1 An Overview of the Modern Greek Economy

'It is indeed desirable to be well descended, but the glory belongs to our ancestors.'


1.1 CURRENT PROBLEMS

Although no economy is problem-free, some can boast of strengths that far outweigh their weaknesses. Not so today’s Greece. True, by the mid-1970s the Greek people had managed to house themselves amply and satisfactorily (but at the cost of anarchic, thoughtless city-planning); almost all Greeks nowadays eat well (perhaps too well!), whilst many certainly spend more time enjoying themselves than working productively. Above all, a Greek (or an Australian or a Spaniard) born in 1992 would expect to live longer (76.9 years) than a person from any other country but four: Japan (79.5), Iceland (78.2), Sweden (78.2), and Switzerland (78).

The country’s central bank, the Bank of Greece, has managed to supervise a well-developed banking system strictly, ethically, and with remarkable success, mitigating the inflationary effects of fiscal profligacy and preserving people’s trust in the system. This the Bank of Greece has achieved even though many state-owned banks for political reasons got overburdened with bad debts at times, and some still are. The country’s food-processing, food-serving, entertainment, supermarket, and fish-farming sectors are thriving. So are her shipping (though not shipbuilding!) and petroleum products industries. Her sprawling tourist industry, although short-sighted and opportunist, remains a big FX earner. But other than these achievements, some of which are of an ambivalent nature, the economy is fraught with problems. In combination, these pose a serious threat to Greece’s chances of sustainable development, in both the short and the long term – unless, that is, Greek society is prepared to go through the dramatic changes that overcoming those problems requires. Ten of these are particularly acute. In short, Greece has:
(1) The biggest public sector, broadly defined and in percentage employment terms, among members of the OECD. (We will see why and how this is perhaps the root-problem of the modern Greek economy.)

(2) The biggest public-sector deficits (Maastricht-defined) as a proportion of GDP in the European Union (EU): 9.3 per cent in 1995, against 5 per cent for EU-15. (This partly explains the big public sector and partly is a result of it.)

(3) One of the three biggest public-sector debts as a proportion of GDP in the EU: 111.7 per cent in 1995 (only exceeded by Belgium’s and Italy’s), against 71.2 per cent for EU-15. In fact, in 1994 Greece had the highest per capita foreign public debt in the world.6

(4) Among OECD countries, one of the lowest rates of economic growth in 1981–93, 1.5 per cent (against 2.5 per cent for OECD), while from mid-1950s to mid-1970s Greece’s was second only to Japan’s.

(5) In the 1980s and 1990s the highest inflation rate in the EU, and the third highest in the OECD (only Turkey, Mexico and Iceland did worse in the 1980s, and only the first two in the early 1990s).

(6) Worst competitiveness record but Mexico’s in the OECD, according to reports by the World Economic Forum (see Chapter 2).

In addition, Greece has:

(7) One of the least performance-oriented educational systems in the world (see Chapter 3).

(8) A bad welfare system, in quality as well as in quantity, combined with the harsh reality of an ageing and static population. (This suggests that, to a large extent, the big size of the public sector may have come about for reasons other than welfare – which is, in fact, the case. In a convoluted way, the abysmal level of state services also allows most Greeks to justify tax evasion.)

(9) One of the biggest informal economy sectors in the OECD, as a proportion of formal GDP, with the very probable exception of Turkey, Mexico and Italy (in that order). (The twin results of that are widespread corruption, and a highly regressive taxation system, which, in a country of smallholders, penalises property ownership, among other things.)

(10) The highest percentage of employers and self-employed people in the EU. (This helps sustain the black economy, reduces price-wage flexibility, and drives a wedge between house prices and wages.)