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Exclusive
Sir Christopher Pissarides

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POST - CRISIS in GREECE

“Greece must create the right business environment”

“Major mistakes were made all round”

GREEK **business**file ASKS:

G. PREVELAKIS, N. LARYNGAKIS, OR. SCHINAS, E. VOURLOUMIS

Professor Sir Christopher Pissarides

on Greece, Technology and Employment, Europe, US-China relations

Interview by Eugenia Anastassiou

Nicosia-born Professor Sir Christopher Pissarides has had an exceptional career as an economist: he was educated at the University of Essex and the London School of Economics (LSE), where he is now Regius Professor of Economics—this prestigious academic award is directly bestowed by a British monarch, and Professor Pissarides was the first recipient in the field of economics in 2013, the same year he was knighted by the Queen.

In 2005, he became the first European economist to win the IZA Prize in Labor Economics (with his collaborator Dale Mortensen) which is considered one of the most distinguished awards in economics worldwide, and in 2010 he was awarded the Nobel Prize in Economics, jointly with Dale Mortensen of Northwestern University and Peter Diamond of MIT.

Professor Pissarides specialises in the economics of labour markets, macroeconomic policy, economic growth and structural change, as well as leading research on *'The Future of Employment in Europe'* programme. His book *'Equilibrium Unemployment Theory'* is a standard reference in the economics of unemployment.

Professor Christopher Pissarides at Lindau Meetings

In addition, he is a Fellow of the British Academy, the Academy of Athens, the Academia Europaea, as well as a Non-National Senior Associate of the Forum for Economic Research in the Arab Countries, Iran and Turkey and a former member of the Monetary Policy Committee of the Central Bank of Cyprus. He has served on the European Employment Task Force, and in 2011 he served as the President of the European Economic Association, as well as being a Lifetime Honorary Member of the American Economic Association. Professor Pissarides has been a consultant on employment policy and other labour issues for the World Bank, the European Commission, the Bank of England, and the OECD.

"It is imperative that Greece creates the right business environment"

***Professor Pissaridis** is imperative that economic influx has to come from investment and debt restructuring; otherwise Greece cannot break out of the vicious circle of lowering income and pensions, and increasing taxation. In order for Greece to progress economically it must create the right business environment, otherwise the country will have no option but to rely on continued external help*

Since you have been following the Greek economic crisis from Day One, which do you think would be the "new growth model" for the country in the years to come?

In this matter one has to consider the location of Greece and what advantages that holds for the country—primarily its natural resources—and what markets it can readily access; namely the EU. Greece should focus on a few sectors and try to do them really well, to provide products or services to a high standard. Greece does not have the capacity for large scale production, such as do Germany, France, or Italy, but it should be able to produce top-quality goods, which should be marketed abroad aggressively.

A case in point are the country's more successful SMEs which now have a presence internationally, companies such as Fage, Korres, Frezyderm, Aegean Airlines, and others. Greece must be able to organise a better way to market its agricultural wares and native foodstuff, such as feta and its fresh fruit and vegetables; if the Italian province of Sicily can do it, why not a country like Greece?

Again, Greece has the ideal location and climate, so tourism is its other great asset, but again it has to focus on offering a premium service to be able to compete and be more attractive than its southern European neighbours. Shipping of course is another Greek strength. However, in all these cases and for businesses to develop in Greece, the government must be kept out and red-tape has to be minimised for entrepreneurship to flourish.

> **In order for Greece to progress economically it must create the right business environment, otherwise the country will have no option but to rely on continued external help**

Also, Greek links with China and their investment in the country, especially in much-needed infrastructure must be utilised to Greece's best advantage.

Create the right business environment

Is Greece ready to make this transition in the fields of investment and exports? Which are the main constituents of GDP? Or do you think that additional external "economic help" will still be necessary?

In order for Greece to progress economically it must create the right business environment, otherwise the country will have no option but to rely on continued external help.

For example, if you look at Cyprus, albeit a smaller country than Greece, there are lessons to be learnt there, especially since it came out if its MOU quite quickly, but it also created an environment conducive to business development and attractive to international investment—it is imperative that Greece creates the right business environment.

Greece will still have to rely on the EU for investment in infrastructure projects, but creating the right business environment should be complementary to improving infrastructure.

The vicious circle

So far, there has been little or no discussion at all, regarding Greek public administration and the transformation required "after the Memorandum of Understanding" era in

Alexandroupoli port investment still waiting

Hellinikon investment still waiting

the country. Do you think that this transition is completed or that it simply never happened?

Coming out of the MOU is difficult, especially since repaying the debt is through lowering income and pensions, and increasing taxation, this has created a vicious circle. Economic influx has to come from investment and debt restructuring; otherwise Greece cannot break out of this circle.

The international institutions, such as the IMF, ECB and the EC cannot expect any country to repay its debt through taxation alone forever. Only four years remain till 2022, and Greece has to negotiate a strategy for debt relief which must also boost public investment, lower taxes to support jobs and encourage economic growth.

High taxation, even lower pensions and lack of employment are the most pressing issues concerning most Greeks these days. Can anything be done to reverse this depressing situation?

Greece desperately needs an economic "shot in the arm" and this will have to come from foreign investment. If we take Cyprus as an example again, their improved economy came from Russian investment, however unfortunately there is a general lack of confidence in Greece.

Europe is fed up with Greece and there is a certain prevailing view in Europe that Greece blames others for its misfortune and is not "contrite" enough regarding its situation or doing enough to remedy its state of affairs. However, the IMF, ECB and EIB must show conciliation in ensuring continued investment in Greece's infrastructure projects.

The Scandinavian model

What about labour relations in the eurozone and in Greece? Do you see conflict or a new social contract as the way forward?

There should be no room for conflict in labour relations in the EU; but neither should the situation go back to the old-style labour structure.

Concessions have to be made by unions with some flexibility on their part, but ultimately it is down to governments to reduce inequalities. The best example of this is the Scandinavian model, where good social services are guaranteed. Governments have to play a key role in providing good quality public and social services, as well as protecting the workforce and their rights. It has been demonstrated, especially when comparing Scandinavian countries to other European countries, that greater employment protection and regulation can actually enhance economic performance.

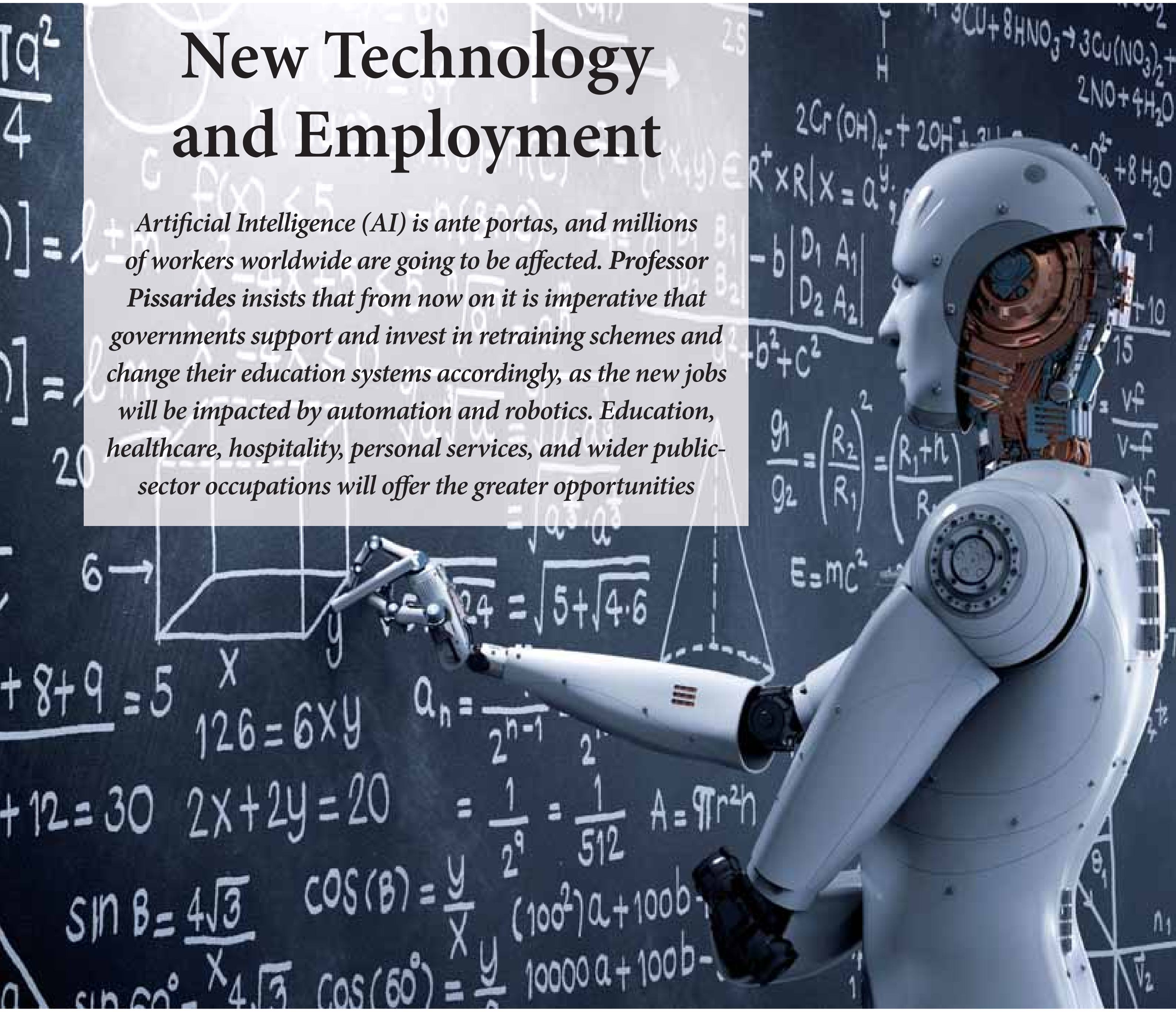
In the case of Greece, the unions are often guided by monopolist and closed-shop policies, as well as their inability to let go of gains they have made in the past; they need to exercise a greater degree of cooperation.

Thessaloniki port investment still waiting

Skouries investment still waiting

New Technology and Employment

Artificial Intelligence (AI) is ante portas, and millions of workers worldwide are going to be affected. Professor Pissarides insists that from now on it is imperative that governments support and invest in retraining schemes and change their education systems accordingly, as the new jobs will be impacted by automation and robotics. Education, healthcare, hospitality, personal services, and wider public-sector occupations will offer the greater opportunities



Technology today is the leading factor of change, so what can be done to avoid the inevitable social shocks of this new Industrial Revolution?

New technology is a very important development and is generally a positive influence. Nevertheless, there are inherent risks which we need to acknowledge—the biggest being the risk to jobs. A recent McKinsey report found that as many as 800 million workers could be replaced by machines in just 13 years—with certain industries flagged up as being more vulnerable to job losses, such as finance, accounting, and retail.

However, it is imperative that governments support and invest in retraining schemes and build up their education systems to help people adapt to the coming changes in what will inevitably be an unpredictable future. This has to be done sooner rather than later and the benefits will far outweigh the initial costs of these investments, both in the labour market and for society as a whole.

What can governments and industry do to prepare their workforce to learn new relevant skills so as to en-

Warm relations

able them to adapt to the brave new technological world?

Certain countries are leading the way with various schemes initiated by their governments in anticipation of the change technological advances will bring to skills, manufacturing, and employment—namely Germany's "Industrie 4.0" initiative, the "Made in China 2025" plan and Denmark's "Disruption Council" for labour. It is certainly worth looking into these approaches and other countries such as Israel, Sweden, Japan, Estonia, and the USA are also considered forerunners in digital transformation programmes.

Education, healthcare, hospitality, personal services, and wider public-sector occupations will also offer greater opportunities and good pay in the future

"The Future of Work Commission" was recently set up by a Labour MP in the UK with the goal of understanding the implications of new technology, in order to implement achievable proposals regarding how to deal with the challenges and opportunities in the workplace of the future. *(Prof. Pissarides is the economic advisor on this commission)*

Nevertheless, according to the EU's Digital Economy & Society Index 2017, a third of the UK's citizens do not have basic digital skills, and graduate numbers in STEM subjects (science, technology, engineering, mathematics) have not increased, despite the growing demands of the labour market. Conversely in Greece, according to the same report, whilst digital skills amongst Greeks remain low, the number of STEM graduates is relatively high, and this bodes well for Greece's digital future.

Workers of the future

Where do you see new jobs being created and how will technological advances in employment impact wage growth? Will they create an even greater gap in incomes?

The jobs created in the future will be significantly impacted by automation and robotics, which will involve highly-skilled tech personnel and computer programmers. Also new jobs and some entirely new industries will emerge, such as in electric and automated modes of transport, which will require specialist engineers and operators.

A recent McKinsey report found that as many as 800 million workers could be replaced by machines in just 13 years—with certain industries flagged up as being more vulnerable to job losses, such as finance, accounting, and retail

Workers of the future will spend more time on activities that machines are less capable of, such as managing people, applying expertise and communicating with others. They will involve our most human qualities: creativity, care, teamwork, critical-thinking and imagination. Education, healthcare, hospitality, personal services and wider public-sector occupations will also offer greater opportunities and good pay in the future.

This means schools should also prioritise creativity and good interpersonal skills, as part of their education programmes, alongside digital and tech-related skills, to encourage high standards in the service sectors, as well as reversing perceptions that working in these areas is somehow subordinate.

However, workers at the lower-end of the scale, who make up 45% of the workforce, will be particularly vulnerable in the future and they will be at risk of a severe and sustained decline in their wages

However, workers at the lower-end of the scale, who make up 45% of the workforce, will be particularly vulnerable in the future and they will be at risk of a severe and sustained decline in their wages. This group will need to be offered opportunities to retrain in new skill-sets.

How some countries are preparing for the digital age

Germany Industrie 4.0

"Industrie 4.0" is the German government's national strategic initiative which promotes the computerisation of manufacturing. The scheme has been pursued over a 10 to15-year period under different names and it aims to drive forward increasing digitisation through the interconnection of products, value chains and business models. It also aims to support research, the networking of industry partners, and standardisation.

With approximately 15 million jobs in Germany, directly or indirectly linked to manufacturing, the Germans have understood that as a leading global supplier of industrial equipment, the digital restructuring of their manufacturing industry will offer significant opportunities in the technological age, as well as greater international competitiveness and better conditions for job creation.

From both strategic and technological perspectives, Germany's "Industrie 4.0" scheme envisages every step on the route towards a comprehensive digital enterprise and the necessity of preparing an accurate digital roadmap on the best way to use artificial intelligence (AI), the internet of things, machine learning, cloud systems, cybersecurity, adaptive robotics, which will cause the radical changes in the business processes of an organisation.

The forward looking "Industrie 4.0" is driven by digital transformation in all aspects of a companies' organisation, including its product/service offerings, and one of the challenges facing "Industrie 4.0" now is reaching out to SMEs and adapting management, and organising shop-floors in implementing its recommendations.

The initiative has already managed to move swiftly from research into mainstream practice in a fairly short period of time, and has been scaled-up nationally to become one of the largest industry networks of its kind.

Made in China 2025

The impact of automation on China will be immense, with up to 100 million workers or 12% of their workforce needing to retrain or switch occupations by 2030, assuming that China's transformation to digital technology is adopted swiftly. With this in mind, China started implementing its "Made in China 2025" initiative since 2015, as a roadmap for the future of the country's manufacturing sector.

The plan has two aims, one being to target emerging industries like robotics, the manufacturing of autonomous and electric cars, artificial intelligence, biotech, and aviation. The other focus is to change the negative perception of Chinese manufactured goods as stereotypical cheap low-quality wares, and to help China move away from being dependent on providing low-cost labour to international companies to actually becoming an independent and technology-driven economy

To this end, the Chinese government is keen to pour somewhere in the order of $300bn into achieving this ambitious goal. This will also include subsidising industries, offering low-interest loans, rent-free land and tax breaks in order to beat their global competitors.

China needs to turn to digital manufacturing, as it is now facing a stall in its economic growth, its labour costs are increasing—especially compared to its neighbours with lower labour costs like Vietnam—and holds low manufacturing efficiency measured against global standards.

Denmark's 'Disruption Council' for Labour

The Disruption Council was established by the Danish government to analyse, debate and present proposals on how Denmark should address the opportunities that technological developments will bring in the future.

The logic behind using the term "Disruption" for this initiative is because it is a buzzword for the profound changes that technology brings to society and the workplace and the realisation that certain ways of doing business and some industries will be changed and/or they will disappear during this transformation.

The Council has already identified a range of ways to secure how digitalisation, robots, artificial intelligence (AI) and 3D-printers will increase wealth and improve welfare, even with the downside that many traditional jobs will die out.

The 'Disruption Council' has also recognised that among other things, future labour markets require a strong safety net and massive investment into the development of new skills for workers. The Council can see that if the government fails to invest in people, social cohesion and solid, strong communities will be "disrupted"—so it is vital that a helping hand is offered to those left behind in the transformation process.

In addition to the "Disruption" scheme, Denmark has appointed a dedicated Tech Ambassador, Casper Klynge, to engage with technology companies based in California. Since these companies are now more powerful than many nation states and are now political actors in their own right—with power over elections, government and foreign policy, as well as having vast investments and money at their disposal—their enormous influence underlines the need for "techplomacy".

"EU suffers from very bad PR"

What are your thoughts regarding the future of the EU both politically and economically?

The EU has been dominated by the Merkel/Schauble monopoly of power, but we have seen the result—Europe has become more divided and has stagnated economically. Not only that, but the biggest problem politicians face in Europe, including Germany and France, is the negative view people have of the EU—yes, they blame the EU for all their troubles and they want to leave, thinking their countries will function better out of the EU.

In fact, referenda in any European country on the question of the EU, not just in the UK, have indicated the moment a government mentions "Europe", they lose the vote. So, in essence the EU suffers from very bad PR, and it must push forward a more favourable view that the future of Europe is better as a united bloc rather than divided.

Fundamentally, Europe is too small to be able to compete with the USA, but also the ascending Asian bloc— a rising China and an emerging India— and by dividing into 28 separate countries it will never be able to sustain a competitive level. It will almost be like reverting back to the Middle Ages, with all the dukedoms, principalities, small city-states around Europe—before they eventually united into bigger countries, like Germany and Italy, or reconciled themselves into one entity, as in the case of France, Spain, and the UK—it was all infighting, power playing, land grabbing to get ahead, which was not conducive to economic development.

Deep crisis in US-EU relations

"The US will not benefit in a trade war but China will be hurt the most"

You have pointed out that trade tensions between the US and China could actually spark the next US economic recession. So, how are the consequences of President Trump's protectionist policies going to affect US workers—who are after all his core voting base?

Ultimately, the US will not benefit in a trade war and although the US economy is doing well at the moment (President Trump has reduced taxes for corporations and high earners, the stock market is zooming up) standards of living have fallen for certain groups of Americans, especially at the lower-end, despite the growth in the US economy. Ironically, these are the people who would lose out the most if the US, and in turn other countries, move away from open trade.

If other countries reciprocate with tariffs on US goods, manufacturing will be affected and confidence in the US will be reduced, which would mean less investment in US companies, so in the long term no one will benefit.

A difficult business-like relation

Conversely how will a US/China trade war impact Chinese labour and the Chinese economy?

If President Trump's aim is to push China to adhere to the additional requirements imposed on the Chinese as a condition of their WTO membership, then they will react aggressively. However, China will be hurt the most in a trade war with the US, since its economy relies heavily on exports and it is also carrying out ambitious infrastructure projects at home. So far, China has taken a "grin and bear it" stance and it will continue to do so, except for the odd bouts of political posturing against the US and its trade policies.

Nevertheless, as other Asian economies emerge and rise, China will certainly be looking at the commercial potential of these neighbouring markets.

World economy: The Future?

Are you optimistic or pessimistic regarding global economic growth? Or is the world economy subject to cycles of 'boom and bust'?

At the beginning of 2018, the geopolitical factors were certainly giving cause for concern—namely the situation with North Korea, tensions in the South China Sea and the Syrian conflict. Since then, these geopolitical threats have subsided or at least have been contained; the only palpable negative at the moment being the "fall-out" of the trade war.

In January, the IMF raised its forecast for global economic growth for 2018 and 2019, so barring any dramatic geopolitical changes, the view is generally more optimistic.