TO INVEST OR NOT TO INVEST?

"POST-CRISIS" GREECE - Q&A

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The EU has announced the Greek crisis is over. The Greek government issues rosy predictions of cascading outside investment waiting to happen. Are we about to experience a Greek "miracle?"

Greece is indeed a country of miracles but with the slight difference of the miracles being of the unhappy kind. Both Brussels and the Athens government exist in their own virtual world of wishful fantasies. And while Brussels may fantasize at no cost, Athens has no such luxury. Economists agree Greece must achieve high growth rates, around 4 to 5 pc per annum, for at least the next five years in order to even begin *thinking* of making payments toward the debt. On the other hand, Germany and her allies insist Greece must repay her debt in full—and demand the GoG (Government of Greece) maintains budget surpluses of at least 3.5 pc per annum for the foreseeable future.

This target is impossible for a wrecked economy like Greece's. The IMF has declared the Greek debt unsustainable in the long term miffing Brussels and Berlin. Against this backdrop, it would be a truly brave soul who would decide to come put his money in the Greek economy in amounts that can make a difference.

The Greek prime minister and his advisers were in New York recently meeting with potential investors. What was his message to them?

His message was the classic "this is the time to come invest in Greece." Many previous PMs have delivered the same message. And there are always of course the accompanying "advisers" ready to deliver glowing predictions and the PR spiel. Of course, the PM's interlocutors—top bankers and businessmen—do have their own picture of where Greece stands right now. They know, for example, that the yield of the 10-year Greek bond is topping 4 pc and is heading even higher. They know the creditors oppose (fervently) any idea of not cutting pensions further when the GoG has announced already pensions won't be cut. They know Greek banks are dangerously fragile and in need of yet another re-capitalization, if a sudden "mishap" occurs. They know the Athens stock exchange languishes as fears about Italy and of yet another eurozone crisis increase. They know back-breaking taxation and social security contributions suck money out of the economy, money that could go directly into boosting investment and family consumption. And they know that if the GoG, after the announced "clean exit" from the "bailouts," backtracks on what the creditors deem non-negotiable, a major crisis, similar to what happened in 2015, may occur again.

No message, however optimistic, can defeat these facts.

There is increasing talk about early elections. Polls suggest the main opposition would form, most likely, the next government of Greece. The next PM must find ways of reassuring foreign investors. How can he do that?

The next PM faces a monumental task. Kyriakos Mitsotakis may have a personal reputation of being business friendly but that is not enough—he needs to persuasively argue the country is sound and reasonably solid. This won't be easy. Anyone visiting Athens these days can tell the country has been through the ringer without any signs of imminent improvement. Published data (excluding 'Greek statistics') deliver a pessimistic snapshot, too—unless you are *determined* to discover "positive trends" *against reality*.

In theory, Greece is now free to plot her own economic policies after the end of the third so-called "bailout" in August 2018, which Brussels sped to celebrate with duplicitous euphoria. In practice, however, the much hated "bailout" troika of EU-ECB-IMF may be gone but it has been replaced by equally powerful surrogates: Brussels auditors are scheduled to visit Athens often to offer "suggestions" as to the policy mix for a period that could extend out to 2060. These "suggestions" are designed to canalize Greek decisions *only* into action approved by Brussels.

Furthermore, traditional Greek wounds continue to fester. Corruption, partisan infighting, and a dysfunctional and wasteful public sector are well entrenched and hardly touched by the "bailout" straightjacket. Narrow partisan interests continue to dictate decisions on long-term issues that can make or break the country. And incompetent and narrow-minded politicians are eternal prisoners of the "political cost" which precludes *any meaningful policy of reform and aggressive pursuit of corruption networks.*

Mr. Mitsotakis will face also the EU austeritarians, who constantly discover Greece is doing so well that she can face further *cutbacks immediately*—a preposterous assumption in view of the *true Greek fundamentals* that the austeritarians deliberately ignore. Would the next PM be able to impress the EU overlords the Greek crisis could be managed successfully if the *political demand* for unrealistic surpluses, to keep the creditors satisfied, is removed?

The EU contradicts itself every step of the way: it claims it wishes the Greek economy to grow and prosper and simultaneously strangles every option that could allow it to do so. Potential investors can see this clearly. Is there anything a future government can do to bypass this irrational, hostile, and punitive EU stance and reassure investors?

A common truth emerging from the Greek disaster is that austerity does not work. Unfortunately though Greece is under the control of Europe's chief austeritarian, Germany. Berlin has nothing to say beyond "throwing money around is not a good idea." Of course, "throwing" includes spending that is *vital for keeping an economy in sync* and securing a minimum standard of living for the taxpayers.

German politicians with few exceptions, do not accept such "profligacy" otherwise known as "stimulus"—and they proved it once the 2008 global financial crisis broke out, when they rejected US suggestions of government action to reinvigorate stumbling economies. And since the German economy has been a true champion since the war ended, Berlin feels ***wrongly*** it has discovered the budget holy grail and, thus, those less fortunate must submit to German recipes of well-being.

Problem is German success is an exclusive patent that simply *does not work elsewhere.* Any future Greek government will find its path blocked by this <u>enormous boulder of nationalist self-confidence</u> feeding the German one-track mind. And this future Greek government will be unable to maneuver past the cast-iron German article of faith that crises are created primarily by *unwise governments and not the ebb and flow of international markets.*

As mentioned above, the IMF continues to describe the Greek debt as unsustainable in the longer term. Brussels and Berlin oppose this view for obvious political and domestic reasons. Which brings up back to the question of stimulus in the form of a <u>**generous slash/haircut**</u> of the accumulated debt. *Without removing this grindstone hanging around Greece's neck, there is little use of discussing either stimuli or outside investments.*

Having said that, future governments could resort to firefighting methods by trying to sustain and augment those sectors of the economy where Greece has a comparative advantage. Tourism is the primary such sector, which was also the only part of the economy that grew after the bankruptcy. Yet, even tourism is ultimately limited: spending per capita of those visiting remains comparatively low, which suggests Greece attracts average income visitors brought in *en masse* by major foreign tour operators. The latter, because of their size and financial clout, can drive profit per visitor to very low levels. Greece is already at the point of having to juggle between appealing to masses (the country already attracts an average 25 million visitors annually) and the <u>increasing damage</u> caused by overtourism upon the environment and infrastructure.

At the end of the day though, tourism, along a half dozen other sectors with some comparative advantages of their own, isn't enough for restoring the economy. Steady growth, capable of bringing down unemployment and increasing average income to living wage standard, can only be achieved via substantial foreign investment.

Ultimately, what would be the stimuli that could bring foreign investment to Greece?

Investors, when preparing to move into a foreign country, look for three main ingredients: taxation and "pro-business" laws, trained English-speaking labor force, and domestic peace and security. Greece currently belongs to the group of "red flag destinations" when these three factors are assessed.

Despite claims to the contrary and overwhelming pressures from the crisis, Greece is still without sound "pro-business" legal arrangements. Greece continues being a straggler when it comes to innovation, invests miniscule resources to R&D, discourages business expansion via restrictive labor laws and steadily increasing taxes, and is unfriendly to investors transferring profits abroad. The economic collapse has pushed the most productive population cohort abroad—an estimated 500,000 younger educated people have left the country—and domestic security is in shambles.

Furthermore, investors need reassurances their money isn't exposed to unexpected risks beyond market fluctuations. Those brave enough to arrive *before* the crisis have already reasons to lament. The trials and tribulations of Eldorado Gold, a Canadian gold miner committed to a gold extraction project in northern Greece, are routine fare in international financial news. Eldorado faced monumental administrative and legal obstacles on top of violent demonstrations staged by leftist "environmentalists" and agitators. Any potential investor, who looks at Eldorado with an inquiring eye, will discover a dozen good reasons for *avoiding Greece.* And let us not forget Greece is still shackled with capital controls, which the GoG tweaked recently in a fake effort at "liberalization." Without cast-iron assurances that such controls will be lifted immediately, the GoG will continue its "business-friendly" advertising campaign with no real hope of achieving its targets.

To boot, Greece's lack of economic freedom remains one of the most prominent international examples of how a country can mire itself in economic malaise. According to the Fraser Institute 2017 report on world economic freedom, for instance, Greece occupies rank 116, just below Nigeria and right above Bangladesh. In 2016, the annual Sustainable Governance Indicators, examining the 41 countries belonging to the Organization for Economic Cooperation and Development (OECD) and the European Union, placed Greece at the very bottom rung. This is hardly an environment where new ideas may thrive and receive the boost, administrative and commercial, necessary for sustainable profit making.

In the end, declarations of intent without the solid practical steps to implement them leaves investors cold. If the next government is serious about a break with the past *will immediately scrap the labyrinth of regulations about starting and registering a business* and replace it with simple steps demanding, at the most, 48 hours to complete. Along with that, all tax fees demanded for starting a new business must be scrapped and replaced with a single flat fee that won't break the bank. And to top the list, the tax burden on foreign investors must be light and technical infrastructure must be available at nominal cost. Only then, a flicker of hope may shine.