Breaking the Bottlenecks in Greece: Entrepreneurship and Growth

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What is entrepreneurship?
What is entrepreneurship?
The challenge in Greece: Entrepreneurship as self-employment

Keeping it in the family: “Entrepreneurial” venture sizes

Source: Arkolakis, Doxiadis, Galenianos, 2016
Keeping it in the family: Productivity of different size firms

Source: Arkolakis, Doxiadis, Galenianos, 2016

Making things worse: Being stuck in the wrong sectors

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<th>NON-TRADABLE</th>
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<td><strong>BIG &gt;250</strong></td>
<td><strong>22.5%</strong></td>
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<td>Government</td>
<td>Manufacturing</td>
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<td>Utilities</td>
<td>&amp; Logistics</td>
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<td>Banks</td>
<td>Shipping</td>
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<td>Telecoms</td>
<td>Tours</td>
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<td>Media</td>
<td>(6.5%)</td>
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<td>Retail</td>
<td>Tourism</td>
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<td>SME &lt;250</td>
<td><strong>52.2%</strong></td>
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<td>Media</td>
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Source: Doxiadis, 2011
What all this means: Entrepreneurship, bottlenecks & structural challenges

• Greece has a preponderance of smaller firms which don’t grow
  • And tend to be in sectors which won’t help the economy; their productivity is low and they can’t contribute much to growth

• Entrepreneurship should be about growth, not self-employment
  • The bottleneck is the inability of more efficient firms to displace less efficient firms, declining sectors to growing sectors

• To help the Greek economy we must facilitate growth and decline
  • Waves of creative destruction need new ideas (doing better), but also both scaling-up of good firms and decline of those which aren’t strong

Why we’re concerned about the recent legislation: Short term measures making things worse

• Tax measures (eg VAT) may encourage tax evasion
  • It is the smallest and most inefficient firms which can best tax evade
  • …especially when combined by weak tax evasion controls

• Pension reform also will lead to greater contribution evasion
  • Leading to a double-whammy of efficient firms being charged more

• Support for medium and large companies inexistent
  • Inconsistent taxation and regulatory measures cripple investments
  • Corporate tax receipt: 4% of the total in 2016 (down from 10%)
Where are we? Improving the upstream part of development

...but new ideas don’t stick and people leave
Things aren't looking that good:  
Structural challenges for entrepreneurship

Greece is ranked 58th out of 61 in economic performance, third from last at 59th in government efficiency, 57th in business efficiency (from 43rd spot in 2013) — attributed to lack of liquidity due to capital controls and 38th in infrastructure (down from 35th spot in 2014). As far as financial risk and credit sector operation is concerned, Greece came in last at spot 61.

Tackling the bottlenecks:  
Allowing entrepreneurship in, and inefficiencies out

entrepreneurial attitude, knowledge, R&D, infrastructure  
setup new firms regulatory hurdles planning consent seed finance  
expand facilities investment growth finance try new models  
tackle protection get resources reap rewards
Picking your battles:
Let's focus on areas we might make a difference

- Be blunt about that structural reforms enable *creative destruction*
  - Product market: Protectionism and rent-seeking need to be weeded out
  - Labour market: Rights of the unemployed vs rights of the incumbents
  - Administration: Disrupt corrupt or inefficient incumbents to be effective

- Support not only about firm creation but also scaling up
  - Remove hindrances to growth shaped by regulation and administration
  - Make investment sensible by not sabotaging it or taxing *ex post*

- Free up space, leveraging NPLs and financial sector
  - Tackle governance by restructuring over-indebted firms
  - Strengthen the tool for strategic defaulters to free out capital

Dealing with the elephant in the room:
Reforming the Public Administration
Dealing with the elephant in the room: Reforming the Public Administration

Greece as a Turnaround story: Yes, it can be done. We have to try.

- Precious little has really happened in reforming the administration
  - See a more detailed discussion in Jacobides (2016) in Vettas et al.
  - Not just cronyism, but lack of any rationalization. Demoralization....

- Huge potential from rationalizing the public administration
  - Entrepreneurship touched at many points and will respond greatly
  - Monumental difficulties on multiple fronts- amplified by vested interests

- Need to look at this as a turnaround management
  - Politics wont really push for this; we have to. And, measure & insist!!
  - Shape the discourse, focus on follow up and not words. Don’t give up!