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A personal journey to the heart of Greece's darkness

By Richard Parker

From November 2009 to December 2011, I commuted across the Atlantic between my "day job" at Harvard, where I teach economic policy, and Athens, where I served as an adviser to George Papandreou, prime minister. I had known him since the 1970s, and my value to him was as a friend and as a non-Greek economist without fixed interests or allies to defend.

I normally started my visits at Maximou mansion – Greece's White House – reviewing details of reform efforts, the markets' relentlessly negative opinions, polling data and press coverage with Mr Papandreou and top aides. I'd then head out to ministries, banks, research centres, embassies, newspaper offices and universities. When international officials or key bankers were in town, I'd often join them.

I also spent long hours well down the bureaucratic ladder, where the hard work of implementing massive and complicated changes was taking place. I found my share of fools, time-servers and pettifoggers worthy of Gogol – but I also found dedicated men and women, whose frustrations rivalled the young anarchists on downtown Exarchia street corners.

The lessons I've taken away don't bode well for Greece or its rescuers.

Greece desperately needs reforms. Mr Papandreou knew this well before the crisis, as did most Greeks. But the larger problem was the panic that swept over Europe and the easy moralising that financial crises evoke. Greeks were cast as tax-evaders, lazy and anti-business, their government as over-indebted, bloated and corrupt – a situation that required castor oil and humiliation.

But almost none of the moralising clichés were true. Greek taxes were more than a third of gross domestic product, near the European average. And if Greeks were anti-business, why then were there more small entrepreneurs per capita than anywhere else in Europe? Government was not bloated in terms of employees – at a fifth of the labour force, it was about the European average. Corruption was clearly a problem, but our data showed it was concentrated – incomprehensibly to non-Greeks – in the health sector, where minor "gifts" to doctors secured early scheduling of surgeries.

What government suffered from most was a lack of technology and human-resource management. There was no computerised budget management; social security records and property rolls were maintained manually; sharing of routine data or work assignments across ministries was almost non-existent.

Fast-forward to Greeks' current agony over the latest austerity measures, exacted for a 50 per cent writedown of privately-held bond debt and Europe's second enormous aid package. Will the Greeks now finally make the reforms work, as optimists hope – or inevitably default, as the cynics keep warning?

My own guess, paradoxically, is both. The momentum for most reforms is there, as the latest "troika" report makes clear – desperately-needed computerisation is under way, work patterns are being reorganised, protected sectors of the private economy opened. But because there is no growth plan – austerity is not a growth plan – Greece faces a long, dark path.

A third of its economy depends on tourism and international shipping; neither is "controlled" by Greece. "Modernisation" of its internal economy means the spread of large firms in place of micro-enterprises, a structural shift complicated for a small economy searching for a niche between the hyper-efficient Germans and the low-cost Chinese.

The rescue deal, if agreed, buys Greece a small amount of wiggle room to make the necessary reforms. Some parts of the economy may be able to restart very, very slowly. But these export-oriented sectors will not absorb much labour; unemployment and poverty will remain high. It is a toxic political mix – but not necessarily a fatal economic one.

Models still project a 7 per cent primary surplus into the future – simply not feasible, and eventually Greece's debt will have to receive a writedown, probably of about 40-60 per cent of GDP. But since the debt has shifted from private to public balance sheets, why must this become a contagion problem? Future European governments won't like it – but better then than now.

The writer is a professor of public policy at Harvard University