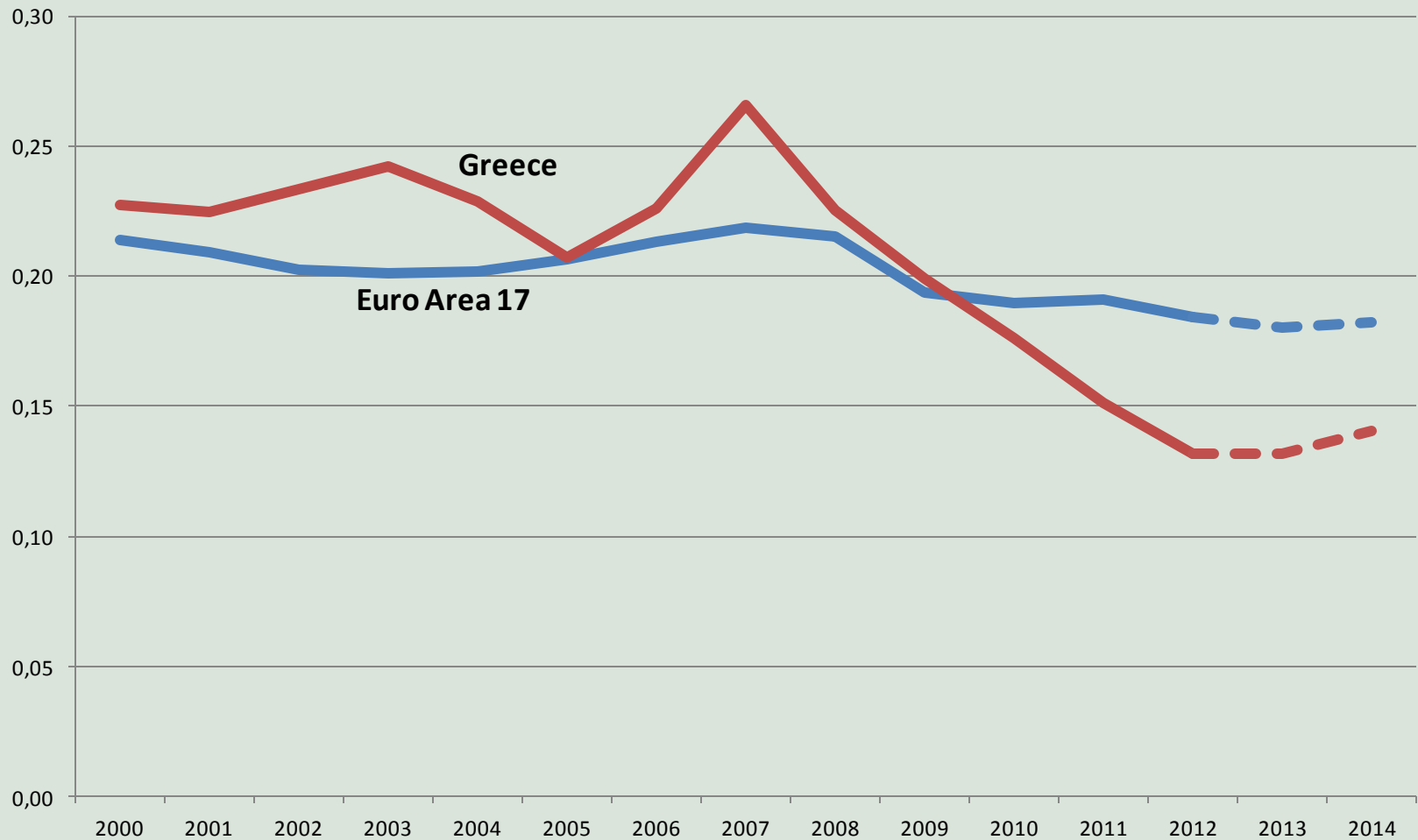
II) Human capital (quality):

School attendance OK, but low quality, hence lagging behind EU leaders.

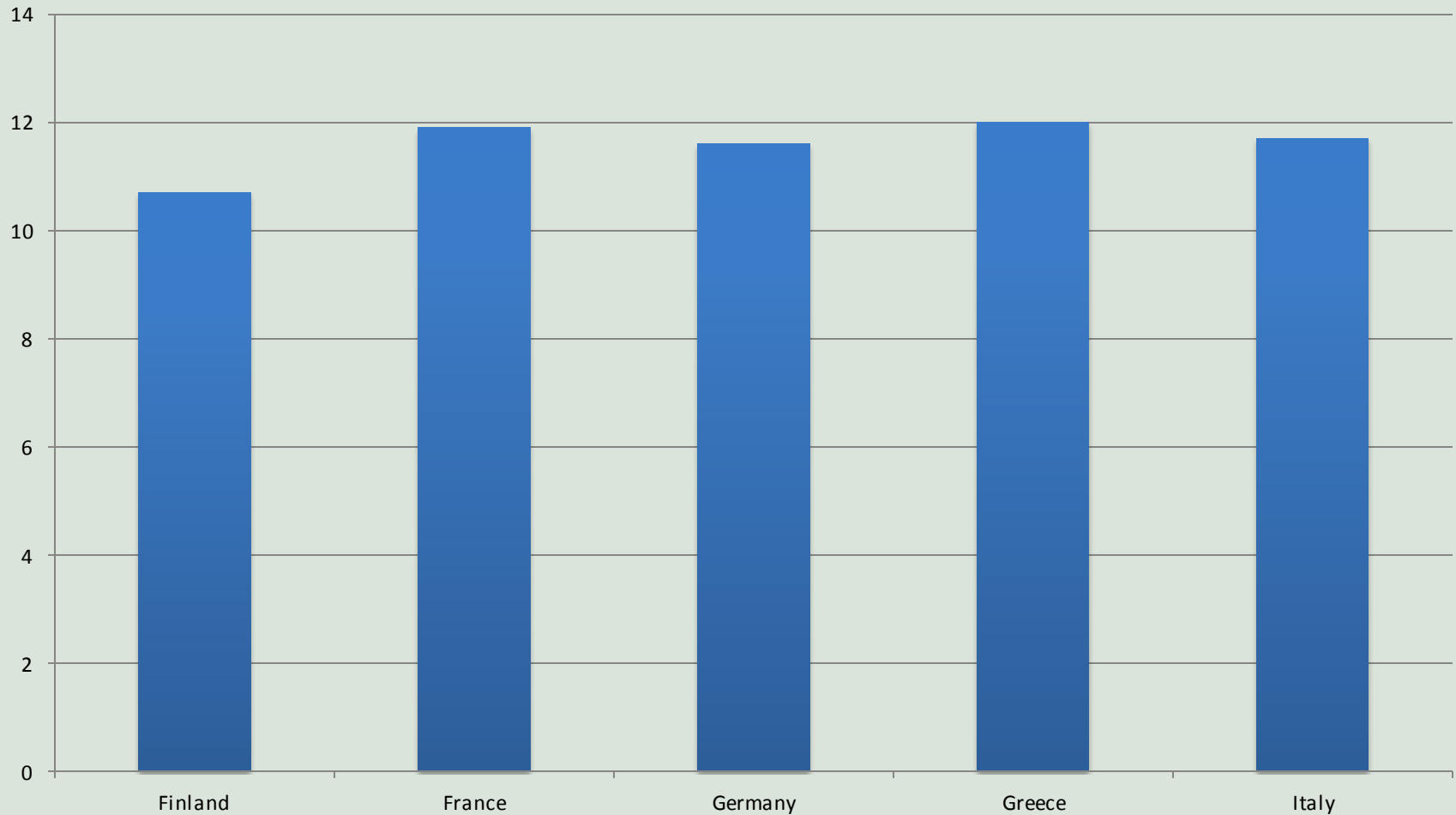
III) Demographics:

Historic increase in labour force is going into reverse (1.8 pct. decline in next decade), worse to come later.

Gross fixed capital formation, share of GDP

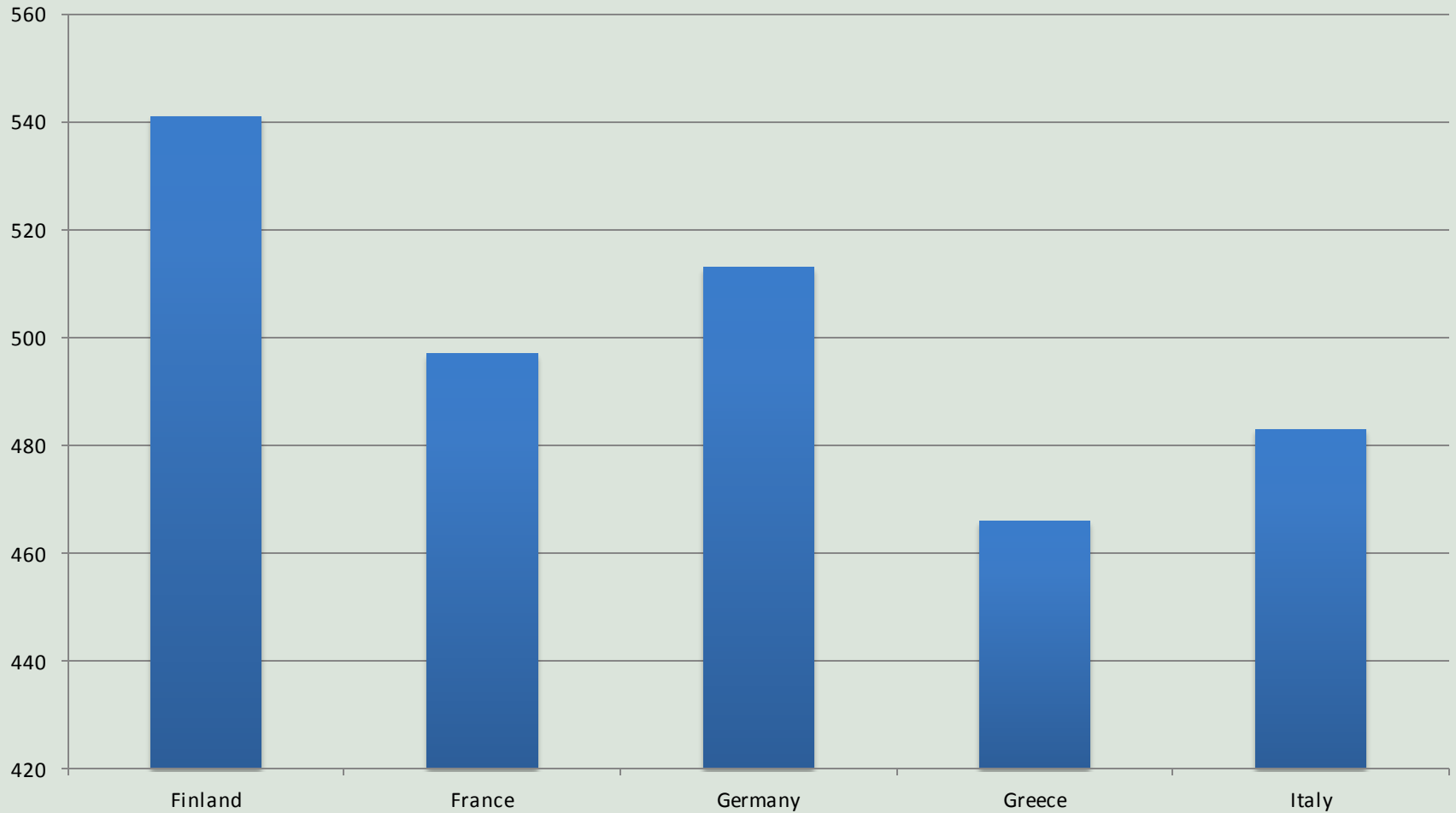


Average years of schooling, cohort 25-29 in 2010

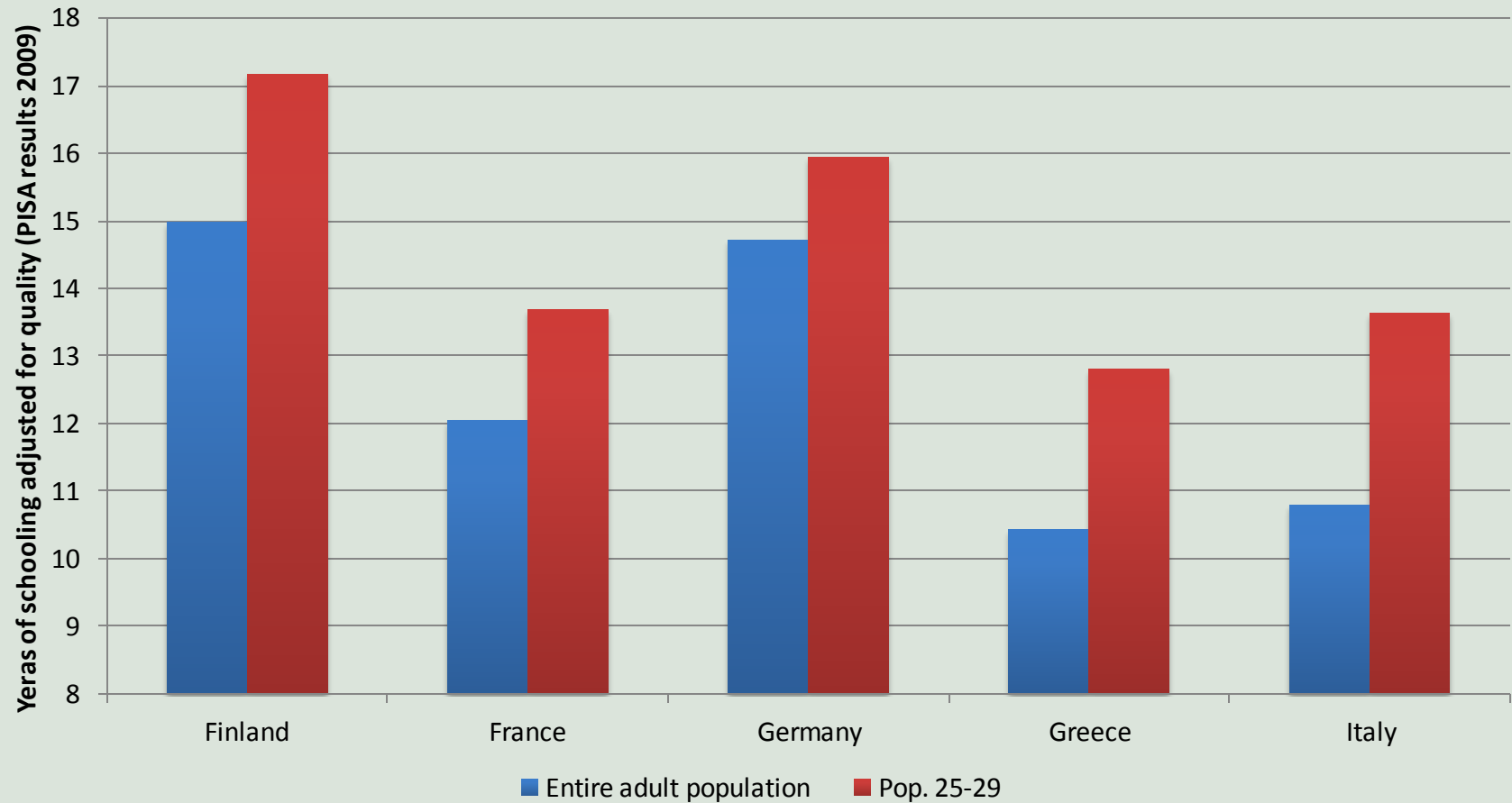


Source: Barro-Lee, 2013

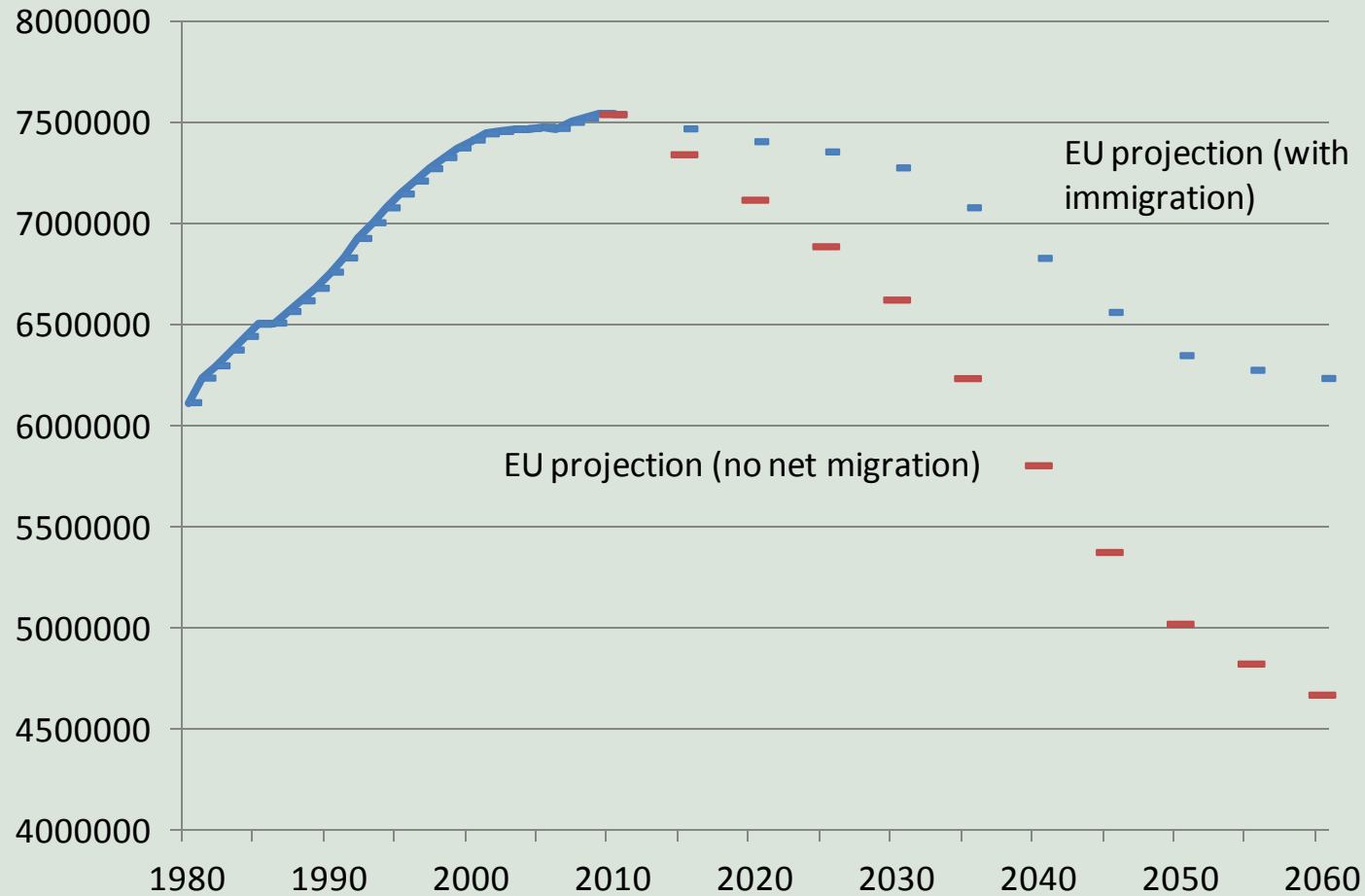
PISA Results 2009/10



Human capital formation (quality adjusted years of schooling)



Potential labour force, population 15-64 years



Quality of Governance?

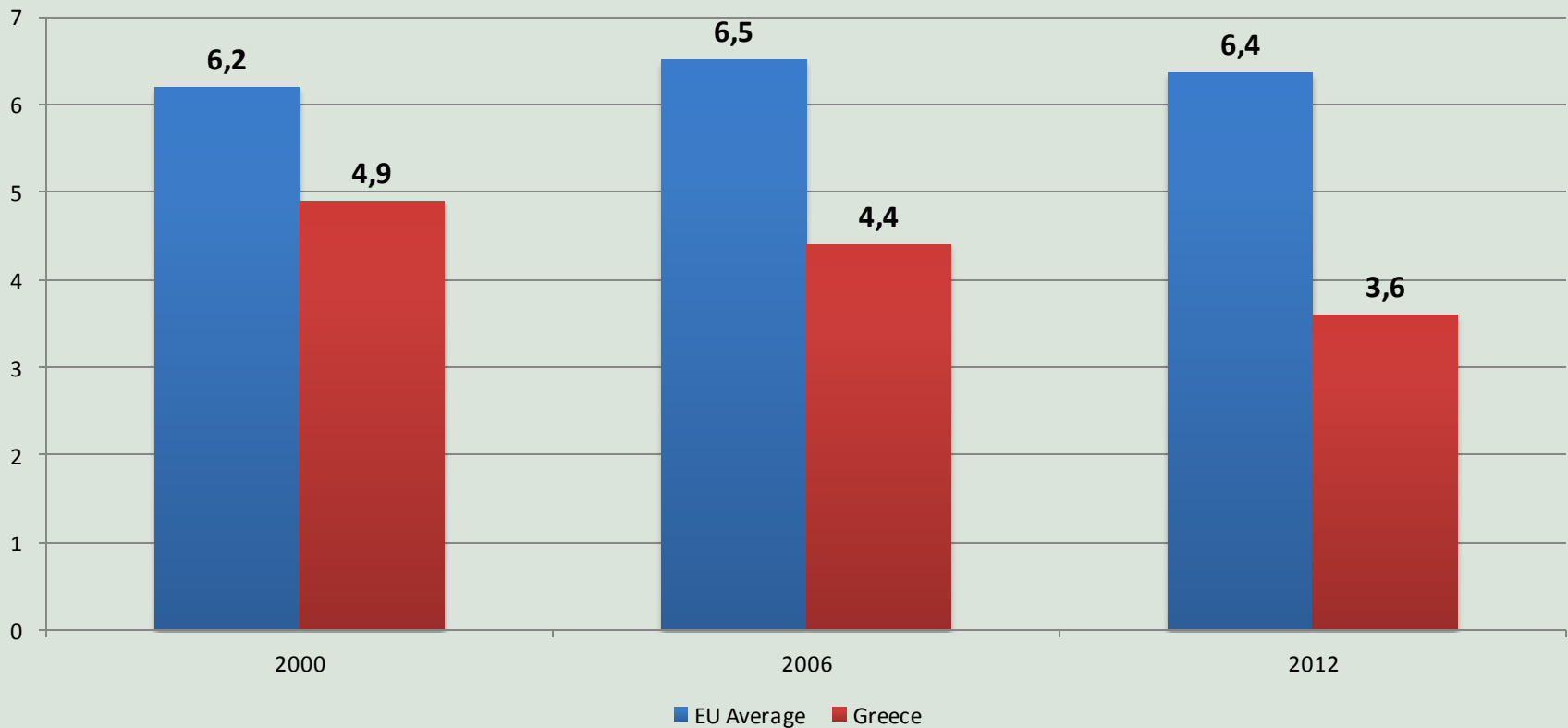
Key for implementing reforms (laws voted by Parliament need to be implemented).

Key for growth (large literature on negative impact of corruption on growth).

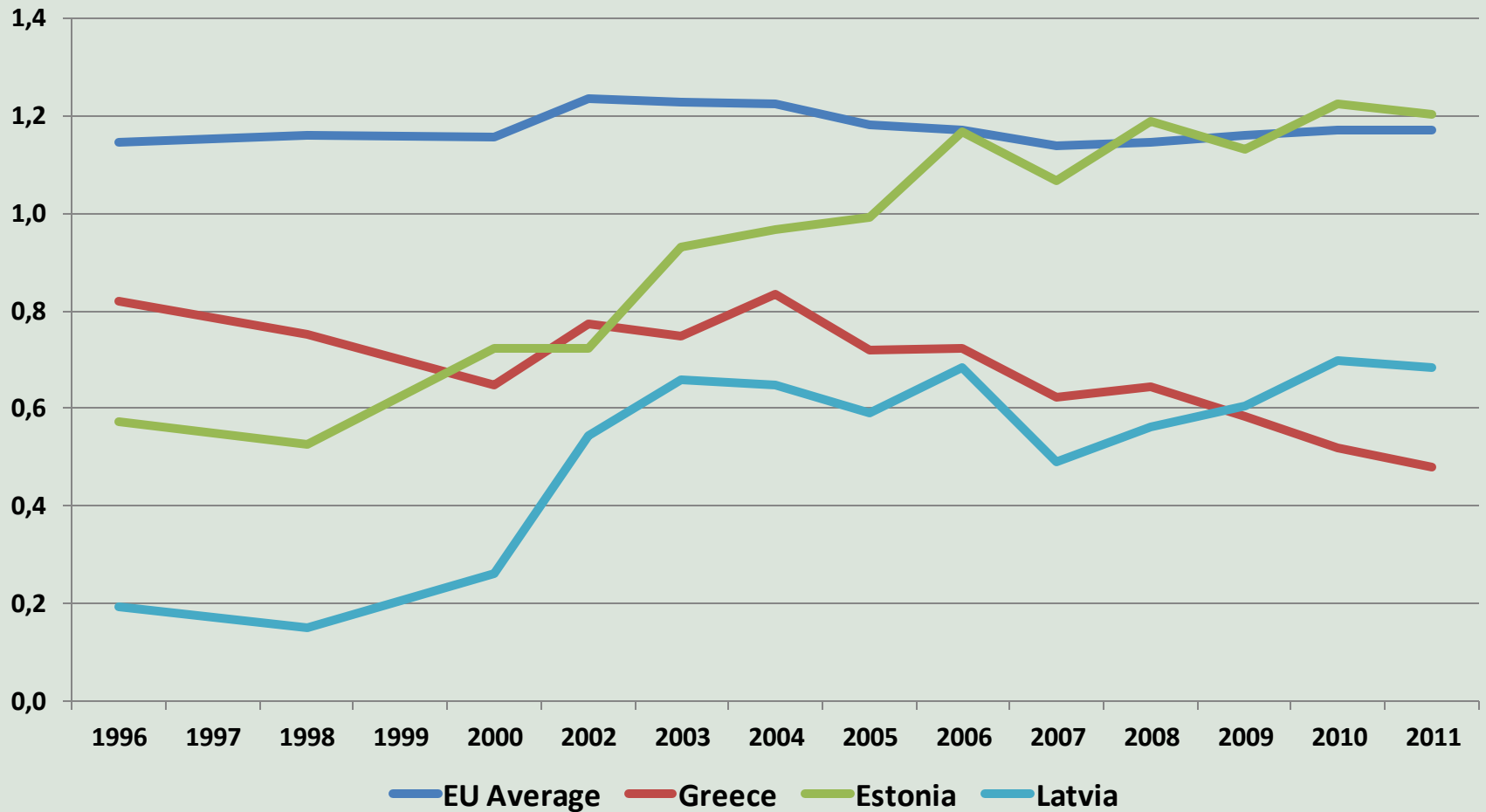
Corruption in Greece not only very bad, but also worsening over time, both absolute and relative to EU-27 (now worst in EU-27, against ninth from bottom in 2000).

Corruption in Greece: going from bad to worse The decline of Greek public administration

(Measured by Transparency International Corruption Perception Index. Higher value means less corruption)



Government Effectiveness (WGI Worldbank)

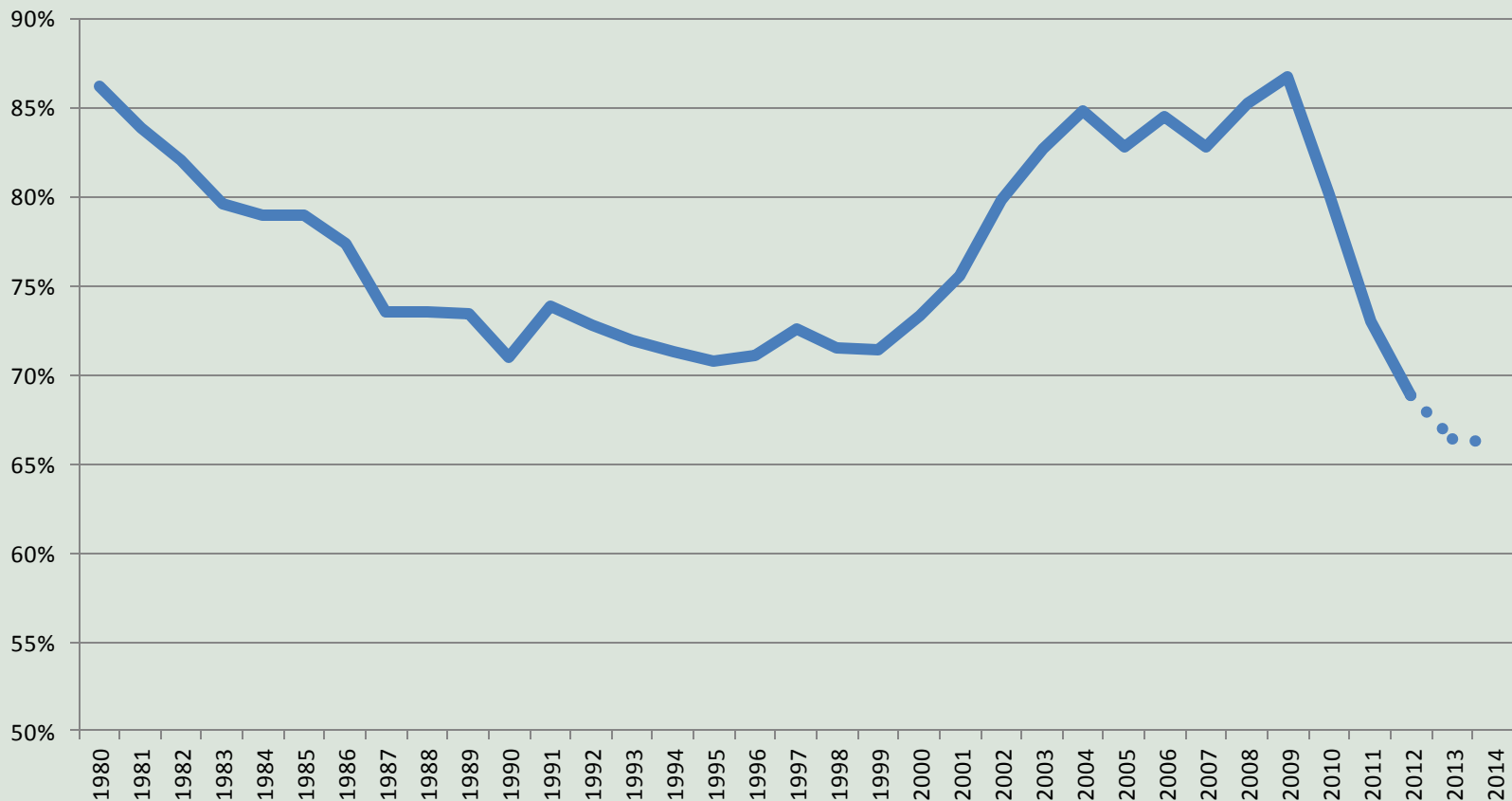


Concluding remarks

- There is no silver bullet to get growth started again.
- Resources must shift from consumption to exports, which requires time and lower wage costs.
- Long term growth prospects hampered most of all by poor institutions (schools and public administration in general), not by capital shortage.

Appendix: The ebbs and floods of Greek economic development

Greece's GDP per capita (PPP-based) as percentage of EURO core (DE, I, ES, F)



Appendix: Sector specific growth, 2000-2009.

	Gross value added, billion Euros, 2009	Real growth, index (year 2000 = 100)	
		2000	2009
Non-tradables			
- Services	174	100	140
- Construction			
Tradables			
- Agriculture	31	100	105
- Manufacturing			
- Raw materials			