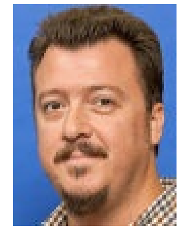
The new Syriza government must prioritise economic growth and job creation to get Greece back on its feet

Syriza emerged as the largest party from the Greek parliamentary election held on 20 September. **Ioannis Chatziantoniou** *writes on what the new government should do to attempt to revive the country's economy. He argues that the key priority should be to establish long-term prospects for its workforce instead of simply short-run opportunities of employment.*



Syriza has clearly emerged as the largest party from the 20 September elections. The elections were called following months of strenuous negotiations between Greece and its European partners, culminating in a political agreement reached on 14 August regarding a new programme of economic adjustment, with the specific terms and requirements being detailed in the relevant Memorandum of Understanding (MoU) signed by all involved parties on 19 August.

The agreement became the source of significant political turbulence within the Greek coalition government, while economic reforms that come with the programme passed through parliament only with the support of some of the parties of the opposition. In light of these developments, what should the new government's economic priorities be?

The need to prioritise growth

Current affairs have no doubt heavily affected the lives of Greek citizens who still very much wonder what the future has in store for them. Issues such as the sustainability of the sovereign debt, the efficiency of austerity measures and their impact on real economic activity, as well as the retention of the currency and the need for structural reforms remain cardinal issues and contribute to the build-up of major concerns among the Greek population. All of these issues deserve lengthier discussion not only among the people in Greece – who are directly affected – but also among the people in other European countries whose parliaments are charged with the responsibility of approving these programmes.

Starting with the currency issue, ever since its accession to the European Monetary Union (EMU) in January 2001, Greece has been a strong supporter of the common currency. The euro at the time meant better borrowing conditions and potential benefits with regard to certain concerns of a geopolitical nature. Recently, an impending Grexit was very close, as potential scenarios regarding either a temporary or permanent return to a 'new drachma' eventually made their way to the table of discussions. As has been stressed though, a transitory time-out from the euro might not be ideal, as economic agents both in fear of a likely devaluation of the new currency and in view of an imminent return to the euro will generally choose to convert any amount of cash that they hold into euros, thus further depreciating the new currency and boosting the level of inflation.

On the other hand, a longer-term exit requires well thought-out planning and strategic preparation beforehand and most importantly, it requires crystal-clear answers in connection with issues such as inflation, speculative attacks against the new currency, the relationship with the rest of Europe in the event of a unilateral debt write-off, the build-up of new international allies and energy security issues, as well as the new economic model for the country. At present, it is very difficult for most economic agents in Greece to assess whether they would be better off with a new national currency.

However, staying in the euro with the current agreement is also a source of concern for the people in Greece. The new MoU emphasises fiscal consolidation and sustainability mainly through parametric (i.e. directly quantifiable) measures. At the heart of the programme lies the idea that austerity measures are necessary in the short-run to the effect that, in time, they create an attractive business environment for investors who seek opportunities in healthy economies. However, austerity measures have been heavily criticised for mainly affecting lower income levels and small and medium-sized enterprises, and for paving the path to undesired deflation.

Although the answer to austerity should never be uncoordinated government spending, there is always the question of how long it will take Greece – a country with a weak export sector – to eventually attract new investors and recover within an environment of decreasing internal demand (reflecting a rather diminishing customer base which discourages potential investors) and intense taxation (which also discourages potential investors). In this respect, finding sustainable ways to stimulate aggregate demand appears to be crucial.

Alexis Tsipras speaking on 18 September, Credit: Syriza Gr/flickr (CC-BY-SA-3.0)

What is more, in a recent empirical study, my co-authors and I show that negative economic developments in relatively poorer European countries have a considerable negative impact on the business cycle of relatively richer European countries and therefore supporting internal demand levels in poor countries should be mutually beneficial for all countries in Europe. A recent analysis with similar implications has also been conducted by the IMF.

Furthermore, the prospects of recovery are heavily aggravated by the current level of sovereign debt. In particular, given the current level of debt it is rather ambiguous when all of these reforms and corresponding sacrifices will eventually bear fruits. The sustainability of the debt is a matter of cardinal importance, closely related to the success of the proposed programme. Part of the recent agreement involves considering proposals for Greek debt re-profiling in autumn 2015.

Within the framework of the current MoU, apart from successfully negotiating for some debt relief, investing in growth – and even negotiating for better terms of funding – should be the highest priority of the new government. According to the MoU, for the period 2015-20 Greece may receive at least €35 billion through EU funds and there is also additional support coming from the European Commission’s Investment Plan for Europe designated for high-quality – both public and private – investments.

The authorities (both in Greece and Europe) will have to make sure that this funding reaches the real economy (implying further improvements in funds’ absorption and appropriate monitoring). The country should identify its comparative advantages and all potential areas of investment (e.g. tourism, solar and wind energy, the primary sector) and work closely with specialised institutions towards the financial support of promising business plans and infrastructure projects. Improving the competitiveness of existing public services and private companies through investments in new technologies and increased productivity should also be prioritised.

There is not a minute to waste. The country should work towards establishing long-term prospects for its workforce and not just short-run opportunities of employment. Creating jobs and income will stimulate employment and aggregate demand within the country and this will positively affect tax revenue, the health of pension funds, and the attractiveness of Greece as a destination for further investment. The sooner that all involved parties realise that investing in growth is mutually beneficial, the sooner the country will enter a period of healing and economic recovery.

On a final note, even the most optimistic scenario will be destined to fail unless the new government takes the initiative to confront some of the chronic conditions afflicting the Greek economy, such as clientelism, tax evasion, an inefficient tax collection system, and undeclared labour. This is crucial for the achievement of the relevant goals of this demanding programme and might also offer authorities the opportunity to replace some of the parametric measures with equivalent measures of administrative adjustments (e.g. revenues from tackling tax evasion) and thus lighten the burden from the shoulders of the poorest part of the population.

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Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor o the London School of Economics.

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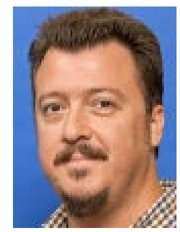

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