Rapid growth is absolutely necessary

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The upcoming snap elections provide Greece with the opportunity to turn a page politically and financially. How can Greece leave the 10-year crisis behind?

The only way out of the ten-year crisis is rapid growth. The Greek economy must run at a very fast pace of growth. Rapid growth has multiple advantages. First, it increases income for everyone. Second, it creates new work positions and drastically reduces unemployment. Third, it automatically provides higher tax revenue and creates "fiscal space" that the government can utilize to reduce tax rates and further help growth. Fourth, it increases pension contributions and reduces the amount that the state provides to the pension funds so that do not collapse. This also increases the "fiscal space." Fifth, it enables the state to repay in full in the long term all its loans to the EU and individuals. Sixth, it improves the position of some of the over-borrowed companies and reduces to some extent the pressure on banks from non-performing loans.

If, on the other hand, Greece does not achieve rapid growth, it will in a few years find itself with mathematical certainty begging the EU for new loans and memoranda again. The IMF has repeatedly pointed this out. It is precisely for this reason that the EU should help Greece take measures to facilitate investment and growth, such as tax cuts. The specifics of the agreement with the EU and the IMF must be reviewed soon. The severe terms signed by Mr. Tsipras after he had brought Greece to the brink of the disaster of Grexit must be changed. The new terms must cover the medium-and long-term timeframe, guarantee Greece's long-term economic stability, Greece's position in the euro, and the full repayment of its debt. The EU prefers to postpone this issue until it becomes acute, but the problem is crucial for Greece and should be brought up by the Government of National Reconstruction of Kyriakos Mitsotakis before it becomes acute.

Rapid growth comes only with large investments. The long-term drought of private and public investments gives Greece an opportunity of explosive growth in investments. But there are three major obstacles.

What prevents or obstructs investments?

First, political risk. Investors remember the disastrous negotiations of Tsipras-Varoufakis in 2015, that brought Greece to the brink of Grexit and disorderly bankruptcy. Also, at the last minute before the current elections, the Tsipras government handed out money in violation of the agreed surplus target with the EU. Fortunately, the political risk is drastically reduced by the election of New Democracy and moderate politician Kyriakos Mitsotakis as Prime Minister. Post-election, the political risk of Greece may be even lower than that of Italy and the United Kingdom. The financial markets that are always looking towards the future have already risen significantly in anticipation of the election of New Democracy.

The second and perhaps the biggest difficulty for growth is bureaucracy. Bureaucratic mechanisms (archaeology, forestry, spatial planning, local governments, etc.) create dozens of obstacles to small and large investments. It will take hard and effective work in the Ministry of Development to crack down on the Lernaean Hydra of bureaucracy.

The third problem that stops investment is huge taxes, especially compared to countries in the region. The outgoing government had even declared through its finance minister that taxes promote growth, an utterly incorrect statement! Fortunately New Democracy plans to drastically reduce corporate and individual taxes from its first day in power. These changes need to be maintained in the long term, creating a stable and investment-favorable environment.

Greece has a highly educated workforce. Greece's fast growth rates in the 19th and 20th century are largely explained by a higher level of education compared to Balkan and Middle East countries. Greece can excel in applied innovation. However, it needs to create the appropriate legal and institutional framework as well as the various complementary services that make up the ecosystem of innovation in other countries. The creation of the legal and institutional environment of this ecosystem should be a targeted effort of the new government.

Should the surplus target be reduced?

New Democracy promises immediate tax cuts that are essential for growth. How can this be done when the outgoing government recently wasted 1% of GDP in benefits to garner votes, and the country has committed to large surpluses for years?

The new Prime Minister should ask the EU for a reduction of the primary surplus target with an agreed plan with the lenders that half of the reduction will go to public investment and the other half to cut taxes to boost growth. The long-term huge surplus promised in 2015 by Mr. Tsipras cannot be achieved in any country of the world simultaneously with fast growth. The EU lenders know this, and the IMF has highlighted it. Economic logic requires a reduction of the surplus target, since the advantages of growth are manifold and absolutely necessary for Greece.

There are two paths forward. The first is reduction of the surplus target, tax cuts, rapid growth and full repayment of debt over time. The second is huge surpluses now, anemic growth, fourth memorandum and new loan in a few years, as well as a debt haircut and new bankruptcy, since in the second path Greece will not be able to fully repay its debt. The interests of Greece and the creditors are aligned in the first path.

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