Halfway through the 3rd Adjustment Programme for Greece: with no more opportunities in the future

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More than 15 months ago, at the end of June 2015, I was sharing with colleagues some thoughts about those moments' conjuncture, with the new Greek namely radical-left government and its poor relations to the other Eurozone member countries and the EU institutions. In a text entitled "*Europe with Greece or Greece in Europe: a hard-worked perspective with no more than long-term and marginal but sustainable returns*" (http://www.learnovation.gr/?p=58) I was then referring to the prevailing conditions as follows.

"… How come that any rational European policy maker, and those of the IMF, could have expected that the Greeks, famous for their much emotional collective behavior, could stand for such a long period of austerity and misery, in order to save money and invest to the benefit of their children and future generations? …" While the vast majority of the political class in the country, with few exceptions, "…had, already from the start of the public Finance Adjustment Programme, adopted the argumentation that nothing such as this 'nightmare of crisis' would have happened, unless some 'bad', tax-avoiding rich Greeks and foreigners, together with the German and other 'arms dealing multinationals', supported by the corrupted previous governments, had not brought Greece to the verge of the bankruptcy." Whereas, " … the austerity was not the solution to the problem (in-famous 'wrong recipe') … contrary to that, it was the Programme that caused the crisis!.."

Still, even at these "high noon" moments, trying to close with some constructive thinking, I had ended like the following.

"… Europeans need to (a) set the basics for the potential follow-up Adjustment Programme, and (b) include … a strong support and peer review scheme, with technical teams in Greece. In order to consistently and patiently work with the Greek public administration on the ownership of the measures and reforms …" With two conditions "…First, …high level European politicians need to state explicitly …, making PM Tsipras and the rest of government understand that any political handling will have to be settled on the basis of a feasible technical (financial programme) agreement… (remember the "Varoufakis phenomenon!"). And " … second, that whichever support programme, …, will have to implement the pending markets' and the public sector' s reforms, … which should not any more be considered an austerity policy framework, but a policy reforming one..."

That was back then, whereas it is more than evident, from what has been taking place since last summer, that the two afore-mentioned "conditions" had never been considered as fundamentals for the brokered deal. Well, how could they be?

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That is why, (1) the already “closed” first evaluation of the current Programme has marginally succeeded in kicking off any of the critical reforms – as spelt out in the MoU -, apart from those with the privatizations, in fact only the ones scheduled already since 2014(!); (2) not any serious reform has been deployed not even “politically validated” before that, in any social policy sector, in public administration, the judiciary, health, education and training; (3) similar conditions prevail with the labor market and the opening of product and service markets, including the closed-shop professions (this is being in progress in the last 4 years!); (4) “foot dragging” is also the moto with all other privatizations; thus, (5) in order to make the ends meet, and reach the targeted public finance figures (with the primary surplus etc.) and the social security and pensions’ figures, the Greek economy is experiencing an unprecedented increase of taxation, ensuring a serious increase of collected taxes - while more families find impossible to have a decent life.

And, in the meantime, the private economy is diving further, becoming stagnated to the bone, NPLs are still increasing without yet been duly dealt with, thus marginalizing and increasing the risks of the banking sector, and the withheld payments to the private sector are reaching record highs. Not to mention long-term and youth unemployment, with the latter already boosting a huge “brain drain” phenomenon.

Under the circumstances, with the ownership of the Programme still in vacuum and the governance capacity almost in a shambles – with the fragile exception of the Finance Ministry which is making the ends meet (see above) -, it seems that Greece will be facing yet another period of uncertainty, when year 2017 will be around. Even if any “short-term action” for a decision on an abstract road-map for the re-profiling of the debt of Greece, together perhaps with a positive decision from the ECB on potential inclusion of Greece into its QE programme, could deliver a shortened change towards a smooth economic climate. If the reforms are not there, neither social inclusion and nor any growth will be boosted.

I am afraid that, as long as nobody challenges the commitment of the Greek government to the implementation of the running Programme (e.g. by upgrading “key deliverables” to “prior actions” [NB: progress benchmarks in the MoU]) and, at the same time, as long as the Greek people do not seem convinced or capable to enforce a change of governance, towards a more competent and reform-oriented practice, supported by a multi-party parliamentarian majority, preferably without but otherwise through national elections, there is only one way to avoid a déjà-vu, i.e. another round of a last-minute salvation venture, sometime in 2017! Which, I dare say, nobody is promising for a second time, given the results of the last US elections.

This way implies that, the institutions and especially the Commission will have to deploy sophisticated European know-how, in the form of technical assistance to evidence-based policy making, exercising close peer review practice, together with the authorities and the public administration. It would only then, a much needed “Growth Agenda”, as being recently proposed by the institutions during the Thessaloniki Summit (October 2016), could make the difference by addressing the following.

- Further improvements are needed to the business environment and to increase competition, in order to reverse the low level of private investment - currently only at 11% of GDP;
- new investment in logistics, energy and tourism must be stimulated, through opening markets, favorable regulation and by mobilizing privatization assets, especially land - these are all areas in which Greece has important competitive advantages;
- growth policies must be safeguarded by robust public finances, with a view to improving public spending effectiveness and lowering nominal tax and social security rates, while increasing revenue collection rates;
- the long-term unemployed need to be quickly integrated into the workforce, through active labour market policies and the availability of vocational education and training;
- progress on NPL resolution is needed, in order to open the door to improved access to finance and risk capital;
- Action plans must be validated for key industries such as ICT, pharmaceuticals and agro-food, to stimulate growth and investment, and in particular, a rapid catch up of Greece in IT, including broadband investment and creation of a digital market;
- and finally, there is a need to improve the capacity of the public sector and the judicial system to support growth; structural reforms must be supported by extensive reforms in the public sector, most notably in its governance and administration, the social support system, setting clear demarcation rules for the latter between social security, social welfare and health and strengthening the funded character of social security through bold regulation (e.g. setting up an effective second pillar).

If this could become a reality, then even in the case when the IMF joins such an eventually enhanced, as explained, international support scheme, through a complementary Programme - despite of the will of a lot of good Europeans wishing to prove our capacity to perform and “put order in home affairs” -, by having the two programmes been coupled with a reasonable road-map for the re-profiling of the public debt, the Europeans, with the Greeks being part of, will keep sharing the ownership of the reforms, while the IMF could only stay with the role of an “ex-post controller”.

The current 2nd Evaluation of the (3rd) Programme may this time turn to be the last “call to arms”, setting the “play ground” for the final effort and Greece’ s last chance. Let us all hope for the best, a rational outcome.

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