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Game changing proposals for Greece

Here we summarize proposals which would be the key to the acceleration of the Greek reform process. Most of the suggestions are in line with the WWWforEurope Policy Brief¹, but some of them have been developed in subsequent discussions and therefore are of a more tentative character. All of them could be game changers for Greece, shifting attention from the past to the future, from the period of austerity to a new Greece successfully competing in the world economy. The necessity to change the game in Greece is given since the analysis shows that while many important reforms have been started, unemployment and debt have increased further and economic activity is still declining. Media attention - in Greece as well as internationally - concentrates on problems rather than on the changes that have taken place or indeed on the successes that are just around the corner. The public mood is dominated by the burden of change that has been laid (to some extent unavoidably, to some extent unfairly) on the shoulders of the young and those with low incomes, who are themselves underrepresented in the reform process.

1. The all important game changer: Greek ownership

The main argument of the WWWforEurope Policy Brief is that the Greek reform process should have three actors. The main actor needs to be the Greek society ("Greece in the driver seat"). Greece has to develop its own vision where it wants to be in 2030 and to outline the strategy to achieve this goal. The second actor is the European Commission (incl. ECB and IMF), it monitors the reform process (with more leverage and more time needed than given today) and its compatibility with international rules and it offers specific assistance (money, administrative guidance, best practice). The third group of actors are the rich countries with small deficits (creditor countries) which increase their own efforts to stimulate demand through ecological programs, by increasing wages according to productivity, and by reducing income differences in their own countries. They bolster European demand, ecological change and reduce their current account surplus with the main goal of increasing welfare in their own countries. The side effects of these developments are the increase in export chances for southern Europe and a limitation on the necessary transfers. To use the example of driving a car, the European Commission provides the traffic infrastructure and some basic traffic rules, the creditor countries drive their own cars, with some responsibility towards the other cars as they are currently not yet able to drive at the same speed.

¹ Aiginger, K., Firgo, M., Huber, P. (2012), Policy options for the development of peripheral regions and countries of Europe, WWWforEurope, Policy Brief Issue 2, December 2012
(http://www.foreurope.eu/fileadmin/documents/pdf/Policybriefs/WWWforEurope_PB_no02_D504.1.pdf)

Taking up ownership of the reform process by Greece is the all important game changer. It involves Greece acknowledging it has a problem, and develops a vision where it will play a positive role in the globalised world of 2030. Greece can become a hub for production, exports and trade in a dynamic geographical region, based on the competitive advantages and societal goals of Greece; instead of cutting expenditures and wages according to the demands of financial markets and the concepts of the troika, which are similar for all debtor countries regardless of their particular circumstances, strengths or weaknesses.

2. Important game changers

2.1 Reform zones for fast track procedures (for FDI)

Greece could set up specific "reform zones" (industrial zones etc.) with fast track procedures: in these special regional areas the reforms in the administration, and as regards bureaucracy are accelerated, labour contracts could be tailored specifically to the need of firms but include training, as well as salary premia and job security in case of success. Specific courts could decide in case of disputes, and binding and transparent arrangements with tax authorities are feasible.

Rationale: Greece has to attract FDI and to promote the start of new firms. After price competitiveness has been restored, administrative processes and the inability of knowing the long run conditions for business will be the main obstacles to investing in Greece. Special arrangements should jump start investment in specific regions. In the long run the processes in all regions will develop in this direction. Some regions can lead and accelerate and provide best practice. A set up in which regions are competing for better rules is different to reforms which are prevented or decelerated by some regions and by local lobbies opposing change as a result of vested interests. Reducing red tape might increase the probability that some of the brightest people which emigrated in the past will return.

Problems: The EU-Commission does not like special zones, specifically if low tax rates are their defining characteristics. If they primarily focus on administrative reforms and not on tax holidays the assessment will be different; regional differences exist in regional programs of the Commission and fast track procedures worked in the upcoming phase of the Olympic Games. Trade Unions oppose special regions, if this implies lower wages and less job security. There will be less or no opposition by trade unions if new symmetric contracts are developed which trade off flexibility against security, in which gains of firms are shared with the employees, if on the job training is increased and firms are better connected with education, if new types of labour contracts can be developed which are similar to those successes experienced in the financial crisis by the best performing countries. Greek investors from abroad may be a driving force in this process and may be invited to bring in their ideas on how such new symmetric contracts should be designed.

Setting up industrial zones or reform zones is a game changer insofar as currently international firms argue they cannot invest in Greece due to long, burdensome procedures, uncertainty about the framework conditions (e.g. with whom to negotiate), and the length of legal disputes.

If these disadvantages can be diminished, the excellent geographical location of Greece will attract foreign direct investment.

2.2 Speed of processes for business start ups

A lot of small firms went bankrupt, so new employment will have to come from new firms. Currently procedures to start a firm are lengthy, expensive and -in many professions - dependant on permissions and licences. Moreover, uncertainty looms as to any future rules. Rules of the game would change if permissions are given automatically, if the authorities do not reject an application within a given time. If young people have a business idea and could apply for permission, and this is automatically granted if the permission is not rejected within three weeks, businesses could be started more easily and readily. If the authorities later want to withdraw permission or to change some details, the authority has to go to the courts and therefore the procedure becomes a transparent legal one.

This is a game changer, since under these rules time and administrative delays work to the advantage of the start ups. Some businesses which are active in the areas of health or the environment could be exempted (or be allowed longer rejection periods). This has to be defined ex ante and the courts have the final decision making power.

2.3 New services and employment in formerly regulated industries

Everybody with a driving licence and who was not responsible for an accident in the past two years could drive a taxi and deliver small services e.g. for tourists (order online in the evening, receive the delivery in the morning to your apartment or hotel: e.g. newspapers, cereals, bread, local fruits, etc.).

This is a game changer since services become available which did not exist before and young unemployed could just start to work at a low risk with no other investment than a car and a computer. No training or experience is needed for many services. The problems that would arise is that this proposal implies more competition to incumbent licence owners; this problem could be mitigated if the permission to do business is limited to the months with intensive tourism, or to young people, or to agents supplying some service currently not provided by licence owners.

2.4 Start up facilities (incubation centres)

Office space for young entrepreneurs can be offered, incubation centres might supply computer facilities, meeting rooms, joint secretarial services etc. for business start ups. Rents, and electricity costs could be waived for young firms in such centres for one year, then increasing slowly to market prices after three years.

This is a game changer since free office space, joint facilities and cooperation between young people all reduce the costs of business start ups, thus reduce their risk and increase stability.

2.5 Flexible but symmetric labour contracts

Wages have been reduced for young people in order to increase employment prospects. If firms are successful the young people should have the right to an automatic mechanism by which wages increase with productivity and sales; young people who have contributed to the success will then participate if profits rise (and they are not substituted by another cohort of young people with wages below the poverty line).

This is a game changer because on the one hand cheap and flexible labour is provided for firms, but on the other hand young people are offered the security and perspective to participate in case of success. It increases the fairness component of the current reforms.

2.6 Extension of unemployment payments (“in work benefit”)

The period of unemployment insurance is rather short; and no social safety net exists once your entitlement is over. Payments could continue in some form, conditional on your own efforts and a minimum number of hours of employment. Mini jobs could be offered by communities, or sponsored by private initiatives (from individuals, the church, by social network initiatives). "Service checks" which could be bought by private persons for personal services such as cleaning, shopping, gardening, day care, repairs (which are all happening now in the black uninsured sector) could be institutionalized via internet, they could provide some basic insurance (for which the employer pays a small contribution of maybe 5%). A certain amount of hours worked with "service checks" lead to an extension of the unemployment insurance.

This is a game changer since people are not paid for unemployment but for work. Unemployment payments usually lower labour supply (since they reduce the net gain from work) but in this case social benefits can be earned through personal efforts, and services are also provided which would otherwise not be available or too expensive. Wages earned are increased due to the extension of the benefits connected with work.

2.7 Tourist rebate of 5 percent from September 1 on

Tourists leaving the country are given a rebate at airports of xx% for all receipts which prove money spent during their stay.

This is a game changer since this scheme extends the season and increases the share of expenditures for which receipts are requested and taxes are paid. This measure would very probably deliver a positive budget contribution (as well as being great marketing).

2.8 Returning money from abroad

If money from foreign accounts is repatriated and a fee of 20% is paid, all former transactions would be free from investigations regarding previous unpaid income taxes. For money transferred abroad are requested in the future banks to ask for the origin of the money and for proof that taxes have been paid, and the information will be sent to the fiscal authorities. If this is not done by banks and documents are not available, the bank is liable for the 20% fee.

This is a game changer since up to now a large share of the money transferred was not taxed and the low tax obedience was understood as a minor problem (or part of the game given the inefficiency of government). The past could be forgotten (if no crimes and no corruption were involved). A new age can start now in which high incomes pay taxes effectively. This is important for the reforms to be considered as fair, since the young and the low paid suffered via the reduction of low wages, the increase of the value added tax and the rising unemployment.

2.9 Application for the first European “competitiveness and convergence contract”

The European Commission and the European Council want to establish special contracts with individual countries implementing a deep and important structural reform program in line with the EU strategy. This could cover the reform of administrative processes, or of business organizations, or employment etc. If a country makes a proposal and the Commission agrees a “special contract” is concluded, and the reform process will be financed by the Commission. We propose that Greece presents such a proposal, even as the first country, and if possible in time for the summit in June. It is far from clear whether such contracts will be decided upon this year, how they will be financed and what would be the content of these contracts. This will be discussed at the June summit, with some countries pushing for top-down initiatives, some focusing more on wage cuts, some countries on proactive measures, some on competitiveness in the narrow definition of price competitiveness. Some members will want the Commission to define the content of the contracts, others the individual members. It is highly likely that the southern European countries will get priority (under the convergence argument).

It would be a game changer if Greece would make the first proposal and define a reform process in its own interest, which otherwise would not be financed due to budget shortages. Greece could take the initiative and define reforms according to its own vision. Greece could urge the Commission to go ahead and stick to its intention to support employment and growth, instead of being reprimanded as usual for not going ahead fast enough with cutting wages and expenditures. And some active component of the strategy change will be financed (sooner or later), without any burden on the Greek budget. The often heard argument: "This is a nice idea but we have no money now" is no longer true due to "competitiveness and convergences contracts".

Even if it does not work or does not work in this year it changes the game. It proves Greek ownership of its strategy, demonstrates reform willingness, and makes pressure for an active component in reforms. It outlines an employment creating component of reforms instead of the dominant austerity and employment reducing component.

2.10 Youth reform boards

There should be a competition for the best ideas for how to raise the chances for young people. It may be organised via social networks and the best proposals could be presented in a televised event. Young people including the winners of the contest could then build an advisory reform board to government (e.g. providing a “youth test” for all reforms).

This is a game changer since currently young people have suffered the most from past failures and current reforms. Young people have good educations, excellent command of ICT technology, but do not find work today and if they do, it is not paid adequately, if they want to start business there are obstacles. They are underrepresented in the political process, especially young females.

2.11 Private reform funds

Government money for reforms will be limited even in the near future. Private money should be raised to finance reforms, it could be collected without promise of returns (out of social responsibility), but there could be small bonus components as an incentive for good management. Money could come from expatriates, from business, from groups treated exceptionally well under previous tax regimes and government practices, or just by people who want to bolster reforms and provide employment for young people. This fund could invest in reform programs in business start ups in firms growing rapidly without enough resources (Gazelles). National and International managers should be included in the allocation of money, not government bureaucrats. The fund raising could be split into a Social Fund where donors are happy to invest in the reduction of poverty and a Venture Capital Fund supporting new firms and start ups which have the prospects of a some returns.

This is a game changer since money is sourced from private firms and wealthy persons. This could be successful, given the uneven distribution of wealth in Greece and given that there are successful Greeks all over the world who are managers, owners of firms or professors. Tourists who admire Greek culture and hospitality may also like to invest in Greece, so that money can be raised privately. Churches, ship owners and the military could contribute to acknowledge their past privileges which sit uneasily against the current hardship of low income earners and the young people in Greece.

2.12 Integrating institutions for migrants

Special quasi governmental institutions could be set up to be responsible for the integration of migrants and their children into the system of preschool care and education in general. Greece needs migration and migration helps to connect with neighbouring countries, connections which are currently too loose in Greece (it has the lowest exports to its neighbours of all the European countries).

This could be a game changer since relationship between Greeks and migrants are deteriorating and a populist movement is making inroads on these conflicts. Migrants integrated into political and cultural institutions, and children integrated into the education system provide advantages to Greeks as well as migrants

3. A menu at the request of the owner of the reform process: Greek society

Summing up, we provided a menu of game changers for Greece, which could shift the attention away from problems and goals not already attained to the future, away from measures demanded by the troika to issues improving the chances of Greece being able to gain an adequate and excellent position in the globalized world of 2030. Which measures from this menu will eventually be enacted, is up to those in the driving seat of the reforms: Greek society.