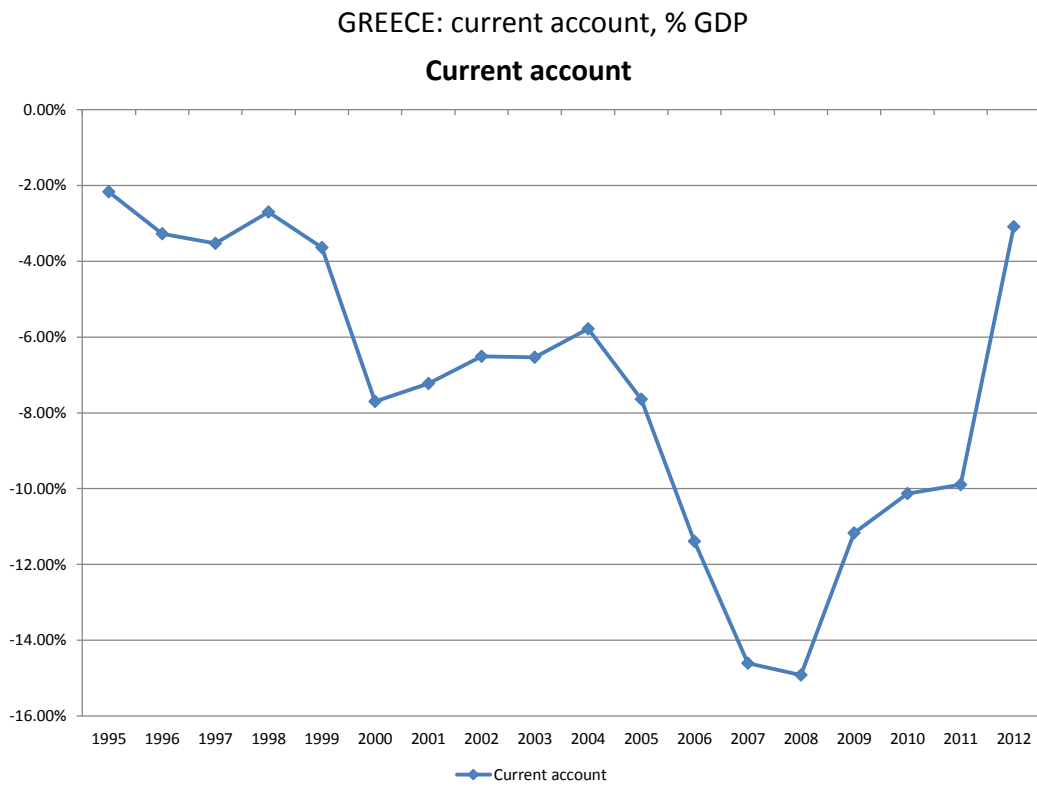
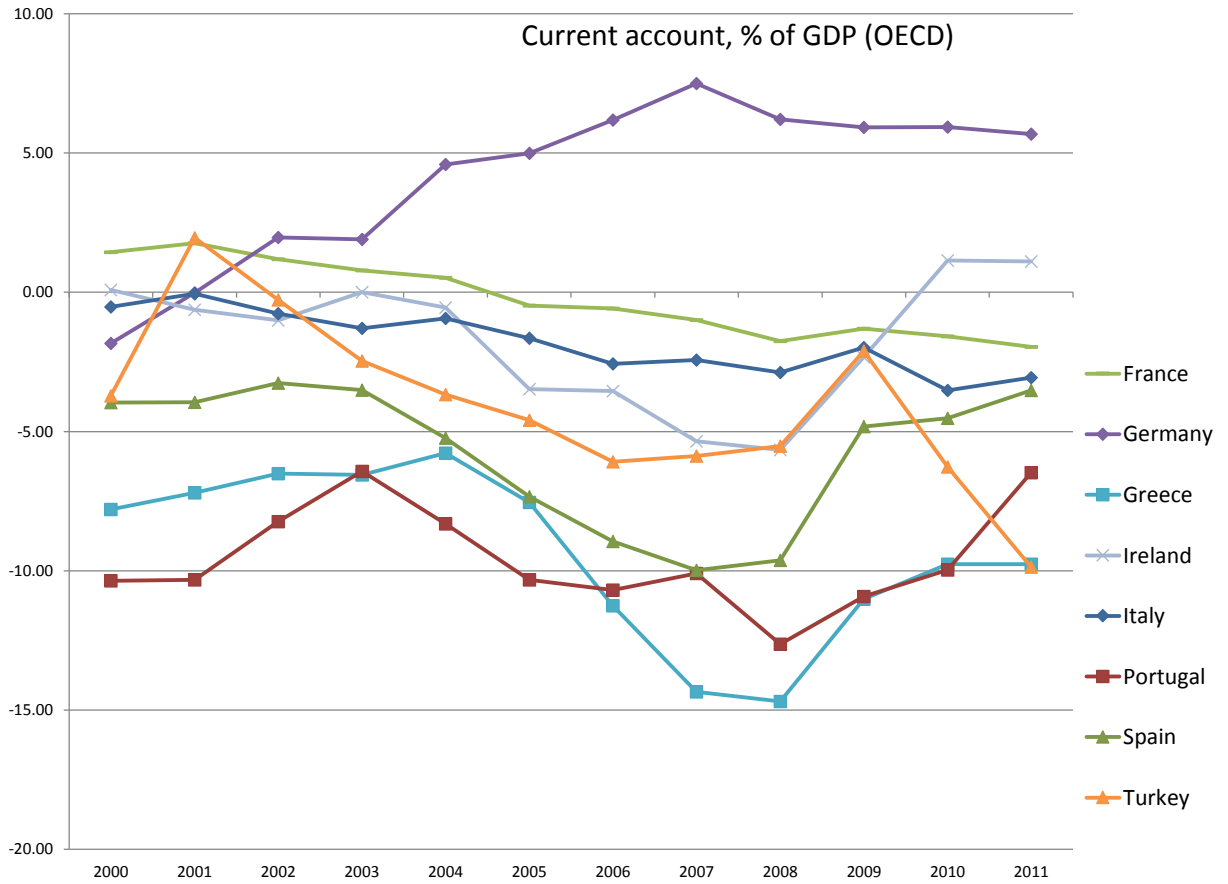
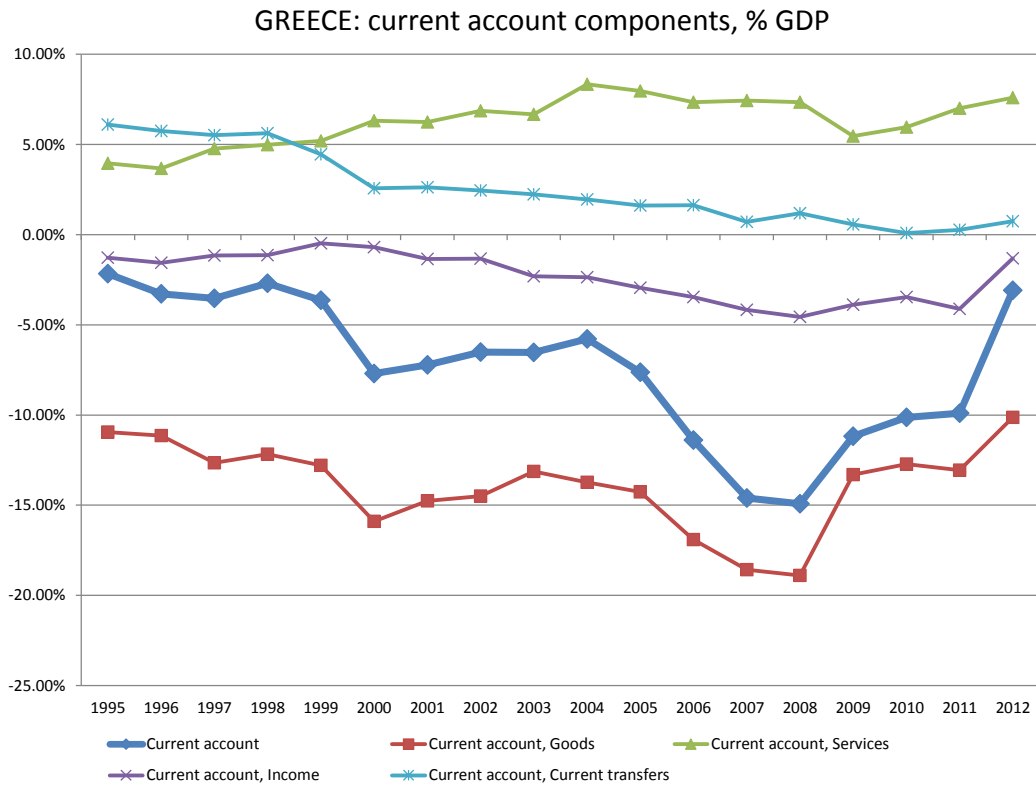


Is export-led growth feasible?

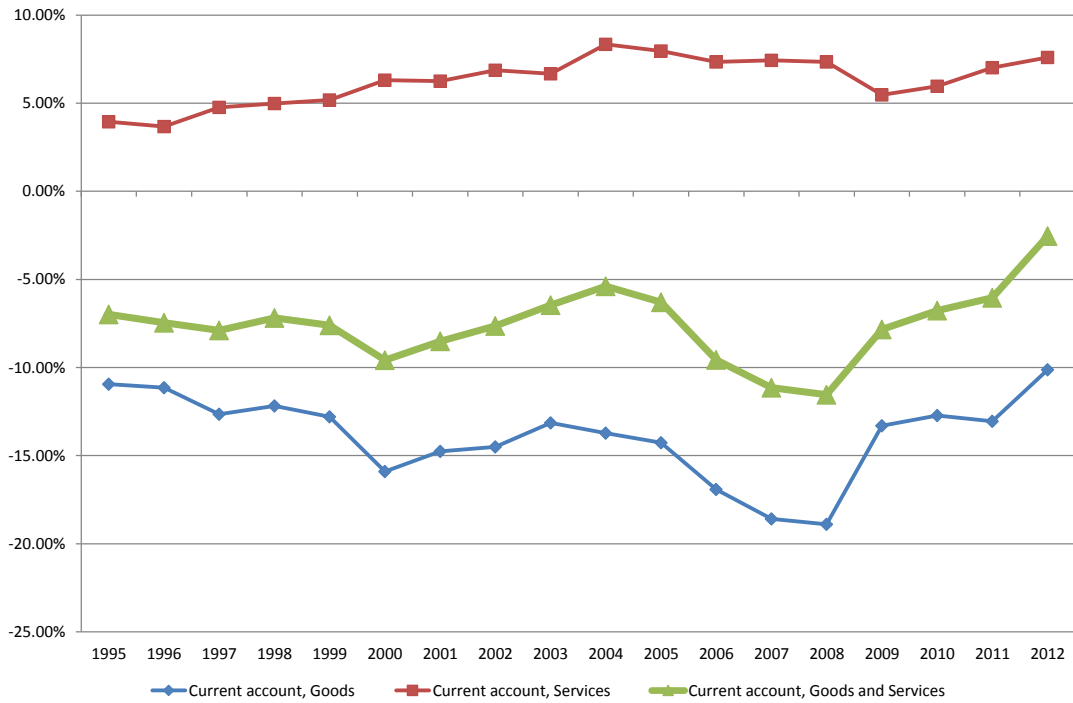
Aristos Doxiadis

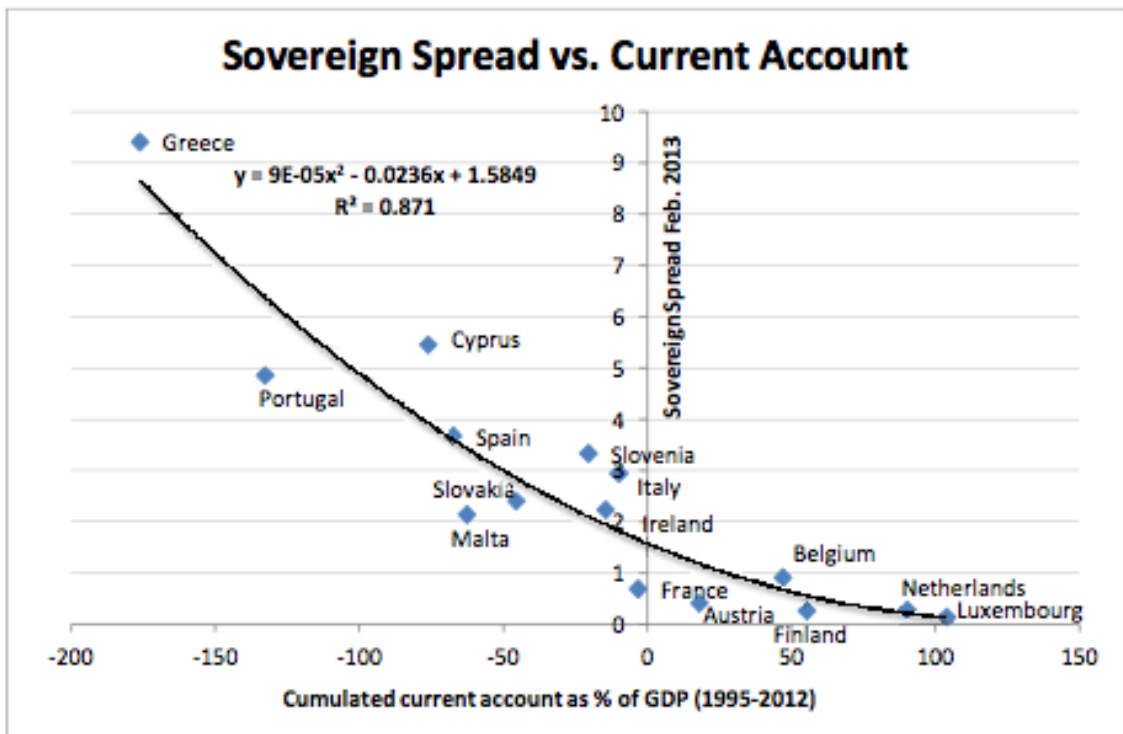




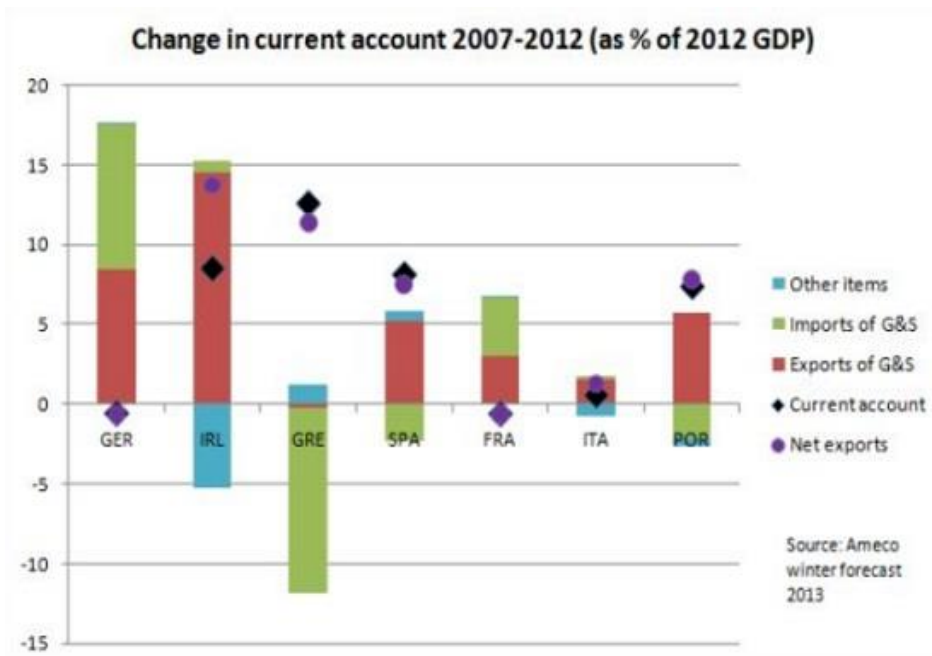


GREECE: current account goods and services, % GDP





Daniel Gros CEPS Commentary 8 May 2013



Explaining rigidities

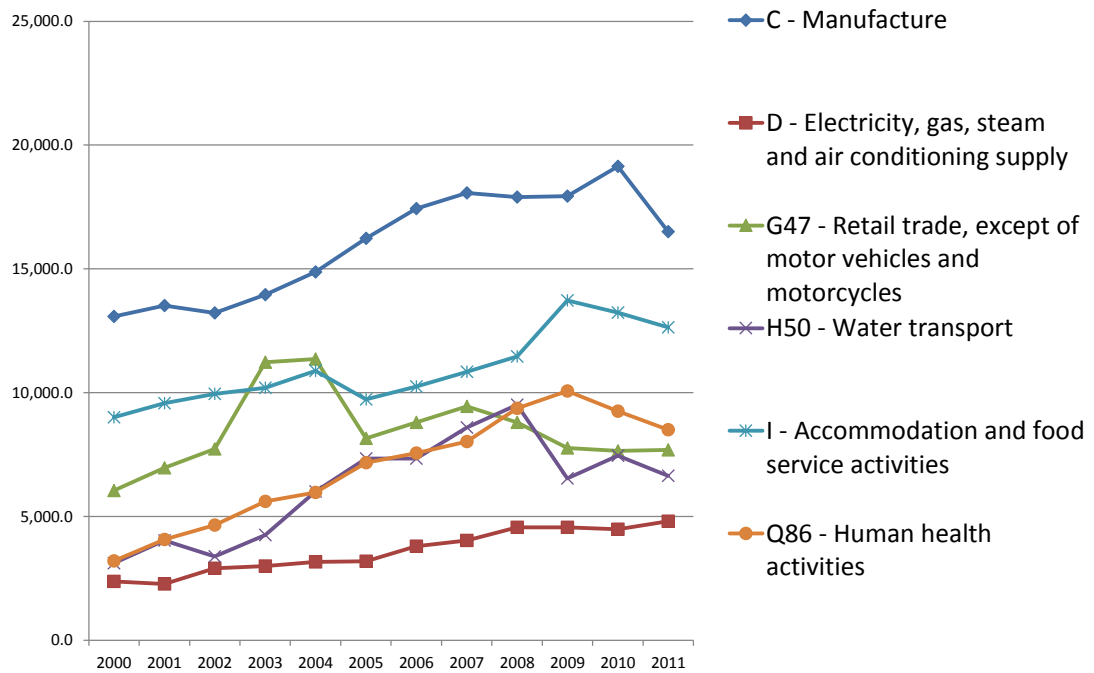
Crisis-specific factors:

- Credit crunch
- Shipping and tourism issues

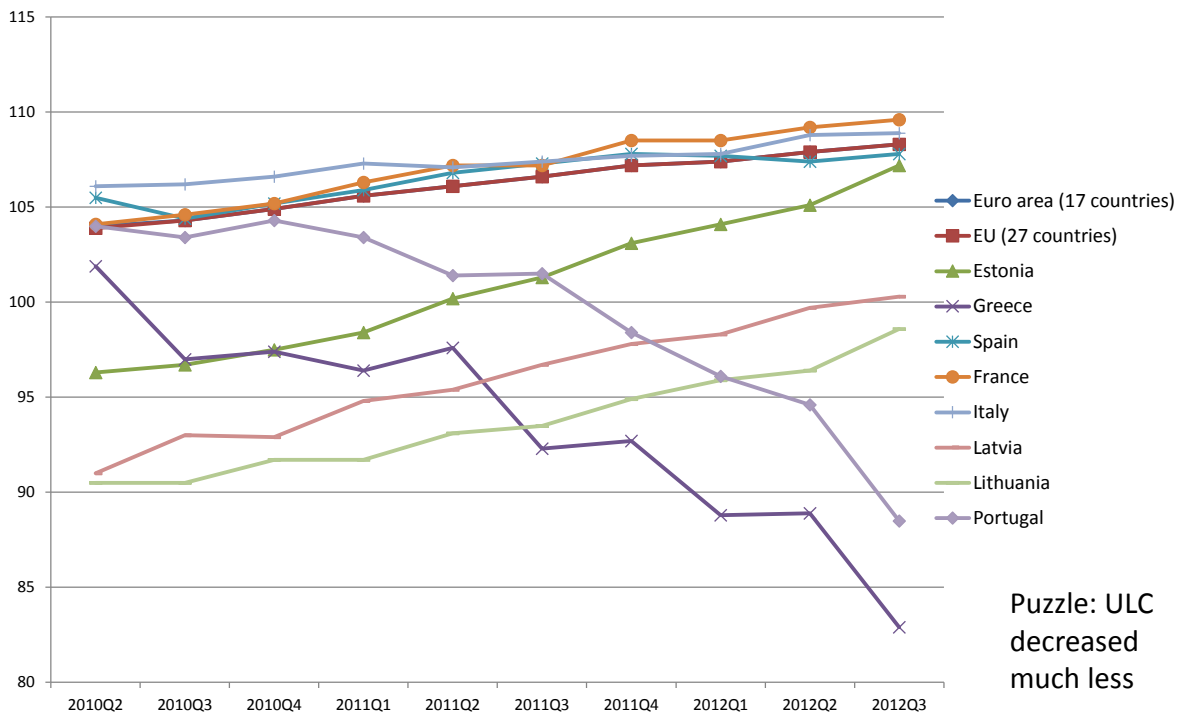
Long-term characteristics:

- Small size of firms
- Political economy: tradables vs non-tradables

Greece, Gross Value Added, Selected Sectors (euro million)



Labor cost index, hourly basis (2008=100) (Eurostat)



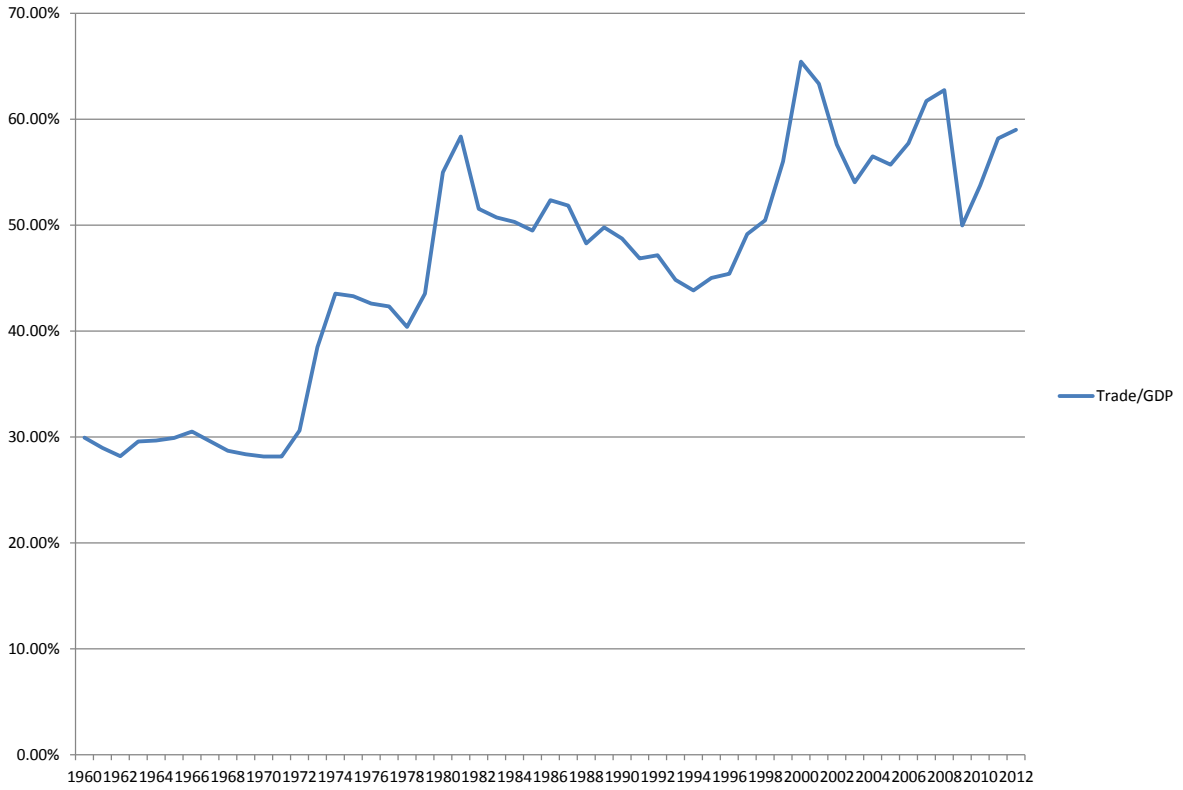
GEO/INDIC_NA	Exports of goods and services	Imports of goods and services	Trade G&S
Belgium	84.9	84.1	169.0
Ireland	84.0	74.8	158.8
Netherlands	76.3	68.0	144.3
Bulgaria	58.2	78.7	136.9
Czech Republic	64.4	62.1	126.5
Austria	59.3	53.5	112.8
Denmark	54.7	51.6	106.3
Sweden	53.5	46.8	100.3
Finland	46.8	43.1	89.9
Poland	39.9	43.9	83.8
Portugal	32.4	42.5	74.9
Romania	30.4	43.5	73.9
Greece	24.1	38.6	62.7
Spain	26.5	32.3	58.8
Italy	28.5	29.3	57.8
France	26.9	29.1	56.0

Percent of GDP, 2008 (Eurostat)

GEO/INDIC_NA	Exports of goods	Imports of goods	Trade goods
Belgium	66.9	68.4	135.3
Netherlands	61.0	53.7	114.7
Bulgaria	42.9	67.2	110.1
Czech Republic	54.8	54.2	109.0
Austria	42.9	43.2	86.1
Ireland	45.3	32.0	77.3
Sweden	38.0	34.3	72.3
Poland	33.2	38.1	71.3
Finland	35.5	31.8	67.3
Denmark	33.3	33.0	66.3
Romania	24.1	37.7	61.8
Portugal	23.8	36.8	60.6
Italy	23.4	23.6	47.0
France	21.3	24.0	45.3
Spain	17.6	25.5	43.1
Greece	10.7	31.6	42.3

Percent of GDP, 2008 (Eurostat)

Greece: Trade/GDP



Why is Greek trade low ?

Possible explanations

- Barriers to imports (support local production)
- Consumption patterns/lifestyle (tilted to non-tradables)
- Non-tradable rents

$$Y = C + X - M$$

$$Y_N + Y_T = C_N + C_T + X - M$$

$$Y_N = C_N \quad \therefore \quad Y_T = C_T + X - M$$

$$Y_N = C_N = f(Y_T, C_T)$$

Size of firms – Greece as outlier

Compared to EU27:

- Largest % of self-employed in total labor force
- Largest % of employees in micro-business in the NFBE
- Smallest farms
- Smallest % of Labor Force and Value Added in business of over 250 employees

Self-employment * as % of civilian employment, 2007

Top five OECD countries	Turkey	39.0
	GREECE	35.1
	Mexico	33.9
	Korea	31.3
	Italy	25.7
	OECD - Total	15.8
Bottom five OECD countries	France	9.0
	Denmark	8.8
	Norway	7.8
	United States	7.0
	Luxembourg	5.9

*Including employers and unpaid family members

Year 2007	Self-Employed	Employees	Other*
European Union (27 countries)	15.1%	83.1%	1.8%
Germany	10.9%	88.1%	1.0%
Greece	29.3%	64.3%	6.4%
Spain	16.5%	82.3%	1.1%
Italy	24.3%	73.9%	1.8%
Portugal	23.5%	75.5%	1.1%
Bulgaria	11.2%	87.6%	1.2%
Romania	21.2%	66.3%	12.6%
Turkey	26.9%	60.5%	12.7%

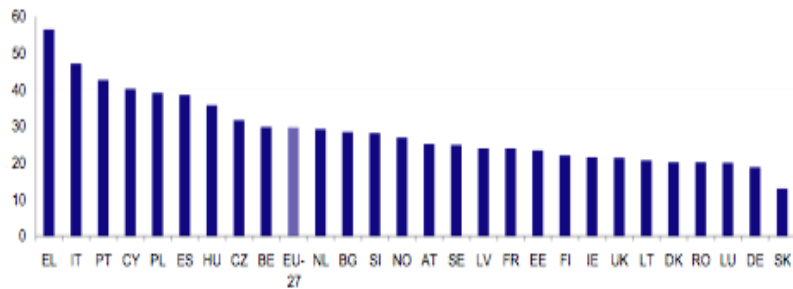
*Other: mostly unpaid family members

Self-employment distorts macro figures Share of wages in GDP (2007)

	Germany	Greece
Compensation of Employees	48.5%	35.2%
Gr. Operating Surplus & Mixed Income	40.0%	53.3%
Taxes on production & imports	11.5%	11.5%

Greece had the highest % of employed in units of under 10 people among the 27 EU countries

Figure 4: Micro enterprises – share of non-financial business economy employment, 2005 (%) ⁽¹⁾



Source: Eurostat, Statistics in Focus, 31/2008

Size of firms: why it matters (hypotheses)

- Static effect:
 - Smaller firms have lower productivity, so less able to compete internationally (data to be added)
- Dynamic effects:
 - Sizeable firms have more flexibility to add labor to existing plants (fixed vs variable inputs)
 - Bigger management structures can multiply plants and markets faster (lower discovery costs, leveraging in-house knowhow)

Size of firms: why does small persist?

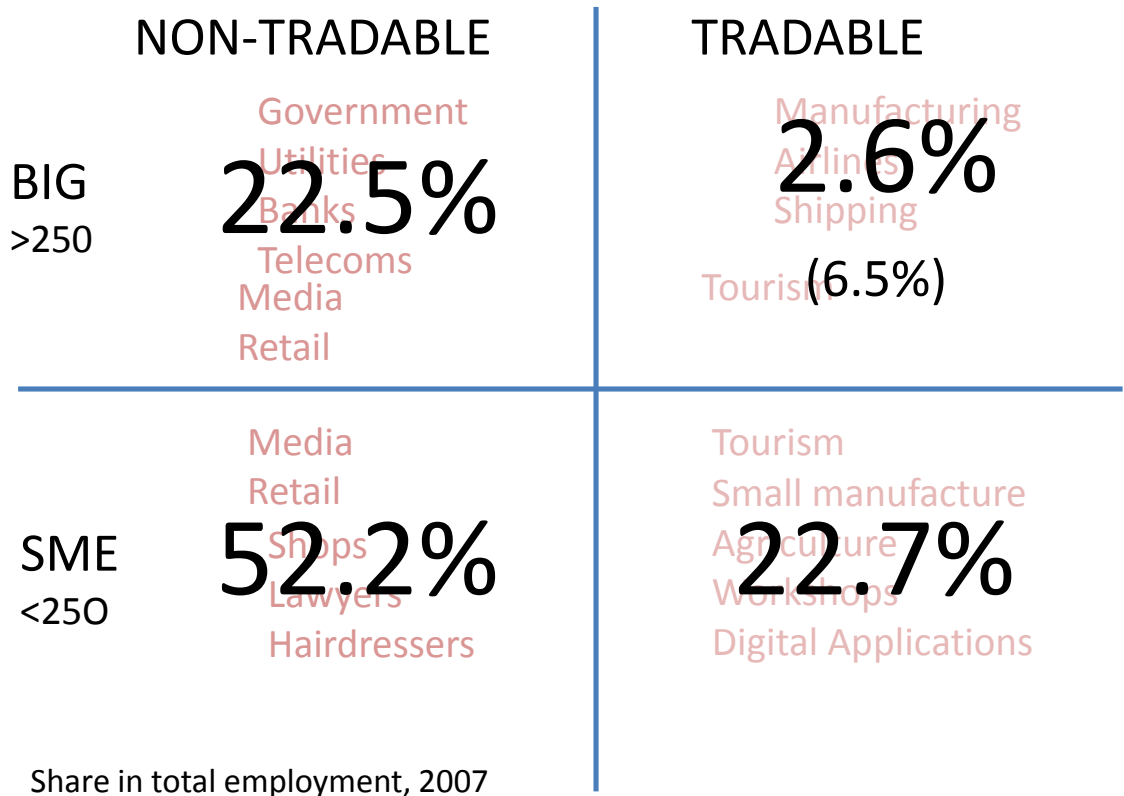
- History: ottoman empire, not feudalism
 - No class of dispossessed peasants
- Fragmented land ownership, protected by democracy
- Small holders resist wage-labour
 - Polyergic family strategies
- Regulation: erratic, obstructs growth
 - Tax and labor law evasion
- Foreign direct investment discouraged
- Protected business models

Distribution of employment: NT vs T, Large vs SME

	NON-TRADABLE	TRADABLE	ALL SECTORS
LARGE EMPLOYERS >250	LN 1,004 (22.5%)*	LT 115 (2.6%)	1,120 (25.1%)
SMALL-MEDIUM EMPLOYERS <250	SN 2,326 (52.2%)	ST 1,009 (22.7%) (164, 3.7%)**	3,335 (74.9%)
ALL SIZES	3,331 (74.8%)	1,125 (25.2%)	4,456 (100%)

Share in total employment, 2007

** employment in firms >20 employees



Notes to Table 4:

Numbers in *italics* are from the LFS.

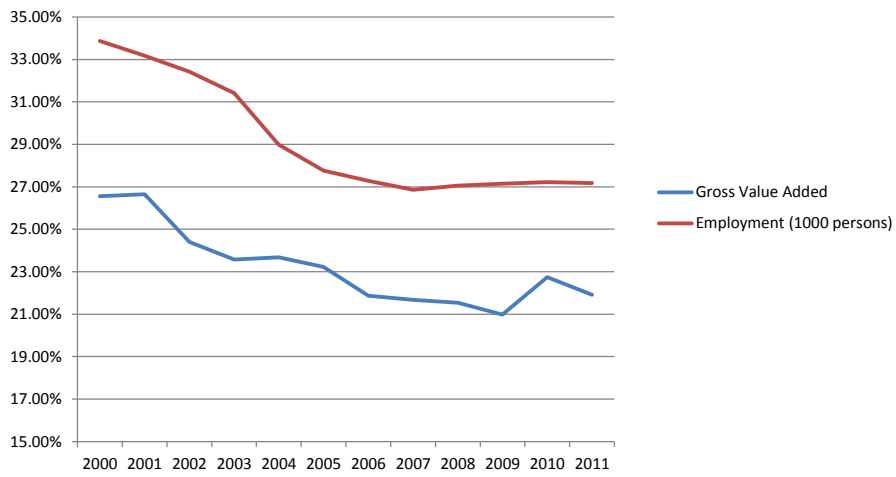
Numbers in shaded cells are my own guesstimates. They are mostly about the split between large and small employers in LFS data. For industry 55.3 (restaurants, etc) I have assumed that 30% worked in tradable (i.e. tourism-related) establishments. All other numbers are from SBS.

(*Shifting to Tradables*, A. Doxiadis, 2011)

TABLE 4
SIZE OF ORGANIZATION BY
NO. OF EMPLOYEES

TRADABLE SECTORS	<250	>250	ALL SIZES
A. Agriculture, hunting and forestry	503.900	0	503.900
B. Fishing	15.800	0	15.800
C. Mining and quarrying	6.765	6.743	13.508
D. Manufacturing	322.806	84.159	406.965
55. Hotels; camping sites and other provision of short-stay accommodation	63.944	7.334	71.278
55.3. Restaurants; bars; canteens and catering (30% of all)	66.762	1.291	68.052
61. Water transport	10.500	8.000	18.500
62. Air transport	196	3.633	3.829
72. Computer and related activities	18.877	4.298	23.175
TOTAL TRADABLE	1.009.550	115.458	1.125.007
	89,74%	10,26%	
NON- TRADABLE SECTORS	<250	>250	ALL SIZES
E. Electricity, gas and water supply	3.390	19.920	23.310
F. Construction	287.282	17.308	304.590
G. Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	888.923	101.372	990.295
55.3. Restaurants; bars; canteens and catering (70% of all)	155.777	3.011	158.789
60. Land transport; transport via pipelines	103.649	21.571	125.220
63. Supporting and auxiliary transport activities; activities of travel agencies	39.036	9.787	48.823
64. Post and telecommunications	5.581	34.530	40.111
J. Financial Intermediation	44.600	70.000	114.600
70. Real estate activities	5.998	0	5.998
71. Renting of machinery and equipment without operator and of personal and household goods	9.635	0	9.635
73. Research and development	9.028	1.000	10.028
74. Other business activities	255.692	59.048	314.740
L. Public administration and defence; compulsory social security	0	385.300	385.300
M. Education	161.100	161.100	322.200
N. Health and social work	120.700	120.700	241.400
O. Other community, social and personal service activities	163.000	0	163.000
P. Activities of households	73.000	0	73.000
Q. Extra-territorial organizations and bodies	0	0	0
TOTAL NON-TRADABLE	2.326.391	1.004.647	3.331.039
	69,84%	30,16%	
TOTAL ECONOMY	3.335.941	1.120.105	4.456.046
	74,86%	25,14%	

Greece: Ratio of tradables to total



Political economy: Types of political rent

Direct from public purse - legal

- Pensions (special categories of)
- Public sector salaries and supplements (clientele appointments)
- Public procurement
- Privatization hostages
- Farmer's subsidies *

Indirect

- Protected professions
- Administered prices, etc

Illegal

- Corruption
- Comparative non-compliance*
- Cartel behavior *

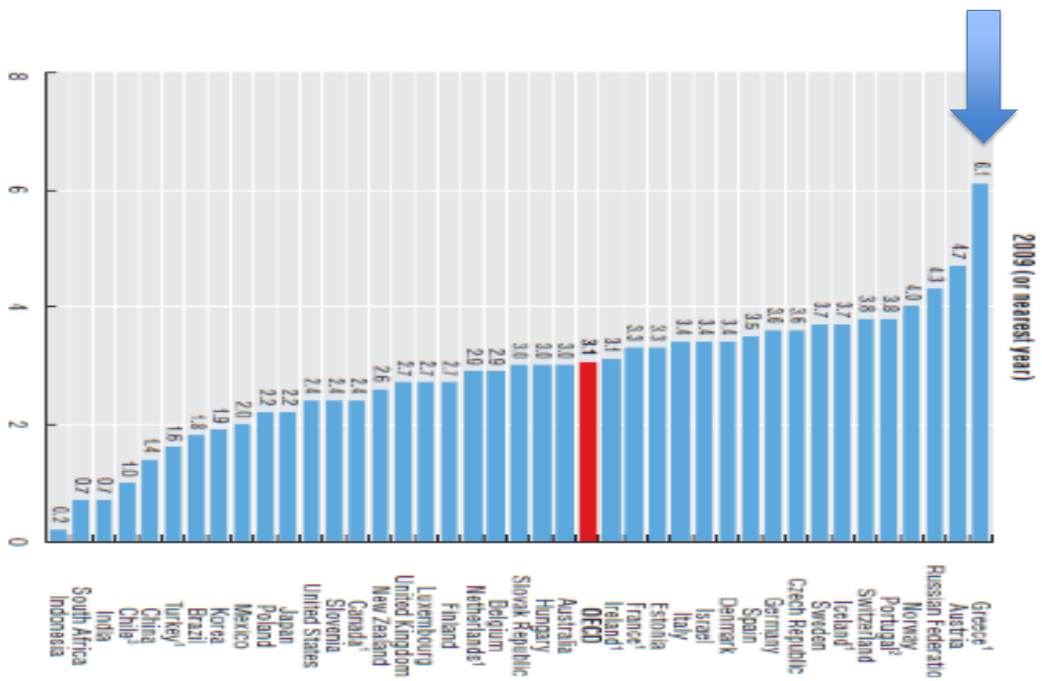
* : Applies also to tradables

Political economy: Tradables vs Non-Tradables

Stylized facts (hypotheses, to be verified):

- Greater political representation of NT
- Higher factor prices/ rents in NT (beyond Balassa-Samuelson)
 - Salaries and benefits for comparable skills
 - Mark-ups (data??)
- Comparatively high ratio of NT/T in GDP (and faster shift to NT)
- Excess of middle-class jobs in NT

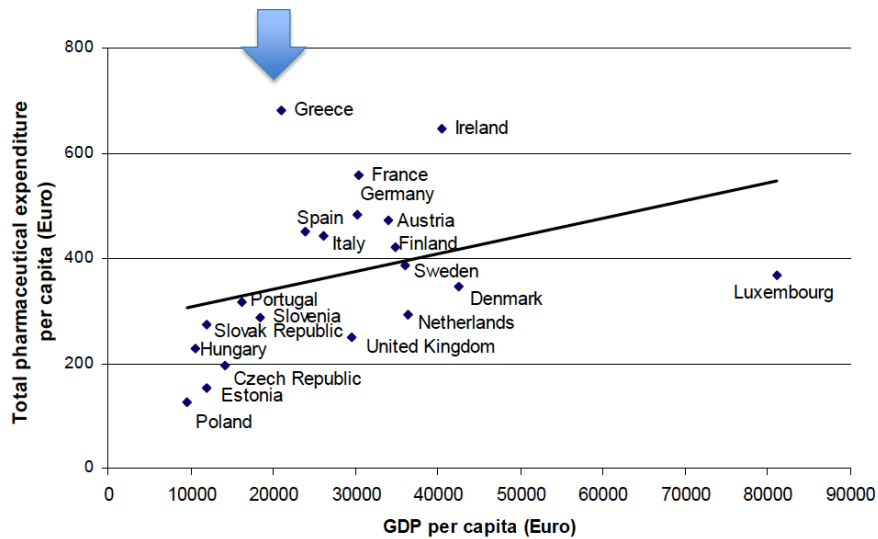
Physicians per 1000 population



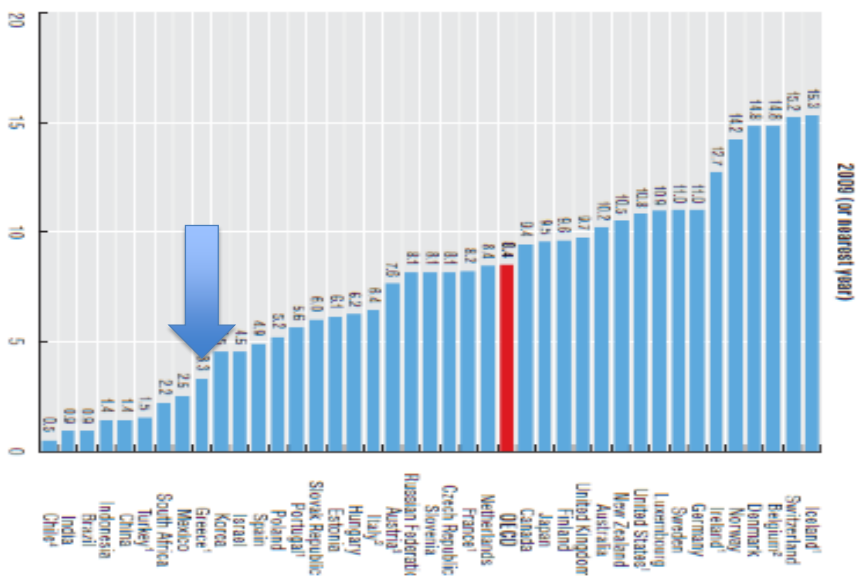
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Spending on pharma

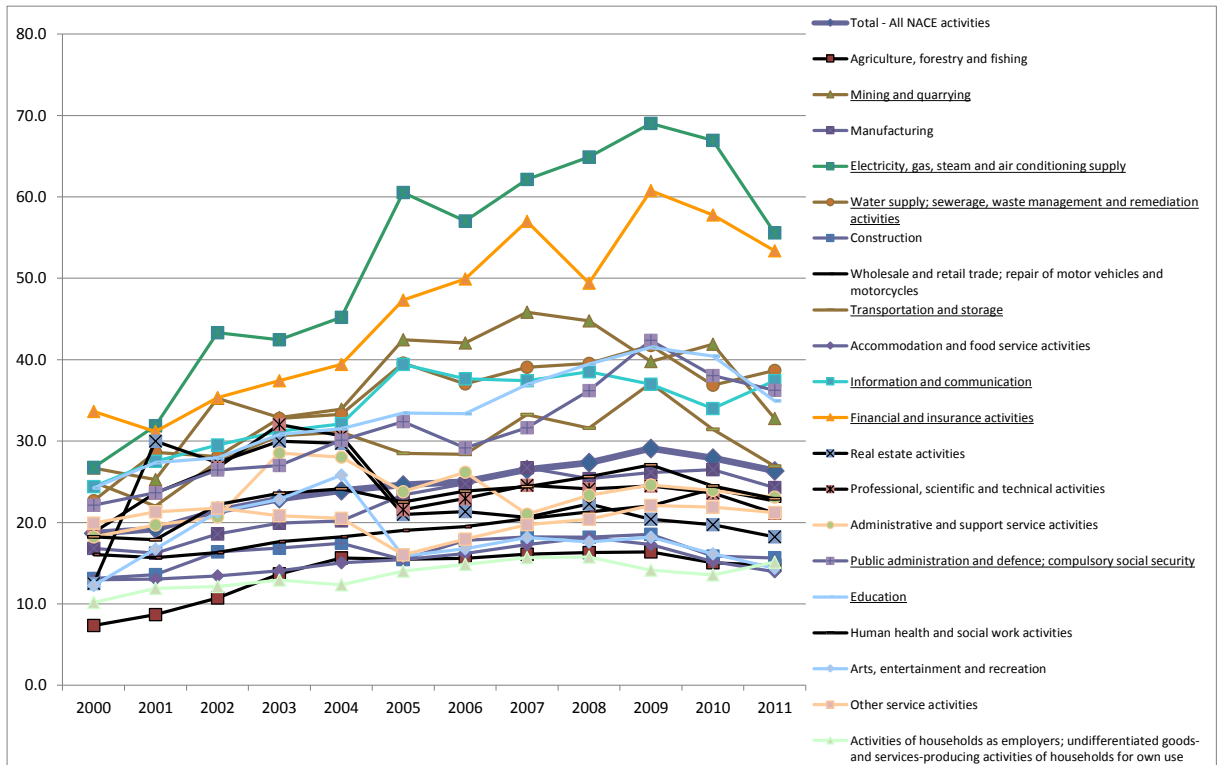
Figure 5: Pharmaceutical expenditure per capita (Euro) and GDP per capita, 2008



Nurses per 1000 population



Annual compensation per full time equivalent employee



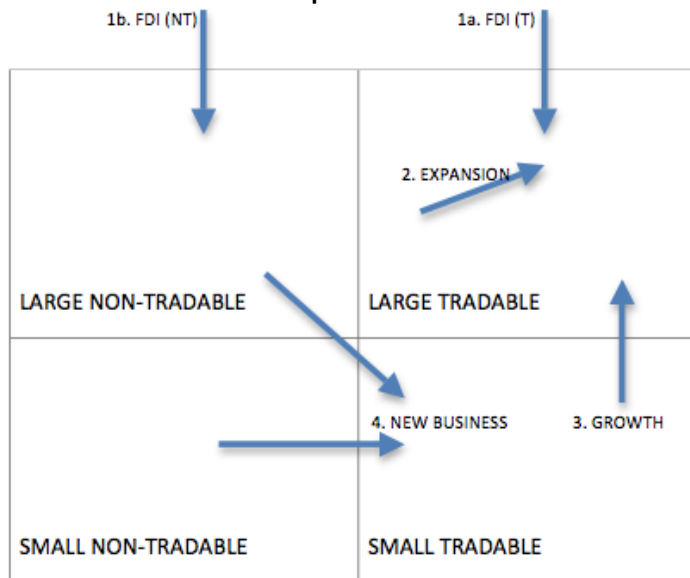
Political economy: Effects on tradable productivity (hypotheses)

- Rents in NT => high input costs in T
- Rents in NT => wages rise faster than productivity in T
- Tax burden
- Regulatory spill-over:
 - Work-time regulation
- Entrepreneurship as scarce factor (Baumol)

Tradable vs Non-tradable: technical issues

- Identification of 'Tradability' of sectors:
 - Ad hoc
 - % of international trade/local output
 - Classification in literature
- Variability over time

Typology of investment and growth paths



Each path faces different challenges.

What constrains growth?

	New business	Step growth	Smooth growth
Intersectoral Incentives	Yes	No	No
Institutional barriers	Yes	Yes	Not much
Discovery costs	Yes	Yes	No
Factor costs and taxes	n.a.	Yes	Yes

What constrains growth?

	New business	Step growth	Smooth growth
Intersectoral Incentives	Yes	No	No
Institutional barriers	Yes	Yes	Not much
Discovery costs	Yes	Yes	No
Factor costs and taxes	n.a.	Yes	Yes

What constrains FDI?

	FDI
Intersectoral Incentives	No
Institutional barriers	Yes
Discovery costs	Some
Factor costs and taxes	Yes