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GREXITING THE CRISIS

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Greece's GDP

- Real GDP has declined by 20% during 2009-2012.
 - ▣ Forecast to decline by further 4% during 2013-2014.
 - ▣ Corresponding figures for EU27 are -1% and 1.7%.

Source: Eurostat

- Greece's world ranking in GDP per capita:
 - ▣ 29th in 2009.
 - ▣ Dropped to 34th in 2011.

Source: World Bank. GDP in \$. Ranking relative to 193 countries. Exclude countries with population less than 100,000 as of 2011.

Doing Business in Greece

- Greece's world ranking in:
 - Ease of doing business: 78th.
 - Procedures required to start a business: 170th.
 - Strength of investor protection: 127th.
 - Time required to enforce a contract: 159th.

Source: World Bank, Doing Business Report, 2012.

- Ranking within the EU27: 26th, 26th, 24th, 25th.

Other Measures of Institutional Quality

- Greece's world ranking in:
 - Control of corruption: 94th.
 - Effectiveness of government: 71st.
 - Regulatory quality: 65th.
 - Rule of law: 72nd.

Source: World Bank, Worldwide Governance Indicators, 2011.

- Ranking within the EU27: 25th, 24th, 27th.

Summary

- GDP ranking much higher than institutional ones.
 - “First-world country with third-world institutions.”
- This is not sustainable.
 - Either Greece will improve its institutions...
 - ... or GDP will keep going down, to a level commensurate with institutional quality.
 - Drop in GDP world ranking to 45th → Extra 30% drop in GDP.
 - Drop in GDP EU27 ranking to 24th → Extra 41% drop in GDP.
- Recent drop in GDP:
 - Has been sharp and painful.
 - But will be part of this longer-term adjustment.

Popular Arguments

- Troika programme was the wrong “recipe”.
 - ▣ Too much austerity, wrong multiplier, ...
 - ▣ No debt relief early on.
- Some relevance:
 - ▣ Austerity could have been phased in more slowly.
 - But this would have meant even more transfers to Greece.
 - ▣ Debt relief could have been more aggressive.
 - But there are costs and EZ-wide constraints.
- Arguments are **MISLEADING**:
 - ▣ People focus on them and ignore reform.
 - ▣ Blame foreigners for what is mostly a Greek problem.

Economic Reform



- General goal:
 - ▣ Greece should become a modern market economy.
 - ▣ Institutional quality of Western European countries.
- Reform should:
 - ▣ Focus on incentives, at the micro-economic level.
 - ▣ Take into account cultural traits.
 - Greeks are individualistic and entrepreneurial.
 - They are good managers of their personal property.
 - Limited indebtedness, house ownership...

Public Sector



- Main focus currently: Size of public sector.
 - Government is resisting troika's pressure to fire 25,000 public servants.
- Must focus instead on productivity.
 - Are public goods produced efficiently given allocated resources?
- Main directions:
 - Measurement of performance and accountability...
 - ... combined with more autonomy.

Examples



- Tertiary education:
 - ▣ Public funds allocated to universities should be tied to teaching and research quality.
 - ▣ Universities should be given greater freedom to design their curricula, hire staff, and seek private funding.
- Local government:
 - ▣ Prefectures and municipalities should be given:
 - More autonomy to run their schools, hospitals, etc.
 - Right to assess and collect property taxes.
 - ▣ Funding by central government should be limited.
 - Incentives for sounder management at the local level.
 - Main requirement for success of prefects and mayors will be managerial ability rather than political connections.

Private Sector



- Main focus currently:
 - Attract large foreign investors.
 - Privatizations.
 - Mainly for meeting budget targets.
- Must focus instead on improving the institutional environment under which firms operate.
 - Abolish many inefficient regulations.
 - 1922 royal decree restricting breweries to produce only beer.
 - Restrictions to importing refined oil, benefiting local duopoly.
 - Enforce vigorously the few ones that matter.
 - No cartels, investor protection, etc.

Engines of Growth



- Growth will come from creating an institutional environment that fosters private entrepreneurship and competition.
- Growth will not come from:
 - ▣ Five-year industrial plans.
 - ▣ State picking “promising” industrial sectors.
 - ▣ PM cutting deals with large foreign investors.

Economic Reform 2010-2012



- Some progress...
 - ▣ Ease of doing business index: 78th in 2012, up from 89th in 2011.
- ... but quite limited.
 - ▣ Strong resistance to establishing an independent and accountable tax collection authority.
 - ▣ Tertiary education reform is being rolled back.
 - ▣ Banking sector risks falling under state control.

Impediments to Reform



- Lack of knowledge and data-driven analysis.
- Lack of implementation capacity.
- Myopia.
 - ▣ Reforms pay off in the long run.
- Vested interests.
 - ▣ Politically connected firms.
 - ▣ Union leaders, profession representatives, etc.
 - ▣ Politicians and bureaucrats.

Lessons from Political Economy



- Reforms more likely to happen during deep crises.
 - Perception of the need to change.
 - Vested interests are weakened.
- Could these be happening in Greece?
 - Will reduced state resources limit rent-seeking?
 - Will right lessons be learned about:
 - Why we got into the crisis?
 - How we should change?