HELLENIC REPUBLIC

From the Irish Model to the Lisbon Strategy:

The Greek Path to Competitiveness

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The Irish Model

Ireland in crisis

- Poor economic performance in the 50's caused massive emigration
- Following the 70's oil shocks, attempt to boost demand through increased government expenditure
- Extensive hiring by the public sector in order to reduce unemployment
- Ambitious programme of public infrastructure led to increased public expenditure, deficits and debt
- Interest payments increased further due to all time high interest rates

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The Irish Model

In 1986, Ireland was facing a difficult fiscal position and high unemployment. Under the current circumstances prospects were gloomy.

- Fiscal deficit at 10.3% of GDP
- Government debt at 114.5% of GDP
- Unemployment at 17.4%
- Dependency ratio peaked in 1986 at 224 dependents per 100 employed
- Net emigration approached 1% of the population
- Taxation jumped up by 10 percentage points of GNP in 1981-86
- Growth rate of GDP averaged 2% in 1981-86

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The Irish Model

The turnaround

1. Fiscal Stabilization

- Government's role in the economy was gradually reduced.
- The 1988 budget had the biggest cuts in spending in 30 years.
- Incentives were given for early retirement, cutting public sector employment by up to 10,000 jobs.
- Unemployment was being reduced slowly but exceeding 10% up to 1997 and reached 4.3% in 2000.
- The dependency ratio was down to 124 per 100 employed by 2000.
- Fiscal deficit was drastically reduced from 13.7% of GDP in 1981 to 1.7% in 1989 and to a surplus of 4.7% in 2000.
- By 1990 government debt was less than 100% of GDP (96%) and reached 39% in 2000.

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The Irish Model

2. Focus on growth

- Improving labour skills/education
- Making labour market more flexible
- Increasing employment participation rates
- Reducing tax rates
- Attracting foreign investment especially in high value-added sectors
- Efficient use of EU resources

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The Irish Model

3. The social pact- A 'partnership approach'

- The weaknesses of the economy facilitated an agreement between the unions, employers and government on a three year Programme for National Recovery:

  Moderate wage increases in return for favorable income tax reform, flexible/less working hours, improved education, retraining programmes, social protection.

- A series of three-year agreements followed :

  Programme for economic and social progress, Programme for competitiveness and work, the Partnership 2000, Programme for prosperity and fairness (range of objectives extended to promoting entrepreneurial culture and bringing about a more inclusive Ireland).

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The Lisbon Strategy

It is more than likely that the Irish success story inspired the structural reform strategy that was introduced at the Lisbon European Council in March 2000. Member-states agreed upon a 10 year programme for the EU to become

“The most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion”.

Targets

The member states agreed to implement necessary reforms in five broad policy areas:

1. **Pursue fiscal stabilization**
2. **Improve the business environment**

   Complete the internal market, further opening of regulated markets, reduce red tape, promote efficient pubic services, lower the cost of doing business.
3. **Employment/Education, innovation and research**

   Speed up the transition towards a knowledge driven economy, improve the environment for private research investment, promote life-long learning. Facilitate retraining and job search. Increase employment participation.
4. **Social cohesion**

   Strengthening equal opportunities for the disabled, promote gender equality and reduce regional disparities (according to the social policy agenda).
5. **Environment / sustainable development**

   Promote eco-innovation and eco-business, implement the Kyoto protocol.

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The mid-term Review

- In the first half of the Lisbon strategy, results were not satisfactory and member states failed to meet expectations
- The 2005 Spring European Council relaunched the Lisbon Strategy by refocusing on **Growth and Jobs**
- Also changes were made concerning the **governance**:

  - Simplify and streamline Lisbon (25 National Reform Programmes, 14 key indicators)

  - Increase political ownership and leadership (A national coordinator to be appointed, National Reform Programmes to be discussed in National Parliaments, initiate dialogue with social partners, NGOs, civil society)

  - EU budget to be reshaped to reflect Lisbon priorities

The mid-term Review

- Following the European Council in March 2005, the Commission presented the Integrated Guidelines (IG’s) for Growth and Jobs which integrate in one single document the **Broad Economic Policy Guidelines** (guidance on Macroeconomic and Microeconomic policies) and the **Employment Guidelines**.

- The IG’s provide the Member States with a clear, focused and **coherent framework of priorities**. The MS should decide on the relevant policy measures.

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National Reform Programmes

- The NRPs will be based on the IG's and will apply for three years

- The Member States are asked to submit their NRP by October 15th 2005 to the Commission

- NRPs will bring together, within a single summary document, all the existing national reports relevant to the Lisbon Strategy goals (Cardiff report, employment report, sectoral reports).

- The NRPs will be followed up by annual assessment reports

The Greek National Reform Programme

Greece, while staying committed to the whole Lisbon agenda, will focus on three main areas:

1. **Fiscal stabilization** and long-term sustainability of public finances.
2. **Promotion of growth**: improve the business environment, enhance competition, increase openness.
3. **Increase employment and productivity**: improve the effectiveness of the educational system, modernize the labour market through consensus reforms, promote a knowledge-based society. Emphasis on social cohesion.

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1. Fiscal Stabilization

Transparency of public accounts, sound budgetary policies and macroeconomic stability are considered the ideal environment for viable growth and effective structural adjustments.

- After a fiscal audit that clarified the actual position of the general government accounts, the 2005-6 budgets pursue fiscal stabilization through 'mild' adjustment. Measures were taken mainly on the expenditure side to reduce the deficit to below 3% by 2006.

- Further structural measures include a new framework for PPP's (for easing the substitution of public with private funds in the provision of infrastructure) and a new framework for enhanced corporate governance of public companies

- Special attention is given **not to halt growth**.

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2. Promotion of Growth

Growth (expected to exceed 3.5% in 2005-6), should be fuelled mainly by private investment and by boosting productivity and competitiveness.

- **Improving the business environment**:

Greece initiated serious changes by introducing a law on tax reform, a law on investment incentives and a simpler and faster procedure for easing start-ups. Furthermore Industrial Areas are being expanded and modernized.

The New PPP's framework will create new business opportunities for the private sector in the provision of infrastructure.

Also concerning land Planning, master plans for tourism, renewable energy resources, industry as well as the National Spatial Plan are being developed.

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2. Promotion of Growth

- **Completing the internal market**:

  Increasing the transposition rate is a high priority and measures are being taken to coordinate the faster adoption of European Directives.
- **Enhance market competition**:

  A privatization programme is being applied to further increase market competition (and also reduce public debt). Stakes in the National Bank of Greece, Hellenic Petroleum SA, OPAP and OTE were sold with revenues exceeding the target for 2005 (1.6 b. euros) by 30%. Further moves include airports, ports, banks.

  A competition enhancing bidding process for public works has been introduced.

  Liberalization of markets (energy market)

  New opening and closing hours for shops.
- **Openness of the economy**:

  Measures are being taken to attract FDI and promote exports
- **Promotion of ICTs and R&D efforts:**

  Target for R&D spending is set at 1.5% by 2010, 40% out of which by private firms (through special tax incentives, promotion of Information Society projects, e-government).

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3. Increase Employment and Productivity

'Working smart rather than cheap'

A series of targeted actions to improve the quality of the labour force, while reducing unemployment and social exclusion through:

- **Education & Training**

- The target is to spend 5% of GDP on education by 2008 while improving the efficiency of resources spent
- Enhancing the quality of education through introducing evaluation requirements
- Adapting the educational system to the needs of a knowledge-based society: By training teachers to new methods, supporting postgraduate studies and research, upgrading libraries, redirecting scholarships to technological fields
- Encouraging life-long learning: The target for 2006 is one "second chance" school in each prefecture. Further targets are flexible university programmes for part-time students (professionals, mothers), extend the Open University and enhance links between professional training and the labour market

3. Increase Employment and Productivity

- Reducing the number of early school leavers: additional teaching programmes, support of children with cultural and linguistic particularities
- Promoting entrepreneurial spirit.
- Gender equality: increase women's participation in technical and professional training, promote flexible working hours for mothers, part-time work, kindergarten facilities. Introduce gender equality in school education as well as special programmes for increasing female entrepreneurship.
- OAED is implementing a series of programmes for the unemployed such as training programmes, work experience programmes (stage) and wage subsidies programmes.

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Concluding Remarks

Although economic ‘recipes’ can never be exactly copied because of differences in historical, geographical and social circumstances, the basic ingredients of the Irish success remain valid: **fiscal stabilization, structural reforms, social approval/cohesion**.

The Lisbon strategy is certainly inspired by the Irish success, adopting the same policy directions. Member states have to choose their own priorities and tools, depending on their particular circumstances.

Greece is implementing an economic policy focusing on fiscal stabilization, promotion of growth mainly through mobilizing the private sector, increasing and upgrading employment and furthering social cohesion. Some reforms have already been applied, more are planned. The need for constructive public discussion and broader awareness, involvement and approval has been stressed and will be pursued.

Concluding Remarks

A further aspect to be noticed:

As Ireland managed to exploit its relative geographical and cultural advantages and become the major gateway to Europe for US investments, so is Greece attempting to benefit from its relative position in **South-Eastern Europe**. Greece can become the main business hub in this high-growth, high-potential area by exploiting its geographical and cultural proximity, creating a business friendly environment and enhancing the quality of its labour force.