COMMENTARY

Greece's Bailouts End, but Its Prospects Still Look Grim

The budget is balanced, but a crushing tax and regulatory burden makes growth unsustainable.

People walk by the Greek parliament in Athens, March 5. **PHOTO:** LOUISA GOULIAMAKI/AGENCE FRANCE-PRESSE/GETTY IMAGES

By Yannis Palaiologos

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It took three bailouts, around €290 billion in loans from its European partners and the International Monetary Fund, countless nights of knife-edge negotiations, an avalanche of austerity, a collapse in output worse than America's in the Great Depression, and three close brushes with an exit from the euro. On Monday Greece's third bailout will conclude, and the country will no longer have to rely on its official creditors to finance itself.

The eight-year crisis leveled Greece's old political landscape. Four general elections between 2012 and 2015 reduced the once-mighty Pasok party, which had led the country most of the preceding 30 years, to a single-digit also-ran. Syriza, a fringe group on the hard left that barely sneaked into Parliament before the debt crisis, has swept into power. Golden Dawn, a fascist party that polled below 0.5% before 2010, won 18 seats in the last election and is now entrenched in Parliament. Despite the criminal indictment of its entire leadership, it likely will finish third in the next election, which must be held by October 2019.

At the end of it all, the government and its European Union cheerleaders now argue that Greece is once more a normal country, on course for sustainable, inclusive growth. If only that were true.

First, the good news: Greece's crisis was caused by its budget and current-account deficits, both of which were significantly above 10% of gross domestic product in 2009. Last year the country posted its second consecutive budget surplus, this one at 0.8% of GDP. Excluding interest payments, the surplus was 4.2% of GDP. The current-account deficit has been nearly eliminated, down from 15.1% of GDP in 2008 to 0.8% last year.

The Greek economy is recovering, growing 1.4% in 2017. That's expected to pick up to about 2% this year despite extremely tight fiscal policy. Unemployment has dipped below 20% for the first time in seven years.

Greece's immediate economic future looks steady. A deal made in June with its European partners will extend debt maturities and grace periods while deferring interest payments on a significant part of what Greece owes. Greece is emerging from the bailout program with a cash buffer of €24 billion, which could cover financing for about two years without new bonds.

Perhaps most crucially, political risk has been drastically curbed. In 2014 Syriza was on the cusp of power, and it appeared poised to derail the beginnings of an economic recovery by tearing up Greece's loan agreements. After Syriza won an election and clashed with the country's creditors in 2015, the Greek economy foundered. This time, New Democracy, the likely winner of the next election, poses no such threat.

A closer look at the Greek economy, however, reveals a darker picture. Growth last year was barely half the initial government and European Commission forecasts, and the lowest in the eurozone. That's a paltry performance after a decade of brutal recession. The reduction in unemployment also loses its luster upon inspection: 55% of new jobs created last year and in the first two months of 2018 were part-time or shift work, as per the Greek Ministry of Labor.

There are two key reasons the economy is not producing more and better jobs. The first is that Greece's tax and social-insurance burdens are crushing. Greek's tax wedge—the tax burden on employment—is significantly above the average in Organization for Economic Cooperation and Development nations. According to a 2016 report from the Kathimerini newspaper, some companies that make as little as €5,000 a year wind up paying about three-fifths of it to state. Self-employed people who annually earn as little as €10,000 may have to hand over as much as three-quarters.

The second reason is that investment faces enormous regulatory and judicial roadblocks. Despite countless laws passed to reduce red tape and speed up court proceedings, World Bank indicators confirm it is still much harder to do business in Greece than in almost all other EU countries.

All this encourages Greeks to emigrate. More than 50,000, mostly the country's best and brightest—engineers, doctors, young executives—continue to leave every year, as they have done since the start of the crisis. It's a vicious circle: Emigration drains human capital and shrinks the political base for meritocratic reform. The resulting slide of Greek institutions gives those who have left no reason to come back. Consider also the dangerously low Greek fertility rate of 1.38 in 2016, which a study from the University of Thessaly projects will lead to a near 25% decline in population by 2050. Greece's prospects look grim.

None of this is inevitable. But reversing it will require more fiscal space and a new politics. The political class must unite around two ideas: Rid the market economy of rent-seekers, big and small, and unshackle public administration from the bonds of clientelism. Unfortunately, that doesn't seem to be what most Greek politicians have in mind.

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