



Structural reforms: in for the long haul

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*The views expressed do not necessarily reflect those of the TFGR, DG ECFIN or the European Commission

The challenge

La Grèce est le seul exemple connu d'un pays vivant en pleine banqueroute depuis le jour de sa naissance. Si la France ou l'Angleterre se trouvait seulement une année dans cette situation, on verrait des catastrophes terribles : la Grèce a vécu plus de vingt ans en paix avec la banqueroute.

Tous les budgets, depuis le premier jusqu'au dernier, sont en déficit.

Edmond About, Chap. VII, Hachette, Paris, 1858

The challenge

- Stasis of the public sector (ELSTAT episode):

dant les employés. Les employés, mal payés, sans avenir assuré, sûrs d'être destitués au premier changement de ministère, ne prennent point, comme chez nous, les intérêts de l'État. Ils ne son-



The challenge

- Structural reforms: we know (or at least we should know) that it takes time to design and implement them.
- The costs are typically front loaded, while the benefits take time materialise, tend to be diffuse and are hard to quantify.

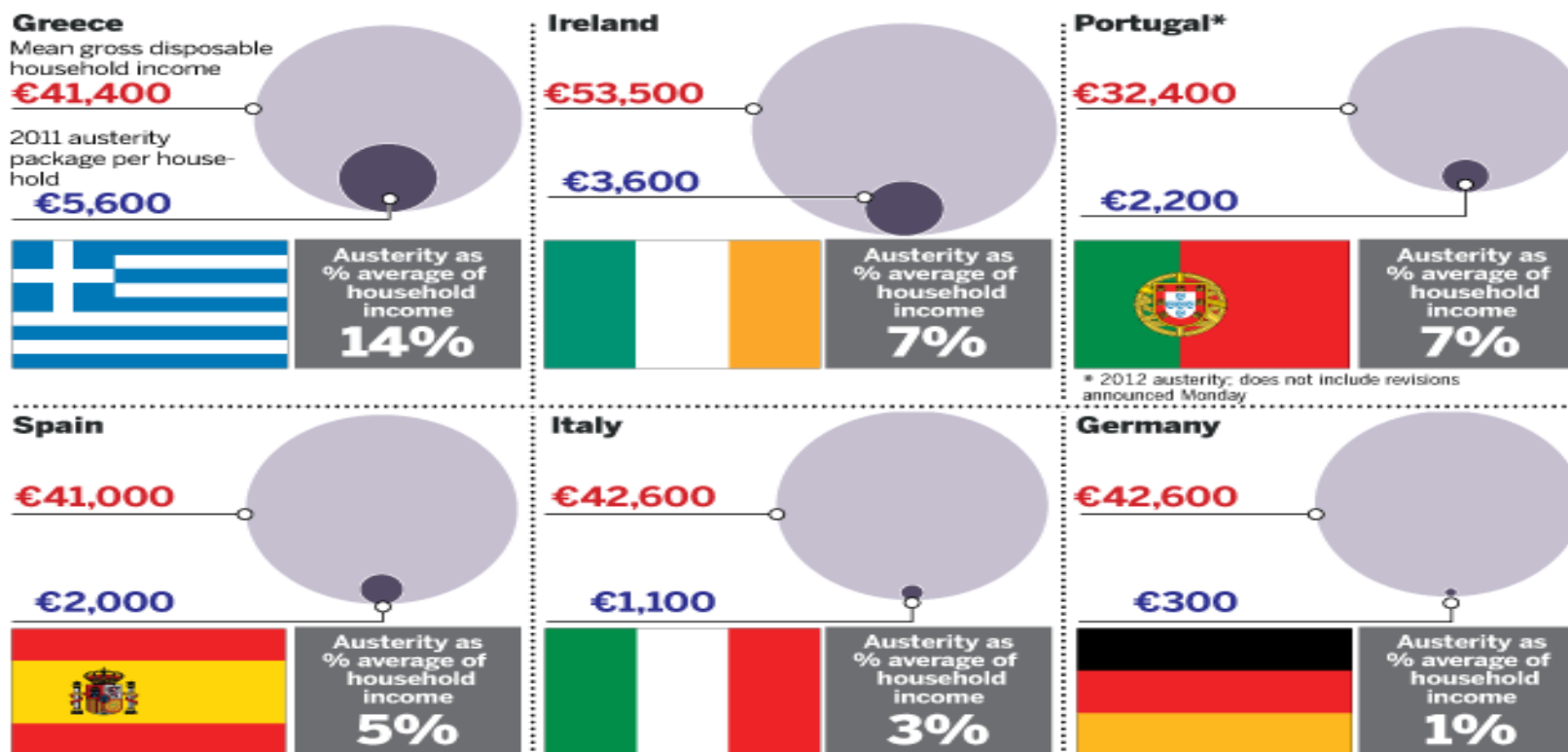


The challenge

- Examples of succesful structural reforms? Former centrally planned economies? UK and US? Argentina?
 - New Zealand, with « Rogernomics ». But very different external envirnoment, available instruments, political system, and first and foremost, administrative capability
- Four years of declines in GDP. Expected cumulative: greater than -18,6%.
 - GDP in 2011 Q4 shrank by 7.5% compared with the corresponding quarter of 2010 (non-seasonally adjusted data). Expected Drop of 28% (!) in domestic demand over the period 2008-2013

Massive adjustment

Massive adjustment in personal income. FT, Oct. 17, estimates:



Source: Finance ministries; Eurostat

Figures have been rounded. Household income figures for 2010 except Greece (2009).

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Bureaucratic behemoth

- Karkatsoulis (Greek School of National Administration):
 - 3430 Laws, 20580 Presidential Decrees, 114'905 ministerial decisions, 24010 decisions by regional general secretariats, and 8575 decisions by prefects, making for an astounding total 171500 legal and regulatory acts.
 - 23142 “αρμοδιότητες” (“competencies/responsibilities”): 10.765 “επιτελικές” (“executive”), 9,816 “υποστηρικτικές” (“support”), 998 “παροχής υπηρεσιών” (“supply of services”), 1563 “Ελεγκτικές” (“controlling”)
 - 15 ministers, 9+21 Vice and sub minsters, 78 General and Special Secretariats, 1200 advisers, 22437 managers of public and publicly controlled entities (SOEs)...

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Bureaucratic behemoth

- All these acts are currently active, effectively creating a Byzantine morass of red tape.
 - Public calls for tender
 - Public procurement
 - ...
- OECD (2011): Silo structure of Greek ministries.
 - At the same time, no responsibility. Endogenously determined recipe for immobilism, rent seeking and inefficiency
 - Time warp behaviour: STEC amendment



Bureaucratic behemoth

- T. Michas (2011) considers that " (...) Greece more closely fits the model of the post-socialist society described by the late Russian reformer Yegor Gaidar (2007): a form of capitalism where the bureaucracy and its allies consider the state their property and use its mechanisms for personal enrichment."
- "Bonfire of regulation": proved ineffective
- Cost of bureaucracy estimated at 6.8% of GDP (14 billion)

Making markets work better: potential upside from structural reforms

Survey evidence systematically ranks Greece at the bottom of the distribution

Greece rankings in competitiveness surveys				EU Rank	OECD Rank	World rank
World Bank	2011	Ease of Doing Business	27/27		34/34	109/183
World Economic Forum	2011	Global Competitiveness Index	27/27		34/34	90/139
IMD	2011	World Competitiveness	25/25		34/34	56/59
EU	2008	Product Market Regulation	20/22		30/34	

Making markets work better: potential upside from structural reforms

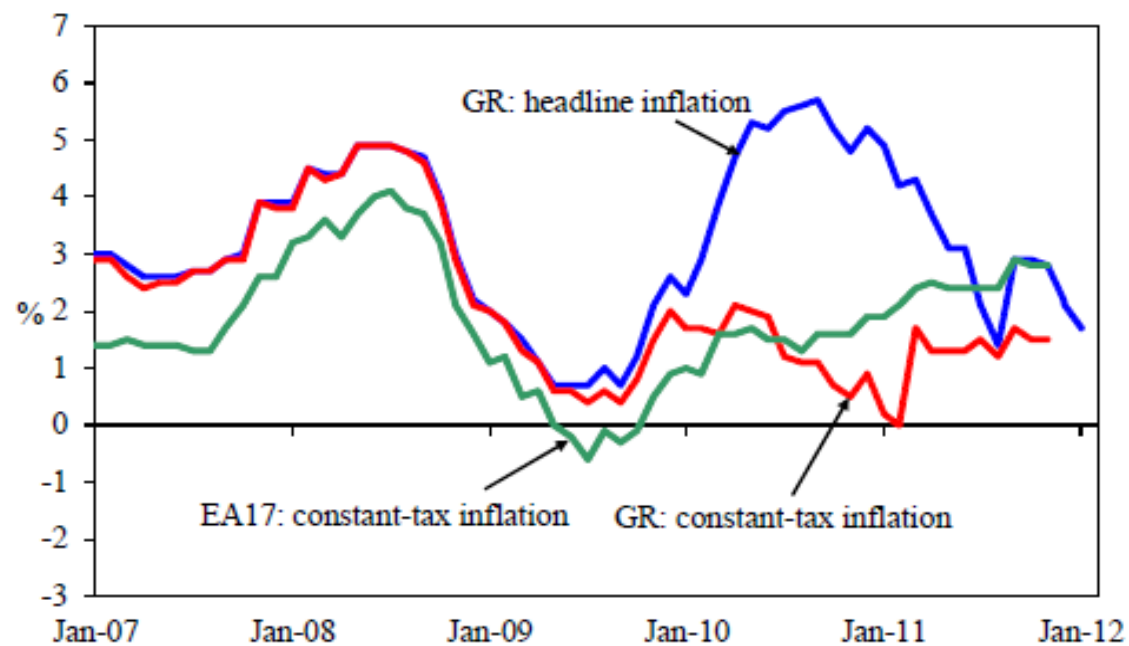
World Bank	Ease of Doing Business, 2011		
Overall result	EU rank 27/27	OECD rank 34/34	World rank 109/183
protecting investors	27/27	33/34	154/183
registering property	26/27	33/34	153/183
starting a business	27/27	34/34	149/183
getting credit	25/27	32/34	89/183
enforcing contracts	26/27	32/34	88/183
trading across borders	25/27	33/34	84/183
paying taxes	18/27	24/34	74/183
dealing with construction permits	11/27	19/34	51/183
closing a business	23/27	31/34	49/183

Making markets work better: potential upside from structural reforms

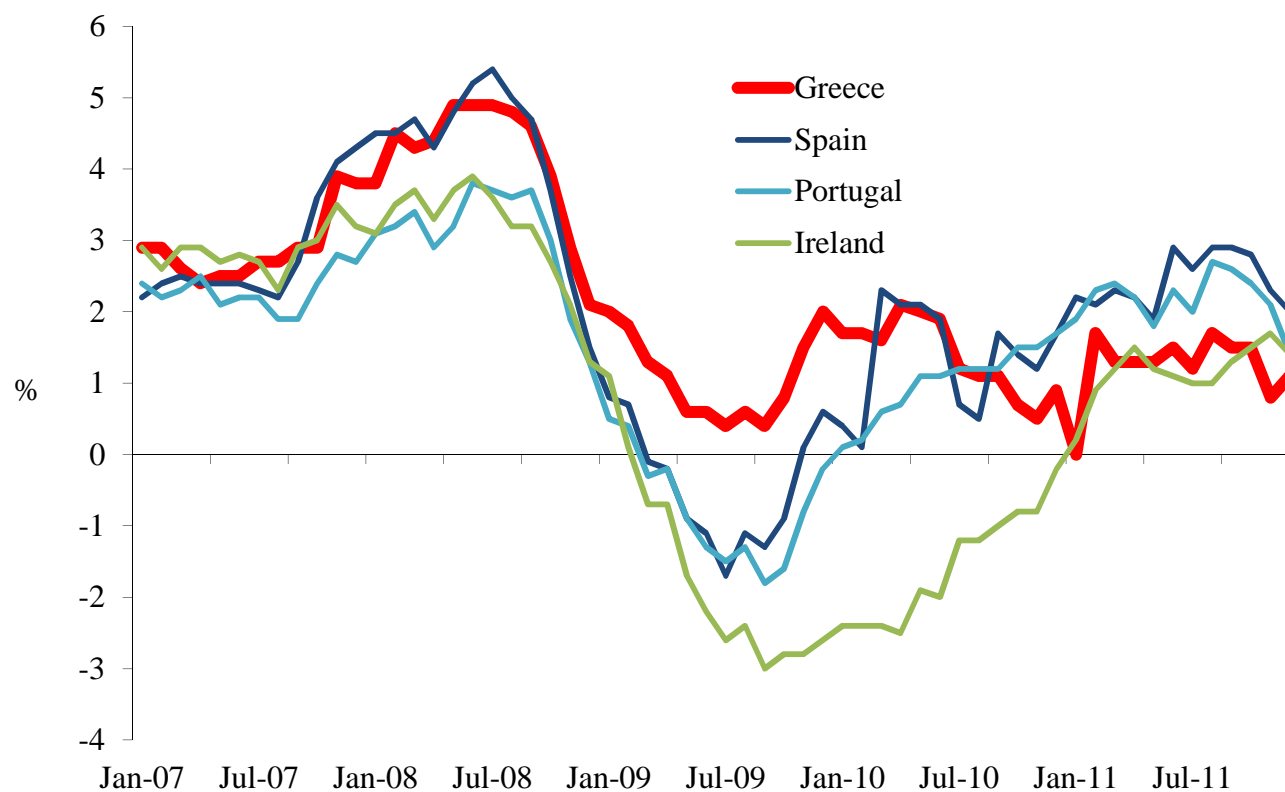
IMD	World Competitiveness Scoreboard, 2011		
	EU rank	OECD rank	World rank
Overall result	25/25	34/34	56/59
government efficiency	25/25	34/34	56/59
business efficiency	24/25	33/34	53/59
infrastructure	21/25	27/34	32/59

Stickier prices

Graph 8. HICP inflation developments and projections
(% change, y-o-y)



Stickier prices (HICP at constant taxes)



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Data for Ireland are HICP, not CT-HICP.

TFGR: Business environment (1)

<i>Project</i>	<i>Status</i>	<i>Partners</i>
Start-up simplification	Status quo mapped, project proposed	
Export facilitation	Project proposal sent Pre-customs: work underway: Customs: no take-up yet	UNECE, NL, SW (FIN)
Simplify investment licensing	Scoping just started	
Code of books & records	Initial scoping and analysis: no take-up	
Admin burden reduction	Research project on start-blocks	OECD

TFGR: Business environment (2)

<i>Project</i>	<i>Status</i>	<i>Partners</i>
Export promotion	Initial scoping and fact-finding underway	NL
Competition screening	Project on starting-blocks	OECD
Public procurement	Initial scoping work undertaken (workshop + report)	(Cyp, Port, IT, IRL, POL)



Greece's Potential

- Structural reforms to improve competitive conditions: + 17% increase in GDP (IOBE, 2010)
- Recent research carried out at Harvard (R. Haussman): Greece has an unfilled potential
- Starting from such a low point: it should be relatively "easy" to improve the business environment, (e.g. by "importing" best practices from MS).



Greece's Potential: the McKinsey Report

- The report, "Greece 10 Years Ahead": improving the business environment in 5 established sectors and 8 emerging ones could generate 520 000 new jobs and about 50 billion of additional added value
- Some of the steps are "trivial": exporting processed olive oil instead of selling in bulk to firms in other Member States who then relabel it.



Greece's Potential: the McKinsey Report

- Greece offers a unique combination of climate, location, natural beauty and fairly developed physical infrastructure. (but short tourism season).
- Potential to develop all year tourism (combining nature and culture and perfect weather). Health tourism (climate, diet, medical personnel)
- Greek diaspora: underused human capital
- Renewable energy, aquaculture, ICT...



Greece is supported by its partners

- Partners contribute to establish the necessary conditions for growth and recovery
- Administrative reforms: modernise the Greek public administration with France and Germany as domain leaders (resp. Central and local administration)
- Joint effort with the IMF on the tax front
- More than 20 Member States and International Organisations (e.g. OECD on regulatory screening) provide support
- World Bank?