

# From tourism to an innovative economy

Greece's tourism receipts have increased significantly in the past few years, jumping from €9.5 billion in 2010 to €20.5 in 2023, with a further rise of 10% expected this year. Tourism provided precious revenue during the economic crisis, while the expected increase in receipts will also benefit this year's gross domestic product.

However, our economy's reliance on tourism is still excessive, with 17% of the workforce being employed in the tourism or closely related sectors. This is three times the European Union average and more than double other tourism-intensive countries like Spain, Italy, Croatia and Portugal.

So, what should tourism's place be in Greece's production model? Is this excessive dependence on tourism the result of the country's comparative advantages, which dictate the direction of our market forces? The answer, for two reasons, is "no," as we explain further down. The tourism sector's employment ratio needs to be gradually reduced in favor of other sectors of the economy, just as the tourism product needs to be upgraded in favor of the environment and the capabilities of the country's destinations.

The first reason is environmental. Tourism development has a significant footprint, as evidenced by the myriad problems stemming from oversaturation and the environmental degradation of the country's more popular destinations.

Tourism growth is also indirectly subsidized by lax implementation of environmental and zoning/building regulations. Greek legislation for protecting sensitive areas like coastal ecosystems and Natura zones is among the weakest in Europe and is constantly being eroded further for clientelist reasons. The services responsible for enforcing environmental legislation are also weak, both in terms of resources and independence, as opposed to European standards.

Many parts of the country do not have zoning plans and construction is rampant. The legislation for strategic investments subsidizes large-scale tourism developments to the tune of millions of euros and with all sorts of building concessions. It is a situation that favors the continual implementation of new tourism investments, with absolutely no vision of how we can best use our natural advantages in a sustainable manner.

The second reason is economic. Productivity in the tourism sector is low, two times lower, in fact, than average productivity in the economy, both at the EU and the national level. This sluggish output is related to the fact that there is very little specialization and the workforce is mostly inert during the low season. At the same time, as we noted in the [2020] Pissarides Commission Report [on the Greek economy], distortions in our economy – such as overly complex legislation, regulatory burdens and weaknesses in oversight mechanisms – favor small and low-productivity businesses, as they can operate in the informal economy. And tourism businesses, being small and unproductive for the most part, are indirectly favored by such distortions.

The issue of productivity is crucial. In 2023, Greece had the second lowest labor productivity among the EU-27, coming only above Bulgaria. Our country's position in this regard has been declining steadily for the past 20 years: It was in 13th place in 2007, dropping to 19th in 2014, then to 25th in 2019 and second-to-last in 2023. The decline of the Greek economy in relation to the rest of Europe is, in part, due to the economic crisis of the last decade. However, the country's inability to change the production model, which relies on low-productivity activities like tourism, is also to blame.

Only 11% of the Greek workforce is employed in manufacturing, which is about 60% of the EU average. At the same time, the output of the manufacturing sector – which, it should be noted, includes agriculture products – is nearly 30% higher than average productivity in the economy. Using these examples to make some generalizations, Greece has a very weak presence in high-output and innovative activities, such as manufacturing, and an excessively strong presence in low-output activities like tourism.

Changing the production model is something that requires combined public policies, many of which were outlined in the Pissarides Commission Report. It demands that the onus be put on high-productivity and innovative activities, while simultaneously further educating and developing the country's human capital. Any development funds and subsidies should be channeled to such activities alone, and only where there are economies of scale and scope.

In the meantime, Greece needs to significantly strengthen its environmental protection mechanisms to come closer to European standards. The benefits are twofold: Our natural environment will be protected to the benefit of current and future generations, while, in combination with the aforementioned policies, a part of the workforce will be

directed toward sectors with greater output than tourism, hence increasing productivity in the overall economy.

Developing high-productivity sectors takes time; persisting with the existing production model is more attractive – but only in the short term. Because by staying on this path and continuing to deplete our natural resources, we will wake up one morning to find that everything we were so proud of is gone and the economy supporting our way of life will be on even shakier ground.

*\*The article was originally published in [Kathimerini](#) (31/7/2024).*

**Note:** This article gives the views of the authors, not the position of [Greece@LSE](#), the [Hellenic Observatory](#) or the [London School of Economics](#).

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