

9.5 Dependent Variable: FACT5

Analysis of Variance

Source	DF	Sum of Squares	Mean Square	F Value	Prob>F
Model	12	140.30637	11.69220	1.078	0.3796
Error	216	2341.90324	10.84214		
C Total	228	2482.20961			
Root MSE	3.29274	R-square	0.0565		
Dep Mean	11.69869	Adj R-sq	0.0041		
C.V.	28.14624				

Parameter Estimates

Variable	DF	Parameter Estimate	Standard Error	T for H0: Parameter=0	Prob > T
INTERCEP	1	8.536034	3.19379315	2.673	0.0081
GREEKSP	1	0.154063	0.55612053	0.277	0.7820
GRKSCHL	1	-0.521405	0.40311385	-1.293	0.1972
LANGCOMP	1	0.196452	0.26442035	0.743	0.4583
GRKORG	1	-0.128261	0.16060865	-0.799	0.4254
NBRHDCMP	1	0.271595	0.32656829	0.832	0.4065
SOCIAL	1	0.375078	0.25771923	1.455	0.1470
COWORKER	1	0.062322	0.32594089	0.191	0.8485
GEN	1	-0.281020	0.44118205	-0.637	0.5248
GENDER	1	-0.436115	0.47931076	-0.910	0.3639
EDUC	1	0.226508	0.15036415	1.506	0.1334
INCOME	1	-0.122278	0.17997781	-0.679	0.4976
AGE	1	-0.010595	0.01904349	-0.556	0.5786

Crucial Time-Lags in the Philosophy of the State's Role in Development

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Introduction

The study of Greek economic development after 1974 raises a crucial question. Why did it take economic policy-makers so long to realize that macroeconomic constraints tended to make active interventionist policies increasingly ineffective in the period 1974-90? Or, to put the same question differently, why did economic policy fail to realize the insurmountable nature of macroeconomic constraints, although the problem was becoming increasingly evident as the country approached the 1990's? We will argue in this paper that the possible answer lies in the realization that economic philosophy in Greece has always lagged behind what was, in different periods, considered to be the "orthodox" paradigm in Western Europe.

The "orthodox" paradigm of economic policy in Western Europe from the end of the war to the mid-1970s was characterized by its confidence in the ability of governments, on the one hand, to ensure economic stability through demand-management policies and, on the other, to promote industrial development aiming at long-term growth and competitiveness. This paradigm was consistently advocated in Greece by the monthly journal *Nea Oikonomia*, which appeared in 1946 and ceased its publication in 1967 because of the dictatorship. We will review the model of economic development proposed by the journal, as it provides ample evidence of the time-lag we referred to above. Although the emphasis placed by this model on the state's role in development evolves during the 20 years of the journal's publication, with the emphasis on planning and central control of the economy giving way to a more favorable attitude towards the private sector, the model is consistently characterized by its conviction in the effec-

tiveness of the direct involvement of the state in industrial activity. By contrast, the policies actually pursued up till 1967, though highly interventionist, lack the two major ingredients of the orthodox paradigm of the time: demand management and active involvement of the state in the process of industrialization.

This situation changes drastically after 1974, with the fall of the dictatorship. Official policy appeared now to incorporate entirely the program espoused by the journal in the previous decades.¹ Therefore, this view on the effectiveness of state intervention in promoting industrial development becomes the "orthodox" paradigm in Greece with a long delay and, most importantly, it becomes dominant in Greece only when -in the mid-1970s- it is already losing its credibility in Western Europe, as fiscal crisis made interventionist policies increasingly ineffective. Evidently, we have here another instance of the time-lag we have talked about.

From the mid-1970s, the shortcomings of interventionism led to a radical reversal of the orthodox paradigm in the whole of the western world. In the 1980s, deregulation, privatization and the relevance of macroeconomic constraints -mainly in the form of the priority awarded to curbing inflation- constitute the new "orthodoxy". We will see that this new approach begins to be seriously considered in Greece only after 1990, i.e. again lagging behind developments in the West. For the whole of the 1980s, economic policy in Greece remains committed to the previous orthodoxy, as mainly displayed by its continuous neglect of macroeconomic constraints to active interventionist policies -with the exception of the brief period 1985-87. As a result, not only was the performance of the Greek economy seriously hampered -as it has followed a path of divergence rather than convergence with the economies of the other E.C. nations² has been undermined by the

¹ That the views of *Nea Economía* were highly influential after 1974 is surely reflected in the fact that some of the most prominent contributors to the journal served in key positions in formulating economic policy. The editor of the journal, Professor Angelos Angelopoulos, was the governor of the National Bank of Greece from 1975 to 1981. Professor Apostolos Lazaris was the first Minister of National Economy of PASOK in 1981-82 (then still called Ministry of Coordination). Professor Kostas Simitis was also a minister of National Economy of PASOK, 1985-87. Although these individuals are the ones who rose to the highest positions in government, there is a whole series of other contributors to *Nea Economía* who have been very influential in that period in forming public opinion on issues of economic policy.

² See A. Lyberaki, "Greece-EC Comparative Economic Performance: Convergence or Divergence?," in H.J. Psomiades and S.B. Thomadakis (eds.), *Greece, the New Europe and the Changing International Order* (New York, 1993) pp. 174-216; A. Lyberaki *The Conver-*

huge dept. accumulated in the 1980s.

We will argue that an explanation of the delay which economic policy in Greece came to realize the insurmountable character of macroeconomic constraints must take into account the fact that, in the post-1974 period², economic policy has been actually formulated under two contradictory paradigms: The first, which we are going to term the "social democratic" paradigm (with the views of *Nea Economía* qualifying as an illustration of it), is expressed as the belated arrival in Greece of an economic and social philosophy based on the faith in the ability of the state to effect economic and especially industrial development through active intervention. The second, which we are going to term the "populist" paradigm, is expressed in the demand that it is the obligation of the state to ensure that all social groups become better off, despite the crisis and the zero-sum character of the policy options open to governments. It is, we believe, the contradictory character of these two paradigms that both accounts for the fiscal explosion of the 1980s but also explains the time-lag with which changes in the orthodox economic philosophy have come to affect policy in Greece.

Section 2 of the paper discusses the interventionist philosophy promoted by *Nea Economía*. As explained above, and taking into account the stage of development of the Greek economy in the period following the end of the war, this was the most consistent expression of what we have termed the "social democratic" paradigm in postwar Greece. Section 3 discusses the interventionist policies actually pursued in the period 1974-90. We will show both the specific modes in which the interventionist project was translated into policy as well as the macroeconomic climate that seriously constrained the continuation of these policies already from the early 1980s. Finally, Section 4 offers our conclusions from the preceding analysis.

Nea Economía and Greek Economic Development: 1946-1974

Nea Economía began its publication in November 1946, at the eve of the civil war. Its founder and editor was Professor Angelos Angelopoulos, who was subsequently to lose his chair in the University of Athens because of his participation in the EAM resistance movement during the German occupation. Although Angelopoulos left the country in the late 1940s and stayed abroad for more than ten years, he continued to write for the journal. In the next two decades *Nea Economía* emerged as the most consistent forum of young economists who advocated active policies for the rapid and purposeful reconstruction and development of the Greek economy. Although politically situated in the center-left part of the political spectrum, many

party, always retaining the character of a scientific think-tank on questions of economic development.³

We have mentioned in the Introduction that the views of *Nea Economía* will be discussed here as the most consistent expression in Greece of the postwar interventionist orthodoxy of active industrial strategies and development policies. The single most important distinguishing characteristics of this paradigm is the insistence of the importance of planning. If interventionism is to achieve the long-term transformation of the Greek economy rather than short-term expedients, then, according to *Nea Economía*, it has to be subordinated to the execution of a comprehensive plan for economic development. It is precisely the comprehensiveness and the structured character of the national economic plan that will allow interventionism to be effective in bringing about the long-term goals of economic development.

According to the journal, there were three such goals which should be pursued by the state. The first was the rapid and "deep" industrialization of the economy. Industrialization was seen as the means for the attainment of a two-fold outcome: the employment of the labor force which the process of development would free from the agricultural sector and the production of the goods needed for the rise of living standards. The second goal was the rapid increase of employment, a goal which from the late 1950s takes on the character of the need to reverse the flow of emigration. Finally, the third goal was the promotion of social justice, in the form of the creation of a more equitable distribution of income and the gradual introduction of elements of a welfare state. It is consistently argued that the promotion of social justice constitutes both a goal of economic development as well as a precondition for it, since a more equitable income distribution is seen as necessary for the generation of effective demand for the products of domestic industry.

The insistence on the importance of planning, together with the setting of rapid industrialization, the pursuance of full employment and the promotion of social justice as the major goals of economic development, justify our view of the economic philosophy of *Nea Economía* as the most consistent expression in Greece of the postwar orthodoxy on the problem of economic development. In what follows, we will attempt a brief but comprehensive exposition of the vision of economic development proposed by the journal.

³ For an analysis of the model of economic development proposed by *Nea Economía*, see Ioannides, Lyberaki and Caloghirou "The Quest for Development

Industrialization and the Role of the State

By industrialization the journal means not only that economic policy must favor the development of the manufacturing sector but, most importantly, that it must aim at the creation of a modern industrial structure based on heavy industry. Two reasons are given for this preference. The first is that only the creation of a viable heavy industry may create the manufacturing impetus needed for the industrialization of the country and for the attainment of conditions of full employment. The second reason is the conviction in the viability of heavy industry in Greece, which stems from the fact that the country possesses valuable natural resources. On these grounds, the journal identifies the specific branches on which a first wave of heavy industrialization could be based (ammonia, phosphoric fertilizers, concentrated sulfuric acid, caustic soda, iron and steel industry). A corollary of this view is that a great effort must be given to energy production, based on domestic resources: water power and lignite.

The emphasis on the need for rapid industrialization raises the question of who the agents for this process are going to be. According to *Nea Economía*, the principal agent must necessarily be the state. There are a number of reasons given in support of this contention. First, it is argued that Greek industrial entrepreneurs have enjoyed a long protection from competitive imports; a situation which has led to a mentality of protectionism and a lack of incentives to undertake long-term investment projects.⁴ Second, this situation has created a preference for short-term profits and an aversion towards more long-term and riskier undertakings; as a corollary, it is argued that the private sector has failed to generate the organizational structures that could adopt a long-term view of economic development - e.g., as evidenced from the family nature of most enterprises. A third reason given has a structural nature: this has to do with the historic backwardness of the country, because of the 400 years of Turkish rule and the general decline of the Mediterranean economy.⁵ Finally, a fourth reason, which encapsulates the journal's general mistrust towards the private sector, that is that the latter, because of its speculative nature, is bound to make ineffective use of social resources and, in any case, will not be in a position to bring about the rapid industrialization the country needs as effectively as the state.

The above should not be taken to mean that the journal is advocating a

⁴ For this approach see the lead article of *Nea Economía* "The State and Industrialization," No. 174 (June, 1961) pp. 401-03

complete nationalization program. However, it is argued that the state has to control the "commanding heights" of the economy, in order to be in a position to affect the steering of the Greek economy away from the speculative and short-term focus of private entrepreneurs towards the creation of a deep-structured industrial base. This view on the relative positions of the private and the public sectors is explicitly spelt out in the lead article of the first issue (Nov. 1946), titled: 'Our line'. The structure of the economy envisaged is one consisting of three sectors: the "nationalized" (which must include all public utilities the banks and the big monopolies), the "regulated" (including all big industrial and commercial concerns) and the "free" (which will include, in effect, only the small and medium-sized firms).

It is obvious from the above that, according to the journal, the state is not only called upon to plan the transformation of the economy but is actually entrusted with creating the manufacturing industry the country needs through direct public investment. However, although the faith in the state's ability to plan and initiate the process of industrialization remains the indisputable credo for the whole period of its publication, the views expressed by *Nea Economía* towards the private sector go through a process of transition through the years. The absolute mistrust expressed during the first postwar years gives way to a more favorable approach, which seems willing to accept private entrepreneurship as an important ally in the state's effort to industrialize the country. This new approach -which, although implied also in earlier periods, is only explicitly spelt out in the 1960s - recognizes that the state must not only try to effect the building of industry directly through public investment but also indirectly, by encouraging private investment.

While the journal's stand towards the private sector undergoes a process of moderation through the years, its stance towards the role of foreign capital remains consistently negative. It is the stance that springs from the fundamental ideological position that Greece must remain "economically independent", which underpins the whole economic philosophy of *Nea Economía*, as it is evident from the stands taken in some of the most important issues of the times. Regarding the policy on foreign trade, the journal remains an ardent supporter of the development of Greek trade with Eastern Europe. The advantage of trading with the East is, according to *Nea Economía*, that Greece is able to obtain much needed capital goods and pay for them by exporting agricultural products, which were more difficult to export to Western Europe. The same ideological stand is also evident in the hostile position initially taken towards the association with the European Common Market.⁶ Again, the major argument against association

was that, because of it, the protection of industry would have to diminish and Greece would thus lose its chance to develop its industry.

The mistrust towards foreign capital is expressed in a dual way. First, *Nea Economía*, maintains that foreign borrowing by the government must be avoided. This position was, of course, much more strongly supported while the outstanding pre-war debt was still unsettled. However, even after the settlement in the early 1960s, the journal still takes a negative attitude towards foreign borrowing, arguing that the repayment of foreign debt -in contrast to domestic debt- may impose a very significant burden on the economy in the future, thus reducing the number of policy options open to the state. Secondly, *Nea Economía*, regards with reluctance the prospect of foreign direct investment in manufacturing. The reason for this is the journal's insistence that industrial development must be based on the establishment of heavy industry. And since nothing can guarantee that foreign investment will always be directed towards such projects, the journal calls for a tight screening of foreign investment, in order to ensure that it will not undermine the overall process of industrialization.

A consequence of the above is the importance awarded by *Nea Economía* to the need for planning. The state can only succeed in the complex task of leading the course of economic development, and of industrialization in particular, if its policies constitute the various facets of a single, integrated and comprehensive economic plan. One must not forget that the two decades of the publication of the journal were the times in which faith in the state's ability to plan the economy was at its peak. Therefore, it was perfectly natural for A. Angelopoulos to maintain that "the planned economy is an achievement of our century, and the formulation and execution of plans is the necessary guide of economic and social policy".⁷

What makes the planning of the development process necessary, according to *Nea Economía*, is the fact that in an underdeveloped country like Greece, the obstacles in the course of economic development are such that cannot be surpassed by piece-meal measures. The reason for this is that each of the major economic and social actors have their own individual constraints that hinder them from emerging as the dominant agent of a course of industrialization. Therefore, according to *Nea Economía*, the only way the economic, social and political deadlock can be broken is through the implementation of an integrated plan, aiming at overcoming these obstacles. The only agent that can contrive and implement such a plan is, of course, the state. However, given the fact that the state itself is a factor of

backwardness in postwar Greece, *Nea Economía* insists that as important as the plan itself is the need to reform the state mechanism and the political system.⁸

Although *Nea Economía* viewed the prospect for such political reforms with pessimism, it proceeded to put forth the basic guidelines for a 10-year development plan for the period 1961-70. This plan was prepared by the "Greek Planning Association", an independent organization founded in early 1959 and presided by A. Angelopoulos, and was published in the May 1959 issue of the journal. The importance of this plan stems from the fact that it encapsulates both the whole philosophy of *Nea Economía* as well as its concrete proposals for industrialization and economic development. Although space does not allow us to delve into this proposal in any detail, there are two points that need to be emphasized. The first is that it puts forth a detailed list of manufacturing projects that should be undertaken in the course of the decade. What is significant here is that almost all of these projects were indeed carried out during the 1960's the only difference with the proposals of *Nea Economía* being in the fact that they were undertaken by the private sector and foreign capital instead of by the state. Secondly, the plan argued that it should and could be financed mostly from domestic sources.

Macroeconomic Policy and the Development Effort

For the whole of the first five years of its publication, the journal consistently argued that the dilemma between monetary stability, on the one hand, and economic development, on the other, is not valid in a country with high unemployment and low utilization of productive capacity. Stability, therefore, is seen as hinging on the state's ability to put these idle resources to productive use.⁹ This assertion introduces the issue of the journal's stand towards fiscal policy. *Nea Economía* maintains that the problem is not budget deficits themselves but the qualitative aspects of fiscal revenue and expenditure. Regarding the former, the fact that the major source of revenue is direct taxation of wages and salaries and indirect taxation, means that the bulk of non-wage incomes evade taxation,¹⁰ and that whatever revenue is raised mainly comes from lower income groups. This realization leads to

⁸ See A. Angelopoulos, "Eight Pre-conditions for Reconstruction," *ibid.* No. 3 (January 1947) p.116: "The Economic Problem of Greece Is at its Roots a Political Problem."

⁹ See the lead article "Economic Stability and Economic Development: The

two interrelated policy proposals. The first is the need for a radical reform of the tax system aiming at curbing tax evasion. The second, which is mainly put forth during the early postwar years, is the demand to control prices drastically in order to control the incomes of those groups (mainly importers) who can extract extravagant profits through price inflation.

Regarding the expenditure side of the budget, it is argued along Keynesian lines that what is worrying is not its absolute size but its actual impact on the economy as a whole. Therefore, the real question is the extent to which state expenditure is effective in mobilizing resources and leading the course of economic development. This line of argument should not be taken to mean that *Nea Economía* completely disregards the issue of economic stability and the potentially harmful effects of fiscal deficits on inflation. This is especially evident in the 1960s when monetary stability has been achieved and the journal insists that economic policy must always take into consideration the importance of its maintenance. For example, the lead article of April 1964, after praising the Policy Statement of the government of George Papandreou, for its commitment to raising living standards points that what is not specified in it is how this is going to be achieved in a way that does not jeopardize monetary stability.

Although such positions may strike one as somewhat ambiguous, we must appreciate the fact that *Nea Economía* seems to be aware of the contradictory nature of different economic policies, and of the need to be undogmatic in the choice of relevant policies. The same somewhat ambiguous position is also clear in the journal's stance on the issue of price controls. On the one hand, it consistently argues for effective and extensive controls for the reasons we have already discussed. On the other hand, however, the economists writing in *Nea Economía* are fully aware of the fact that price controls constitute a disincentive for the development of domestic production.

Two examples of this position may be offered here. The first is the argument put forth by *Nea Economía* against the Varvaressos report of 1952. Among other things, the latter proposed that prices of domestic industrial goods should be controlled, on the basis of their costs of production. *Nea Economía* was critical of this measure, mainly because of its doubtful effectiveness and the difficulties of its implementation in practice. However, between the lines one can read the preoccupation of the journal about the possible negative effects this measure might have on profitability and investment.¹¹ The second example comes from the journal's reaction to the

incomes policy proposed by the government for 1952. While the need for substantial increases in the incomes of farmers and public employees is acknowledged, the journal calls for the "absolute rejection" of any increase in the wages of workers and the salaries of private employees.¹¹ Again, this apparent contradiction with the journal's general insistence on social justice and income redistribution can only be explained by the realization that these aims hamper the profitability of domestic industry and thus hinder the propensity to invest.

The stance of *Nea Economía* towards the issue of monetary stability reflects the same awareness of the complexity of the problems of the Greek economy but also the same ambiguity on the policy actually proposed. On the one hand, monetary stability is recognized as an important ingredient for a healthy economy. On the other hand, however, it is maintained that it should be awarded secondary importance to the major target: economic development. The journal argues against a policy of tight credit, on the grounds that it would stifle the development effort. The adverse effects of easy credit on inflation are recognized, but it is argued that they may be prevented by bringing the credit system under the strict control of the state.

Nea Economía argues that only through the nationalization of the banking system will the state be in the position to effect the rationalization that is urgently needed, since the Greek banking system is itself more of a speculative institution than an agent for development.¹² Again, however, this radical position is qualified later. Thus, the lead article of February 1953, although still maintaining the nationalization would be the best solution to the banking problem, boldly concedes that this is a politically untenable measure and proposes -as second best-that the state should foster the effective competition between private between banks.

Inflation is treated as an evil which the state must combat but, again, this general stance is qualified by the insistence that the fight against inflation should not given priority over the development effort. On a theoretical level, it is claimed that there are two types of inflation, which are termed "open" and "controlled" respectively. Open inflation, which is supposed to characterize postwar Greece, is created by a shortage of purchasing power, itself a product of the hoarding and exporting of domestic savings. In the case of open inflation, it is claimed, a tight control on the money supply will only lead to "frightening heights of the rate of interest"¹³ and further stifling of

¹² See P. Dimitrakopoulos, "The Nationalization of Our Banking System," *ibid.* No. 5 (May, 1951) pp.197-202

productive activity. On these grounds, *Nea Economía* argues that the correct economic policy in Greece would be one that would aim at transforming open inflation into its "controlled" variety, where by the latter it is meant a policy by which the money supply is allowed to grow in order to satisfy the economy's needs for funds but, at the same time, it is accompanied by widespread price and incomes controls.

It is interesting to note, however, that there appears to be a slight shift of emphasis during 1952. As the implementation of such controls seemed unlikely, *Nea Economía* began to be more understanding towards the need for an active anti-inflation policy. Thus, the lead article of December 1952 maintains that, since such controls proved to be socially and politically untenable, the government had no alternative but to pursue the policy that it did.

With regard to foreign trade, and especially the issue of import tariffs, the position of *Nea Economía* seems to be more "open" than one would expect. Although the importance of high duties for the protection of domestic industry is recognized, protection is seen as a medium-term expedient aiming at the transformation of domestic industry, which will have to cease when the latter becomes able to compete in the international market.

The views expressed by *Nea Economía* on exchange rate policy display the same awareness of the contradictory character of different macroeconomic policy options which we have already encountered. On the one hand, the journal consistently advocates a policy aiming at the "downward adjustment" of the value of the drachma, i.e. a policy of moderate devaluation aiming at ensuring a constant competitive edge for Greek exports. On the other hand, however, it is recognized that an unavoidable outcome of such a policy would be a constant rise in the prices of imported goods and thus a rise in the rate of inflation. It is for this reason that the journal argues that the devaluation must be coupled with extensive price controls. This general outlook underpins the stance adopted by *Nea Economía* towards the massive devaluation of 1953. The journal deplors the fact that this measure was accompanied by the liberalization of imports, thus reducing the ability of the state to control the prices of imported goods. On the other hand, it concedes that, given that price controls had never been effectively implemented, the devaluation could indeed help the boost exports.¹⁴

¹⁴ See the lead article "The Adjustment of the Exchange Rate Parity," *ibid.* No. 4 (April 1953) pp 145-47

Actual Policies Pursued and Performance Achieved

The philosophy guiding the policies actually pursued during the 1950s and 1960s differed substantially from the proposals of *Nea Economía*. In contrast to the latter, Greek governments consistently tried to promote economic development through the private sector and foreign investment. This does not mean that the state was absent from the process of industrialization, as the major industrial projects of this period were initiated by the state through contracts with specific domestic or foreign investors. Therefore, it was the state that initiated these investment projects, although this took another form from the one envisaged by *Nea Economía*, i.e. public direct investment was minimal. With the exception of public utilities, Greek governments generally refrained from playing directly the role of the entrepreneur. Their grip over the economy was guaranteed by investment in infrastructure, grants and subsidies, a pervasive system of extended protection—relying mainly on non-tariff barriers, a tight control of the banking system and a complex web of specific regulations and price controls affecting virtually every form of economic activity.

The main emphasis of economic policy during the 1950s and 1960s was on monetary stability.¹⁵ Low rates of inflation—consistently below the OECD average—and fixed exchange rates with the US dollar were intended to strengthen confidence in the domestic economy and support its international competitiveness. Low wages were ensured by two factors: abundant labor supplies and the state's control over the trades union movement. Investors enjoyed cheap and ample financial support from the banking system together with generous incentives. A favorable institutional framework applied to foreign investors (Law 2687/1953).

The linking of foreign trade policy with the strategy for economic development constitutes another major difference between the policies actually pursued and the proposals of *Nea Economía*. While the latter viewed economic and specifically industrial development as the outcome of a policy of imports substitution, the official paradigm of the time favored a strategy of export-led growth, based mainly on foreign direct investment. Thus, the association with the EEC was the cornerstone of this strategy, as it would ensure the free access of Greek manufacturing products to European markets. The difference of the proposals of *Nea Economía* with this strategy is evident from the priority awarded by the journal to the promotion of the

¹⁵ See Psalidopoulos, *Keynesian Theory and Greek Economic Policy* (Athens, 1990) (in Greek), p. 74, for a detailed account of this policy, which, as he maintains, "the Keynesianism was not practiced in Greece for the whole of the

trade with Eastern Europe, which was seen as a way of ensuring that the Greek economy would obtain capital goods at lower cost. Of course, trade with Eastern Europe did actually grow under the official policy too, mainly due to political pressures exerted on governments by strong groups of entrepreneurs and the need to dispose of agricultural products.¹⁶ But it is evident that it had more the character of an expedient than that of a strategic goal.

However, it is important to point out not only that the Greek economy did grow and was indeed transformed into an industrial economy in this period, but also that the investment projects actually implemented were almost the same with the ones proposed by *Nea Economía*. If one compares the industrial projects proposed by the journal with the ones actually carried out during the 1950s and especially the 1960s, the resemblance is indeed striking. Over the same period, Greece benefited from the boom of Western economies, as well as from its proximity and preferential access to EC markets. The invisible earnings (migrants' remittances, tourism, shipping) and capital inflows allowed the economy to enjoy consistently higher imports compared to exports. The two crises in the balance of payments in this period (1958-59 and 1966) can be accounted for by the fact that the former comes at a point in time when the strategy of export-led growth has not yet begun to take shape, while the latter takes place when the results of this strategy are just at the verge of materializing. Up till the early 1970s, Greece experienced the highest growth rates among the OECD countries. The structure of the economy changed, as, in the manufacturing sector, there was a significant shift from traditional labor-intensive activities towards more capital-intensive industries. This is illustrated by the composition of exports, with industrial exports rising from 4% in the late 1940s to almost 50% by the end of the period.¹⁷

However, there were many alarming signals as well. First, emigration was the number one social problem for the whole of this period. Between 1959 and 1973, 12.2% of the population emigrated. Second, in view of the steady preference of domestic investors for housing, direct foreign investment represented a very crucial source of investment flows. Major investment projects were undertaken by foreign investors (Esso-Pappas refinery in Salonica, Hellenic Steel, Pechiney-Aluminum), while out of the 35 largest firms in 1973, 8 were foreign owned and 8 had a minority holding of

¹⁶ The above draws heavily from S. Wallden, *Greece and Eastern Countries 1950-1967: Economic Relations and Politics* (Athens, 1991) p.142

¹⁷ See Y. Caloghirou, I. Panayannakis and Y. Saharides, "The Greek Chemical

foreign shareholders. Although instrumental in bringing about economic growth in this period, foreign investment did not automatically initiate a process of indigenous technological development. Third comes the perpetual weakness of key sectors of structural importance, which could foster integrated development (capital goods production, in particular: machinery, electrical machinery and transport equipment). And last, but not least, although there has been an industrial exports explosion, this was based on a narrow band of goods, which was highly susceptible to internal competition.

It has been agreed¹⁸ that the main reason for these problems stems from the fact that postwar growth has been mainly promoted by the private sector, with the state abstaining from two strategic aspects of the development process: public direct investment and the upgrading of domestic technological potential. According to this argument, it is precisely these problems that made the Greek economy particularly vulnerable to the crisis of the 1970s. We will not attempt to assess this argument here, since we wish to concentrate on the policies pursued in the period of 1974-90. However, what we must stress is that, regardless of the problematic aspects of its development, the Greek economy did achieve spectacular growth rates in the 1960s. Whether a more active involvement of the state in the development process might have had better results, has to remain an open question.

The Post-1974 Period

Three were the main building blocks of the economic policies adopted in the post-1974 period:

a) The management of effective demand as a means of fostering investment and output growth (expansionary credit and fiscal policies, incomes policies).

b) An active policy for industrial restructuring including the financial incentives legislation for industrial investment, the management of the so-called "problematic/ailing firms", the public procurement policies and the large investment projects.

c) And last, but not least, a conception of the role of the state as an agent willing to accept the burden of budget deficits and inflation, in order to function according to its perceived obligations vis-a-vis the society. This includes the dynamics of fiscal management, the balance between expenditure and revenues and the allocation of expenditure among investment

¹⁸ See C. Vaitos and T. Giannitsis, *Technological Transformation and Economic Development* (Athens, 1987), pp. 15-54, 125-34 (in Greek)

and consumption, the composition of revenues (balance between direct and indirect taxation). It also includes a wide range of regulatory practices on the part of the state from price controls and tight monitoring of credit allocation to indirect measures aiming at sustaining competitiveness such as protection, export-promotion schemes and devaluation.

We will discuss each of the above in the following three sections, while the fourth section will be devoted to the assessment of the actual economic performance in the period 1974-90.

Demand Management and Macroeconomic Reflation: Credit and Fiscal Policies

Over the period 1975-1979, monetary and credit expansion was adopted as a response to the recession. This led to an unprecedented expansion of liquidity, the effects of which were positive in terms of output and employment. This policy, however, encountered two sets of difficulties. The first was that it benefited primarily the already established and dominant production structures in the domestic market, thus failing to foster restructuring of the productive apparatus. Secondly, it was unsustainable in the long run because it generated inflationary pressures, increasing financial demands on part of the public sector and capital outflow.¹⁹

The first attempt to reverse this macroeconomic framework was in 1979-1980, when monetary policy opted for an increase in nominal interest rates. Although real interest rates remained negative throughout the period up till 1987, the rise in nominal interest rates in conjuncture with the adverse expectations generated by the imminent accession into EEC, produced the combined effect of an investment freeze. This first attempt at tighter macroeconomic management had a number of positive effects, as it boosted domestic savings and it slowed-down the capital flight of the previous period.²⁰ These developments in the monetary sphere were accompanied by an attempt to stabilize the fiscal deficit by means of cuts in public investment rather than public consumption. Although this policy succeeded in stabilizing the deficit in 1980 at 5.1% of GDP, the following year (which was an election year) witnessed a destabilizing turn with the doubling of the deficit.

After 1981 some attempts were made to slow down credit expansion which, however, continued to grow faster than inflation. The fiscal conduct of the early 1980s led to a sharp increase of the deficit from 8.5% of

¹⁹ A. Lyberaki, "Greece-EC Comparative Economic Performance" pp. 185-86

GDP in 1982 to 16% of GDP in 1985, while the Net Public Sector Borrowing Requirement (PSBR) from 12.9% of GDP in 1982 reached 18% in 1985. In order to finance this mounting deficit, and in view of the inadequate level of domestic savings, the government's recourse to external borrowing became unavoidable.

Income Policies

Wages were sharply raised after the fall of the dictatorship, in order to offset the erosion of purchasing power caused by the inflation of 1972-73. Both nominal and real wages were also increased in the late 1970s. The hiring practices of the public sector were intensified in this period, a policy viewed as the main weapon for keeping unemployment under control. Wages increased again in 1982 and 1984, while a system of indexation was institutionalized. Although the effect of the introduction of welfare policies appears to be an increase in the burden of domestic costs of production, the degree of significance of these measures is disputed.²¹

The combined effect of wage rises and of the institutionalized reduction in hours worked has contributed to an increase in real hourly earnings by 10.3%. Viewed from a different angle, the 1982 and 1984 wage increases exceeded the rise of wholesale prices of industrial products by 16.5% and 5.8% respectively.²²

This increase in real wages did not contribute to a rise in private savings. On the contrary, private savings as a percentage of total disposable income of households declined by 13% between 1981-83, while total savings as a percentage of GDP declined by 30%. At the same time, the growth in real wages did not raise consumption of domestic products. Thus, private investment in manufacturing declined by 30% over the same period, while import penetration of consumer goods increased.²³

²¹ With L. Tsoukalis, "The Austerity Programme: Causes, Reactions and Prospects" in Vryonis (ed.) 1991 and J. Spraos, "Government and the Economy: The First Term of PASOK," *ibid.*, arguing that wage rises and indexation eroded the profitability of domestic production substantially, while T. Giannitsis, "Transformation and Problems of Greek Industry: the Experience During the Period 1974-85," *ibid.*, argues that their impact was minor in the profit squeeze phenomenon, the latter being primarily caused by the decline in protection.

²² T. Giannitsis, "World Market Integration: Trade Effects and Implications for Industrial and Technological Change in the Case of Greece," in H.J. Psomiades and S.V. Thomadakis (eds.) *Greece, the New Europe and the Changing International Order* (New York, 1993) p. 232

The Post-1985 Period

So, up to 1985, the macroeconomic management of the Greek economy encouraged high liquidity. The latter was the combined effect of the credit and fiscal conduct as well as of the expansion of demand. The year 1985 marked a break in economic policy and witnessed an attempt to harmonize policies with the dominant trends in the EEC. Credit policy was tuned in the direction of slowing down credit expansion by raising interest rates, the latter becoming positive in real terms for the first time in 1987. At the same time, the administrative controls on the banking system (reserved deposits to finance manufacturing investment) were eased gradually. There was an increase in private savings, while the austerity/stabilization program of 1985-87 ensured a net transfer of funds from wages to profits. Fiscal policy succeeded in containing the deficit only in the year 1986, while there was considerable deterioration over the following years. Given the inelasticities of expenditure on wages, pensions and the servicing of foreign debt, these developments in the fiscal sphere made unavoidable the slashing of the only "flexible" type of expenditure: public investment.

Active Policies for industrial development: Industrial incentives legislation²⁴

Over the period 1978-90, four different industrial incentives laws were introduced and applied, all of them setting as their twin objectives the encouragements of investment and the achievement of a balanced regional development pattern. To a large extent the rationale of all these laws is the same, each new version embodying the experience drawn from the application of its predecessor as well as reflecting the need to harmonize the institutional framework with EEC standards. Although moving along the lines of the previous investment legislation, the Law 1262/82 introduced two innovations: First, it instituted a clause on equity participation of the state, though the trigger point for state participation was set high enough to exclude the overwhelming majority of investment projects. Second, the law 1262/82 offered special support to specific categories of investors, mainly favoring cooperatives, Local Authorities, Companies of Popular Base, etc.

The effectiveness of this law in promoting private investment is highly doubtful, as it is evident from the actual outcomes: first, the slow pace of investment realization (in 10 years, only 52.2% of the approved projects

²⁴ *racy: From the Junta to PASOK* (New Rochelle, 1991) pp. 178-79 describes as "excess absorption," i.e. the demand for goods and services exceeds what the

had started); second, the small average size of investment projects; theirs, the sectoral composition of investment, which tended to favor food/beverages and textiles/clothing, thus reinforcing the existing sectoral structure and fourth, the reinforcement of the existing regional distribution as well as of the well established patterns of regional specialization. Overall, it was generally low quality of investment projects that applied for support, as the institutional framework was characterized by lack of selectivity and of strategic horizon concerning the desired direction of change.

*The Ailing Companies*²⁵

The phenomenon of over indebtedness of manufacturing firms appeared in Greece in 1977 and there is considerable controversy concerning its underlying causes as well as its dynamics. According to the dominant view among the business community, the fast increase of the loss-making firms together with declining profitability of the "healthy" companies should be attributed to increasing labor costs, price freezes, taxation of a one-off nature, increases in interest rates, inflation etc.²⁶ According to the "structural" view, this phenomenon is a manifestation of the painful process of transition from an import-substitution environment to the opening-up of the economy to international competition.²⁷

In the late 1970s an attempt was made to cope with the problem within the confines of the banking system (restructuring and rolling-over of debt, changes in management and mergers -initiatives mainly taken by the National Bank of Greece). However, the early 1980s brought to the fore a more decisive strategy for restructuring and modernization with the setting-up of a special institution, the Organization for the economic Restructuring of Firms (OAE by its Greek initials) enacted by law in 1983. OAE was a state holding company whose stated aims included: a) dealing with the problem of the ailing -or "problematic" as they were referred to- firms through the financial rationalization of those firms which were thought to be viable, b) setting up of new firms in the dynamic sectors of advanced technology, c) actively intervening in industrial development by transcending the traditional instruments of the banking system.

²⁵ For a detailed analysis of the phenomenon see Y. Caloghirou, "Ailing Structures in Greek Manufacturing: Emergence and Attempts to Deal with the Problem," in T. Giannitsis (ed.) *Industrial and Technological Policy in Greece* (Athens, 1993) pp. 131-84 (in Greek).

²⁶ G.F. Koutsoumaris, "Ailing Industries: the Onus of Economic Policy," in *Kathemerini* (March. 12, 13 and 14, 1985) (in Greek); I.M. Panadakis. *Loss-Mak-*

The OAE experiment has been one of the most overtly interventionist attempts at speeding up restructuring at a large scale. The first wave of the ailing firms in the early 1980s comprised 48 firms (together with their affiliates the number reaches 70) with 30.000 employees. The second wave in the late 1980s (these firms were not brought under the control of OAE) consisted of 130 firms whose debt exceeded 500 billion drachmas. What is more, the ailing companies phenomenon was heavily concentrated in those sectors of manufacturing which had assumed a leading role during the 1960s and the early 1970s.²⁸ The government has been generous in its financial support. Although ailing firms represented 4.5% of manufacturing employment, they absorbed 14.5% of total funds directed to the manufacturing sector between 1984 and 1990.

As it turned out, OAE only partially succeeded in coping with the crisis, while more ambitious parts of its program never materialized. In actual fact, its only achievement has been the "socialization of losses" rather than the upgrading of the manufacturing structures involved. The reasons for this failure are complex and multifaceted, and include limited institutional banking, limited resources, lack of a restructuring strategy and, last but not least, the sole emphasis on defending employment.²⁹ In the end of the day, state intervention in the terrain of ailing firms competed directly and de facto with the rest of the manufacturing sector in terms of access to credit and product markets (with pricing below the cost of production not infrequently being practiced).

*Public Procurement Policies*³⁰

The purchases of materials and equipment by the state and expenditure for public works, together comprise between 15% and 25% of GDP. Thus, the sheer size of resources activated by the state's purchasing power at the same time affects and is being affected by the economic conjuncture. While

²⁸ Textiles, cement, paper, fertilizers, shipbuilding, metal goods, basic metallurgy, mining and defence industries.

²⁹ Y. Caloghirou, "Ailing Structures," pp. 131-84; E. Tsakalotos, *Alternative Economic Strategies: The Case of Greece* (Avebury, UK, 1991) pp. 120-38

³⁰ For a detailed account of the issue, see Y. Caloghirou, "The Purchasing Function of the State in a Period of Crisis and Restructuring: the case of Greece in the 1980s, in *The Functions of the State in a Period of Crisis: Theory and Greek Reality*, (Athens, Sakis Karagiorgas Institute, 1990), (in Greek) pp. 207-21; Y. Caloghirou, "The Interlocking Between the Purchasing Power of the State and Industrial Activity: the Case of Greece," Ph.D. Thesis, National Technical University of Athens (1991). (in Greek) pp. 1084-97; Y. Caloghirou "Public Procurement

demand is characterized by oligopsony or even monopsony, the structure of supply is oligopolistic with strong institutional barriers inhibiting new entrants. The contradictory element of these highly protected markets (in particular vis-a-vis foreign competitors) is the high import content of domestic supply. Up to the 1970s, passive protectionism dominated public procurement policy. This policy changed over the 1980s, when the state adopted the so called "hellenization" (i.e. indigenization) of public procurement strategy, which explicitly aimed at increasing the domestically produced content of the goods purchased by the state, thus promoting imports substitution.

The firms involved in the new strategy had been mainly established in the 1960s and the 1970s (lacking industrial tradition), were on average of medium size by international standards (employing less than 500 employees and with the sales not exceeding 10 billion drachmas), were highly dependent on state orders (often 50% of their output), and, what is more important, were entirely dependent on the importation of technology from abroad. This total lack of domestic/indigenous technological capabilities combined with the other figures mentioned above as well as the small size of the Greek market distinguishes these firms from the "national champions" in the relevant European experience, where policies of this kind aimed at strengthening and promoting further the already existing technological advantages of domestic firms.

*The Large Industrial Projects Program*³¹

In the period following 1974, there have been some systematic attempts on the part of the state to undertake large-scale investment in key-sectors (primarily chemical and metallurgical industries, and telecommunications equipment). This initiative was perceived as a response to the investment gap that appeared in the mid-1970s, due to the decline on private investment. However, what is especially striking is how few of these projects did actually get off the ground. Thus, there seems to be an important difference from the 1960s. In the latter, the large projects were undertaken by the private sector, with the state abstaining from direct investment in manufacturing. In the post-1974 period, by contrast, the state did plan a vast program of public investment but, as it turned out, it failed to implement it.

The most important of these large projects were the Petrochemical Complex (ELEVME), the Alumina Unit (ELVA), the Stainless Steel Unit

³¹ For a detailed account of the five most important large investment projects in heavy industry, see A. Paralikas "The Realization of Industrial Investment: a Ty-

(ELEVME), the Gold Metallurgy (METVA), the modernization of the Aspropyrgos Refinery (ELDA), the manufacturing of Digital Switches (ELVIL), the Asbestos Unit (MAVE) and the Ferro chrome Alloys Unit (ELSI). It is interesting to note that the basic ideas underlying all these projects were conceived during the late 1970s.

The objective of the construction of a verticalized petrochemical complex was to respond to domestic demand by means of import substitution of industrial inputs, the enhancement of domestic value added and the savings in foreign exchange. This rationale led to the establishment of ELEVME in 1975 as the agency for the promotion of the project, the estimated cost of which exceeded \$200 million. Following four changes in the proposed location of the plant, the petrochemical project was abandoned in 1983, after the acquisition of equipment and technology worth \$110 million.³²

The Stainless Steel project aimed at the construction of a verticalized unit which could supply inputs to a variety of manufacturing sectors. The projected cost (may 1982) was 131.4 million (60.000 tons capacity). In 1985 and in 1990 the preliminary project was updated but it never materialized.

The alumina project aimed at the utilization of a domestic raw material (i.e. bauxite) in order to enhance the value added of relevant exports. The initial decision was made in 1979, while in 1981 an agreement was reached with a Soviet concern to provide a feasibility study for a unit whose annual capacity would be 600.000 tons. After long negotiations with the Soviet side (which was to supply technology, equipment and loans) the final agreement was reached in 1984³³ and the estimated cost of the investment was \$4000 million (1984 prices). Following continuous delays due to financing problems, the project froze in 1990.

The obvious benefits stemming from the creation of a metallurgical unit specialized in gold and silver were the availability of markets, the environment-friendly technology involved and the availability of the necessary inputs. In 1984 the project was officially announced, involving expenditure

³² The equipment was stored in the UK, while the loan contracted for its purchase by Lloyds Bank International started to be repaid in 1985, two years after the whole project was abandoned. Some unsuccessful attempts were made in 1983-85 to sell the equipment, while in 1985-86 some new thoughts prevailed concerning the partial application of the original investment idea. Soon it was abandoned once more. In 1991 there was the final announcement of the partial realization of the project which, however, was subsequently rejected and ELVME was liquidated.

of \$90 million. A year later the plan was rescheduled. Financing and location problems caused suspension of the time-horizon and subsequently led to the abandonment of the project in 1991.

The modernization of the oil refineries in Aspropyrgos (ELDA) was first discussed in the late 1970s. The decision to modernize, however, was taken in 1982, under the pressure of the imminent liberalization of the Greek market and because of the trends in the international market. The initial budget was \$300 million (1983 estimate). The realized costs in 1987 exceeded \$580 million, mainly due to the enlargement of the scope of the project. Unlike the previous four projects, the modernization investment in ELDA was fully implemented.

Besides the completion of the ELDA project, there were two smaller projects which were actually completed: the Asbestos Unit (1978) and the Ferro-chrome Alloys Unit (1983). However, it is important to note that the production of the former has been gradually shrinking due to environmental restrictions on the use of asbestos and the latter closed in 1991.

Finally, the ELVIL project, which was initiated in 1977, aimed at the manufacturing of digital switches for the needs of the Hellenic Telecommunications Organization (OTE). Due to fierce and long conflict over the choice of OTE's digital technology supplier, the project was finally abandoned as such and a decision was made in 1986 to award two contracts to *Eriksson* and *Siemens*, which were forced to organize local manufacturing through *Intracom* (a Greek owned firm found in the late 1970s) and *Siemens Tele* (a subsidiary of *Siemens*) respectively.³⁴ What is important to note in the case of this project is that, while it never materialized as a state-owned venture, it was carried out by the private sector after all.

Thus, in the post-1974 period the state attempted to become directly involved in manufacturing investment. The important point to note here is that this attempt comes much later than the implementation of similar policies in the other EEC countries. The general pattern of the period in which the big industrial projects program was attempted in Greece was the incidence of severe financial constraints which contributed to the failure of completion (with few exceptions).

The Impact and the Size of the Public Sector

When trying to account for the extent to which the state plays a central role in the dynamics of the Greek economy it becomes useful to adopt the distinction between overt and covert means of state intervention stem from

³⁴ Y. Caloghirou "The Interlocking" pp. 1084-97.

direct state ownership. Public corporations cover the entire provision of water, energy,³⁵ post and telecommunications, railway and urban transport as well as air transport. Since the late 1970s, 80% of the commercial banking system has come under the direct control of the state through majority share holding. As a consequence, not only was the level of interest rates regulated but also the quotas and interest rates parities among different classes of loans and borrowers.³⁶

In the period following 1974, the state established two manufacturing companies in the defense sector (EAV and EVO) as well as the Public Petroleum Corporation (1975), the Natural Gas Corporation (DEPA) and a number of Engineering firms aiming at promoting indigenous technological capabilities (in the 1980s). It also acquired the control of a number of previously private companies like Olympic Airways (1975), the Oil Refinery ELDA (1976), the industrial holdings of the Commercial Bank of Greece (1976), -most important being the Elefsis Shipyard and the Phosphoric fertilizers industry-, the ESSO complex (1983), the AGET Cement group (1983) and the Skaramangas Shipyard (1985). The above, together with the ailing firms under the Organization for the reconstruction of Firms (OAE) has given the state concentrated ownership rights in a number of manufacturing sectors such as 18.4% in textiles, 55% in cement production, 35.6% in paper, 20% in metal goods production, 45% in basic metallurgy, over 50% in fertilizers and 100% in shipbuilding (without taking into account the state-owned defense sector). Finally, although it appears that there is a widespread consensus among researchers that the state has been largely absent from fixed capital formation in the manufacturing sector, it appears that the state's participation in industrial investment rose considerably in the post-1974 period, from 0.7% of the total prior 1974, to 4.3% on average in the years 1975-1980 and to 4.8% over the first half of the 1980s.

The indirect means of state intervention include price controls, subsidies, protection and exchange rate manipulation, to mention only the most important ones. Price controls have been extensively applied over a wide range of consumer goods and services. It has been roughly calculated that until 1986, when a gradual albeit slow process of liberalization has been initiated, goods and services representing 13% in the consumer price index

³⁵ Not only electrical power but also the wholesaling of petroleum and petroleum products remains the monopoly of the state (with a first but unsuccessful attempt at liberalization in 1986 and some more recent attempts in the early 1990s) while retail prices are fixed by the government.

³⁶ It is interesting to point out that up till the late 1980s, 70% of bank assets was

were price-controlled, while another 14% were supplied by public sector corporations and their prices were administered.³⁷ Generous subsidies for exports and for domestic investment have insured that the state contribution was of the order of approximately 40% of the value added of export goods. On average, export subsidies represented approximately 16% of the total value of exports, but they reached 24% in certain cases (varying according to the rate of value added and the size of the exporting firm). However, the structure of export subsidies has helped to reinforce the already existing well established firms and activities; it has not contributed to transforming them.

In many ways, protection (largely differentiated) has been used as a substitute for industrial policy. By increasing the prices of imported goods, it is operated as a de facto "covert taxation" benefiting domestic producers in the same line of production. Since the early 1960s (Association Agreement with the EEC) a process of gradual abolition of tariff barriers has been on the agenda, which was accompanied, however, by a parallel process reinforcing non-tariff barriers (differential taxation, quotas, special regulations for importers like advance payments). Total protection (tariff and non-tariff) just before the accession into the EC has been 33%-40% (depending on the method of calculation), while for a variety of critical products (primarily light consumer goods) constituting the backbone of Greek manufacturing, total protection often exceeded 100%.³⁸

Export promotion has been sought after by means of artificially enhancing international competitiveness via currency devaluation. Although the short term effects of devaluation in alleviating some of the competitive pressures are beyond dispute, its long term effects appear problematic in the Greek case. The devaluation's of the 1980s (1983 and 1985) were mainly adopted as a means of canceling the the adverse effect of wage indexation. As it turned out, the policy of devaluation triggered a number of wider destabilizing processes, such as: a) capital flight, b) a rise in the cost of domestic production due to its significant import content, and c) a consolidation of expectations linking profitability with state protective action against rather active strategies on the part of exporters.³⁹

³⁷ G. Bitros, *Price Controls and their Consequences*, IOBE Special Studies No. 13 (Athens, 1985) pp. 149-63 (in Greek).

³⁸ As A. Mitsis, *The Greek Industry in the World Market* (Athens, 1989) pp. 471-84 (in Greek) argues, although there has been an inescapable trend towards liberalization over the 1980s, it appears that Greece has made use of all possible "transitory" arrangements and negotiations in order to postpone ad infinitum the aboli-

Table 1

	1960-74			1975-79			1980-88		
	GRE	FGI	SPI	GRE	FGI	SPI	GRE	FGI	SPI
GDP growth	7.7	4.9	6.9	3.8	2.9	2.6	1.5	1.9	2.5
Industrial growth	7.3	4.2	7.1	6.3	1.5	5.5	-0.96	0.04	2.75
Labor Productivity	5.1	14.2	6.9	8.4	19.9	10.4	9.2	23.3	12.6
Labor Productivity growth	7.3	4.6	6.0	3.1	2.7	2.7	0.3	1.9	2.6
Industrial LaborProd. growth	4.3	4.2	5.3	4.2	2.5	5.6	-1.1	1.6	4.1
TFP growth	6.6	3.9	3.7	1.7	1.8	2.9	-0.5	0.9	-0.1
Labor Cost(change)	-1.8	0.4	0.5	2.0	0.45	1.1	0.3	-0.6	-1.8

FGI: France, Germany and Italy, while
SPI: Spain, Portugal and Ireland.

TFP: Total Factor Productivity

Source: Lyberaki, 1993:193

Another way of assessing the state's impact on the economy is through the analysis of fiscal management. The post-1974 period has witnessed an accelerating process of fiscal expansion. Both state revenue and expenditure rose faster than GNP, thus increasing their share in the latter. However, the share of expenditure rose approximately threefold faster compared to the share of revenues, leading to an increase of the deficit as a proportion of GNP by about 13%. Furthermore, as Thomadakis and Seremetis⁴⁰ have convincingly shown, there appears to be a systematic tendency for the deficit ratio to peak in election years, thus giving rise to what has been called the "electoral cycle". From the revenue side, there exists clear evidence of laxity in tax enforcement as well as lags in tax collection during election years or years of intense political confrontation. This was particularly true by the end of the 1980s in the case of indirect taxation, amounting to "a collapse of the system of indirect tax collection", reflecting the erosion of public authority in the economic sphere.⁴¹

By the end of the 1980s the picture was one of large budget commitments to income-supporting transfer payments, which were increasingly financed by dept. Thus, public dept. has been mainly used for current expenditure. This was not accompanied by a reform of the tax system and by the enlargement of the tax base. The effective taxpayers who carried the tax burden were the men and women in the salary-wages and pensions brackets. Incomes generated from real property, commercial activities and agriculture continued to go largely untaxed. Although undeclared, this has been a real income support mechanism enjoyed by the state parting tax evasion via the progressive informalization of wider sections of economic activity. In turn, this progressive informalization further contributed in the shrinking of the taxable base and restricted the revenue collection procedure. Thus, wealth escaping taxation effectively became the source of loan capital supplying the state at interest. "In essence this meant that a large new class of private incomes was created in the form of interest drawn on public dept".⁴² The problems of this policy are two-fold: On the one hand it piled up unjustified burdens and non-realized revenues on public finances. On the other hand (and more importantly) it created vested interests and expectations that are very difficult to dislodge.

⁴⁰ S. Thomadakis and D. Seremetis, "Fiscal Management, Social Agenda and Structural Deficits," in Th. Kariotis (ed.), *The Greek Socialist Experiment* (New York, 1992) pp. 203-55.

⁴¹ *Ibid.* p. 217-18

*Effects on the Real Economy and Assessment*⁴³

Up till 1974, the growth rate of Greek GDP has been quite impressive (7.7% vis a vis 4.7% annual average growth in the EEC), by comparison both to the leading European economies (Germany, France, Italy) and the European NICs (Spain, Portugal and Ireland) (Table 1). GDP continued to grow faster in the following period as well (1974-79), but over the 1980s it scored lower growth rates. Thus, by the end of the 1960-88 period, the gap between the level of Greek GDP and that of the other European economies was wider than in the beginning of this period.

Labor productivity in Greece lags behind that of EEC economies and, what is more important, the productivity gap becomes wider by the end of the 1980s. Here again, it appears that the 1980-88 period saw a reversal of the previous positive trends, the process of convergence of the preceding two decades having exhausted its momentum. The same is true for industrial GDP growth and industrial productivity (Table 1). The above developments are clearly reflected in total productivity growth rates, where the impressive performance of the Greek economy during the 1960s, and early 1970s, gave way to poor records in the 1980s (Table 1). Labor cost in Greece was declining steadily over the 1960-1973 period. However, it steadily increased in the next period, with only a small declining interval during the 1985-87 stabilization program. Again, there is a striking difference from developments in labor costs in the rest of the European economies (See Table 1).

The main characteristic of the economy since the early 1980s was the high leverage of both the private and the public sectors. Taxation could have alleviated the shortage of funds available to the public sector. However, as it has already been shown, it has consistently failed to supply higher revenues. This was due partly to the small share of wage earners in the total of economically active population and partly to the notorious ineffectiveness of the Greek tax-collecting mechanism, nurturing both tax evasion and tax avoidance.

In the face of the difficulties in financing the dept by means of external borrowing, a strong pressure was exercised on the domestic banking system, which found an increasing part of its deposits being administratively directed towards financing the public dept.⁴⁴ A side-effect of this policy

⁴³ The discussion in this section draws heavily from Lyberaki, "Greece-EC Comparative" pp. 191-92.

⁴⁴ Of course, increased public spending need not necessarily have had detrimental

has been a gradual crowding-out of the private sector (which was highly leveraged during the period of easy credit), in the sense of reducing substantially the available funds for investment and, from the mid-1980s, raising the cost of borrowing through a continuous increase in nominal interest rates.

As it has been argued, up to 1985, all instruments of macroeconomic management were geared at facilitating the survival and reproduction of the existing industrial structures. But while this preservation attitude dominated the supply side of the economy, serious shifts were recorded at the demand side. The internationalization of consumer preferences and the gradual abolition of import restrictions have offered a competitive advantage to imported goods, while domestic production was gradually losing market shares.

One of the most striking and persisting characteristics of the Greek industrial structure in the postwar era has been the coexistence of a large number of small, family-based firms with large industrial units (the latter mainly in the capital-intensive sectors of manufacturing). This size distribution has often been held responsible for the organizational underdevelopment of the Greek manufacturing sector. It has been further argued that a significant part of the "ailing" firms that were taken over by the public sector in the early 1980s, was made up of firms in the process of growing from the small to medium category, which were, consequently, facing more acute problems of organization, marketing, industrial relations etc.⁴⁵

The creation of new manufacturing establishments since the mid 1970s has reflected the macroeconomic policy ambiance. The latter was conducive to the creation of a plethora of new firms primarily in the traditional branches of light industry (foods, textiles, clothing) displaying a low degree of specialization and relying on cheap labor costs. They were created to cater for the consumption wave fueled by fiscal expansion.

This particular macroeconomic policy mix which was responsible for the multiplication of small business units was, however, discouraging strategically oriented investment in new activities, long-term business planning and the development of indigenous technological know-how and in-

higher incomes rather than production. Again, higher incomes could have contributed in increased demand for domestically produced goods and services, thus boosting domestic production in line with the classical Keynesian argument. This did not happen either. On the contrary, given the mismatch between domestic production and consumption patterns, the demand has been primarily directed towards imported goods (the importation of which had been facilitated by the gradual abo-

novation. The average size of manufacturing establishments (in terms of employment) increased from 1973 to 1978, falling in the next five years to pre-1973 levels. A slight recovery was recorded in the 1984-88 period, which coincided with the stabilization program of the mid-1980s. Contradictory credit and fiscal policies, together with a marked differentiation in business expectations, discouraged the creation of new manufacturing firms in the 1980s. Instead, a period of rationalization begins with a considerable intensification of capital deepening, resulting in an increase of the capital-labor ratio of the Greek manufacturing sector (See Table 2).

Table 2

	1973	1978	1984	1988
Manufacturing Establishments	118017	128988	144463	144716
Manufacturing Employment	87217	671496	684145	706203
New Establishments	-3660	10071	15475	253
Average Size of Establishment	4.9	5.2	4.7	4.9
K/L (capital-labor ratio)	6.4	6.7	10.0	14.0

Source: National Statistical Service of Greece, *Census of Marketing, 1969, 1973, 1978, 1984, 1988*.

Greek manufacturing suffers from a lack of diversification towards more advanced, technologically sophisticated and design-intensive products⁴⁶. This is due both to the lack of economies of scale and the lack of any supportive infrastructure encouraging a flexible specialization strategy on the part of small firms. The crisis of the mid 1970s did not generate any serious drive towards restructuring and modernization. On the contrary, Greek firms have tended to shift towards the more traditional activities⁴⁷ rather than risk the hazards of innovation and competition on non-price factors⁴⁸. These structural problems were further aggravated by a lack of coordination of different facets of economic policy. A contradiction emerged from policies aiming at sustaining the existing production status quo - processes, activities and firms- (export subsidies, credit expansion etc.) on the one hand, and policies which partially aimed at encouraging the redeploy-

⁴⁶ OECD, 1987 *The Research System in Transition*, Part 2, STP (87, p. 13.

⁴⁷ T. Giannitsis *The Greek Industry: Growth and Crisis* (Athens, 1982) pp. 358-59 (in Greek).

⁴⁸ L. Papayannakis, "Industrialization: The Constantly unfulfilled Dream of Modern Greece," in *Oikonomikos Tachydromos*, 3/3 (1988) p. 92 (in Greek); A. Lyberaki *Flexible Specialization? Crisis and Restructuring in Greek Small-Scale*

ment of capital across sectors (industrial subsidies). The incoherence of state regulation in the 1980s reflects clearly the lack of strategic orientation on the part of the agents of economic policy. The picture becomes even bleaker if one considers the lack of strategic orientation on the part of the business sector as well.

Conclusions

The above analysis has shown what we have termed the "time-lag" in the philosophy guiding economic policy in postwar Greece. Up till the mid-1970s, while in the whole of Western Europe governments were pushing policies of demand management and active industrial development and restructuring, economic policy in Greece, though highly interventionist, had relied mainly on the private sector and foreign capital (with minimal public direct investment in manufacturing) to bring about economic development. The proposals of the journal *Nea Oikonomia*, which consistently argued for an active role of the state in fostering an indigenous process of industrialization, remained largely neglected by policy makers. By contrast, the economic philosophy guiding policy seems to have been entirely reversed after 1975, with the dominant paradigm now favoring extensive role of the state in the process of economic development. Again, this paradigm is imported in Greece with a time-lag, as it begins to guide policy at a time when its shortcomings—fiscal crisis—are becoming increasingly apparent in the rest of Europe.

The question that this analysis raises is how we can account for the fact that policy makers have consistently failed to realize the insurmountable nature of macroeconomic constraints for the whole period 1974-90—with the exception of two brief intervals: 1979-80 and 1985-87. A comparison of the actual policies pursued in this period with the proposals of *Nea Oikonomia* is particularly relevant here. In discussing the views of the journal on macroeconomic policy, we have talked about a certain ambiguity in its proposals, which, as we have argued, stemmed from an awareness of the contradictory nature of different policy options and, in final analysis, of the insurmountable character of macroeconomic constraints. It is precisely the fact that this awareness seems to be almost entirely lacking in the post-1974 period that has to be addressed.

We have argued that the interplay of the state's functions has led to a continuous fiscal expansion, which, combined with the inadequate levels of revenues, led to the gradual abolition of internal fiscal control. The degree to which this outcome has been unintended, irrational, ad hoc or

nant "reading" of the facts culminates in the following argument: the problem with the state in Greece does not stem from its "bigness" but rather from its lack of purposeful, systematic, rational, developmental and strategically oriented behavior, as its actions consist primarily of ad hoc interventions in response to pressures.⁴⁹

Our line of reasoning is slightly different. Although we totally share the view of Thomadakis and Seremetis on the problems stemming from the lack of fiscal control,⁵⁰ we argue that this unsustainable policy has been the result of the contradictory demands addressed to the state in this period, as displayed in the variety of distinct functions that it has to assume. Economic policies in the post-1974 period have sought at the same time to accommodate an economy under strong competitive pressures and to take on board the significant shifts in social stratification that had occurred over the "golden years" of postwar boom.

On the one hand, the gradual, but irreversible, opening up of the economy to international competition and, thus, the abolition of protection against a background of recession and crisis, triggered defensive responses on the part of economic policy makers: to maintain the existing production structures, to defend employment, to fill the vacuum created by the decline of private investment and to actively subsidize and support structures, behaviors and products under threat. On the other hand, the whole political spectrum was shifting to the left. Social Democracy was (rediscovered and there have been clear signs of a process of "social democratization" of the main political parties.⁵¹ This political shift reflected certain real processes that

⁴⁹ C. Vaitos and T. Giannitsis, *Technological Transformation and Economic Development* (Athens, 1987) pp. 15-54 and 125-34 (in Greek); J. Spraos, "Government and the Economy," pp. 171-72; T. Giannitsis, "Transformation and Problems," pp. 230-31; T. Giannitsis, "World Market Integration," pp. 240-44 among others.

⁵⁰ S. Thomadakis and D. Seremetis in "Fiscal Management, Social Agenda..." p. 205 argue that the abolition of fiscal control leads to mounting deficits and thus to a diversion of available resources away from investment as "it implies increased possibilities for consumption and squandering of public funds."

⁵¹ New Democracy was acutely aware of the constraints imposed by what was perceived at that time as the "radicalization" of the Greek society, as argued by D. Katsoudas, "New Democracy: In or Out of Social Democracy?" in Vryonis (ed.), *Greece on the Road*, pp. 4-7. But it was primarily PASOK that took on board the explicit and hidden agendas and aspirations of the frustrated upwardly mobile strata that had emerged in the previous phase. See N. Diamandouros, "PASOK and State-Society Relations in Post-Authoritarian Greece," in Vryonis (ed.) *Greece on the Road*, pp. 15-26.

had already taken place at the level of the socioeconomic configuration. This led to a whole lot of belated demands being addressed to the state by those parts of society that felt themselves to have been left out of social and political developments in the previous period of political authoritarianism.

It is precisely, we believe, this dual character of interventionist policies of the post-1974 period that explains not only the fact that the policies pursued was inevitable to confront a macroeconomic constraint but also, and more importantly, that they were themselves responsible for creating the macroeconomic impasse. In fact, the contradictory and often mutually exclusive demands on the state in this period seem to correspond to the parallel coexistence of two distinct political paradigms: a "social democratic" consensus and a "populist" consensus. The former was mainly expressed as the absolute faith in the state's ability both to manage and to lead the process of economic development through direct interventions and the latter being expressed as the general demand that the state must ensure that economic change should not be allowed to worsen the economic position of any social group.

In view of the heterogeneity involved in the coexistence of these two paradigms, the compromise between them has not been easy. For one thing, even in its ideal and well-intended version, the "social democratic" consensus was no more on the agenda internationally. The tide of the new orthodoxy at the level of industrial policy has discarded the option of defensive state intervention for the maintenance of "mature" sectors, swept away by the more dynamic and lower-cost new entrants from the Newly Industrialized Countries (NICs). The dominant trend in fiscal management has emphasized the relevance of macroeconomic constraints and the destabilizing role of inflation and deficits. Therefore, if we consider the model of development proposed by *Nea Economia* as the expression in Greece of what we have termed as the "social democratic consensus", it is unfortunate that it came to be actually implemented at a time when its developmental effectiveness had been already exhausted. The important thing to note, however, is that although the macroeconomic constraint could not have been avoided as intervention is a costly option, it was not industrial intervention as such that caused the collapse of the Greek fiscal regime. Rather, it was the cost of the "populist consensus" as opposed to the social democratic consensus, that accounts both for this collapse as well as for the delay with which policy makers came to realize the insurmountable character of macroeconomic constraints.

The British School at Athens and the Modern History of Greece

RICHARD CLOGG

The archaeological sites that proliferate throughout the Greek lands constitute a vast and incomparably rich resource for the study of antiquity. Over the years these have been the object of intensive study. But the politics of archaeology in the independent Greek state have as yet has been relatively unexplored. Given the importance of the heritage of the ancient Greek world to the formation of the modern Greek identity this relative neglect is puzzling. A significant dimension of the politics of archaeology in Greece is the role of the foreign archaeological schools in uncovering the physical remains of antiquity. Their function is necessarily a sensitive, and sometimes a controversial, one and not only in Greece.¹ Melina Mercouri in the run-up to the 1981 elections in Greece more than once called for the closing down of the foreign archaeological schools on the grounds that they were institutions for the training of spies. Such a contention is inherently implausible, but it is nonetheless unquestionably the case, as we shall see, that alumni of the archaeological schools served in the intelligence services of their home countries in both world wars.

The story of the foreign archaeological schools necessarily forms a part of the modern history of Greece. The present paper is a survey of the role of the British School in promoting the study of modern Greece. For although the interests of the British School have very largely been focused on antiquity this focus has not been an exclusive one and, as we shall see, at certain periods there has been a considerable interest in modern Greece, its history, language, and culture. This paper is a revised version of a communication which I delivered at the conference held in Athens in June 1986 to

¹ The eight British archaeological schools and institutes in various part of the world have also recently come under fire in the United Kingdom, dismissed by their critics as remnants of a colonial past and as "expatriate dining clubs." See, for instance, *The Times Higher Education Supplement* 17 June 1994