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**Towards a New Development Model: The case of the olive grove of Corfu**

**The macro problem: Our system at risk**

Our current economic and social system is a latter day dinosaur struggling to survive in the 21<sup>st</sup> century. Whether we call it a *free market economy* or *social market economy* or simply capitalism, it is still anchored in the circumstances of the industrial revolution, which created it. I shall cite three typical examples:

- ❑ The basic concept of production, which is the *value added*, as well as its principal benchmark namely the *gross domestic product*, pertain to the industrial society. They are ill suited to the present economic structure, which is dominated by the services and even less suitable for the coming knowledge economy
- ❑ Our economic system still considers the environment a free good to be used or abused at will and environmental costs are swept under the carpet as externalities. Together with various social costs they are excluded from the price mechanism, causing large distortions in our production and consumption patterns.
- ❑ The accounting, auditing and tax systems do not recognize natural and human capital as legitimate or equal to economic capital. They allow for the depreciation of the latter and recognize the relevant provisions as deductible expenses, but make no allowance for the replacement of natural capital or provision for the enhancement of human resources.

The main element of the institutional framework, which packs a lot of inertia into the dying dinosaur, is the tax system. In the EU context, tax revenues represent 40% of gross domestic product. In their vast majority they are derived from taxation of human effort and only a small fraction is derived from environmental taxes. It is obvious that they represent an economic steamroller that literally shapes prices and promotes unsustainable production and consumption patterns.

It is almost schizophrenic in a region such as Europe, where we all recognize unemployment as our number one problem and environmental degradation among the first five, to tolerate a tax system that penalizes employment and subsidizes environmental degradation.

The general rule is that our socioeconomic system excludes from the market mechanism most environmental costs leading to unsustainable production, investment and consumption patterns precipitating environmental and social crises. Currently these are mainly manifest in the greenhouse phenomenon and climate change, as well as large scale economic migration and the rise of the black and criminal economy on a global scale. My presentation of the micro case of the olive grove of Corfu shall hopefully illustrate some direct implications of these general remarks.

Economic development along this obsolete path is coupled with pollution, waste and unjust distribution of resources and income; while capital markets are de-coupled from the legitimate economy leading to bubbles that explode at an alarming frequency.

Unfortunately, current world leadership does not seem to have grasped the real problem. It attempts to quell world terrorism with war actions, which both prolong and intensify the crisis; unemployment with re-training programmes; and the threat to the environment with un-ratified international conventions or conferences of world discord, such as the one in Johannesburg.

***The need for a new Development Model***

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The multiple crisis we are facing proves beyond doubt the bankruptcy of the current model. I grasp the opportunity to suggest some directions for the new model, which I trust, shall soon emerge. I firmly believe in the need to modernize our institutional framework, so that it accurately reflects current economic, social and environmental circumstances and faithfully expresses current social choice.

- i. Unless governments integrate into the market mechanism the environmental and social values that are currently excluded, mainly through a radical fiscal reform,
- ii. Unless they re-couple financial markets to production,
- iii. Unless they take measures to check both the domestic and international black criminal economy,
- iv. Unless they seriously insure the potentiality of sustainable development in the developing world,

The current multiple crisis will be a very long one.

On the contrary if action is undertaken along the above lines, we may look forward to an end of the crisis and a future sustainable growth for the entire world.

*A Micro case: The Olive Grove of Corfu*

It is important to observe that the laxity of the global institutional system affects decision-making in small countries. Greece indeed suffers from all of the systemic shortcomings I described above. Naturally, these shortcomings provide powerful incentives (or disincentives) to economic activity, even at the minutest micro level. This is the subject of my case study.

Corfu is a tourist destination. It has 120,000 inhabitants and their income is mainly derived from services in the tourism sector as well as olive-oil. Indeed, the island has some 4.2 million olive trees (approximately 40 per inhabitant), which in the past produced some 400kg of olive oil per inhabitant thus guaranteeing a substantial annual supplement to the family income. Furthermore, such production guaranteed employment in the agricultural sector and ensured that a critical mass of inhabitants would continue to live in the peripheral 200 inland villages.

The trees of the Corfu olive grove provide a magnificent backdrop against which the island's tourism industry was built and thrived.

Since the beginning of the 90s a series of very unfortunate policy decisions and events took place thus leading the once thriving olive grove to catastrophe.

The EC subsidy system (of the Common Agricultural Policy) provided incentives for mass rather than quality production. Large subsidies were received on the basis of the quantity of oil produced irrespective of its quality. This led to the use of toxic pesticides, which were sprayed annually by helicopter over the whole island.

EU regulations, which prohibited such air-spraying, were not enforced due to political pressures, corruption and the lack of coherence of the Greek legal system.

Over the past 10 years, the Corfu olive grove – practically the whole island, suffered from a substantial ecological degradation as a result of the air-spraying. In parallel subsidies decreased while the trend was reversed and the quality of the produce became the critical factor for its commercial success. Indeed, the price for organic quality olive oil is tenfold that of the pesticide-sprayed produce. However, it takes time and concerted effort to restore the damaged Corfu olive grove to its former glory.

Corfu oil producers are facing over the last three years a huge crisis. It makes no commercial sense to produce their bad-quality product. As a result they have abandoned the grove. Unemployment has risen. Villages are gradually deserted. At the same time many olive trees are being illegally chopped for fuel wood, which are then illegally exported to Italy. The destruction of the amazing Corfu scenery is evident in many places. At the same time, Corfu has been downgraded over the last few years as a tourist destination given the fact that the

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spraying of the island with toxic pesticides has been widely discussed. There was even an article in the Economist on 13 October 2002 about this. As a result many tour operators (especially the most ecologically sensitive ones) have decided to boycott the destination. There are even court cases against the Corfu authorities, brought to the European Court by tourists who were sprayed during their summer holidays on the island.

On the positive side, this situation is reversible. The political debate is very high on the island and I am confident that appropriate measures shall be taken to fix as much of the damage as possible.

However, this micro case (and I am sure there are many more such cases all over the world) reveals that it was a combination of policy issues leading to the catastrophic result. They were:

- ❑ Wrong incentives to producers, as the EC CAP system failed to integrate into the market mechanism environmental values.
- ❑ Failure (on the part of the Greek authorities) to enforce the rule of law and ban air-spraying of the grove.
- ❑ Failure (on the part of the Greek authorities) to check the black economy on the island and make it impossible to chop and sell the olive trees
- ❑ General failure of decision makers to design an environmentally friendly policy, that would enable a sustainable parallel development of both agriculture and tourist industries on the island of Corfu.

The urgent need of replacement of our current dinosaur system with a new development paradigm though the modernization of our institutional system is evident even in the olive grove of Corfu.