

## Adjustment and Resistance to Change: Virtues and Vices of the Greek Economy over the Last Decade\*

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### INTRODUCTION

A snapshot of the Greek economy today reveals a picture of stagnation. The economic performance has been poor since the late 1970s and deteriorating tendencies seem to predominate the terrains of both macroeconomic and structural spheres. The economic policies pursued have been for the most part ineffective and incoherent, while the policy agenda has shown a tendency to swing to and fro between state intervention and liberalization. All these are occurring against a background of a changing European economic environment, increased competition and accentuated uncertainty, stronger pressures on individual European economies to adjust and weakened capacity of governments to protect and insulate their economies from the hazards of international competition. This broad picture, however, encompasses a number of distinct processes at work which are, in a way, pulling in different directions both in terms of performance and in terms of policy priorities. The identification of these processes acquires paramount importance in order to evaluate economic performance and policies, as well as to suggest ways out of the impasse. The objective of this paper then is to elucidate a number of the hidden processes which are evolving under the surface of stagnation.

My argument is that, in spite of the apparent immobility and stagnation, there are a number of instances of dynamic restructuring at the microeconomic level. So, I will first present the dialectics of change and resistance to change in the Greek economy. The incidence of change and resistance is not confined exclusively in the domain of the

\*An earlier version of this paper was presented in a seminar organized by the Program in Hellenic Studies at Columbia University, New York, in April 1995.

real economy, but encompasses the sphere of economic policy as well. I am going to discuss the transformations of economic policies, by means of distinguishing between two phases: intervention and liberalization. I am going to argue that the modernizing drive of both intervention and market based periods has been weak, due to a combination of factors ranging from problematic implementation and resistance, to the hostile international environment (recession and intensification of competition coinciding with the opening-up of the economy). The marriage between policies and structures has been an unhappy one on the whole. Finally, while discussing winners and losers I will attempt to highlight the dilemmas of short and long term costs of adjustment as well as their distribution among economic actors. My argument here is that the heritage of inertia rather than adjustment burdens equally the public and the private sectors. This heritage of inertia has reached its limits in the face of the exhaustion of the grand narratives both of Keynesian and Neo-Liberal variant. In the vacuum opened up by the lack of grand narratives, the developmental rhetoric becomes totally disjointed from the actual implementation of policies, a phenomenon which accelerates further the disenchantment with party politics. In this context, I am going to argue that the answer to the contemporary (postmodern?) Greek dilemmas does not seem to lie exclusively either on market or on state regulation. The weakness of the civil society (seen as the forum for discussion, interaction, bargaining and reconciliation among various interest groups, together with the prevailing moral codes of conduct and the views on the common interest) acts as an important barrier to adjustment. Therefore, the institutional strengthening of the middle ground of social regulation appears to provide an indispensable ingredient for any viable way out of the impasse.

#### ECONOMIC PERFORMANCE

Until 1974, the growth rate of the Greek GDP had been impressive both by EC and by OECD standards.<sup>1</sup> The Greek GDP continued to grow faster than the EC average in 1974-1979 period, though at a decelerating pace,<sup>2</sup> but during the 1980s it scored lower growth rates compared with EC and OECD averages.<sup>3</sup> What is more important, by

<sup>1</sup> The annual average growth rate had been 7.7 per cent over the 1960-1974 period.

<sup>2</sup> 3.3 per cent on average.

<sup>3</sup> 1.5 per cent.

1990 the gap between the level of the Greek GDP and the GDP of the other European economies had become wider. These negative trends characterize the development pattern of industrial output, labor productivity in the economy taken as a whole and labor productivity of the manufacturing sector in particular.<sup>4</sup> Furthermore, unemployment rates increased by two and a half times since 1980.<sup>5</sup>

The collapse of the rate of growth since 1980, the high rate of inflation (which increased on average by 10%) and the severe current account deficits since 1973 have contributed in the explosion of external debt during the 1980s. The public debt-GDP ratio increased out of all proportion.<sup>6</sup> This process of continuous and accelerating increase in public deficit<sup>7</sup> became unsustainable as it generated increasingly unrealistic pressures for its servicing, reaching 60% of the revenues of the budget in the early 1990s.<sup>8</sup>

The crisis symptoms have been most acutely felt in the manufacturing sector. As a percentage of GDP the share of manufacturing declined by about two percentage points. In 11 out of 20 branches, representing approximately two thirds of total manufacturing output, total production in 1990 has been significantly lower than in 1980.<sup>9</sup> The stagnation of industrial production was accompanied by a decline in the average size of manufacturing establishment, as a number of the largest firms were forced to abandon the market in the course of the 1980s. At the same time, increasing numbers of firms were characterized by considerable underutilized capacity. The latter has tended to increase costs per unit of production, thus further eroding competitiveness and discouraging investment.

<sup>4</sup> Antigone Lyberaki, "Greece-EC Comparative Economic Performance: Convergence or Divergence?" in *Greece, the New Europe and the Changing International Order*, H. Psomiades and S. Thomadakis (New York, 1993) pp. 191-93.

<sup>5</sup> Unemployment rates increased systematically from 4% in 1980, to 7.8% in 1985, to 9.5% in 1993. In 1994, unemployment in Greece exceeded 10% for the first time since World War II.

<sup>6</sup> From around 20% in 1974 to almost 30% in 1980, to 62.5% in 1985, to slightly below 100% (98.4%) in 1990, reaching 110% in 1992 and 154% in 1994.

<sup>7</sup> One third of which was external and two thirds from domestic sources.

<sup>8</sup> George Alogoskoufis, "Growth, Inflation and Balance of Payments in Greece: The Long-term Role of Economic Policy" in *Macroeconomic Management and Development Blockage*, ed. Alogoskoufis, Vaitos, Giannitsis, et al (Athens, 1993) pp. 107-12.

<sup>9</sup> Tasos Giannitsis, "World Market Integration: Trade Effects and implications for Industrial and Technological Change in the Case of Greece" in *Greece, the New Europe and the Changing International Order*.

It comes as no surprise, then, that manufacturing investment slumped over the 1980s, its share in total expenditure declining by 15 per cent. More importantly, there has been a lack of investment in new products that could potentially contribute in reversing the declining preference of consumers (both domestic and foreign) for Greek products. To complete the picture of generalized economic malaise, two more developments need to be stressed. First, there has been a decline of the technological flows into the economy (whose technological capability has been extremely low anyway). And second, there has been a reallocation of resources, reflected in a shift away from the official towards the "unofficial", "underground" or "informal" economy. "Informal" activities tend to appear more attractive, profitable and secure as they are insulated from international competition (when they refer to nontradeables) as well as being exempt from taxation. Although the export performance of the industrial sector taken as a whole improved throughout the 1975-1990 period, industrial imports had tended to increase at a faster pace.<sup>10</sup>

The above developments concerning the overall pattern of change draw a bleak picture of the Greek manufacturing sector. However, they should not be taken to imply that the Greek industry lacks dynamism and responsiveness altogether. If the profitability crisis of the late 1970s has initially tended to produce predominantly defensive restructuring responses (such as investment abstinence and rationalization initiatives aimed at shedding labor in order to contain costs), the years after 1986 have also witnessed some more dynamic variants of restructuring. It has been pointed out that there exists a "minority" restructuring response on the part of large and small-medium sized firms at the microlevel. This response favors a reorganization of production leading to the improvement of competitiveness (as a function of profitability, employment, exports and market position) while at the same time displaying some R&D awareness and qualitative product improvements.<sup>11</sup> Three groups of firms appear to perform well in this context:

<sup>10</sup> What is interesting to point out is the fact that the same manufacturing activities (light consumer goods branches) displayed the fastest growth of both exports and imports, the latter, however, outpacing the former.

<sup>11</sup> Giannitsis, "World Market," 235; Lyberaki, "Greece," 259 passim; Petros Linardos-Rylmon, "The Restructuring of the Greek Industry and the Problem of Employment," *Economic Courier* (Οικονομικός Ταχυδρόμος) (January 12, 1994) pp. 88.

First, a number of private sector firms that took advantage of market opportunities (new products) and the effective barriers facing transnational corporations to fill these gaps in demand. The prime example here is the food sector and dairy products in particular. Successful performance over the past decade has been translated into profits which, in turn, were used to finance major new investment.

Second, some of the real winners of the previous industrialization phase in the 1960s, whose long profitable performance has guaranteed the necessary funds for major restructuring and modernization (mainly in the plastics and cement production sectors).

And third, a number of successful new-generation medium-sized firms in the engineering and software lines of production (most of them tenders of the Greek army) that benefited from the new opportunities opened up by the introduction and diffusion of new technologies.

In addition to these, there are instances of restructuring in other sectors (such as wine production) which although incomplete as yet, are displaying some mobility and strategic orientation in the direction of customization and quality.

Furthermore, it appears that mergers and acquisitions are progressively changing the management structure in a number of spheres of industrial activity, while the painful transition from the post-war era of protectionism to a more competitive environment has cleared the terrain of those economic agents that were incapable of competing internationally. Foreign capital has entered the Greek economy in two forms: either by means of mergers and/or acquisitions, or by means of setting up new firms, primarily in the sphere of the tertiary sector (services and producer services in particular). Over the last few years there has been a tendency for Greek capital to undertake investment abroad, mainly in the Balkans (although this trend is hardly quantifiable). And last, but not least, it seems that the financial indicators of a large number of manufacturing firms show clear and steady signs of improvement (after reaching a low in the late 1980s) while the creation of a network for producers' services is gaining momentum.

The tourist sector has not recorded any major changes. It is largely controlled by large hotel-chains, some of them moving up market, but still basically catering for standardized and mass tourism. Customization, flexibility, variety, quality and infrastructure that would constitute a more integrated (and more competitive) "package of tourist services" are still fairly underdeveloped.

Major changes are, however, occurring at the level of the regulation of the banking system, with the infusion of competition in the workings of credit markets, stricter surveillance, abolition of controls and expansion into new activities (securities, underwriting, leasing etc.). Taking also into account the picking up of the stock exchange, the savers are faced with a variety of alternative options, including treasury bills and bonds, mutual and investment funds and the stock exchange. It is not surprising that the fastest change has been recorded in the banking system, since it is more vulnerable to the pressures of international competition and the plans for its liberalization were announced in the mid 1980s following the European Community Directives. The modernizing impact of the Banking system on the rest of the economy, however, should be tempered by the fact that as long as interest rates remain so high (reflecting the problem of inflation as well as the inefficiencies of the banking system itself) the drive to invest in production will remain weak, the only "rational" option being to invest in treasury bonds and bills and in general to place savings for speculation rather than productive restructuring.

In the labor market there has been a tendency favoring the dichotomization of the labor force into two distinct categories. An upper segment, consisting primarily of male, Greek, skilled and unionized employees, enjoying institutionalized industrial relations and wage levels well above the national average. And a lower segment, consisting mainly of female, immigrant, young and unskilled workers, lacking the protection of institutionalized industrial relations, predominantly non-unionized and getting wages well below the national average.<sup>12</sup>

The above discussion suggests that economic stagnation should not be taken to mean "immobility" and fixation in a zero-change frame. Things are moving and the economic agents are responding in a variety of ways. There are a number of success stories of dynamic adjustment and profitable restructuring. Their relative weight (although difficult to measure) has not created so far a solid pole of new dynamism, spilling over the rest of the economy. Notwithstanding the success stories, the general pattern of response to the recession has been one of a "defensive" kind, focusing on lowering the costs (and volume) of production and employment, to the detriment of investments in quality, new technologies and innovation.

<sup>12</sup> Ibid.

#### POLICIES: INTERVENTION AND LIBERALIZATION

The post-1974 period can be roughly divided into two phases concerning the overall approach to economic policy, the priorities and objectives set by policy makers and the implicit assumptions concerning the role of the state in the process of economic development. The first (and longest) phase can be called "the interventionist period", while the second could be labeled "the liberalization" phase, roughly starting by 1990 (having been introduced briefly for two years in 1985-86 and subsequently abandoned). What both phases share in common is what came to be called "the contemporary developmental myth:" large projects in infrastructure, seen as a pivot of growth, employment and modernization.<sup>13</sup>

The former period is characterized by an attempt to apply policies of a social democratic variant and although this attempt started immediately after the end of the dictatorship (Karamanlis was condemned to suffer from "*socialmania*" in the latter part of the 1970s),<sup>14</sup> it was more officially declared during the PASOK years (in particular the first term of PASOK).

On the macroeconomic front, the interventionist/state led policy agenda was developed along the following lines: A policy of macroeconomic reflation and demand expansion has been adopted (up till 1985) in order to trigger domestic output, employment and investment. Real wage increases were expected to stimulate demand for the products of domestic industry.<sup>15</sup> Easy access to money capital

<sup>13</sup> The list of these infrastructural projects included the Acheloos River Diversion Project for the irrigation of Thessaly, the Spata Airport, the Athens Metro, the Salonica Metro, the bridging of Aktio-Preveza and Rio-Antirrio, and the Ring Road of Athens from Stavros to Elefsis.

<sup>14</sup> In the latter part of the 1970s (a period often called "the second Karamanlis phase") the public sector became more directly involved in production in the fields of petroleum (the establishment of the Public Oil Enterprise ΔΕΠ) the defense sector (the setting up of two public enterprises EAB and EBO), digital and telecommunications material (the establishment of EABHA), chemical and metallurgical production (EΛΕΒΜΕ and its subsidiaries). Furthermore, the state gained full control (and property rights) of Olympic Airways, the Aspropyrgos Oil Refinery as well as the Commercial Bank of Greece and the Group of firms it controlled.

<sup>15</sup> Probably the most perverse outcome of macroeconomic reflation, exchange rate adjustments and demand expansion has been the gradual erosion of preference for domestic goods in the domestic market and abroad. In the context of highly internationalized demand patterns, the highly "localized" production structure has proved incapable of benefiting from increasing consumption levels. The loss of preference for domesti-

has been ensured via negative interest rates and earmarking of the banks' reserves in favor of the manufacturing sector. Fiscal deficits were perceived as levers for both demand stimulation and public sector investment, enhancing manufacturing competitiveness. The concern with industrial competitiveness has also dictated the extensive and repeated utilization of currency devaluation. On the front of structural policy (in particular industrial policy), the main objectives have been the acceleration of investment mainly in the high tech sector of heavy industry and the promotion of vertical integration among the various manufacturing activities. A special role was attributed to the state and to a number of non-private sector agents. By introducing new agents of investment initiatives, it was hoped that a more balanced pattern of regional development would emerge, accompanied by more diffuse property relations.

The main interventionist tools were the following: First, the nationalization program and the establishment of the Organization for the Rehabilitation of Ailing Companies. Second, the Public Procurement Strategy (the so called "*Indigenization*" strategy) in order to create "national champions." Third, the sectoral planning on the basis of extensive branch reports aiming at unraveling investment opportunities in specific sectors. And, fourth, the Large Investment Projects<sup>16</sup> planned as a vast program of public investment. Along with these direct interventions at the level of industrial structure, the Industrial Incentives Legislation (investment laws for industrial and regional development 1116/80, 1262/82) set the twin goals of modernization and high tech transformation of the manufacturing sector (emphasis on changing the "traditional" sectoral composition – i.e. food, beverage, textiles and clothing – and business composition – i.e. small size and family character – of Greek manufacturing), and the promotion of a regionally balanced allocation of investment.<sup>17</sup>

cally produced goods has further accentuated the problems of underutilized capacity and hesitance to undertake new investments, further hindering the option of productive reorganization along more demanding and high quality lines.

<sup>16</sup> The most important of these large projects were the Petrochemical Complex (EAEBME), the Stainless Steel Unit (EAEBME), the Gold Metallurgy (METBA), the modernization of the Aspropyrgos Refinery (EΛΔΑ), the manufacturing of Digital Switches (EABHA), the Asbestos Unit (MABE) and the Ferrochrome Alloys Unit (EΑΣΙ) [Caloghirou, Ioannides & Lyberaki, 1993, "Crucial Time Lags in the Philosophy of the State's Role in Development," *Journal of Modern Hellenism*, 10 (199)]

<sup>17</sup> Caloghirou et al, "Crucial Time Lags in the Philosophy of the State's Role in Development," *Journal of Modern Hellenism*, 10 (1993) pp. 75-80; Antigone Lyberaki

The early 1990s saw a reversal of the importance attributed to the public sector and the various non-private sector agents as vehicles for industrial restructuring and change. More generally, the 1990s mark a break with previous policy priorities, the policy agenda revolving around the goal of stabilization/liberalization<sup>18</sup> as conceived by the Convergence Program with the European Union (tight fiscal, monetary and incomes policy, abandonment of devaluation as a means of enhancing competitiveness, monetary stability in order to combat inflation, liberalization of capital markets as well as the insertion of competition in previously protected activities). In view of the serious fiscal problems facing the public sector, the new line stressed the importance of the free market forces in doing what the state has left unfinished: the adjustment of the economy vis a vis its European partners. Again, the official rhetoric set highly ambitious developmental goals once more, although the means for achieving them seemed to include more "free market" and less intervention.<sup>19</sup> Integral to this policy shift has been the privatizations program which, in theory at least, aimed to roll back the frontiers of the state by means of transferring ownership rights from the public to the private sector. A number of large public sector enterprises and organizations were included in

and Spyros Travlos, "State Intervention in Industry: Direct and Indirect Industrial Policies in the 1980s," in *Industrial and Technology Policy in Greece*, ed. T. Giannitsis, (Athens, 1993) p. 61 passim; Antigone Lyberaki and Yiannis Caloghirou, "Private / Public: The Uncertain Frontier," paper presented at the Sakis Karagiorgas Conference, (forthcoming), p. 7 passim.

<sup>18</sup> Earlier attempts at stabilization, in particular the two-year stabilization program 1985-86 introduced by K. Simitis in PASOK's second term, were attempts at harmonizing policies with the dominant trends prevailing in the EC, by means of introducing stricter macroeconomic management. Interest rates became positive for the first time in 1987, while at the same time administrative controls on the banking system were gradually relaxed. An austerity program ensured net transfers of funds from wages to profits (it has been estimated that the 1985-86 austerity program has undercut real wages by almost 20%, that is, to a significantly greater extent compared to the austerity programs introduced by S. Manos in the 1992-93 period). However, this ambitious and "socially painful" stabilization program was abandoned before it had a chance to make a more stable impact on the economy and the economic agents. The electoral cycle overtook policy priorities and led once again to the explosion of debt.

<sup>19</sup> It should be stressed that although the emphasis has changed in favor of the workings of the free market and against state intervention, nevertheless, the public sector investment program continued to constitute a significant lever of industrial development, by means of using the resources provided by the European Community (structural funds and the first and second Community Support Frameworks).

the list of future privatization plans, together with a number of the ailing companies (the cases of the national telecommunications organization, electricity production, financial institutions and AGET/cement producing ailing company being the most widely discussed at the time).

This market-based restructuring reorientation is reflected also in the Industrial Incentives Legislation: The Law 1892/90 and the reforms introduced in 1994 are abandoning the plans for state participation in large investment projects and shifting the emphasis to a clearer specification of what constitutes "high tech activity," the flexibilization of the labor market (part-time work, the introduction of the fourth shift), and the attempt to finance more integrated investment projects requiring detailed business plans in order to qualify for special support (35% of the total cost of investment financed by the Community Support Framework). In addition, priority was attributed to "Areas of Integrated Tourist Development" in order to encourage a more varied (integrated) up market and competitive tourist product. The general idea is to create market leaders (national champions) among the largest domestic companies. Also, to transcend the previous practice of financing individual piecemeal investment plans, in favor of integrated investment plans involving soft actions such as training, marketing and the purchase of know-how.

In addition to the privatizations, the incentives legislation reforms, the deregulation plans concerning previously regulated spheres of activities (petroleum products) and the liberalization of the Banking System, the liberal policy agenda included also the introduction of Tax Reforms aiming at broadening of the tax base. Since 1990 there have been four different attempts at dealing with the problem of reforming the tax system. The general approach favored a stricter application of the law as well as special attempts to close past cases by negotiating the final amount to be paid. The introduction of "objective criteria" linking consumption with real income and the introduction of "proof of income" (πόθεν ἔσχαες) when buying property, are some of the attempts made in the direction of rationalizing an extremely inefficient and obscure system which penalized wage earners, pensioners and the "honest" tax-payers.

#### THE UNHAPPY MARRIAGE OF POLICIES AND STRUCTURES

Macroeconomic reflation during the interventionist phase (credit, monetary and demand expansion as well as exchange rate adjustments) failed to produce the anticipated benign effects for two main reasons: First, by overlooking the destabilizing impact of the fiscal deficits (the increases in expenditure were not matched by increases in revenues, most notably via the introduction of tax reforms) it led to an unsustainable fiscal regime. Second, it also failed to boost domestic industrial production. On the contrary, it unraveled and further accentuated the mismatch between domestic production and consumption patterns by means of increasing the share of imported goods.<sup>20</sup> This latter problem should not be attributed to the nature of policy per se, but rather to the timing factor. It was introduced at a very unfortunate moment, while on the one hand the economy was opening up and imports were becoming more readily available, and on the other, the domestic production structure was overridden by the inertia and zero-change strategies fed by long periods of protection.

The industrial policies of the interventionist period did not produce any spectacular results. The pace of investment realization has been very slow.<sup>21</sup> At the same time, industrial incentives legislation failed to intervene in the direction of changing the sectoral priorities in favor of the so called "dynamic" or "technology-intensive" activities.<sup>22</sup> In addition to its failure to generate sectoral restructuring, the law has also failed to encourage large scale investment that could

<sup>20</sup> Credit and monetary expansion did not induce the redeployment of capital across sectors, while it benefited the already established production structures. The same is true in the case of exchange rate policy, in particular the devaluation which has been used repeatedly as a means of restoring competitiveness. Although it offered some relief to firms under competitive strain, in the absence of complementary/structural schemes, it has ended up in promoting a zero-change attitude on the part of industrial firms. Furthermore, the devaluation of the currency produced broader destabilizing effects as it encouraged capital flight, it raised indirectly the cost of domestic production (as imported inputs became more expensive) and finally it diverted attention away from the long-run problems of competitiveness (technology, quality, marketing etc.).

<sup>21</sup> Between 1982 and 1992, only 52 percent of the approved projects had started to be implemented (let alone completed).

<sup>22</sup> The distribution of grants followed the pattern of the sectoral distribution of value added; it did not change it. So, the traditional sectors absorbed the lion's share of the funds, at the expense of the high-tech and more demanding sectors. [Lyberaki, A. & S. Travlos, 1993, "State Intervention in Industry: Direct and Indirect Industrial Policies in the 1980s," T. Giannitsis, ed. *Industrial and Technology Policy in Greece* (Athens)].

potentially exert a modernizing impact on the manufacturing sector taken as a whole by virtue of their sheer size.<sup>23</sup> And last, but not least, industrial incentives legislation failed also in promoting a regionally balanced allocation of investment. In practice, the regions that benefited were the ones that were already enjoying access to critical industrial infrastructure (with the exception of the Athens area). Furthermore, the sectoral composition of investment at the regional level appears to have further reinforced the regional patterns of specialization (the multiplication of olive oil processing plants in Crete is a good example). As far as regional development is concerned, it can be argued that in the same way as "bad money chases/eliminates good money," "bad investment chases good investment" by spreading an idiosyncratic productive stereotype throughout Greece; the productive paradigm which was confined to Athens and Salonica in the past and which included the co-existence of randomly scattered tourist businesses of all sizes next to plastics producing small firms and areas where stocks of construction materials are piled up, next to food processing firms (usually causing damage to the environment and very often of co-operative ownership), next to residential buildings located where trees stood before the last fire.

The overtly interventionist tools did not fare any better. For the most part, the nationalization program and the operation of the Organization for the Rehabilitation of Ailing Companies has accumulated debts without modernizing the firms involved. In view of the resistance and pressures exercised by numerous constituencies (previous owners, parts of the labor movement, lack of co-operation on the part of the banking system) and the incidence of incompetent management as well as corruption, the whole project degenerated into "socialization of losses" rather than restructuring.<sup>24</sup> The large industrial

<sup>23</sup> It is worth pointing out, however, that the small average size of investment would not necessarily have been a problem, had the support of small and medium-sized enterprises assumed a character of strategically targeted intervention for enhancing competitiveness via the encouragement of a new production paradigm along the lines of flexible specialization [Piore, M. and C. Sabel, 1984, *The Second Industrial Divide* (New York, 1984); Best, M. *The New Competition*, (London, 1990); etc.] stressing responsiveness, flexibility, quality and cooperation. But this did not happen either [Lyberaki, 1991, Lyberaki & Travlos, 1993] as can be plainly documented by the failure of the so-called "soft" measures for the provision of collective services to SMEs in the area of design, innovation, marketing etc.

<sup>24</sup> Caloghirou et al, p. 77.

projects were not implemented, and the ambitious sectoral reports remained effectively on the shelves. And last, but not least, the Public Procurement Strategy has had at best controversial results, as it strengthened a number of domestic producers, but at the cost of solidifying powerful interest groups whose main goal was to secure the preferential access to state's markets rather than modernization and competitiveness seeking strategies.

Overall it seems that the problems that paralyzed the dynamic and ambitious restructuring intentions of interventionist industrial policy in Greece were of two kinds: On the one hand, due to continuous pressures, the sectoral priorities were gradually modified to include all industrial activities. This means that sectoral priorities were abandoned, a fact leading to the reinforcement of the already existing "traditional" sectoral balance. On the other hand, the plethora of targeted objectives (modernization, high tech, new investors, regional balance, defense of the status quo and altering it at the same time) reflects a number of fundamental weaknesses on the part of the policy-making machinery: a lack of selectivity, a lack of priorities and, what is more, a lack of strategic horizon concerning the desired direction of change (in spite of the rhetoric to the contrary).<sup>25</sup> The gradual collapse of the incentives due to the fiscal problems of the state did not produce any dramatic impact on investment, partly because the state budget is not the sole source of investment funds. The structural funds of the European Union filled the gap that the state budget left, without affecting the pattern or the characteristics of investment in contemporary Greece.

The failure of intervention and the piling up of its accumulated financial burden was followed by the introduction of a market-based incentives system and the assertion of the primacy of the market mechanism as the main vehicle for modernization. This liberalization drive, however, remained to a large extent incomplete because: (1) The privatizations program proved very difficult to implement for a variety of reasons; (2) certain parts of the market continue to be highly protected (public sector procurement); and (3) general government was left unchanged

In particular, the problems related to the privatizations program are of a dual nature. On the one hand, the policy of privatization came

<sup>25</sup> Lyberaki & Travlos, 1993, pp. 82-4; Euclid Tsakalatos, *Alternative Economic Strategies: the Case of Greece* (London, 1991) p. 263 passim.

to Greece with a five years delay vis a vis Europe. It was presented primarily as a means of coping with the problems of the public sector debt rather than introducing competition and the discipline of the market that would induce modernization. On the other, the resistance has been strong, primarily from the private sector suppliers who would be harmed by the insertion of competition in public sector tendering, but also from the labor unions of the firms involved. Finally, the lack of prospective domestic investors further weakened the case for privatization and made it look more of a sell out to "foreigners" than an attempt at rationalization.

The public sector suppliers (in particular the tenders of telecommunications materials as well as the contractors of public works) were threatened by the liberalization of the tendering procedures that would inevitably follow the privatizations. Their strong market position was primarily a function of preferential access to the state's demand rather than a function of competitiveness and competence. Furthermore, they had not differentiated their activities to a point of securing profits regardless of the developments in this sensitive area. Finally, a number of private sector firms operating in the same lines as public companies (oil refineries being the prime example) were capable of securing substantial profits from the mechanism by which the prices were set (cost plus in the less efficient public sector firms).

Modernization did not touch the core of the public sector, that is the functioning of the general government. For the most part, the operations of the general government are not computerized, the tax collecting mechanism has initiated a program of computerization as late as the year 1992 (only the value added tax was computerized from the beginning, i.e. the year 1987). A large number of prefectures lack the support provided by even the most rudimentary computerization mechanism. As far as the legislative and institutional framework is concerned, the lack of codification of laws gives a measure of the backwardness of the system, while at the same time providing the basis on which a huge and inefficient bureaucracy thrives. The division of responsibilities in major areas remains blurred and confusing, as a number of ministries appear to be co-responsible in a variety of spheres, each following different if not incompatible priorities and regulations. Land usage is a good case in point, involving co-responsibility of four ministries (Agriculture, Environment, Finance and Culture).

It is still early to estimate the results of the tax reforms, although it seems that considerable progress has been made as far as tax collection is concerned. It is interesting to note that in 1994 the number of "tax declarations" was 2.5 million, while the number of tax declarations of 1995 reached 4 million. Needless to add, the introduction of tax reforms met considerable opposition from a wide variety of interested parties, ranging from farmers to the urban professionals. Notwithstanding the strengths of the tax reforms, it should be stressed that the continuous adjustments and renegotiations of the tax legislation feeds an ambience of ephemeral experimentation, incapable of inspiring the co-operation and long-term commitment on the part of tax-payers.

And last, but not least, the process of implementation of the large projects in infrastructure appears to carry the same spell that haunted the large public investment projects in the 1970s and the 1980s. Out of the celebrated list of numerous announced projects, only the Athens Metro has started to be implemented, albeit in a highly problematic manner. During the first 3-years contract, the delays exceed one year and a half, the additional costs are of the order of several hundred billion drachmas, while the total estimated costs are higher than those of the Channel Tunnel (linking the UK with France), the largest project of our times. The funds of the European Union are being absorbed at extremely low pace, while a comparison with Spain and Portugal shows that each of these economies have managed to absorb three times more funds for infrastructure during the same period. The European Union is extremely sceptical as far as the auction procedures are concerned, while it is widely acknowledged that the estimated environmental effects of the large projects are unreliable and under revision.

#### ADJUSTMENT AND RESISTANCE TO CHANGE:

##### WINNERS AND LOSERS

The modernization drive with vehicle state intervention failed during the 1980s, and was followed by a liberalization phase, which, however, remained incomplete. The privatizations program did not come through, the public sector (in particular the general government) remained unchanged, while considerable segments of the market continue to be highly protected (mainly in the sphere of public sector tendering). Although I have argued that the *prima facie* picture of

economic stagnation is largely misleading, nevertheless the dynamic and responsive categories of firms constitute the minority of the broader responses to change. The inertia seem to predominate, not so much in the sense of "zero change strategies," but rather in the sense of short term responses of a defensive character, mainly by means of eliminating the costs, as if the situation were a usual swing of the business cycle (which it is not). In view of the predominantly defensive reactions, then, the winners of adjustment are few as yet: a number of dynamic firms (irrespective of size) in the manufacturing and service sectors, and an even more restricted segment of the labor market associated with these firms. The losers (in the strict sense of the word) are again relatively few (although their number is increasing fast, as the data on bankruptcies clearly suggest): a number of firms that were forced to quit the market, the workers of those firms and the economic activities associated with them. The vast majority of the firms appears to be caught in the difficulties of survival, overridden by inertia and facing a highly uncertain future. The failure to implement reforms, on the other hand, produces its own winners: the underground economy (mainly services), special categories of those working in loss-making public sector firms enjoying high incomes, as well as the tax evaders (a large part of those involved in agriculture and tourism). Furthermore, resistance to change benefits the suppliers of credit to the public sector, the protected tenders of the public sector, the construction business involved in public works, the clientellistic power networks and those benefiting from them one way or another.

In an attempt to account for the apparent inertia, I would suggest that the causes are deeply rooted in the business profile of the Greek economy. Inertia is the product of long protection, substituting for market discipline. Three factors are decisive here: First, the structure of entrepreneurial profile and the tradition of inter-firm practices (in particular the "calm waters" of public sector purchases of goods and services). Second, the long past history of generalized protection and universal incentives lacking discretion. And third, the protection of domestic production by means of constant exchange rate downward adjustment (until 1985) in order to cope with declining competitiveness without addressing the real underlying causes of the problem. Interestingly enough, both the public and the private sectors are deeply affected by this particular heritage which has not encouraged the forging of alliances for productive adjustment and has perpetuated the

weaknesses of the productive culture. Protection, in the wider sense, has fed a paradigm of entrepreneurial and regulatory practices incapable of dealing with major changes, only capable of accommodating small changes in a benign environment.

The economic environment is far from benign, though. It appears, thus, that there is a clear trade-off at this point between short-term security (resistance) and long-term gains (change). This dilemma between short and long term objectives acquires a different meaning for different groups of economic actors. From the point of view of the business sector, there is an historical precedent where the losers were not penalized, where the state was always there to guarantee the continuation of the operation of firms which should have gone bankrupt long ago (the phenomenon of the ailing companies testifies this point). Lack of losers means lack of strategies of change. From the point of view of the social groups involved, the case is slightly different. Obviously, a number of past victories of the labor movement are threatened. What is more, however, workers and employees are expected to go through a painful process of short-term losses when the credibility of the state's modernization objectives as well as the state's capacity to carry through the necessary reforms remains highly questionable.

This lack of credibility reflects a mistrust which goes deeper than the skepticism of our times concerning the state's competencies and effectiveness in guaranteeing a safer future. My argument is that the mistrust to the state's modernizing attempts are deep seated in the paradox arising from the mismatch between government rhetoric on the one hand, and the actually implemented policies on the other. It is worth mentioning that the period extending from 1974 to 1990 was basically characterized by the same interventionist orientation of policies, in spite of the differences in the rhetoric between New Democracy and PASOK. The first major policy break favoring liberalization occurred while PASOK was in office (the two years stabilization program of Simitis in 1986-87). This policy agenda was carried through by New Democracy after 1990, in particular in 1992-93, again irrespective of the rhetoric used. But the apogee of the mismatch between rhetoric and reality in terms of policy implementation occurred after the coming of PASOK in power in 1993, when basically it continued the agenda of liberalizing reforms set in motion by the previous government.

The continuation of policy agendas by parties when in government, having used confrontational denouncement of these same policies when in opposition, has fed unsustainable expectations and has led to a general disenchantment with party politics. The *irony* of contrasting rhetorics and the *parody* of copying the same policies after coming in power is a sign of the *post modern* epoch in contemporary Greek politics and economics. The eclipse of the grand narratives for the shape of the world and for its reform both in their Keynesian and neoliberal variants opens up the space for fresh thinking on the economic, social and environmental choices we are facing. In the meantime, it seems that the taste of confusion, uncertainty and chaotic lack of direction is the cost that has to be paid. In any case, this painful reshuffling is not occurring in stasis. People are still making their own history, and still under conditions they have not chosen. As long as the pendulum swings to and fro from state regulation to liberalization, in view of the weaknesses of both state and markets in Greece there is little hope for a change of development track. The missing link of the modern Greek puzzle is rather the sphere of social regulation, i.e. the diverse ways in which individual economic behavior is embedded in a broader social framework. The main argument in this paper is that the inertia of the Greek economy lies with the weaknesses of the civil society – in other words, the underdeveloped nature of moral norms, codes and institutions, the weakness of public debate and the mechanisms for reconciliation. The widely acknowledged crisis of party politics may contribute to the strengthening of the autonomous social regulation dynamics, and to the emergence of a new pattern of interaction between the spheres of state, market and social regulation.

By way of conclusion, I suggest that the “post-modernization” of the Greek economy and society is double-faced like the ancient god Janus, involving both adjustment and resistance to change. Not all adjustment is benign, not all resistance is by definition retrogressive. Both involve winners and losers, and both allocate social costs unevenly. The reality is more complex than what the “private virtues, public vices” views seem to suggest. The opposite does not hold either. Controversial aspects thrive. Disenchantment with party politics, and at the same time the two major parties captured an ever increasing part of the vote in the 1993 elections. Mistrust of both the state and the market. Internationalization and at the same time xenophobia

and nationalistic outbursts cutting across party politics. The landscape of the Greek society looks more cosmopolitan than ever, but this multiracial and multi-national reality does not translate into a multicultural identity. The inherited belief in a distinct national destiny as well as the constitution of Greekness<sup>26</sup> sit uneasily with the desire to belong to the wider European family. Hence the fragile balance between the unquestionable importation of life-styles and consumption patterns on the one hand, and an all-embracing conspiracy theory, implying that the rest of the world is conspiring against the Greeks, the “brotherless nation.” Hence, also, the coexistence of hospitality and indifference, admiration and outright contempt, openness to the new and little tolerance to any sort of “otherness.” The dual status of ancestors of the European ideal and weak partners of the actual unification process feeds simultaneous inferiority and superiority syndromes vis-a-vis Europe. The list of antinomies is long and multifaceted. Coming back to the state-market axis, each holds the other responsible for lack of transformative capacity and developmental commitment, when both are suffering from short-termism, weak productive culture and failure to articulate a coherent and legitimate ideal of progress.

The fact that both state and markets in Greece share in common the same type of weaknesses leads me to the conclusion that the deeper explanation and the solution should be sought in the dynamics of the civil society, i.e. the ways in which interest groups are organized and interact with each other and with the state. The fragmentation of autonomous interest groups and their strong embrace by a clientellistic party politics has deprived both intervention and market-based modernization strategies from the necessary allies and social base. Intervention was supported by the bureaucracy alone, while parts of the private interests (market) were the most hostile to the liberalization initiatives. Unless a new model of social regulation takes shape (redefining the legitimate ways in which individual economic behavior is embedded in a broader social framework) there is little hope for a sustainable way out of the impasse.

<sup>26</sup> Adamantia Pollis, “Greek National Identity: Religious Minorities, Rights, and European Norms,” *Journal of Modern Greek Studies*, 10 (1993) p. 191.