CHAPTER 1

Introductory Chapter

1.1 INTRODUCTION

The introductory chapter aims at making this book easier to read, by explaining the rules of the game in a way that facilitates the grasping of ideas often useful in following a book like this with concepts, hypotheses and assumptions. It also aims at specifying the standing point from which the author deals with basic conceptual issues. This way, the opportunity arises for readers to utilize their own views in evaluating points of discussion.

This chapter lists methodological principles (Sect. 1.2), basic theoretical assumptions (Sect. 1.3), and the fundamental analytical approach (Sect. 1.4) on which the book is based on. Additionally, the influence of prevailing ideology in basic aspects of development and growth is highlighted (Sect. 1.5), as well as the role of forecasts in shaping and predicting economic reality (Sect. 1.6).

1.2 THE METHODOLOGICAL PRINCIPLES

Development is when the effectiveness of the social and financial system improves and, subsequently, the quality of life gets better. It is about a broader, qualitative concept, which does not focus on gross domestic product (GDP) expansion, but rather on the improvement to prosperity. When the potential of an economy grows beyond the point marked by the
full employment of its productive contributors, we assume that growth conditions of its productive capacity are formed. We can, however, also have growth of the productive capacity when there is a productivity gap, namely, when productive contributors are not fully employed.

In this book, the terms “development” and “growth” are used interchangeably. Development is a broad concept and refers to the increasing change of key factors and resources relating to a country’s expansion, such as human capital in qualitative dimensions (education, health, training, etc.), the state of its productive capacity, the quality of institutions, the way wealth is distributed in the economy, and the general well-being of citizens. Growth refers solely to the incremental change of production, namely GDP, a quantitative variable.

It is, therefore, obvious that the authors need to adopt a perception of economic shifts based on the principles of understanding human actions as an influence of change. In these books from the series *The Political Economy of the Greek Growth up to 2030*, the people of the Greek economy are treated as entities. Not only are they distinguished by their income and wealth, but also by their personality, which includes their mental makeup and physical health. Consequently, the discussion is broadened in order to include, not only quantitative reports of wealth and income, but also ones stemming from the quality of life. The broader human limits examined include dimensions, such as security and uncertainty for the future, which in the twenty-first century amount to basic components forming the quality of life.

### 1.3 Basic Assumptions

When readers get a book like this in their hands, they may ignore some of the critical assumptions the author uses. On the other hand, the author uses methodological tools that are responsible for the final result of the written work, such as ideological reference points, methodological and philosophical principles, without revealing them. They may do this out of ignorance. Often, however, the principles of their work are not clear even to the writers themselves. They may let personal ideological views and assumptions interfere with their conclusions, in a way which is not clear as to which part of the conclusion is a result of the methodological and philosophical hypotheses used, and which part of the conclusion is the product of rational analysis that is based on the cause and effect principle.¹ It should also be noted, that the problem is bigger when the analysis is
of a normative nature (what needs to be done) rather than when it is of
a positivistic nature (what is about to happen).

Introductory comments on the basic principles adopted are therefore
a valuable aid to readers, helping them discern the quality of the conclud-
sions, without being influenced by the writer’s ideological and cognitive
departure points.

Usually, a writer’s basic assumptions are limited. We have highlighted
the four most important ones that need clarification.

The first assumption is that the book is based on a classical approach
of political economy analysis, as opposed to a one-dimensional economic
analysis (as far as the discussion of Greek social transformation is
concerned). Political economy is a general and comprehensive perception
of the study that covers key aspects of social phenomena: the economy,
society, politics, administration, social psychology, possibly anthropology,
biology, game theory, etc. As we will see later on, this is essential if we are
to formulate integrated and effective development and growth policies.

The second assumption is that we have accepted the idea that current
reality is the evolutionary result of a long historical process shaping
financial, institutional, and cultural outcomes. This constitutes the finan-
cial, social, political, and cultural environment that makes up Greece’s
reality. The assumption of evolutionary change—as opposed to the time-
less depiction of reality—features the birth and existence of a series of
determinants which are embedded in today’s financial reality. This finding
helps us a great deal in eliminating the illusion of easy change taking place
at a political, economic and social level. At the same time, it highlights
the complexity of effects normally brought about by policies. Thus, we
know from the outset that economic policies focusing on some of reality’s
dimensions have limited effectiveness.\textsuperscript{2} Lastly, the evolutionary assump-
tion introduces the element of time, a fact that influences characteristics
of the theory and policies being used, as well as the depth of the analyses
being called for.

The third assumption concerns the acceptance and prioritization of
positivism versus normativism. The former accepts a theoretical sugges-
tion as being true only when it is proven, directly or indirectly, through
empirically verifiable conclusions.

The fourth assumption concerns human action, namely the theoretical
background of human behavior and, particularly, the distinction between
rational and natural human behavior. Rational behavior, mostly in relation
to maximizing welfare, is a system of human thinking that has dominated mainly post-war economic thought, even though its origins can be dated back to classical economists. This school of thought is at odds with what we could define as natural human behavior. Located between the two extremes, in terms of economic activity, there are different types of human behavior, such as bounded rationality, the timeless-dynamic decision-making process, expected utility logic, and, finally, the generalized Darwinism and evolutionary perception of human behavior. Each of these systems brings to the surface certain aspects of human behavior lead by the role of uncertainty. As we will see later on, this book adopts the general theoretical principle of methodological pluralism. Therefore, the book is close to the logic of accepting human behavior in a broader sense, which of course includes rationality as an individual theoretical concept.

This principle is more relevant in the case of the Greek economy since, as it will be determined, the Greek economy exhibits systematic characteristics of social behavior that need particular study. It is very difficult to support that these are signs of collective rational behavior.

1.4 Fundamental Analysis Principles

The criteria by which interpretation theory can be adopted, when observing economic phenomenon, can either be empirical or logical.

Empirical criteria can be of two kinds: (a) testing the assimilations of a theory for the sake of controllability and realism and (b) comparing the prediction of a theory to reality.

Logical criteria has to do with whether the adopted theory is characterized by: (a) productivity and suggestiveness; (b) cohesion and consistency of the internal structure; (c) simplicity (specifying that simple and economically correct theories are preferred) or elegance (focusing on beauty, the aesthetic appeal of a theoretical structure); (d) generality (argues that a theory incorporating an existing and well-documented body of knowledge into a simple, unified framework has to be judged as superior) or scalability (a theory is preferred, if it allows for expansion through abductions in other research fields); and e) operationality.

When deciding which theory will be used in order to analyze a case, it is first necessary to determine the criteria that this decision will be based on. Hoping that we can choose a theory that is absolutely objective is, of course, exceedingly ambitious. The possibility of using pure theory for the interpretation of economic phenomena becomes even harder, especially
when analyzing complex socioeconomic formations, such as the Greek one.

After identifying criteria by which we accept a hypothesis, theory or law, the next question is to determine the extent to which we are going to be monists, eclectics, or pluralists. Here there are two extremes: on the one hand, we have those who believe that we should be defined only by one methodological approach (monists) and, on the other hand, we have the pluralists, who believe in utilizing different methodological approaches. But the real question is to determine the extent that we need to (and can) be methodological pluralists.

In a contemporary changing world where uncertainty prevails, a complex view of the existing reality is essential, in order to support a complete growth theory. For the purpose of locating, for example, the sources of growth (as they emerge through models and theories) and the development of implementation policies, a pluralistic approach is needed to provide for the required multidimensional analysis.

Pluralism gives us the ability to focus on the applied methodology, benefiting from tools provided by science philosophers, which appear to be skillfully created and suitable for this cause (Hausman, 1981).

The pluralistic approach frees us from the need to rely exclusively on the neoclassical model of economic thought, which, despite its organized mathematical formulation and its internal consistency, touches only on certain aspects of reality and may have partial spatial (perhaps in some developed economies) and temporal (e.g., short-term analysis) implementation. The same concern extends to newer versions of neoclassical theory, to monetarism, to neoclassical macroeconomics, etc., which also maintain the same assumptions at the core of neoclassical theory.

The expertise of the researcher is to shed light on the problem that needs to be analyzed, comprehend its theoretical documentation very well, and study the relationship between theory and reality. Rodrik (2015) argues that criticisms of economics are misleading when they claim that science suffers, because economists have not yet reached a consensus on what are correct models and theories. It is preferable to devote our energy to making a wise choice of the framework to be applied. After all, the important thing is not what economists do, but what they do not or refuse to do (Hausman, 1992).

Conclusively, the persuasiveness and beauty of economic thought should be sought in the completeness of citing causal connections with
interdisciplinary freedom and interaction that is lacking in theoretical dogmatism of methodology.

1.5 Ideology, Bias, and Growth

Big recessions have a catalyst effect on the global economy and society on a series of areas, in terms of:

- changing the relative position of individual economies regarding the international division of projects and the power to determine the conditions for future development;
- lost products and income, particularly in comparison with the alternative course of the economy, had the crisis not taken place;
- employment, the diminishing value of human capital and requirements for the restoration of skills;
- shaping conditions to produce innovation; and
- quality of life and social cohesion, including the way that income and wealth are distributed.

However, as history has shown, the intensity of each economic crisis gave birth to a fundamental question in relation to the political and economic system’s ability to foresee, therefore protect and efficiently avoid future crises. Answers were sought after in human nature, economic theory, and politics, as well as in ideology, thereby outlining the role of ideas and cultural background as determining factors of economic policy and growth in the midst of the crisis.

The role of ideas is important in understanding how the political economy of human well-being is organized. In reality, the basic components of each problem, optimization, preferences, limitations, and choice variable are supported by an underlying total of ideas (Rodrik, 2013).

We can see, among other things, four areas where the method shaping the ideology influences crucial parts of development and growth. These are debt, external balances, culture, and the shaping of expectations. We chose these four areas, despite the fact that we could have added more, as they are important in terms of the role played in economic evolution and because, as determined later, they are of exceptional importance—particularly for the Greek economy. Thus, the issue of public debt, especially as a percentage of GDP, is known to be of exceptional importance. The issue
of external balances has played—and will play—a very big role in limiting evolution, while the cultural background of Greek society determines human attitudes. Finally, the way business and economic expectations are formed play a leading role in any growth process.

The ideological dimension connecting growth and debt is perhaps one of the most controversial issues. When Reinhart and Rogoff (2010) published their work on this, they probably did not expect to influence the whole world with their basic proposal: that there is a critical relationship between debt and GDP growth. At the time, this finding was of crucial importance to the European Union, since the European Union and the Eurozone, appeared to have reached some critical debt thresholds after the 2008 crisis. If, therefore, Reinhart and Rogoff’s (2010) views were correct, then European authorities would inevitably have to take action on debt reduction. When the Covid-19 crisis emerged as a Great Lockdown of economies, almost no one thought of reacting (as in 2008) to that the required budgetary and liquidity needs which were necessary to maintain productive structures would certainly increase the debt-to-GDP ratio of economies at a global level. On the contrary, there were prevailing views, which always existed, but were at a disadvantage, which would justify these positions. (monetization of debt, helicopter money). However, economic reality, once again, formed an ideological and theoretical background for economic policies, reversing the relevant ideological and theoretical priorities.

In relation to this issue, when it comes to exercising economic policy, the importance of external economic imbalances is quite different in terms of analysis and impact. Throughout the 2000s, and even before, external imbalances were highlighted. But they were not a major source of concern, especially within the Eurozone (as it was treated as a single entity) even though there was no external clearing mechanism, like in the United States that relied on central bank gold reserves in each state. On the other hand, Target2 Eurosystem offered an opportunity for capital flows to move between Eurozone member states. The Great Recession of 2008, however, brought to light a crucial concept: the net international investment position (NIIP), i.e., how much does a country owe the rest of the world or how much the rest of the world owes that country. This proved to be a key criterion in regulating and defining policies pursued, indicating that Europe is made up of countries that enter the bloc based on their strengths.
It is commonly accepted that cultural background is an area that produces powerful forces shaping economic and social priorities. It seems to affect the conditions in which a crisis arises, the way it unfolds, and the way it is exited. In particular, it affects the way social learning is shaped and, by extension, collective behavior.

Typical of this are thoughts on the nature of animal spirits as generative causes of sudden changes in collective economic behavior (Akerlof & Shiller, 2009; Dow & Dow, 2011). At a macroeconomic level, research has also focused on the long-term barriers to growth related to cultural factors (Spolaore & Wacziarg, 2012). Social research now examines the conditions of human survival during the course of a crisis, as well as the way it affects the way children are brought up (Cipriani, Hawton, Stockton & Geddes, 2013) and how their attitudes are shaped. It is now certain that this has exceptionally long-term effects, especially on younger ages, with critical consequences on key financial functions, such as savings behavior, risk aversion, and more.

The formation of expectations is one of the most basic cultural elements of economic behavior. If society believes that the country will go bankrupt, then a huge effort is needed to avoid this. If the less privileged are the majority, they will view their economic future with pessimism. Therefore, a model of liberal democracy prevails where the present value of living conditions is small, and consequently, investing in knowledge and looking for work, are of no importance. In this case, the number of long-term unemployed workers increases, as do structural obstacles, harming momentum connected to the prospect of exiting the crisis.

The way in which expectations are formed is one of the most important issues in the organization of economic theory itself, affecting the way reality is interpreted and predicted, while also having an impact on the prospects for an exit to the crisis.

1.6 Forecasts and Future Scenarios

Forecasts are of key use, enabling economic and social policy objectives to be set and then implemented. They also (a) help to increase the predictability of the economy by increasing transparency and the value of effort made, (b) set goals, thereby facilitating the mobilization of resources needed to achieve them, and (c) create the conditions needed to secure a collective effort and help with the adoption of goals by society.
Forecasts, however, are the product of specific theoretical models under specific operating assumptions and do not cover other theories. For example, in an economy where under consumption and underinvestment make it difficult to grow due to the high private debt repayments (balance sheet recession), it is difficult to come out with forecasts, as these conditions are very difficult to enter into a model. Additionally, there are no direct opportunities to model institutional improvements, only indirect ones. Furthermore, secondary forecasts are rare, e.g., to transfer tax liabilities to subsequent years or the holding of repeated elections, which can, however, play a decisive role in the outcome. Also, the models used often do not include internal compatibility checks (e.g., to check whether the financing of planned investments is secured, etc.). In general, forecasts are based on knowledge and facts known to date, focusing on key data, especially if extended over long periods of time. Essentially though, events being characterized as “black swans”, such as Covid-19, can be very difficult to be modeled. In fact, when this is attempted, the absence of historical experience makes the task of prediction very difficult.

Finally, projections play a role in shaping the future as main players take a position on the forecast in a positive or negative stance. This often leads to projections contributing to the outcome predicted.

Predictability has one more dimension that should be emphasized: it creates expectations. But when expectations relate to a whole society, they direct actions accordingly. The questioning of expectations demands rational thinking and important knowledge that is not commonly available on a large scale. Consequently, the systematic denial of expectations has broader structural effects on social cohesion and the activation of social creativity.

For these reasons, putting together estimates and forecasts on the course of an economy, including Greece’s, is of crucial importance as it directly relates to the adoption of evolution and development policies and the prosperity of its people.

But if today we are in a position to make predictions about the Greek economy, or any other economy, even under normal circumstances, then what is the point of exercising policy that will pursue specific goals?

The answer can be found at two levels. The first one is that there must be normal conditions, something which is not a given since there is no autopilot for producing expected results, but effort is required. The second is that, in these conditions, it is very likely that there will be an
issue of beating the trend. This involves the economy going beyond the projected trend of normal conditions.

An accurate prediction of the future is impossible because of the inability to include and assess all the factors that shape developments. One method that allows for the observation of these factors over a period of time is trend analysis. However, the method that will be followed for the Greek economy is the development and analysis of scenarios (scenario analysis), which allows for estimations under the consideration of different possibilities. This is a more in-depth assessment of the course of the Greek economy, with its results depending on the versions considered. More detailed explanations will be used to illustrate important trends in the Greek economy when the aim is to derive more specific results.

This book, as well as the other ones to follow, shapes the environment on formulating forecast scenarios and developments in the Greek economy up until 2030. However, the main target is not to create a detailed forecast through to 2030 but to describe main trends within the framework which the Greek economy will grow. Forecasts for the Greek economy “suffered” greatly during the decade of the great crisis (2008–2018) and in the short term from Covid-19 crisis. So much so that it is considered that systematic lack of satisfactory forecasts from highly credible entities—such as the IMF, the ECB, and the EC, with various reasons, e.g., using a wrong multiplier—played a big role in making the crises longer and deeper. Since we are trying to prepare reliable forecasts on the Greek economy (see the first volume of the book series), it is certain that satisfactory forecasts will play a significant role in creating conditions allowing for sound economic policies that will lead to long-term recovery of the Greek economy.

Notes

1. Of course, in addition to ignorance, this may be done on purpose but this is of no concern to us here.

2. The observation goes beyond talk of the economical dimension of the first- and second-best theory on policy selection and refers to the interaction between different parts of economic behavior (economy, politics, society, and psychology, etc.).
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