

---

# The Greek Crisis: A Greek Tragedy?

ALEXANDER S. KRITIKOS AND CHRISTIAN DREGER

---

**Alexander S. Kritikos**, DIW Berlin—German Institute for Economic Research, University of Potsdam, e-mail: akritikos@diw.de  
**Christian Dreger**, DIW Berlin—German Institute for Economic Research, Europaen University Viadrina, Frankfurt (Oder),  
e-mail: cdreger@diw.de

---

Since the 2008 stock market crash, the Greek economy experienced a double-dip recession. While the Greek GDP is almost 30 percent below its level before the financial crisis, its economy appears to be still in dire straits.

The ongoing reform process to overcome the sovereign debt crisis is mainly driven by the Troika (European Union, European Central Bank and International Monetary Fund), which seeks to balance the country's public budget. The strategic focus on reducing the public debt resulted in a cataclysmal economic downturn, because Greece's structural weaknesses were not sufficiently addressed and because public and private investments into R&D, the Greek innovation system and its infrastructure as components of a strategy for growth were neglected. With austerity in place—with its massive reductions in pension payments, social expenditures, and wages—there is not much beyond tourism, agriculture, as well as some copper, aluminum and petroleum products that Greece can export in considerably higher amount after having enforced the list of austerity measures.

In contrast, innovative, future-oriented industries with high value added are almost absent from Greece. Instead we see a massive exodus of Greek entrepreneurs, scientists, managers, and highly skilled employees toward the northern EU-countries and the United States, i. e. of those who could create future industries, because they lack the needed economic, institutional and political support. While cost disadvantages have been reduced, the underlying, persistent structural problems are inhibiting higher investment, innovation, and prosperity.

This issue of the “Vierteljahrshefte zur Wirtschaftsforschung” is inspired by the format of a Greek tragedy. It discusses the status quo in Greece in the seventh year of the crisis and potential policy strategies and reform options that could be a step forward in resolving the Greek crisis. After the *prologue*, it not only considers in the *parodos* and in three *episodes* the immediate consequences that the economic policy of the last six years had, but through five *stasima* it takes into account a wide range of aspects inherent to the debate on reforms, such as the healthcare and education systems, as well as labor and product markets. It finishes with the *exodos* stating what needs to be done to end the crisis. The contributions to this volume were written by 20 authors from Greece, the Greek diaspora, and selected non-Greek authors with interest in the Greek cause. Their contributions examine the Greek crisis from different perspectives and present different possible resolutions. These represent the opinions of the respective authors, which sometimes rest upon contrarian concepts. Thus, potential reform options remain under discussion.

In the *prologue*, *Renate Neubäumer* sheds light on the underlying causes of the Greek crisis and shows that it is deeply rooted in the country’s earlier economic development. Although Greece had made some effort to improve the state of its economy before the year 2001—to be able to join the Euro-zone—many of the country’s weaknesses continued to persist or even worsened. Over-regulation of product and labor markets as well as corruption hampered business activities and discouraged investment, thus harming the country’s competitiveness and productivity. In addition, disproportionately high unit labor costs contributed to weak exports.

The government relied on foreign capital to finance its ever-increasing expenditures, which were in large part due to the bloated public administration. At the same time consumers used credit cards and loans to live beyond their means, all contributing to a real estate bubble. When the inflow of foreign capital dried up in 2007, the real estate bubble burst and the economy entered a depression.

Since then, the austerity and institutional reforms stipulated by the Troika have not revitalized the sclerotic economy. The current course can lead to modest growth, should agriculture and tourism provide higher value added, but is not sufficient to fuel higher long-term growth. Under such a scenario the accumulated public debt is insurmountable. As *Klaus Schrader*, *David Benček* and *Claus-Friedrich Laaser* argue in their *parodos*, even if the Greek government recognizes the need to modernize its economic structure and drives forward the implementation of reforms, a further debt relief in the form of a haircut or debt restructuring of at least 30 percent might be necessary in order for the country to return to a debt level that is sustainable in the long term.

Unfortunately, currently the opposite is happening. The tangle of regulations in Greece paralyzes business activities with time- and cost-intensive procedures and uncertainty. It undermines competition with rigid pricing, entry restrictions, and closed professions, thus deterring investment and impeding economic development. Product market regulation prevents international companies from doing business in Greece. As *Kaspar Richter*, *Gabriele Giudice* and *Angela Cozzi* point out in the first *stasimo*, future growth depends on reforms that open product markets for investment and exports, as well as on making products and services more affordable for consumers, thus increasing consumption.

In addition, persistent structural weakness in Greece is strongly related to the inefficient and corrupt public administration. The business environment is still characterized by bureaucratic hurdles for companies, which makes Greece even more unattractive for investment. As *Vasiliki*

*Bozani* and *Nick Drydakis* show in the second *stasimo*, while previous governments had removed some of the obstacles companies were facing, there are still significant delays to the reforms and many of the changes are not being enforced properly. This is due in part to a lack of monitoring and enforcement by the Troika. Making matters worse, the current Greek government is rolling back some of the structural reforms that previous Greek parliaments had approved.

At the same time, some of the Troika imposed policies have had devastating effects on the economy. Austerity to cut government expenditure and ensure prompt repayment of debt, as specified in the bailout programs, has inflicted greater harm on the Greek economy than expected by Troika, in particular by the IMF. *Sebastian Gechert* and *Ansgar Rannenberg* describe in their *episode* that the austerity measures implemented while the economy was at rock bottom intensified the negative impact, deepening the GDP decline between 2010 and 2014.

Government expenditure cuts have not only distressed the Greek economy directly, but also affected many publicly provided goods and services; for instance in education and healthcare services. As explained in the third *stasimo* by *Xeni Dassiou* the education sector suffers from cost inefficiencies and is characterized by unequal opportunities. While the economic crisis has thwarted accessibility of education, some long overdue reforms have been implemented in different areas. For instance, recent restructuring of research institutes and university departments as well as management reforms, as stipulated by the 2011 bailout program and enforced under the Papademos government, shifted the universities' strategic focus towards innovative research. However, while Greece should have intensified these efforts and continued the reform process, the current government decided to roll these back.

Also the health sector operates inefficiently and the austerity measures have further worsened its service provision. *Platon Yfantopoulos* and *John Yfantopoulos* show in the fourth *stasimo* that the health status of individuals in Greece deteriorated during the crisis, which is especially pronounced for vulnerable groups with low income.

Another misguided bailout measure is the Wealth Tax on Real Estate, which seeks to increase government revenues. *Dimitis Christelis* shows in his *episode*, that it effectively froze the real estate market, severely harming the economy. This tax especially hurts less affluent people, for whom an owned house represents most of their savings, driving many into bankruptcy. As an alternative to the dysfunctional tax system in Greece, *Gregory T. Papanikos* explores in his *episode* the concept of a flat tax on wealth as the only form of government revenue and argues that this could be a more efficient and effective way of taxation that takes into account the specific challenges in Greece.

If Greece is to achieve both sustainable long-term growth and access to private capital markets in order to roll over its debt at reasonable costs, the country will need to make significant investments to enter innovative sectors and compete in international markets. Even though there are entrepreneurs with promising business plans, the lack of funding, the overregulation, and the bureaucratic hurdles are major impediments to the creation and growth of innovative companies. Instead the latest actions of the present government and the ongoing capital controls are causing Greek companies to closing down or move out of Greece. The Greek government needs to cut red tape and to direct financial resources to research institutions and universities, as well as to companies that are engaged in innovative activities. As *Christian Dreger* and *Hans-Eggert Reimers* show in the final *stasimo*, public investments will, in turn, attract and spur private investments.

The transition to an innovation driven economy through suitable institutional and structural reforms is a pre-condition for an economic recovery and long-term growth.

After all, six years of the Greek economic downturn and the consequential six years of debate about it have produced one clear insight: Greece will only succeed in turning around and become prosperous if it starts making better use of its comparative advantages and if it lays the foundation for the production of higher value-added goods. The real misery underlying the Greek crisis is that the country has hidden assets that are substantially underappreciated in the analysis of its economic prospects. The most prominent one is its well educated citizens: People who excel at research, entrepreneurship, finance, and business. Instead of providing incentives for these people to stay in Greece and increase its productivity, the country is exporting its talents with low returns—instead of exporting the goods and services these talents could have produced.

There is a five-point plan to growth strategy—the *exodos* from the Greek crisis put together by *Alexander S. Kritikos* and *Marian Hafenstein*—which can be derived from the contributions of this volume: (i) developing a reform agenda under Greek ownership aiming to substantially improve its regulatory and institutional environment; (ii) reorganizing public finances and gaining back the trust of the markets and the European partners in the Greek government; thus (iii) making the Greek public debt sustainable; (iv) reducing the bureaucratic hurdles in the everyday life of Greek citizen, entrepreneurs, business owners and managers, and, last but not least, (v) expanding Greece's industrial base and its modern sector by investing into a better innovation system as well as by creating a business friendly tax- and regulation system.

If Greece better capitalizes on its Eurozone membership and makes structural reforms under Greek ownership, it will attract talents and investments that add innovative sectors to its economic structure. No magic bullet is needed: Eastern European countries have blazed this trail. All it needs is a government, regardless of party, committed to a better future for all Greeks, instead of continuing the clientele approach which prevails until today.

Greece will only turnaround when its brain drain is turned into brain circulation. To that end, it needs supportive creditors who will shift from asking for further austerity measures to asking for a comprehensive strategy that combines structural reforms with an investment strategy. As of today, the Greek government has taken no concrete steps towards structural reforms or encouraging innovation and the Troika continues to insist upon austerity measures only, like in the past six years. Under these conditions the Greek crisis will likely go on. So, we still await for what a Greek tragedy aims for: *catharsis*.