

A Crisis is too Good an Opportunity to Waste

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Causes of the Greek Crisis

- High debt and deficit.
- Low competitiveness and growth prospects.
- These were caused by:
 - Rampant corruption.
 - Excessive regulation.
 - Lack of investment in infrastructure and human capital.

The Memorandum (Μνημόνιο)

- Reforms agreed with EU/IMF seek to
 - Put some order into the public finances.
 - Create conditions for growth.
- These reforms go in the right direction...
- ... but **MUST** be complemented urgently by an even more ambitious reform programme.
- They are but a minimum basis to reach agreement for a loan.

Competitiveness and Growth

- Greece's economy is heavily regulated.
 - Product market most regulated among OECD 30.
 - Labour market fifth most regulated.
- A comprehensive regulatory reform can raise incomes by more than 15% with potential for further growth.
- Recent efforts:
 - Open up industries and professions.
 - Some liberalisation of labour market.
- Good, but more is needed...

Some Market Research

- Main impediments for doing business in Greece:
 - Inefficient government bureaucracy: 25.3%.
 - Restrictive labour regulations: 14.2%.
 - Corruption: 14.0%.
 - Tax regulations: 12.0%.

(Survey of Business Executives, Global Competitiveness Report 2009)

Market Governance

- Market liberalization must be accompanied by suitable governance:
 - Simpler and more transparent institutional framework (e.g., fewer permits, clear zoning regulations)
 - Simpler tax system.
 - Efficient and independent justice system.
 - Stronger Competition Commission.
- These reforms will reduce incentives for corruption and bring more investment.

Some Not So Good Alternatives

- Offer investment subsidies.
 - Is state better at identifying promising business opportunities?
 - Subsidies are prone to corruption.
- Negotiate special deals and tax exemptions.
 - Rules must be transparent and same for all.

Performance Incentives in the Public Sector

- The public services must be subject to performance indicators.
- They should be published and form the basis of pay.
- Examples include:
 - Police: crimes solved.
 - Judiciary: Time until final resolution of case.
 - Schools: Proportion of children attaining required levels.

Labour Market

- Labour Markets must be liberalised.
- Labour market regulation is generally harmful.
- While it may make some of the existing jobs more stable ultimately it reduces job creation and competition.
- It is particularly harmful for new young workers, which is reflected in youth unemployment.

Social Insurance

- The lack of a proper social insurance system is one of the reasons the state has tried to pass so much of the responsibility for social protection to the private sector (e.g., firing regulations).
- We need a modern system of welfare benefits including in work benefits.
- The state should be responsible for insurance and the private sector for production.

Pensions

- Pay as you go systems are not sustainable with an ageing population unless we force people to work longer and longer.
- Individuals should face directly the trade-off between higher pensions and age of retirement.
- This can only be solved with private pensions funded from individual tax free savings combined with a minimum state pension scheme.
- These can be designed to offer the desired levels of insurance against capital market risk.

Healthcare

- Public healthcare is both a huge drain on the public purse and a low quality service.
- Both problems can be solved with a careful privatisation programme:
 1. Turn over the management of public hospitals to private sector by competitive tendering.
 2. Establish a clear price system for all treatments.
 3. Introduce mandatory private insurance.
 4. Introduce a system of subsidies for the poor.

Education

- Greece's growth in the 50s and 60s was based on education and infrastructure.
- Both were neglected. We rank at the bottom of any assessment you care to look at (e.g., PISA, quality of Universities).
- Introduce school accountability and competition.
- Publish performance.
- Give schools the right to hire and fire teachers.
- Decentralise pay decisions to schools so as to attract and select better quality of teachers.

Summary

- Greece's safest way out of the crisis:
 - Ambitious programme of reforms, complementing and going well beyond those in the memorandum.
- Reforms could take time but will have immediate effects:
 - Debt management will become much easier.
- Crisis is an opportunity --- and one that is too good to waste!

Greek Economists' Blog

- Policy analysis and proposals by independent academic economists.
 - <http://GreekEconomistsforReform.com>
- Includes article on which this presentation draws:
 - “The Economic Crisis in Greece: A Time of Reform and Opportunity” by C. Meghir, D. Vayanos, N. Vettas.