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A new start for Greece and Europe!

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Policy Recommendations

1. Greece needs to strengthen its existing advantages, invest and boost innovation in renewable energy, solar-powered products, high-quality food, and others.

2. In addition to tapping existing EU funds, Greece must generate more own funds by taxing all groups fairly, repatriate Greek assets abroad, fight tax evasion and appeal to help from its many expatriates.

3. Europe requires a more diversified economic strategy, away from prioritizing budget consolidation, to boost investment, social cohesion, economic dynamics and environmental viability. The main objective is to generate employment and optimism for its populations.

Abstract

The six months negotiations with Greece can mark a turning point in the way Europe deals with its weaker members, requiring concessions from both sides. Greece will need additional funds to be able to repay its immediate excessive debt burdens. Several additional sources need to be tapped: repatriation and taxation of Greek assets abroad; taxing wealthy institutions within Greece, so far exempt; improving administrative procedures; appealing to Greek expats abroad, and so on. These funds need to be used to strengthen the Greek economy, enable innovation, start-ups and expand higher-value products and services which can also be exported. Up to now Greece has not tapped its very high potential of solar and wind energy with a view to reduce its 16 bn € fossil fuel import bill, has not created an investment-friendly climate and business conditions. Reversing will increase the low export share, will create employment and give hope for the future to unemployed youths.

Similarly, all of Europe needs an investment strategy, promoting innovation, education and the greening of the economy. The economic stagnation since the beginning of the crisis needs to be overcome by investing into the future, into a socio-ecological-economic transition. The direction of economic policy in the EU must prioritize future investment, target employment and distribution and improve and safeguard social cohesion and ecological viability. A spirit of togetherness must be created without tactical games, threats and blackmailing, in order to tackle the difficult economic and political conditions.

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The EU and the Euro group have finally, once more, shown that they are able to find an agreement, even in very difficult circumstances. This is not the place to allot responsibility for the out-of-proportion delays, innumerable number of meetings and summits, but to say that none of the actors has come out of this marathon unscathed.

It seems that for the moment Greece will be "saved", that it will receive funds to repay its international creditors, and that the population will pay for this with more hardships, fewer public services, more poverty and more political turmoil. All this might be worth it, if the agreement gave hope for the future. A number of items in the agreement will be able to put the Greek economy and the Greek state in a better position to weather the difficult future, but while these are necessary, they are by no means sufficient.

More is needed in and for Greece

What is glaringly missing in all this is firstly a domestic quick start initiative and secondly a European investment offensive. Both are needed to overcome the lack of creation of new firms and employment, the despair of young people, the lack of youth and women in Greek business and government and the bad reputation of Greek‹s business conditions for international investors. To Greek‹s systemic weakness, we can add the lack of marketable products and services and the "oligarchism" and clientelism of the Greek economy and society. It shelters certain economic assets from competition and taxation: Markets and services are closed to new entrants. This leads to semi-feudal conditions within Europe. (Aiginger et al., 2013)

So far, the billions of euros which EU member states and the international creditors have channelled into Greece, have been helpful indirectly at best, a large share has gone to international creditors and Greek persons and firms who took these funds abroad. There are indications (Resnikoff, 2015) that more than 80% of these "rescue" funds went outside the country, instead of enlarging the deplorable 30% export share of the Greek economy. This low export share is a significant indicator for the weakness of Greek manufacturing (8% of GDP), Greece's lack of high-value exportables, and the need to import higher-value consumer and especially investment goods. For this reason, the argument for Greece leaving the Euro zone and become "competitive" by means of a devaluated new drachma, is wrong: if you do not produce exportable products, even zero wages will not make you competitive, while the necessary imports to build up stronger sectors become prohibitively expensive – in addition to the increasing burden of Euro-denominated foreign debt.

Lack of financial resources is a fairy tale

Money for both a quick-start program as well as a longer-run investment program is available:

- Greece has not been able to tap the Structural and Cohesion Funds (Aiginger, 2013) adequately, because of a lack of project development, because of weaknesses in the domestic institutions. Greece could, if it had the institutional capacity, also tap the new European Fund for Strategic Investments (EFSI) / "Juncker" fund, via the European Investment Bank.

- Greece could create a world-wide campaign to diaspora-Greeks to put money into a professionally run and clientele-free "Greek Venture and Investment Fund", appealing to the patriotism of Greeks abroad. This has tradition in Greece, where expats in the past have financed Greek hospitals, public buildings and even warships.

- Greece could demand all citizens to declare foreign accounts, and to pay a 20% tax into a solidarity fund, if they cannot prove that the money has been taxed properly.

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- Greece should ask its state church to finance a humanitarian relief program and local initiatives to clean up problems deferred due to financial distress in the past years. The Orthodox Church is the owner of much very valuable property and has been the driving force preventing a nation-wide land registry (cadastre).

- Greece could demand its military to sell all property, airports, amenities not needed for today‹s defence obligations and needs.

The excellent chances of solar and wind energy

Greece does not use its chances to go for renewables in heating, cooling, transport and tourist services. It could become a lab for solar energy, for technologies which still need a lot of direct and constant solar power up to the time the technology works with less constant sun: bicycles could be run easier and quicker with an additional electric motor (substituting for traditional motorcycles), buses could be run and cooled with solar plus photovoltaic energy, small electric cars could be developed with much longer range before reloading. Small enterprises have learned to install an efficient electric motor into an older car. Such innovations could be a source of employment, innovation and saving of fossil energy. Currently Greece is lagging in renewable energy (e.g. when compared to Portugal, Spain, Austria) and imports fossil fuels for 16 bn euros per year. If it could halve these imports it could reduce its trade deficit to 12 bn euros and would enjoy a surplus in the current account of 10 bn euros.

House refurbishment programs, changing from fossil energy to renewable, could provide work for young people and early retirees who want to supplement their pensions. This would be a game changer from financing unemployment unconditionally (and ending support after some time) to »in work« or restart initiatives. Programs of this type are eligible for European funds. Greece as well as Europe should set up fast-track procedures to develop programs and approvals by Brussels in an accelerated manner.

Greece could set up special investment zones, in which firms can set up new businesses and plants without the bureaucratic burdens which have deterred foreign investors. The Commission does not like zones which prove as tax shelters, but they do not oppose districts with fast and streamlined administration. By the way this model worked in Greece as the projects needed for the Olympic Games were run by a separate administration.

This could be the core of a "yes we can do it" initiative. Greece should not feel forced to do something by "Europe" but look at its own priorities to boost employment, business starts, local initiatives and new administration.

Restarting growth in Europe

What is necessary for Greece is also necessary for the Eurozone as a whole. The Eurozone's economic policy direction was concentrating on budget consolidation and forgetting both its Europe 2020 Strategy and to restructure expenditures and tax systems. This has brought the successful European project into a deep crisis. Seven years after the outbreak of the crisis, the Eurozone in 2015 will be barely reaching the GDP level of 2007: proverbially biblical "7 lean years" – which need to be followed by "7 fat years". The United States, where the crisis started and where economic policy has been more pragmatic, have grown by more than 12% in the meantime, their unemployment has fallen (but also the employment rate), while in the Eurozone, the rate of unemployment is now two digit, youth unemployment is more than 20% (in some countries above 50%!), and even the objective of this austerity-driven policy, the government debt ratio has gone up by more than 15 percentage points.

Had the Eurozone matched the (rather weak) US growth rate, it would have produced 1.3 billion Euro more in GDP than it actually did, with corresponding lower unemployment, poverty and misery. So far, EU and Eurozone authorities have not been willing or able to acknowledge this failure, let alone correct their fundamental policy mistake. During a crisis policy needs to support and strengthen demand, both of consumers, even more so of investment, while also correcting some of the emerged imbalances. Thus, as a prime priority, Europe must overcome its demand weakness to get out of the crisis. EFSI can help, but will not have immediate impact, since selection and planning of pertinent projects will take time, even if there is already a pool of projects at the EIB. But EFSI is an anomaly in an economic policy environment where budget consolidation takes precedence over investment for the future, where as a result also private investment in the Eurozone has faltered, while public investment has even been halved! Needless to say that public investment should include an increasing share of intangible investments from education, preschool training to innovation. Europe trails US in intangible investment, while the share of material investment is larger.

Transition to a high-road model based on inclusiveness and sustainability

Both Greece and the Eurozone need to start implementing an investment strategy geared towards the future which addresses simultaneously economic dynamics, social cohesion and environmental depletion. The fledgling Europe 2020 "strategy" which purports to support this "socio-economic-environmental" realignment of the EU contains pertinent indicators, but does not prioritize and address the three pillars jointly. Europe's future strength in the World Economy will not depend on narrowly defined price competitiveness, i.e. low wages, but rather on quality competition, an early start towards environmental rebuilding, and a strong emphasis on social inclusion and cohesion – which will also strengthen political stability and cohesion.

Again, as in Greece there is no lack of money (Aiginger, 2015):

- Europe currently spends more on subsidies for fossil energy than for renewables. Specifically in times of low oil prices, the subsidies for coal and oil could be curbed without social costs.

- Europe spends more on 28 military systems (inadequate for any challenge from outside Europe) than Russia and China together (with very high expenditures particularly in high deficit countries like France and Greece; SIPRI 2014).

- Europe spends the largest single part of the EU budget for subsidising big agricultural units (specifically on that pillar which does not prioritize bio agriculture).

- Europe allows tax evasion for firms and forfeits an adequate tax on financial speculation.

The report of the "Five Presidents" towards completing the Eurozone tackles the major institutional deficiencies and "original sins" of the construction of the Eurozone. It calls for fiscal, economic, and political union as necessary preconditions and requirements of a monetary union – and their early completion. In economic terms, it calls for much closer coordination of fiscal, economic and financial policy. While many of their suggestions make much sense and need to be implemented, they do not address the question of the direction, of the substance of economic policy (and the report completely ignores the chances of leadership in sustainability and the changes in governance needed to sustain it). More and better coordination of economic policies – yes, but the policy direction must be geared towards the needs of society, must maintain or enhance standards of living for all, must preserve the environment and promote social and political cohesion. Budget consolidation is but one instrument to achieve this, rather than the priority objective of EU and Eurozone economic policy: this policy has proved to be utterly inadequate for crisis management.

A restart is necessary and feasible for Greece. It will receive money for the next few years. Budget consolidation and even more deferment of debt repayments and lower interest rates are necessary. All important is that employment is created quickly. The first initiative should come from a Greek quick start program financed by domestic sources and complemented with European Funds. Greece should not play against Europe but become a willing part of it. This will induce investment from international firms, once they see that Greek investment climate and business conditions have improved.

Restarting together!

A similar restart is needed for Europe as a whole. So far, Europe has concentrated on budget consolidation, but forgot initiatives to boost employment and demand, and forfeited chances of new technologies, specifically ecological and social innovations. Higher growth and increasing demand in Europe would help peripheral countries in general and Greece in specific to reform their economies and boost production. This is a precondition for a positive assessment of "Europe" on the part of the populations. It could reverse the trend towards supporting anti-European political movements.

Europe is built in solidarity. This requires that in times of need stronger partners support weaker ones, who in turn can use this support to develop their own strengths with the help of domestic partners. Successful organisations refrain from using threats, blackmailing, domination and tactical games, in order to generate a spirit of community. The strenuous experience of the Greek crisis should mark the beginning of a new European spirit in all its member countries.

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