More tourism exports will not lead Greece out of its crisis. But investing in solar energy might.

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What is the solution to Greece's crisis? Bob Hancké argues that neither a boost of its tourism sector nor a control of its wages will lead the country out of its problems. However, investing in and expanding the country's solar energy facilities might offer an answer which helps not only Greece, but the entire European Union.

In an interesting blog post, Olivier Blanchard, Chief Economist of the IMF, has given his reasons for why he thinks the troika of the European Union, IMF, and the European Central Bank's organization of the Greek default is possibly the best outcome that they, Greece, and the banks could have hoped for. His logic is that debt reduction was necessary, the creditors and that the international organizations did their share, and now it's Greece's turn to do its job. Meanwhile, the necessary restructuring will take place against a background of taking care of the most vulnerable and developing a tax system with teeth (see Euractiv post here). The key problem, Blanchard rightly points out, is the current account deficit in Greece. No country can keep on importing goods over and above its exports, and ask the rest of the world to lend it money to do so (well, one country can: everybody loves dollars after all).

But there are two problems with this, beyond the obvious incompatibility of soup kitchens, a massive rise in suicide and orphaned babies, and unheated apartments in the middle of winter on the one hand, and protecting the vulnerable on the other. One is that Greece does not export. The country has a significant tourism sector, yes, but given the importance of tourism in the Greek economy, any competitive (internal devaluation) shift in that sector is likely to lead to mass impoverishment. Fostering an informal economy is not my first priority either, but if that's how Greeks make a living (more than one-third of the economy consists of undeclared activity), competitiveness through lower wages in that sector is almost certain to dampen domestic demand even more, on top of the public sector-led austerity. And, most importantly, against whom would Greece become more competitive? Will the other Mediterranean countries simply sit back and watch Greece pick off their equally necessary tourism Euros? Finally, who would come to this newly cheap Greece in the first place? All EU countries are in the midst of their own austerity-driven adjustment and are unlikely to send their citizens on Greek holidays. Say's law (a variation on 'if you build it, they will come') may, just perhaps, not be all that effective.

The second objection is that competitiveness is relative, especially in the almost closed economy that the EMU/EU is: all other things equal, therefore, your gain is my loss. Put differently, we cannot all be competitive, unless Mars opens up trade with Earth. Hence the zero-sum world that the other sunny countries in Europe face if Greece lowers its prices for hotel rooms and souvlaki in a bid to become more competitive. But it also implies that, for Greece to be uncompetitive because wages have grown too fast relative to productivity, the inverse must be true somewhere else. All eyes turn to Germany, where wage growth has not surpassed productivity growth in almost twenty years. Imagine for a moment that Greece became more productive and kept its wages under control. That is a necessary but definitely not a sufficient part of the story, since Germany would now have to raise wages above productivity (thus stoking inflation; get out your 'Weimar' counter), and import Greek goods and services for current accounts to be rebalanced. Honestly: how likely is this scenario?

Given how hard a productivity-driven

increase in competitiveness will be in Greece, the very long run against which that would almost certainly have to be measured, and the impossibility for everyone to be competitive, the troika's ideas are far from the highly optimistc world that Blanchard evokes. Perhaps it is wise to reconsider a plan that was floated about a year ago but has lived a quiet life ever since: install massive solar energy capture technology in the Greek mountains, and export it to Germany and the rest of northern Europe. That would kill several birds with one stone. In Greece domestic demand rises fast, with the energy infrastructure programme de facto operating as a Keynesian stimulus. The cohesion and structural funds of the EU are put to good use. The country pays of its debts against Germany, becomes a leader in low-end clean energy production along the way, and begins to rebalance its current account by building a competitive export sector with a future. The EU becomes less energy-dependent, especially on fickle Russia.


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I have no idea how big this clean energy generation would have to be to have an impact, but would be surprised if something along the lines of 3-5% of GDP did not start to cover a large part of this bill. Perhaps someone could sit down and do the maths?

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Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

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