

1. PRICES , WAGES , PUBLIC GOODS : THE PERFECT STORM ?

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Prices, wages, public goods: The perfect storm?

COMMENTARY | BY MANOS MATSAGANIS *

The financial difficulties of a large part of the population came to the fore again on the occasion of two surveys presented at a recent event at the Alexis Tsipras Institute. One, by pollsters Metron Analysis, shows that hopelessness about the present (many are struggling to make ends meet) and pessimism about the future (many are planning to cut spending, even on essentials) are taking over. The other, by the state-funded Center of Planning and Economic Research (KEPE), finds that inflation affects the poorest households more than the wealthiest – thus confirming previous research, economic science and common sense, which argue that the lower the income, the greater the proportion of it is spent on energy and food – the two categories of goods whose prices have appreciated a lot lately.

The jump in inflation after the Covid-19 pandemic and the Russian invasion of Ukraine was certainly not unique to Greece, nor was its subsequent de-escalation. Almost everywhere in Europe the evolution of prices followed a similar trajectory. Greece's originality lies elsewhere: The high prices in this country are largely due to the oligopolistic organization of many market sectors. Milk is more expensive in Greece than in Germany because (according to court rulings) dairy companies here have set up a cartel, lowering the prices they pay farmers and raising the prices they charge consumers. And milk is not the exception. According to the latest report by the Organization for Economic Cooperation and Development, Greece ranks 41st out of 43 countries in terms of the degree of competition in retail trade. It is clear that the business lobbies successfully resisted the troika's pressures to liberalize product markets during the country's debt crisis.

Therefore, contrary to what was said at the October 22 event, the solution for high prices at the supermarket is not "for the state to intervene." The state already intervenes, in its



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well-known way, by pressuring businessmen not to raise prices too much. Stimulating competition would likely drive prices down further and faster, but the problem with competition is that it threatens domestic vested interests, well connected with the political system.

Sometimes, government subsidies are chosen precisely as the easy solution to have the cake (relatively low prices for consumers) and eat it (high prices for producers). Something like this seems to have happened during the recent energy crisis. In the second half of 2022, producer prices for household electricity were higher in Greece (0.4530 euros per kilowatt hour) than in the remaining 26 EU member-states, almost twice the EU average of 0.2378. However, prices for consumers were below the EU average (0.2591 versus 0.2794 euros per kilowatt hour).

How did this miracle happen? Thanks of course to government subsidies. According to OECD calculations, in 2022 the Greek government spent 4.87% of GDP to protect businesses and households from soaring energy costs, more than the other 40 countries surveyed and far ahead of Italy and Poland, who tied for second place with 2.82% of GDP. Greek largesse becomes even more impres-

sive if one considers that the country happens to have a higher public debt (always as a percentage of GDP) than other countries.

Of course economic hardship has other causes. The unregulated expansion of short-term rentals has made rents unaffordable. The rise in prices of private goods has coincided with a decline in the quality (and availability) of public goods, such as transport, healthcare and education. At the same time, the entrapment of the economy in a production model of "cheap growth," together with the deregulation of the labor market, keeps wages low.

The necessary economic policy agenda that emerges from the above realities is pragmatic, not ideological. The economy needs more competition in product markets, but (reasonable) regulation in housing and labor markets; strengthening the state to provide better public goods; and of course improving the production model. Will the political system be able to respond?

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