

Yannis Stournaras: Present situation and proposals to move forward

Speech by Mr Yannis Stournaras, Governor of the Bank of Greece, at the Conference organized by the Hellenic Observatory of the London School of Economics on “Getting Policy Knowledge Into Government”, London, 19 May 2016.

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Before I begin my presentation I would like to congratulate the Hellenic Observatory at the LSE, Professor Kevin Featherstone and his colleagues, for twenty years of valuable contribution to a better understanding of economic and social realities in Greece. The lectures, publications and research work of the Observatory allowed us to look at Greece through the lens of an outside, independent observer, detached from our everyday entanglements. On this happy occasion of your 20th anniversary I would like to thank the Hellenic Observatory for that contribution and wish you many more years of creative activity.

Ladies and Gentlemen, dear colleagues,

The speakers who took the floor in the preceding panels have covered the European and Greek experiences, giving us powerful insights into the respective patterns and methods used. All discussions converged in the assessment that, if governments recognize, accommodate and internalize outside knowledge and technical expertise, the efficiency of policy making mechanism, as well as the quality of the decisions should be greatly improved. This leads directly to the conclusion that, in order to move forward, we must improve and enrich this fruitful relationship, removing existing obstacles.

Ladies and Gentlemen,

Allow me now to share with you some general thoughts on the subject, based on the Greek experience. I will begin by describing briefly the nature and the characteristics of outside knowledge. Then I will focus on the supply and sources of knowledge and particularly on the dual position of the Bank of Greece. Finally, I will outline the attitude of Greek governments vis a vis external knowledge and their willingness to use it as an input into their decision making, concluding with some remarks on the formative factors shaping this attitude.

Outside knowledge – technical expertise

I understand outside knowledge and expertise as knowledge developed outside the Government policy mechanisms. In the long – run one can rightfully advocate that outside knowledge is the cornerstone of economic policies, which are based on theories developed outside politics, in the field of science. But, as we are not here to discuss the perennial question of the relationship of science and politics, I must confine the analysis to the short and medium run. In this time-frame, outside knowledge should be seen firstly as public knowledge, i.e. as the existing corpus of research results, publications, criticisms and proposals coming from a variety of sources but sharing a common element: they are relevant and potentially useful in the formulation of present-day economic policies.

The basic characteristics of public knowledge is that it is a free good, available not only to governments but to the society at large. In that respect, it is an important factor shaping attitudes, ideas and conceptions that can legitimize or reject economic policies. External expertise on the other hand refers to the total of skills and technical abilities that are available on demand.

The supply of outside knowledge

In Greece, as in other European countries, the supply of outside knowledge and expertise comes from universities, individual academics, commercial banks, think-tanks and business associations. KEPE, the Centre of Planning and Economic Research, may also be included

in the list, although institutionally is part of public administration. All of them publish studies on topical issues, regular reports on the state of the economy, policy recommendations, forecasts and evaluations of current policies.

The Bank of Greece is an independent institution with specific tasks and responsibilities, which include safeguarding financial stability and implementing monetary policy. It is therefore an indispensable part of the policy making apparatus and its technical expertise on these issues should be considered as internal to the formation and implementation of economic policy. The institutional importance of the Bank of Greece is clearly demonstrated by the fact that all Memorandi of the crisis bear two signatures: that of the Minister of Finance, alongside with the Governor's of the Bank of Greece.

In the same context, according to its mandate, the Bank of Greece should assist and support general economic policy on condition that the Bank's primary goal of safeguarding price stability is not jeopardized. It fulfils this role, acting as an outside source of knowledge on general economic policy issues. This is done mainly through its regular and extraordinary publications and/or public interventions including:

- the Governor's Annual Report on the state of the economy;
- the biannual Monetary Policy Report, submitted to the Greek Parliament and the Cabinet;
- testimonies by the Governor before the Greek Parliament;
- articles, speeches, statements and interviews of the Governor;
- periodical publications;
- studies on economic policy relevant issues;
- press releases, which provide information and communicate the Bank's position on topical issues.

All these activities communicate to the public the Bank's stance on economic issues, which is the outcome of collective work carried out by all departments, particularly the Economic Analysis and Research Department, and endorsed by the Bank's decision-making bodies.

In the years of the crisis the Bank of Greece saw a need to enhance its public discourse and increase the frequency of interventions, with a view to:

- warn about major risks which although clearly looming, had not been realized by the general public and were ignored by the governments.
- raise awareness of the complexity of the situation and the need to change the course of the economy, thus contributing to the formulation of policies for a more effective management of the crisis.

The Bank of Greece's public discourse has been enriched with new elements since the Bank has sought to strengthen its role as an advisor to society, communicating directly with the public, which in that period was inundated with conflicting and inaccurate information and signals that often resulted in confusion and higher uncertainty. Through its statements and its participation in the public debate, the Bank of Greece has aimed to present the true facts in a comprehensible manner, dispel misconceptions and misunderstandings and provide all citizens with reliable and timely information on the available options and implications thereof. It should be noted that most central banks undertook similar changes regarding their communication policies, which – in response to the conditions of the crisis – have shifted away from the traditional communication model whereby their discourse was addressed to a close circle of experts and was often cryptic.

To sum up, I am convinced that Greece has an abundant supply of public knowledge that can benefit our country. Non-domestic knowledge should also be added, as it is

communicated to the public by numerous reports, studies, analyses, proposals and forecasts for Greece published by international organisations, think-tanks and research bodies. Thus, one can safely assume that Greek governments have at their disposal a bulk of knowledge that can be evaluated and used – if it is considered to be helpful – in the formulation of economic policies.

The demand side

Let me now discuss the demand side, i.e. governments' willingness to recognize the usefulness of outside knowledge, particularly public knowledge as I have described it. Experience shows that governments are reluctant in general, with perhaps one exception, the Simitis government, who I am happy to see here tonight, to exploit public knowledge, even if the proposals and recommendations are potentially relevant and useful. A revealing example is the prolegomena of the present crisis: Many years before 2008, many independent observers, among them the Bank of Greece, had been warning that the Greek economy was vulnerable and if the large public and external deficits were not restrained, a severe crisis was unavoidable. They had also put forward concrete policy proposals and structural reforms that – if adopted – could have changed the course of events. The warnings however were not heeded and successive governments continued borrowing and spending, bringing the economy to the edge of disaster when the international crisis broke out.

In general, governments in Greece are reluctant to accept outside expertise and they perceive the available supply with distrust. The reasons behind this attitude lie in the fierce partisanship of Greek politics. The political system is based on confrontation that breeds strong distrust for the “other”, leaving no ground for independent voices. The term “technocrat” carries derogative connotations and it is definitely considered inferior to the “political”. Independent proposals and/or technical expertise are not judged on their merits, but on their perceived position in the political spectrum. The preference for “political” decisions, as opposed to “technocratic”, is ever present in Greek politics and reflects an ideological system that gives precedence to the “political”, over all other considerations.

This is clearly indicated by the methods Greek governments recognize the need for external knowledge and use it in their policy planning.

The first method is by hiring individual experts as advisors and consultants to the Ministers. The fact however that all of them leave their positions together with the Government that hired them reveals a basic problem.

A relevant case is the Chairman of the Council of Economic Advisors, which is the body of economic experts in the Ministry of Finance that participates vigorously in the formulation of economic policies. The Chairman of the Council is usually a prominent economist, but the person changes with every change of government. I would say also with ministers of the same government. Panos Tsakoglou can confirm that. When I left, the Minister who succeeded me, changed Panos as well. The position is termed political, meaning that academic excellence is not the sole criterion for the choice of the Head. Another example of this practice is the appointment of university professors as Ministers or in other high positions. Governments in this case do want the input from outside, i.e. the professors' knowledge, on the condition that this knowledge is politicized.

A second method Governments use in order to acquire expertise from external sources is by setting up extra parliamentary committees of experts to study and suggest policy guidelines on major issues. The participants are practitioners, academics, representatives of various social groups or individuals with a proven knowledge of the subject. Issues that committees of this kind dealt with in the past have been, among others: the social security system, fiscal policy and tax reforms, the system of national statistics, policies for growth. The Spraos reports was a famous example. The work of the committees ended up with detailed reports, extensive analysis of the facts and concrete policy recommendations. These reports, besides summing up the existing knowledge on the subject, reflected the interchange of different

ideas and the consensus of the participants on what was feasible and desirable at the time. In that sense they constituted an ideal starting point for policy decisions that could be easily legitimized by the broad, non-partisan character of the committees. Governments however have missed that opportunity too. The findings of the committees, after going through a maze of political considerations, were eventually forgotten. It was again politics that won the upper hand.

A third way governments internalize extraneous expertise in decision making is to commission consultant firms, think tanks, university centers and/or individual academics to carry out research projects on specific, mostly technical issues. The terms and conditions of such a project are set by the relevant authority and the selection of the candidates is done according to the provisions of the European and Greek law. There is no quantitative evidence to show to what extent this practice is used and the findings of these projects are not published. It seems however that undertakings of this kind are not rare and that they are often part of a larger project financed by European funds. This revealed demand indicates that public authorities recognize the need for external expertise and resort to it in an institutional framework.

In the years of the crisis the importance of external expertise became paramount. Economic policies had to adapt to the directions specified by the agreements with the EU, the ECB and the IMF, and technical expertise was urgently needed to deal with new problems. Under these conditions the bulk of technical assistance came from outside, non-domestic sources (IMF, ECB, EU) as an indispensable, mandatory input in the formulation of economic policies. In Greece, the new situation had no visible effects on the way governments evaluate and use external knowledge. The response to the great challenge of radical reforms was planned in-house, with help from non-domestic consultants. Moreover, political criteria continued to weigh down on policy decisions, contrary to the obvious need of non-partisan solutions. I argue (from personal experience) that in the rare occasions when political criteria were set aside and decisions were supported by strong technocratic knowledge, the outcome has been positive and the policies successful.

To conclude: There are two main reasons behind the distrust of outside knowledge: First, the overriding importance given to the “political” as opposed to the “technocratic”. Second, the partisan nature of Greek political life that polarizes opinions, minimizes the middle ground, excludes consensus and degrades expertise, unless it is partisan. As long as these attitudes persist, outside knowledge will have a marginal role in the formulation of policy decisions.

And I am really very sorry to notice tonight that Nikos Theocarakis’ speech before mine was such an example of partisan politics, since I used to be a Finance minister in the government that he described as almost colonial in his partisan speech. He failed though to admit that the “brave” negotiations that he and Yanis Varoufakis led, which led to the change of the name of the Troika to institutions and removed the Troika from the ministries to the Hilton, had also a cost. If we assume that what he described were benefits, the cost of course was €86 billion: That was the third memorandum and the capital controls that have been imposed after €45 billion of deposit outflows. And these capital controls have been imposed in order to safeguard financial stability following the “brave” negotiations of Mr. Theocarakis and Mr. Varoufakis. I am sorry to say that, but I had the obligation to put the record straight.

I believe however that even deeply embedded beliefs can change under the pressure of extraordinary conditions and that the traumatic experience of the last several years will help changing attitudes of the past. We have already witnessed a gradual convergence of political forces on the necessary policies to overcome the crisis and the sterile confrontations between anti-memorandum and pro-memorandum supporters to fade out. It is therefore reasonable to assume that, in the future, policies will be increasingly based on facts and knowledge and less on preconceptions and ideas.

The long negotiations of successive Greek governments with the European partners and the IMF, in the years of the crisis, have left us a valuable legacy: analysis of the facts, technical

expertise and accurate forecasts are indispensable and cannot be substituted by political will. I hope that this paradigm will not be forgotten, and governments in the future will see more clearly the need for and the advantages of independent, outside knowledge and expertise.