

# Fiscal and Institutional Preconditions for a Sustained Recovery

Conference on: Greece and the Euro - From Crisis to Recovery

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  - unemployment is around 18%.

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- **But, before we search for engines of growth, we need to identify the barriers to growth.**

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- Second, building upon the first task, we search for counter-factual scenarios that could have given better outcomes since the 2007-8 world financial crisis (engines of growth).

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  - Standard SOE setup enriched with a number of frictions to mimic the key features of the Greek economy.
  - This model is calibrated to data during 2001-2009.
  - Its solution, using 2009 data, will then serve as a departure point for what follows.

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  - and how changes in these two factors interplay with each other in the context of Greece.
- That is, the aim is to decompose the total loss to its main drivers.

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- Third step: We also study various counter-factual scenaria since 2010.

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  - e.g., for Greece, this has been expressed by three bailouts (2010, 2012, 2015) of around 300 billion euros

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  - QE-type policies since early 2015 (although not for Greece).

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  - Similar in other EZ periphery countries (e.g. in Ireland 90% of GDP by December 2010, Lane, 2014).



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- Government revenues and expenditures to GDP (EMU-Public Finances):

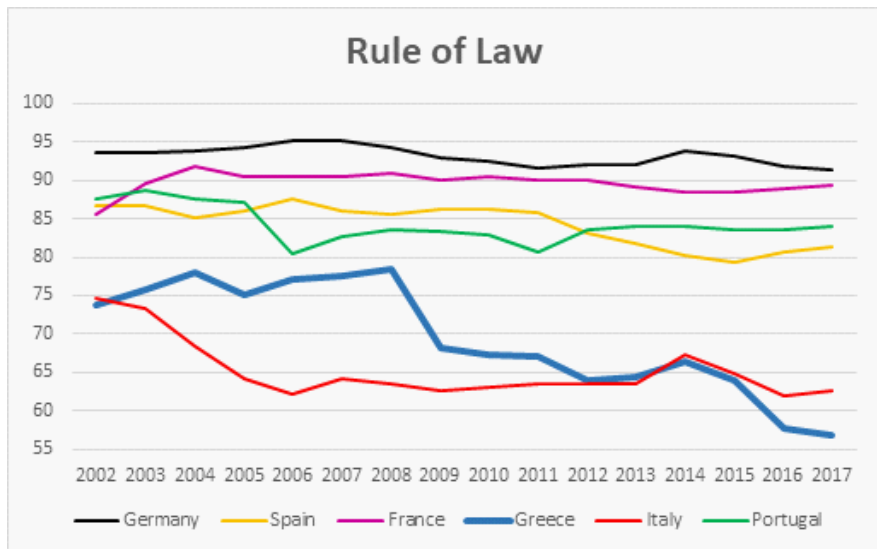
%	2008	2010	2011	2014	2016	2018
<i>R/Y</i>	40	41	44	47	49	48
<i>G/Y</i>	50	53	54	51	49	48

# About fiscal austerity

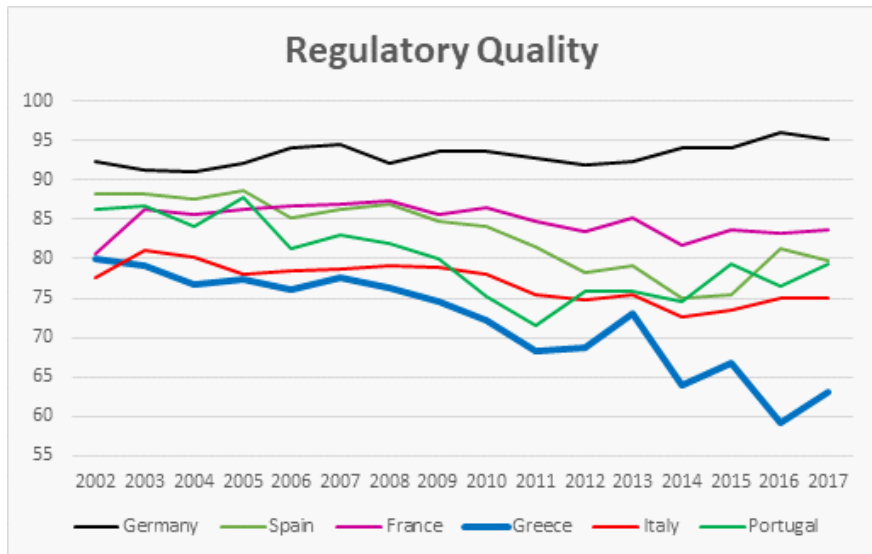
- However, differences across different spending-tax categories:

%	2009	2010	2011	2012	2013	2014	2015	2016
$s^g$	10.2	9.8	9.2	9.0	8.2	8.0	8.1	7.9
$s^w$	13.0	12.4	12.6	12.8	12.2	12.2	12.2	12.3
$s^i$	5.7	3.6	2.4	2.5	3.4	3.6	3.9	3.5
$s^{tr}$	20.5	20.9	22.9	23.1	21.4	21.7	22.1	22.2
$\tau^y$	26.6	26.9	29.1	32.5	31.3	32.4	33.6	35.5
$\tau^c$	15.2	17.7	19.0	18.5	18.7	19.1	19.5	21.8
$b/y$	126.7	146.2	172.1	159.6	177.4	178.9	176.8	180.8

# About institutional quality

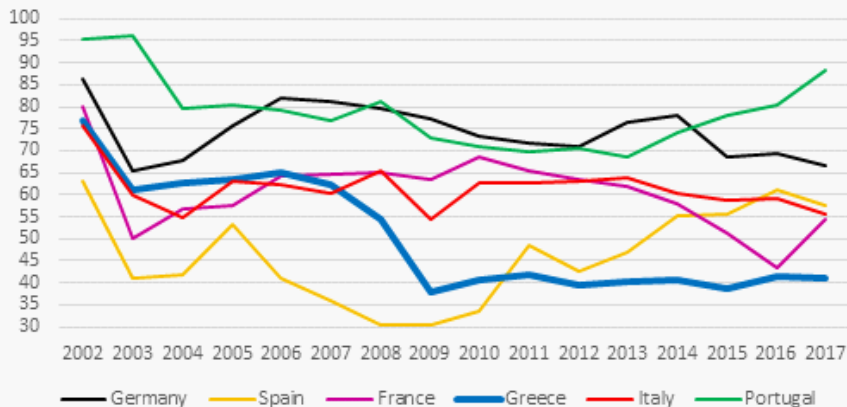


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## Political Stability and Absence of Violence/ Terrorism



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- **Various adjustment costs used to help dynamics**

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  - **we abstain from nominal rigidities**

# Institutions expressed as weak property rights

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  - A popular way to model weak PRs (and RS) is to assume that there a probability of expropriation or “publicness” of one’s property.
  - This can refer to both private and communal property (Besley and Ghatak, 2010). That is, if ill-defined PRs, both private and communal properties become “contestable prizes”.

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  - while the remaining goes to public employees in the form of extra transfers.
  - PR is exogenous and set as in the data e.g. an index constructed by data on "rule of law", "regulatory quality", and "political stability and absence of violence/terrorism", rescaled from 0 to 1 (World Bank).

# Our model in words (imperfect competition in product-labor markets and their reform)

- Eggertsson et al (2014).

- Departing from the 2009 solution, transition dynamics are driven by exogenous changes in the above (as in the data up to the year of data availability).

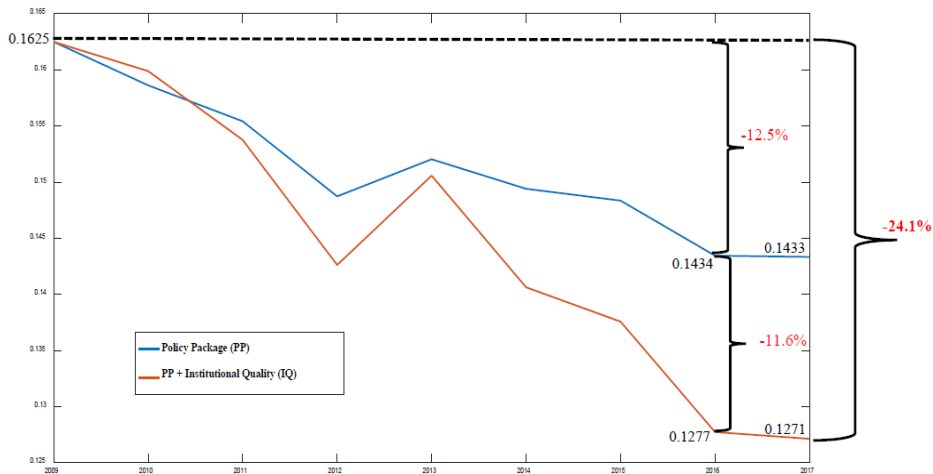
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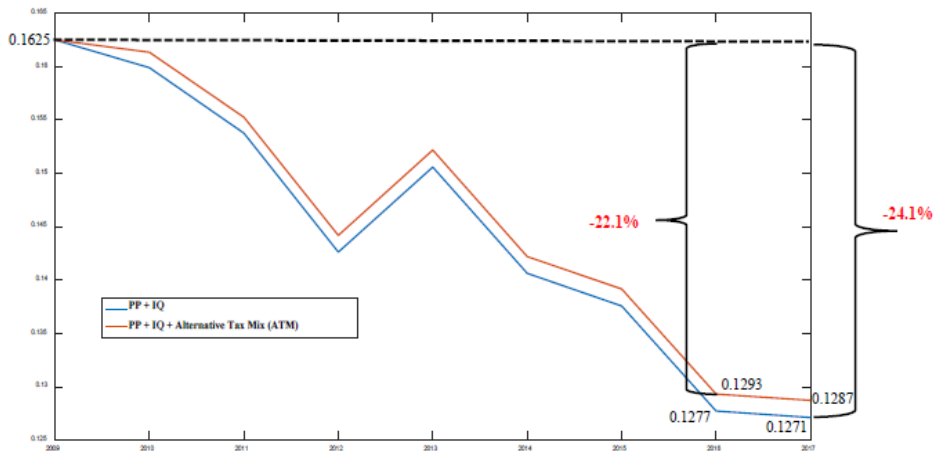
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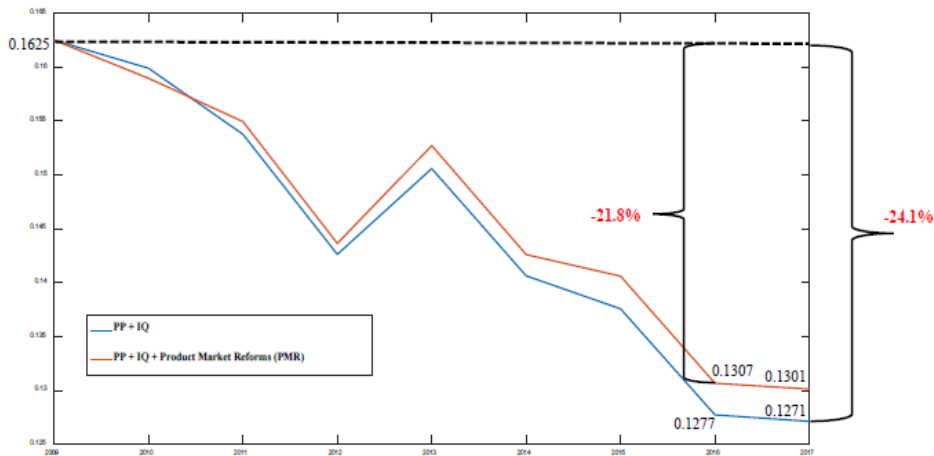
# Graph 1 - Drivers of Recession



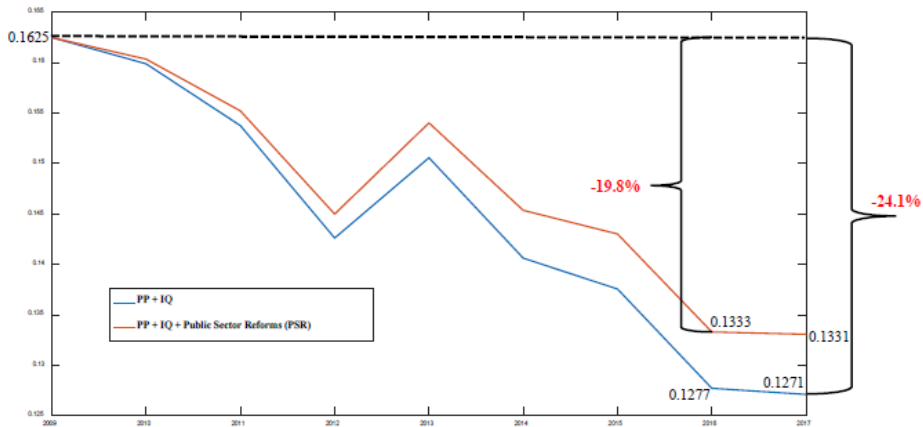
# Graph 2 - Counterfactual Scenario I (Alternative Tax Mix)



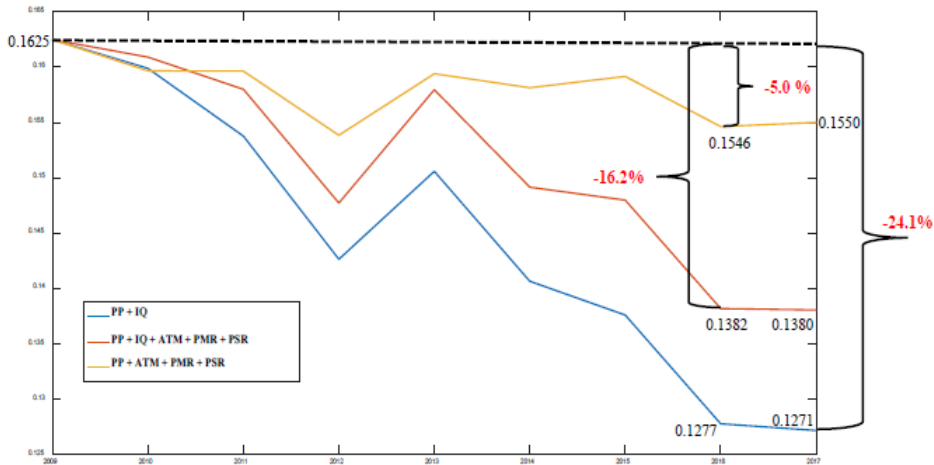
# Graph 3 - Counterfactual Scenario II (Product Market Reforms)



# Graph 4 - Counterfactual Scenario III (Public Sector Reforms)



# Graph 5 - Counterfactual Scenario IV (ATM + PMR + PSR)



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