

GREECE'S ECONOMY: HOW TOURISM-RELATED DOMINANCE UNDERMINES PRODUCTIVITY



sectors.

Greece's economy has become increasingly reliant on tourism-related accommodation, food, and beverage service sectors, despite its declining productivity rates. According to a study published by the London School of Economics' Hellenic Observatory, Greece has witnessed a rise of the "café economy," which is dominated by the hotel, restaurant, bar, entertainment, and lease short-term property

The paper, *The Café Economy*, written by Michalis Nikiforos, Vlassis Missos, Christos Perros, and Nikolaos Rodousakis, offers an insight into the Greek economy after the debt crisis and the subsequent bailouts. **Although reforms were introduced and a new growth model was proposed, Greece became increasingly reliant on low-productivity sectors.**

The analysis shows that after years of austerity measures and labor and product market reforms, tourism and related services took over the Greek economy and impacted its productivity. Productivity growth decreased significantly because the reforms did not have the intended outcome despite Greece being a "reformed" economy. The increase in the share of tourism-related industries and accommodation and food services, which are low productivity areas, led to a decrease in the labor productivity growth.

Compared to the pre-crisis period, total factor productivity decreased by 16% between 2009 and 2024. The overall productivity level has not returned to the pre-crisis levels. The wages decreased by approximately 26% to 35% between 2009 and 2024, and the fall was especially significant in the tourism sector, with its wages dropping by 60%. The authors find that the weakening in the aggregate demand and the decrease in real wages impacted the productivity trends in Greece. The shift to low-productivity accommodation and food sectors explains almost a third of the total decrease in productivity. Moreover, the loss of high-productivity jobs in manufacturing and the lack of new high-productivity jobs in high-tech and innovation sectors impacted the productivity trends.

Overall, the study finds that the bailouts and related reforms were not effective and led to a significant fall in Greece's productivity, which manifested in lower wages and higher unemployment rates. They also speculate that Greece's productivity fall is partly explained by the fact that the international lenders underestimated the negative impact of the fiscal austerity measures. The IMF came to regret the unsupported reduction in Greece's public debt.

The study suggests that Greece's economy is now turning into a dualistic economy similar to other developing countries. In other words, Greece increasingly relies on low productivity and informal sectors to place people on jobs with good wages. Between 2009 and 2023, the number of employees in Greece increased by 87% and 61% in the hospitality and accommodation sectors, respectively. Meanwhile, the gross added value of these sectors only increased by 11%. Such sectors as hotels, bars, and restaurants are now the largest-employment sources in Greece.

A significant part of this increase can be attributed to the cheap labor and suppressed wages in the hospitality and related service sectors. Notably, the significant number of university graduates are

forced to take low-skilled jobs in the tourist sector. Eurostat data referenced in the study show that the share of youth graduates working below their educational level is the second highest in Greece among Eurozone countries, after Spain.

Chronic Unemployment and Lower Wages

According to the study, Greece's overreliance on tourism-related activity impacts the country's external accounts and promotes its internal problems related to low wages, high poverty rates, and social inequality. Indeed, Greece recorded a significant increase in its trade surplus in tourism services, which grew by five percent between 2009 and 2023. The rise in the travel and tourism services export explains almost 50% of the current account deficit reduction in Greece between 2009 and 2023. However, it also creates several challenges for the Greek economy.

An unbalanced approach to tourism development has an adverse effect on the environment, natural habitats, and local cultures, which makes Greece vulnerable to overtourism issues in some areas. The boom in the short-term property lease sector has resulted in a shortage of affordable housing due to the significant number of properties being purchased by foreigners. This, in turn, affects the affordability of housing for local residents and ranks as a seasonal nature of tourism as a whole, which impacts Greece's balance of payments in a negative way.

Moreover, the consistent low wages in the tourism-related sectors undermine the incentive to invest in new technologies in Greece, which limits its long-term economic growth prospects. According to the authors, the current strategy to rely on low-productivity sectors to fuel demand and balance of payments is a short-term measure that comes at a significant expense. It is necessary to change Greek economic policy to promote higher productivity and ensure that the benefits from economic growth are distributed more evenly among the population.

The study finds that Greece has been excessively relying on the "cafe economy" and tourism to fuel its growth and balance of payments despite their low productivity. This approach creates long-term challenges for the Greek economy, including the difficulty of innovating and investing in new technologies, as well as social challenges such as low wages, unemployment, and social inequality. The LSE paper argues that a new growth model that takes into account the realities of the Greek economy is needed to promote higher productivity, more employment opportunities, and better distribution of income.

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